

## **Meeting of the TMRS Advisory Committee on Retirement Matters May 15, 2014**

### Opening Remarks

Ms. Julie Oakley welcomed the Advisory Committee members to their second meeting of the interim and thanked the members for attending. After brief introductions, the agenda for the meeting was reviewed. The April meeting minutes were then approved and the issues discussed at the April Advisory Committee meeting were briefly summarized. The topics that were studied in April were the flat-rate Cost of Living Adjustment (COLAs) and potential modifications to the retroactive “catch-up” provision which is a feature of the current CPI-based COLA.

It was noted that the information provided during the May meeting was meant to be educational and that no decisions were requested from the Committee at that time.

### Advisory Committee Input

The Advisory Committee members were then asked to share their initial thoughts about COLAs.

Bob Scott – Carrollton went from a 70% repeating to a 50% repeating and would like a non-retroactive way to get back to the 70% repeating COLA. He indicated not much interest in a fixed (flat) COLA, but others might be interested in it.

Charles Windwehen – Has not received feedback from retirees. However, he is not averse to a change in the COLA if it can be done safely. The retroactive nature is unique to TMRS’s COLA. Not in favor of ad hoc COLAs.

Mitch Landry – It is not wise to have certain cities opting in and out of COLAs.

Victor Hernandez – Lubbock has had a 70% repeating COLA for a long time; would not support moving away from that. Elected officials want local control and a full plate of options to address different circumstances. Not necessarily opposed to any idea as long as it does not hurt the Fund. Cities with 70% COLAs will be unhappy if others can do that without a catch-up because it seems unfair.

Bryan Langley – Denton is happy where they are. The catch-up provision is unique and probably not something we would have if we were designing the plan today. Cities should have the flexibility to not have to pay a catch-up.

David Crow – When bargaining for benefits if you want to keep something bad enough you give up something else, which the firefighters did. Others should have to “pay the piper” for the COLAs. If it is not paid for now it will cost more in the future.

Tadd Phillips – Georgetown has had some conversations about increasing the COLA and paying the retroactive amount. For TMHRA, the retroactive feature is a primary concern. COLA flexibility could be negative for employees. It is worth considering how often city councils should be able to adjust COLAs, such as once every five years. No opinion on ad hoc versus repeating COLAs.

Monty Wynn - Cities are interested in discussing COLAs but nothing has been approved yet. The TML policy committee will wrap up policy committee meetings in August and the issues for proposal to TML will be decided in October.

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Dean Frigo – A one-time opt-in will help cities and also retirees where the COLAs have been turned off. The catch-up is more than a hurdle. It will keep cities from going from 50% to 70%. Different groups of retirees will be helped with a one-time option and we are all about helping retirees.

Ron Crabtree – The catch-up has always been a sticking point; favors having no catch-up. Does not favor ad hoc COLAs because they are so uncertain. Would like more information on the impact to TMRS.

Michael Dane – San Angelo went from 70% to 50% to manage their contribution rate and would like to go back to 70% except that their rates are at 18%. Would look favorably at a way to get back to 70%. There doesn't seem to be a crisis and wonders about the risk of stepping out with legislation. Is now the right time?

Jerry Gonzales – Has not had a discussion with the city. The catch-up costs a lot of money. We need to see the numbers. A bigger concern is the adjustment to the mortality tables.

Scott Kerr – The important thing is stability. We don't want one city council to turn off the COLAs. We should address the certainty of COLAs.

Greg Vick – Some city councils may make decisions with COLAs that cause negative repercussions. Those affect retirees, not active employees. We also need to talk about contributions, not just benefits. Cities already have 20+ options to control their TMRS costs. Maybe it is the wrong approach to take from the group of individuals who are least represented.

Greg Shipley – There are no easy answers. His group represents police officers all over the state. All are different. It does not appear the TMRS System is broken.

Allen Bogard – Sugar Land maintained its COLA even when rates went up. They are not in Social Security. Agrees with David Crow that there are trade-offs. Merit increases were not approved for a period of time which was the trade-off for keeping the COLA even as rates were increasing. Not looking for any legislative changes right now because all public pension plans are under attack. It is important to maintain a healthy TMRS and it should be hard and painful to turn a COLA on and off. However, a one-time reset on a COLA might be an option to pursue.

Joe Angelo – Concerned about the retroactive feature and prefer ad hoc COLAs that could be granted when a city is financially able to do so. The City of San Antonio still has big deficits that it is addressing from the financial crisis several years ago.

### Follow up items from the April meeting

1. A table of plan design options from the publication "TMRS Facts for City officials" was discussed. This table shows the amount of control each city has over plan benefit options and how they can be modified.
2. A chart was presented showing the main cost-drivers in the TMRS plan design and how changing each option affects contribution rates.
3. The estimated cost to TMRS for implementing a fixed-rate COLA and modifying the catch-up provision was discussed. Costs ranged from \$60,000 to \$310,000.
4. An example was provided that showed the contribution rate difference between a repeating COLA with the catch-up provision and one without. The difference was approximately 50 basis points.

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5. The impact of a tiered approach to COLAs, as shown in the example, takes decades to reduce costs.

### Eligibility Threshold Modification

The hours requirement in the definition of “employee” in the TMRS Act has not changed since inception. Positions normally requiring less than 1,000 hours per year (such as some temporary, seasonal, and part-time positions) are not required to be enrolled in TMRS. Changes to the threshold have been considered in the past two legislative sessions. A comparison of other select public retirement systems shows no uniform standards for eligibility except that for the few that allowed for an employer election on the threshold amount, such election was irrevocable.

From an actuarial standpoint a change in eligibility has little impact on overall funding but could have a material impact on small cities.

Several Advisory Committee members saw a change in the eligibility as a “slippery slope” to be avoided. Others urged caution. This is not a priority for TMHRA at this time.

### Two-Tiered Plans

Staff indicated that the TMRS Act currently does not permit tiers of benefits, but does allow for local control and the ability of cities to control costs by changing its plan benefit options prospectively.

The pros for tiered plans are cost control and flexibility. The cons are morale issues, cities placing themselves at a competitive disadvantage for recruiting and retaining employees, and smaller and slower than expected cost savings.

On the national landscape, 48 states have had plan changes. In Texas, the Teacher Retirement System and Employees Retirement System both had new tiers enacted in the most recent regular legislative session.

Some Committee members felt that with a tiered plan, elected officials may feel pressured to “do something” about the benefit levels of public employees even though cost savings will not be realized for decades.

### Agenda for the June 2014 Advisory Committee Meeting

The next Advisory Committee meeting will be in June. Committee members will have time to analyze issues and form opinions. The Committee may want to consider elements of the resolution adopted by the TMRS Board at its December 7, 2012 meeting prior to the 83<sup>rd</sup> Legislative Session which stated:

### **Resolution**

**Whereas**, the Texas Municipal Retirement System (TMRS) has provided Texas cities, municipal employees, and retirees a soundly funded, hybrid (“cash-balance”) retirement program for over 60 years that provides superior retirement security when compared to defined contribution plan alternatives; and

**Whereas**, the design of TMRS provides local control of retirement benefits so that cities may choose the level of benefits appropriate for their employees and their communities; and

**Whereas**, the design of the TMRS program requires each city to pay the annual required contribution to ensure that benefits remain soundly funded over no more than a 30-year period; and

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**Whereas**, the TMRS Board of Trustees is committed to operating under the highest ethical standards and incorporates best practices for its actuarial and investment policies; and

**Whereas**, in recent years, TMRS has worked with all constituent groups, including elected officials, employee associations, and representatives of city management, to craft important changes to the System that ensure its continued soundness; and

**Whereas**, the Legislature of the State of Texas has historically been supportive of TMRS, the local control it provides to cities, and the high standards of its operations; and

**Whereas**, legislation may be proposed in the next session of the Texas Legislature to affect TMRS without regard to its actuarial condition, plan design, or potential impact on the sponsoring cities; therefore

**Be It Resolved by the Board of Trustees of TMRS**, that the Board strongly supports the continuation of the current hybrid (“cash-balance”) plan design, operational standards, local control for cities, and commitment to quality that have characterized TMRS since its inception, and furthermore

**Be it Resolved by the Board of Trustees of TMRS**, that the Board encourages the Texas Legislature to continue their support of TMRS and not support any legislative proposals that would negatively impact TMRS, including those that limit local control; benefit one city, group of members, or retirees; or that will have a negative fiscal impact on the System.

PARTICIPANTS	
<u>TMRS Board Members</u>	<u>Advisory Committee Members</u>
Julie Oakley	Joe Angelo
David Landis	Allen Bogard
	Ron Crabtree
<u>TMRS Staff</u>	David Crow
David Gavia	Michael Dane
Eric Davis	Dean Frigo
T.J. Carlson	Jerry Gonzalez
Christine Sweeney	Victor Hernandez
Dan Wattles	Scott Kerr
Leslee Hardy	Mitch Landry
	Bryan Langley
<u>TMRS Consultants</u>	Tadd Phillips
Nancy Williams, Hewitt EnnisKnupp	Bob Scott
Amy McDuffee, Hewitt EnnisKnupp	Greg Shipley
Mark Randall, Gabriel Roeder Smith & Company	Greg Vick
	Charles Windwehen
	Monty Wynn