

**TMRS Advisory Committee on Benefit Design
Meeting Summary
April 26, 2018**



TMRS ADVISORY COMMITTEE ON BENEFIT DESIGN

Committee Leadership

- Chair: David Landis, TMRS Board Member
- Vice Chair: Jesús Garza, TMRS Board Member

Committee Representatives

- Bonita Hall, TMHRA
- Paulette Harman, TCMA
- George Kauffman, TMRS Retiree
- Brian Langley, Assistant City Manager/CFO, City of Denton
- Kevin Lawrence, TMPA
- Julie Masters, Mayor, City of Dickinson
- David Riggs, TSAFF
- J.J. Rocha, TML
- Greg Shipley, CLEAT
- Casey Srader, GFOAT

The TMRS Advisory Committee on Benefit Design (the “Committee”) met on April 26, 2018, in Austin, Texas for an organizational session, its first meeting of the interim period. The purpose of the meeting was for Committee representatives to 1) become reacquainted with each other, and meet new Committee representatives, 2) hear from TMRS staff about the current “State of TMRS” and why TMRS continues to be an effective model for empowering retirement, 3) offer ideas as to how TMRS can continuously improve its communications to and with Committee representatives and constituents, and 4) share early views concerning the 2019 Legislative Session.

This summary is intended to present the primary themes captured from the meeting. The Committee’s meeting materials are available on the [TMRS website](#). More detailed meeting minutes will be available after they are officially approved by the Committee.

The next meeting of the Committee will be a joint meeting with the TMRS Board of Trustees (the “Board”) on May 25, 2018. Reports on TMRS actuarial matters and information concerning public pension plan trends will be reviewed and discussed. The Board will also hear about the outcomes of the Committee’s April 26, 2018 meeting, may consider whether study topics should be assigned to the Committee, and may set the schedule for any future Committee meetings during the interim session.

Please contact TMRS staff at 512.476.7577 or 800.924.8677 with any comments or questions.

The Committee membership was reduced by charter on January 1, 2018 from 19 representatives to 10 representatives based on feedback from the Committee and Board. The Committee is responsible for the following:

- Communicating with the Board through updates and presentations.
- Providing input to the Board on the advantages and disadvantages of benefit design issues affecting TMRS cities, members, and retirees.
- Maintaining communication with statewide professional organizations, including employer and employee groups, and member cities.

The Committee’s charter can be found online at [TMRS.com](#).

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I. Recap on Topics Studied by the Committee in 2016

Return to Work

Managing policies that apply to employees who have retired and then choose to return to work for their former employer creates challenges for all public retirement systems. The Committee was directed by the Board in 2016 to study TMRS' Return to Work statutes ("RTW Provision"). The assignment was based on the perceived broader demographic and economic trends affecting TMRS cities and members, such as the aging workforce, the need for additional skilled workers, and the continued rise in healthcare costs as a percentage of retirement expenses, among other reasons. Legislation had also been proposed in previous sessions by other parties to alter the current TMRS RTW Provision. In 2016, the Committee evaluated three options to modify the RTW Provision and provided the Board with input on the advantages and disadvantages of each option. The Board chose not to initiate any related legislation in the 2017 Legislative Session.

At the April 26, 2018 Committee meeting, Mr. Joe Newton of Gabriel, Roeder, Smith & Company ("GRS"), the Board's consulting actuary, highlighted the results of the Committee's prior evaluation of RTW Provision options. Mr. Dan Wattles, TMRS Director of Governmental Relations, provided an overview of the history of the RTW Provision and the most recent related legislation and its outcomes. The Committee representatives discussed current sentiment and shared their views on the RTW Provision. The Committee noted that any legislation perceived as a benefit enhancement might be received negatively in the current Legislative environment.

Committee representatives were asked to identify the degree to which they hear from their constituencies about the need for modifications to the RTW Provision. Has the perceived need to make changes increased, stayed the same, or decreased from the last time the Committee discussed the topic in 2016? Committee representatives indicated that perceived interest among constituencies was split, with three representatives suggesting that they hear more interest, four Committee representatives noting approximately the same level of interest, and three Committee representatives reporting a lesser degree of perceived interest.

Cost of Living Adjustment (COLA)

Mr. Newton then explained the current TMRS COLA statutory options, noting that the catch-up provision has been scrutinized extensively in prior Committee discussions. He reviewed statistics regarding TMRS member cities adopting and retirees receiving COLAs and discussed the drivers of cost and efficiency associated with providing a COLA. The Committee studied different types of COLAs in 2016 and their impact on cities and retirees, including repeating COLAs and ad hoc COLAs. The Committee provided input to the Board relative to the advantages and disadvantages of each option studied. The Board chose not to initiate any related legislation in the 2017 Legislative Session.

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At the April 26, 2018 meeting, several Committee representatives expressed continued interest in expanding the current menu of COLA options to include new options such as the ability to remove the “catch up” provision and offering a fixed rate COLA option.

Committee representatives were asked to identify the degree to which they hear more from their constituencies about the need for modifications to the current menu of COLA options. Has the perceived need to make changes increased, stayed the same, or decreased from 2016? Only half of the Committee representatives offered an opinion. Of those that did, the majority believed that the perceived interest among constituencies is approximately the same now as it was in 2016. Only one Committee representative thought that interest levels to modify the TMRS COLA provision has increased.

II. Current “State of TMRS”

The Committee heard a presentation by Mr. Colin Davidson, TMRS Regional Representative, and Mr. Tom Mastay, TMRS Director of Real Assets, about the current “State of TMRS.” They touched on the overall financial health of TMRS, the structure of the investment portfolio, and TMRS’ strengths in plan design and funding policy relative to other Texas statewide public retirement systems. Key reasons were cited as to why cities choose TMRS, including, among others, that TMRS is an attractive recruitment and retention tool, provides professionally managed investments, effectively manages the System at a low cost, and that the TMRS members feel safe and secure concerning their retirement benefits. Data was presented by TMRS staff to demonstrate that delivering retirement benefits through the TMRS plan design is still more efficient and cost-effective for cities than a defined contribution plan offering.

Staff compared and contrasted TMRS on the significant issues that other public retirement systems are facing, including funding. It was noted that TMRS is not affected by those same issues because of key design features, including the degree of control cities have with respect to benefit design, statutorily required funding discipline, and the Board’s regular review of and updates to the System’s actuarial assumptions. Staff highlighted the awards and acknowledgments TMRS has recently received for its transparency in operations and governance structure.

III. Legislative Overview, Issues, and Outlook

Mr. Wattles provided the Committee with an overview of Legislative activity in 2017 as compared to 2015. While TMRS did not initiate any legislation in 2015 or 2017, two bills that had a specific impact on TMRS were filed by other parties. Of those, one bill, HB 3056 as initiated by the City of University Park, passed. Mr. Wattles provided context for HB 3056 and Ms. Christine Sweeney, TMRS General Counsel, explained staff’s involvement during the legislative process. Committee representatives noted the impact of TMRS’ involvement relative to the overall success of the bill

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and appreciated the strength of TMRS’ relationships with the Legislature on retirement-related issues in general.

Mr. Wattles also described the implementation status of SB 500, which affects the benefits of elected officials who are convicted of certain crimes committed while in office. Although all public retirement systems in Texas were affected by the bill, the overall impact to TMRS is not expected to be significant since so few elected officials are TMRS members.

The Committee then heard a presentation from Mr. Wattles on the charges for the interim Senate State Affairs Committee and the positive feedback that staff received during its recent testimony at the Committee hearing. Mr. Wattles concluded his presentation with an overview of the matters that the Pension Review Board (“PRB”) Actuarial Review Committee is undertaking. They include reviewing smaller plans in Texas and developing general principles of plan design.

Mr. Ron Lewis, Legislative Consultant to the TMRS Board, offered his perspectives to the Committee concerning the current legislative climate, noting the significant degree of turnover in positions of influence within the Legislature. Mr. Wattles summarized the recent activities undertaken by the TMRS Board’s Legislative Committee to keep abreast of legislative matters. Mr. Lewis and Mr. Wattles highlighted the degree of increasing uncertainty towards public pension systems in the Legislature, noting the likelihood that the uncertain climate will persist into the foreseeable future.

Mr. Wattles then introduced the activities that TMRS Staff is undertaking with the intent of making the System more effective and efficient. Ms. Sweeney explained that TMRS Staff is reviewing the System’s governing statutes and identifying areas that may be improved by updating or modernization to adjust for contemporary times and administrative efficiency. The driver of the effort is to consider a potential “clean up” bill or perhaps a more narrowly constructed bill addressing the most important identified amendments. Staff will present its findings to the Board at an upcoming meeting for discussion and direction. Further involvement of the Committee will also be considered at that point.

The Committee acknowledged and reinforced the perception of uncertainty about the current political climate for benefit-related legislation. The Committee discussed the question “When will be a good time to initiate legislation?” Although any Legislative session has its share of uncertainty, the Committee agreed that the critical ingredients to a successful outcome in the 2019 Legislative Session included having solid stakeholder support for a bill, the right House and Senate sponsors, and support from the Governor’s office. One difficulty potentially affecting any TMRS legislation is that any bill initiated by TMRS would likely be strategic or forward-looking, whereas many other retirement-related bills would likely be “corrective” bills to fix or shore up a specific issue. The Committee perceived educating and communicating to the Legislature the difference between TMRS’ position and other retirement systems as a significant challenge.

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IV. Advisory Committee Viewpoints

The Committee offered viewpoints on two topics: 1) how can TMRS improve communications to and with Committee representatives and their constituents and 2) the general sentiments that Committee representatives hear concerning the 2019 legislative session. A summary of the discussion for each topic follows.

TMRS Communications to and With Advisory Committee Representatives and Their Constituents

Mr. Davidson provided an overview of the methods that TMRS communicates¹ with its stakeholders. Committee representatives were asked to share their perspectives on the questions that TMRS Staff provided in advance of the meeting as part of the Committee materials package:

- 1) What are the primary means by which you obtain information about TMRS?
- 2) What platforms or methods do you use to communicate with your constituency or peers about TMRS (or other issues)?
- 3) In your opinion, what is the best method TMRS can use to convey information to local constituencies?
- 4) Aside from the various methods that TMRS uses to provide services and information, what can TMRS do to engage members, elected officials, and retirees on critical issues facing TMRS and other defined benefit plans?
- 5) How can TMRS improve the way it communicates with all of our constituencies?

The Committee representatives were complimentary of the many ways in which TMRS proactively communicates with the members, retirees, and cities. They reported email from TMRS and the TMRS website as the primary means by which they obtain information about TMRS. Some Committee representatives also routinely attend the Board meetings or communicate with representatives from the TMRS Travel Team. Most Committee representatives from the group class reported attending their organization's board meetings to provide an in-person update on TMRS matters or using their organization's email directory to distribute emails received from TMRS Staff.

Some Committee representatives share information with their council members during the budget process, request the TMRS Travel Team to attend a council meeting and deliver an information presentation, or provide information on TMRS as part of their new council member and mayoral orientations. Some Committee representatives indicated that communications with elected city officials needed to be balanced, and that "over-communication" could be counter-productive when the overall sentiment about TMRS was already positive.

The Committee offered the following ideas to enhance communications with constituencies:

¹ Please see the Appendix for the compiled matrix of communication methods discussed with the Committee.

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- Using a section on the annual statement to promote new communication pathways.
- Providing an information package targeted to entering retirement that could be provided to members nearing retirement eligibility.
- Offering an “app” to members so that information could be accessible via smartphone.
- Providing cities with a list of “best practices” that they can use to better communicate TMRS information with various groups.
- Delivering more user-friendly navigation on the website.
- Providing more information in Spanish.

Key messages of interest to members as reported by the Committee included information about the financial soundness of TMRS. Messaging and information ought to be simplified across communication platforms (i.e., email, website, and print) to be more concise. One Committee representative suggested publishing a “COLAs for dummies” type communique to explain the basics of COLAs in plain language. Committee representatives also believed that expanding education efforts to new council members could help mitigate pension envy.

The Committee identified three areas where potential misinformation might exist. They included 1) members’ lack of knowledge about how TMRS benefits are calculated, 2) a lack of understanding about the timing of the city contribution to a member’s retirement , and 3) the affordability of TMRS benefits and the impact of the contribution on other city priorities. It was noted that TMRS has an excellent opportunity to produce corrective messaging on these topics.

Finally, the Committee acknowledged that increasing TMRS members’ awareness and understanding also requires employees to be engaged. The Committee emphasized that communications in the current environment should be careful not to advocate or promote but to educate members and officials to improve understanding of the System.

Sentiment Concerning the 86th Legislative Session

The Committee was asked to share perspectives on the questions that TMRS staff provided to Committee representatives in advance of the meeting through the materials package. They were as follows:

- 1) What are you hearing from your constituencies, city council members or city managers, or local TMRS members or retirees about the upcoming legislative session in general and regarding pensions?
- 2) Are there any pressing pension (benefit design) issues being discussed in/by your cities, members, retirees, or constituencies?

Some Committee representatives reported hearing that Corpus Christi may potentially look at a tiered system of benefits, that the Ft. Worth retirement system may seek some type of legislative

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change in the 86th session, and that the City of Galveston is discussing matters related to police pension benefits. Committee representatives expressed and reiterated the need to ensure that the risk of initiating any legislation is worth the reward. Cities across Texas are concerned that their revenues may be reduced by future Legislative action. This may place pressure on city decision-makers that could impair their ability to continue to afford TMRS. Other public pension systems in Texas are experiencing issues with funding. Although TMRS is not experiencing those problems, Committee representatives expressed concern that TMRS might not be able to distinguish its position and potentially expose itself to undesirable legislative change as a result. It was again acknowledged that having support from all constituents, the Governor's office, and strong bill sponsors are requirements for success; the high degree of uncertainty about the 86th legislative session introduces a new level of unpredictability.

V. Session Recap – Request for Information

One request for additional information arose during the Committee's discussions concerning national trends regarding COLAs, what other states have done recently to restructure COLAs and the outcomes of these efforts. Staff noted that Keith Brainard of the National Association of State Retirement Administrators (NASRA) and PRB Vice-Chair will be presenting information on public retirement system national trends at the May joint Board meeting.

The next meeting of the Committee is scheduled for May 25, 2018 in Austin, TX. It will be a joint meeting with the TMRS Board of Trustees. Reports on actuarial matters and information concerning public pension plan trends will be reviewed and discussed. The Board will also hear about the outcomes of the Committee's April 26, 2018 meeting and determine further involvement of the Committee during the interim session.

To access the Committee's meeting materials, please visit TMRS.com. Please contact TMRS Staff at 512.476.7577 or 800.924.8677 with any comments or questions.