Meeting of the TMRS Advisory Committee on Benefit Design

November 15, 2018

TMRS Advisory Committee

TMRS
Texas Municipal Retirement System

Today's Agenda

1. Welcome and Introductions
2. Purpose of Meeting
3. Interim Overview
4. Benefit Design Proposals
5. Board Governance & Legal Proposals
6. City-Related and Administration Proposals *(Lunch Follows)*
7. Legislative Session Update
8. Discussion of Possible Future Meetings
9. Public Comment
10. Adjourn

Welcome and Introductions

TMRS
TEXAS MUNICIPAL RETIREMENT SYSTEM

Purpose of Meeting

Interim Session Schedule - Purpose of November Meeting

April 26, 2018 – Organizational Meeting

- Educational session on TMRS
- Overview of legislation, including HB 3056
- Collect information on viewpoints for proposing TMRS legislation in 2019 Session
- Identify how Committee representatives communicate with their constituencies and how to improve lines of communication

May 25, 2018 – Joint Meeting with TMRS Board

- Meet jointly with Board and receive presentations on Annual Actuarial Valuation, National Pension Trends, and Annual Economic Outlook
- Committee Chair and Vice Chair updated Board on results of April 26th meeting

November 15, 2018 TMRS Act Review Project Update

- Provide an update on interim activities
- Discuss Board decisions on proposed benefit design changes
- Inform Committee of Board decisions regarding administrative / operational proposals
- Obtain feedback from Committee to provide to the Board at December meeting
- Provide an update on the outcome of the mid-term elections and preview of 86th Legislative Session

Facilitation Ground Rules

- Stay mentally and physically present; attend to non-Committee business during the breaks
- Participate appropriately - respect your colleagues - balance listening / talking so all viewpoints are heard
- Stay focused on the agenda items; resist temptation to get into other interesting topics until the time is right to do so
- Out of respect for others, refrain from sidebar conversations – turn off mobile phones (take calls outside)
- Be succinct with comments so all viewpoints are heard
- Expect the facilitator to guide, focus the comments, keep a fast pace, and interrupt, if necessary

Interim Overview

Project Purpose

TMRS Act Review Project: An objective in the 2018-2022 TMRS Strategic Plan

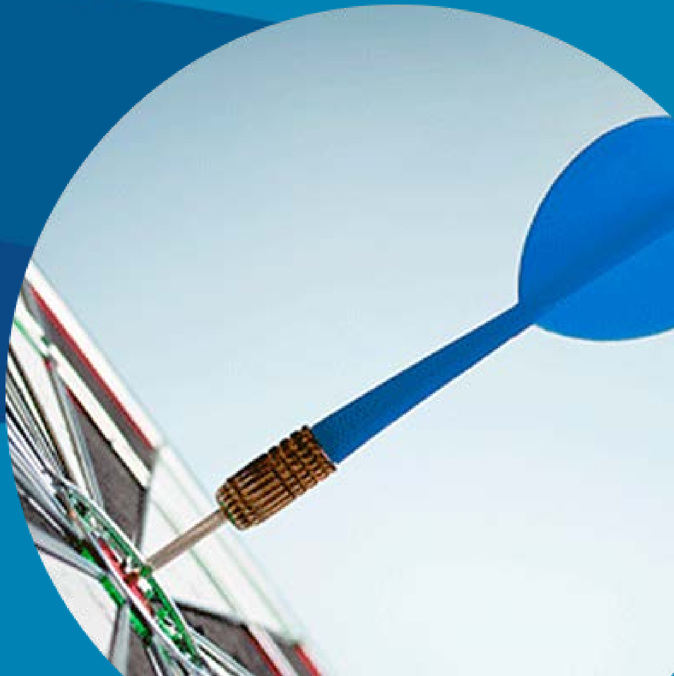
- “Develop and Promote Legislation and Rule Amendments to Clarify Certain Aspects of the TMRS Act”
- Purpose is to review the TMRS Act and Rules to identify the need for possible statutory or rule changes to improve TMRS’ plan design and operations

Project Status

- Board briefed on status beginning in February meeting
- Suggestions made to 170 sections and subsections of the Act; 142 sections researched and prioritized
- 19 priority statutory suggestions presented at June and August Meetings
- At the direction of Board, draft bill language for three Benefit Design and nine highest priority administrative / operational proposals provided at September Board meeting
- At October meeting, Board made preliminary decisions about whether to proceed with legislation for the 86^{th} session
- Final decision expected to be made at December meeting

Benefit Design Proposals

COLAs



TMRS COLA Coverage

- Trends – TMRS Cities
  - Overall
    - The number of cities participating in TMRS has increased from 827 in 2008 to 883 in 2018
  - Cities Adopting COLAs
    - In 2008, 495 of 827 (60%) cities adopted COLAs
    - In 2018, 471 of 883 (53%) cities adopted COLAs
  - Repeating COLAs
    - In 2008, 486 of the 495 (98%) cities adopted repeating COLAs; 467 were 70% repeating COLAs
    - In 2018, 458 of the 471 (97%) cities adopted repeating COLAs; 400 were 70% repeating COLAs
  - Ad Hoc COLAs
    - In 2008, 9 cities adopted Ad Hoc COLAs; the number peaked at 20 in 2013
    - In 2018, 13 cities adopted Ad Hoc COLAs

GRS Retirement Consulting

TMRS COLA Coverage

- Trends – TMRS Annuitants
  - Overall
    - The number of annuitants increased from 34,830 in 2008 to 63,087 in 2016, an 82% increase
  - Annuitants Covered by COLAs
    - In 2008, 32,781 of 34,830 (94%) annuitants received COLAs
    - In 2018, 50,932 of 63,087 (81%) annuitants received COLAs
  - Repeating COLA Coverage
    - In 2008, 32,006 of the 32,781 (98%) annuitants receiving COLAs were in cities with repeating COLAs
    - In 2018, 42,138 of the 50,932 (83%) annuitants receiving COLAs were in cities with repeating COLAs
  - Ad Hoc COLA Coverage
    - In 2008, 775 annuitants benefited from an Ad Hoc COLA; by 2014, this number had increased to 9,828 annuitants
    - Since 2014, the number of annuitants benefiting from Ad Hoc COLAs decreased to a low of 7,804 in 2016, but has since increased to 8,794 in 2018

GRS Retirement Consulting

COLAs are Retroactive

- Current COLA options – 30%, 50% or 70% of CPI
- Increases are calculated as if COLA had always been in effect since date of retirement
  - Typically referred to as "catch up" provision
- Initial COLA or an increase in CPI percent results in large benefit increases for the year adopted; longer retired, the higher the increase
- Reduction in CPI percent results in lower or no increase until cumulative increase at lower percent exceeds current benefit; longer retired, longer until another increase will be granted

GRS Retirement Consulting

Retro Versus Non-Retro COLAs

- Since 2009, there has been interest by some stakeholders to file legislation which allows an option to remove the retroactive provision from the COLA
- For cities first adopting a COLA or who increase the CPI percent, a retro COLA is more expensive than a non-retro COLA
- For cities who decrease the CPI percent, a non-retro COLA is more expensive than a retro COLA
- For cities with repeating COLAs or who adopt ad hoc COLAs annually and do not change the CPI percent, there is no cost difference between a retro COLA and non-retro COLA

GRS Retirement Consulting

Comparative Analysis of January 2018 COLA Retro vs Non-Retro (Ad Hoc and Repeating)

City Last Adopted 70% COLA January 2010

	Baseline (No COLA)	70% CPI Ad hoc with Catch-up	70% CPI Ad hoc without Catch-up	70% CPI* Repeating with Catch-up	70% CPI* Repeating without Catch-up
Full Rate	12.40%	14.04%	12.53%	21.02%	19.98%
Rate Increase vs Baseline		1.64%	0.13%	8.62%	7.58%
Cost of Retro Feature			1.51%		1.04%

City Never Adopted a COLA

	Baseline (No COLA)	70% CPI Ad hoc with Catch-up	70% CPI Ad hoc without Catch-up	70% CPI* Repeating with Catch-up	70% CPI* Repeating without Catch-up
Full Rate	7.90%	8.78%	7.95%	13.93%	13.37%
Rate Increase vs Baseline		0.88%	0.05%	6.03%	5.47%
Cost of Retro Feature			0.83%		0.56%

* Assumes CPI will increase 2.5% annually

GRS Retirement Consulting

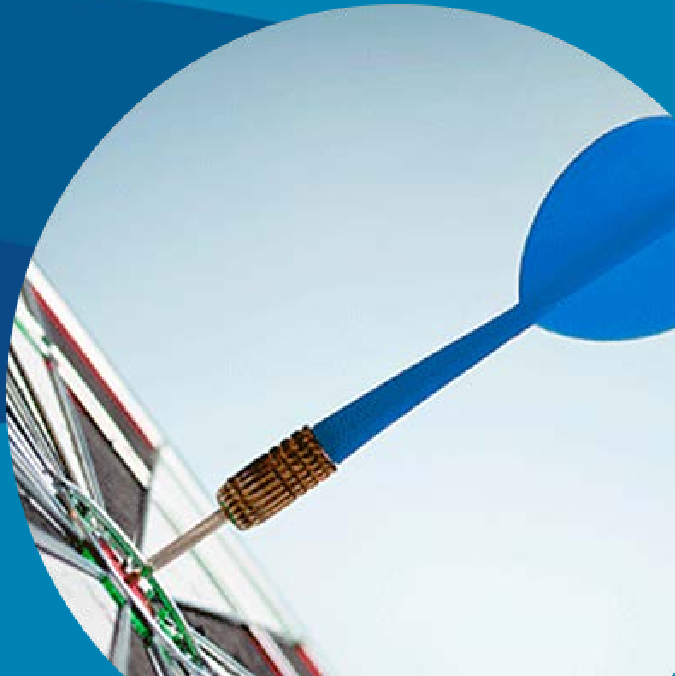
Staff Proposal to Board

- At the September meeting, staff proposed:
  - Retain the 30%, 50% and 70% CPI-based structure for both repeating and ad-hoc COLAs
  - Make the retroactive catch-up feature optional when increasing or decreasing the amount of a COLA benefit
  - Allow a city to switch back and forth between a retro and a non-retro COLA

Board Decision – October Meeting

- Overall observations:
  - Unknown impact of fiscal pressures and other state/local issues on cities
  - Limited interest from cities for change
- Decision:
  - The Board decided not to propose legislation and would revisit if a COLA bill was filed during the 86th Session

Return to Work



TMRS Current Provisions

- Currently, if a member retires from one city and then returns to work for that same city:
  - The member's current annuity is suspended until he re-retires (the member forfeits the benefit payments that would have occurred during the suspension); may result in actuarial gain to city
  - A new member account is created to which the member and employer contribute (with interest granted) and the balance is annuitized at the second retirement

GRS Retirement Consulting

20

TMRS Current Provisions

- There is a special provision for members who are separated from their employer for a period of more than 8 years before they return to work.
- Those members are eligible to receive as a lump sum the accumulation of their suspended benefit payments when they re-retire (without interest)

GRS Retirement Consulting

21

TMRS Current Provisions

- When a member returns to work at another TMRS city, the member's annuity is not suspended and they can simultaneously receive their annuity from the previous city and salary from their new city
- A new member account is created to which the member and employer make contributions like any other member (with interest granted) and the balance is annuitized at the second retirement

GRS Retirement Consulting

22

TMRS RTW Statistics as of 12/31/2017

- RTW rehires all cities: 1,663
- RTW rehires for another city: 1,387
- RTW rehires same city: 276 (in 139 different cities)
  - < 1 year break: 85
  - >= 1 year break: 153
    - Accrued suspended payments
      - Total: $6.145 million
  - >= 8 year break: 38
    - Accrued suspended payments
      - Total: $1.94 million

GRS Retirement Consulting

Prospective Behavior and its Impact on Long Term Costs

- The most common RTW scenario involves a member who retires but, after retirement, wishes to return to work for economic or other reasons
- Another common scenario occurs when the member is approached by their former employer to come out of retirement and return to work
- When the decision to retire is made without the intention to return to work, costs to a system may not be significant. Under some scenarios, RTW can even produce liability gains

Prospective Behavior and its Impact on Long Term Costs

- When the RTW provisions are too attractive they can influence members to retire with the intention of returning to work
- Such provisions can change retirement behavior that may produce significant costs to the system
- Systems with lenient RTW provisions may also face political and public criticism

Staff Proposal to Board

- At the September meeting, staff proposed:
  - A member could retire and return to work at the same city and continue to receive their annuity, if they met certain conditions
  - Would require a “bona fide” termination (no prearranged agreement to return to work)
  - Would require a break in service of at least one year
  - If a member did not meet these two conditions, their annuity would be suspended and suspended payments forfeited
  - Would grandfather 8-year gap retirees who returned to work at the same city
  - Would allow retirees who have already returned to work at same city after a one year break to have their annuities unsuspended

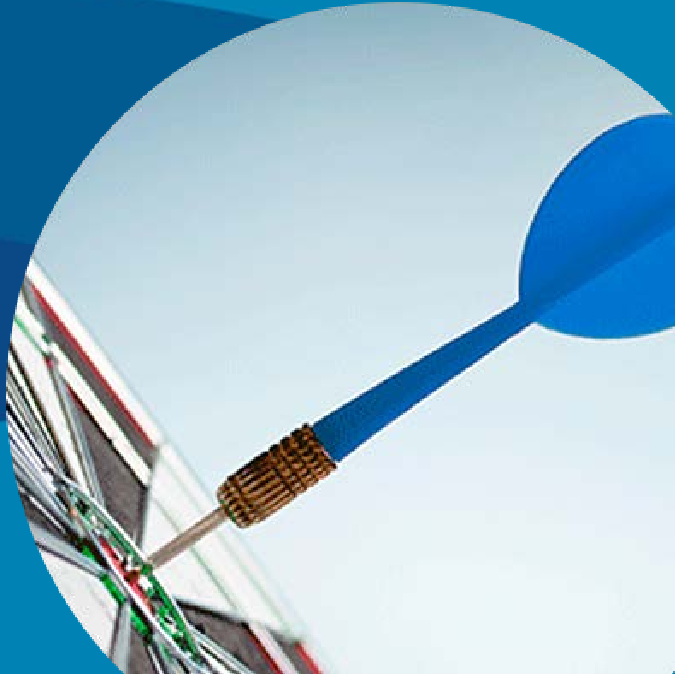
26

Board Decision – October Meeting

- Overall observations:
  - One year break in service can be a sign of a bona fide termination and would not materially change retirement patterns
  - Reduced inequity between returning to work at another city versus city of last employment
  - Proposed transition for both 1-year and 8-year break in service retirees was fair and reasonable

- Decision:
  - The Board decided not to propose legislation and would revisit if a RTW bill was filed during the 86th Session

Supplemental Death Benefits Fund (SDBF)



Supplemental Death Benefits (SDB)

- Cost-sharing group term life insurance plan; contribution rate based on one-year term cost expressed as a percentage of payroll
  - Actives – one year's salary
  - Retirees – $7,500
- Assets pooled and benefits paid from SDBF
- Pay-as-you-go, no pre-funding over working career
- Cities: 3 active only; 761 active and retiree; 111 no SDB coverage

GRS Retirement Consulting

Retiree Death Benefit

- The retiree death benefit was originally $2,500 and was increased to $5,000 in 1994 and $7,500 in 2004
- Surplus assets generated by favorable mortality experience and investment earnings
- To draw down assets, retiree rate valued at $2,500 even after increases
- Mortality tables updated in 2010, 2013 and 2015
- As a result:
  - SDBF asset balance declined from $25.7M (2012) to $18.9M (2017)
  - Not sustainable long term
- 2019 Actuarial Experience Study will include a review of the:
  - Mortality rates
  - Timeframe for valuing the full $7,500 retiree benefit
  - Appropriate level of SDBF reserves going forward

GRS Retirement Consulting

Retiree Death Benefit Rates

- Increasing the retiree SDB to $10,000 has been considered as part of the possible benefits bill
  - If based on the full $7,500 benefit, the retiree SDB rate would triple
  - If based on $10,000 benefit, the retiree SDB rate would quadruple
  - If the retiree SDB increased to $10,000 with no change in the current funding policy, the SDBF balance would deteriorate even more rapidly

SDB Benefit Valued	$2,500	$7,500	$10,000
Active Rate	0.15%	0.15%	0.15%
Retiree Rate	0.05%	0.15%	0.20%
Total SDB Rate	0.20%	0.30%	0.35%
Increase Over Current Policy		0.10%	0.15%

- Board may consider postponing any retiree SDB increase to a future legislative session to allow time for SDBF funding policy analysis as part of the 2019 Experience Study

GRS Retirement Consulting

Staff Proposal to Board

- At the September meeting, staff proposed:
  - Increase the retiree supplemental death benefit from $7,500 to $10,000

Board Decision – October Meeting

- Overall observations:
  - Due to the significant reserve in the SDB fund, the contribution rate for retiree coverage is currently only one-third of the total term cost
  - This funding policy is not sustainable over the long term
  - GASB 75 reporting would be improved by basing the retiree portion of the SDB cost on the full $7,500 benefit amount
  - More study is needed before any proposed changes are made to the retiree benefit
- Decision:
  - The Board decided not to propose legislation and instead decided to have the funding of the current retiree benefit and the appropriate level of the SDB fund assets reviewed in the 2019 Experience Study

Board Governance & Legal Proposals

Board Governance & Legal Proposals

- Board Meetings
- Immunity and Liability Protection
- Legal Advisor
- Confidential Information/Audit Working Papers
- Investment of Assets/Definition of Security

City-Related and Administration Proposals

TMRS
Texas Municipal Retirement System

City-Related and Administrative Proposals

- Amortization Periods
- Prior Service Credit and Updated Service Credit
- Providing Information Electronically
- Occupational Disability

Legislative Session Update

Results of Election

- U.S. Senate / U.S. House Results
  - Senate: The final results are not known due to ongoing recounts
  - House: Democrats gained at least 28 seats and have obtained majority; Two Texas Congressional seats changed to Democrat (Culberson, Sessions)
- Texas Senate / Texas House Results
  - All statewide seats retained by Republicans
  - Senate: Democrats gained 2 seats; republicans retained majority (19-12) (Huffines, Burton lost); Sylvia Garcia to U.S. House; Special election in December
  - House: Democrats gained 12 seats; but republicans retained majority (83-67)

86^{th} Legislative Session

- Early bill filing begins on November 12, 2018
- The Legislative Session begins on January 8, 2019
- Bill filing period ends on March 8, 2019
- The Legislative session ends on May 27, 2019
- Bill signing period ends on June 16, 2019

Discussion of Possible Future Meetings

Public Comment

Questions