

Meeting of the TMRS Advisory Committee on Benefit Design

August 18, 2016

(Covers Agenda Items 1 – 9)

TMRS Advisory Committee



Welcome!



Consideration and Approval of June Advisory Committee Meeting Minutes



Today's Agenda

1. Welcome and Introduction
2. Consideration and Approval of June Advisory Committee Meeting Minutes
3. Review of the Agenda and Desired Outcomes
4. Quick Recap of Study Topics
5. Discussion of Member Requests from June Meeting
6. Presentation and Refinement of a List of Advantages and Disadvantages for Each Return to Work Option Based Upon Advisory Committee Survey Results
- **BREAK** -
7. Presentation and Refinement of a List of Advantages and Disadvantages for Each COLA Option Based Upon Advisory Committee Survey Results
8. Review of Session and Next Steps
9. Public Comment
10. Adjourn

Advisory Committee Charge / Desired Outcomes

- Provide input to the Board on the advantages and disadvantages of benefit design issues affecting TMRS cities, members, and retirees as assigned to the Advisory Committee by the Board;
- Provide an additional conduit for communication between the TMRS Board and its members, retirees, city officials and policy makers;
- Maintain communication with statewide professional organizations, including employer and employee groups, and member cities.

The Interim Session – Where We Are Today

June 23, 2016 – Advisory Committee Meeting #1

- Receive education from TMRS Actuary (GRS) and Staff on study issues
- Consider, discuss and develop the advantages and disadvantages of each study issue
- Request additional information as needed



Between Advisory Committee Meetings

- Individually consider and respond to a possible survey from TMRS staff regarding the study issues
- Review and consider materials provided in response to information requests
- Contact TMRS staff with any requests for clarification or further information



August 18, 2016 – Advisory Committee Meeting #2

- Review the results of the Committee survey and materials provided in response to information requests
- Further consider and discuss study topics
- Finalize the list of significant advantages and disadvantages of each study topic

Expectations

- We would like to hear your additional perspectives, rationale and insights
- We will not be taking votes but would like to finalize a comprehensive and complete listing of advantages and disadvantages for each study topic option
- We will not spend time “wordsmithing” at this meeting
- Aon Hewitt and Staff will adjust and edit the lists with today’s Committee input and prepare a final package for the Board for delivery in September



Recap of Study Topics – Return to Work and COLA/Catch-up Provisions

August 18, 2016



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Discussion of Committee Information Requests



Summary of Information Requests from the June Meeting

1. Return to Work: Survey results of selected TMRS cities that rehired retirees
2. COLA/Catch-up Provision
 - a) Treatments of COLAs by other Texas Statewide Systems
 - b) Overview of whether other statewide public retirement systems have a “retroactive” COLA provision
 - c) List of TMRS cities that have never adopted a COLA

**Presentation and Refinement of
Advantages and Disadvantages
Compiled from Committee
Survey:
Return to Work Options**



Suggested Approach to Meet Desired Outcomes

1. Review the list of summarized advantages and disadvantages compiled from the Advisory Committee Survey Results
2. Add to or clarify the summarized issues
 - Aim for completeness of the list, not necessarily consensus on each issue listed and whether it is an advantage or disadvantage
 - If there are diverging viewpoints, we will make note of it
3. Questions?

Return to Work Option 1 Description

After a 1-year break in service, do not suspend the benefit, but treat employee the same as if he/she were going to work at a city other than the last-employing city. The retiree continues to receive his/her benefit payments and his/her salary while employed.

Return to Work Option 1: Questions for the Committee's Consideration

- Are there additional advantages or disadvantages not reflected in this listing that ought to be included?
- Do any summarized issues need clarification?

Return to Work Option 1: Advantages and Disadvantages
Summarized Issues from July 2016 Advisory Committee Survey
For Discussion Purposes Only

Option 1 Description

After a 1-year break in service, do not suspend the benefit, but treat employee the same as if he/she were going to work at a city other than the last-employing city. The retiree continues to receive his/her benefit payments and his/her salary while employed.

Summarized Advantages	Summarized Disadvantages
A. More consistent with rules for going back to work with a different city	B. Does not eliminate the unfairness of being able to retire and immediately move to a different city to work C. Allows the city an opportunity not to fill that position with a promotion or a new hire; this type of activity has occurred even without these provisions.
D. More consistent with private sector rules and practices	
E. Simpler to understand than Option 2	
F. One year break in service is fair, and is better than other statewide plans	G. With only a one-year year break, could be abused by some employees/employers
H. Gives the employee more options in managing his/her retirement benefits	
I. Eliminates the preferential carve out for employees retired at least eight years	
J. Allows the retiree's employer to compete for the services of that employee on a level playing field, providing more workforce flexibility	
K. Doesn't have a negative impact to the TMRS system	L. Seems to stray further from the objective of TMRS to administer retirement benefits M. Possibility of negatively affecting retirement trends for TMRS as a whole N. TMRS administrative burden (as would exist with any change)
O. Fiscal impact on cities would be insignificant since the payout would not change	P. May affect city contribution rates and COLA provisions
Q. Financially attractive for the retiree	
R. Defendable against accusations of "double dipping"	S. Could be perceived by the Legislature and public as "double dipping," possibly bringing negative attention on both TMRS and municipal employers

Return to Work Option 2 Description

After a 1-year break in service, the retiree could return to work at the last-employing city, have his/her annuity suspended but have his/her annuity, including any COLAs granted during the period of suspension, held in an account and paid as a lump sum payment, with or without interest, or re-annuitized upon his/her re-retirement.

Return to Work Option 2: Questions for the Committee's Consideration

- Are there additional advantages or disadvantages not reflected in this listing that ought to be included?
- Do any summarized issues need clarification?

Return to Work Option 2: Advantages and Disadvantages
Summarized Issues from July 2016 Advisory Committee Survey
For Discussion Purposes Only

Option 2 Description

After a 1-year break in service, the retiree could return to work at the last-employing city, have his/her annuity suspended but have his/her annuity, including any COLAs granted during the period of suspension, held in an account and paid as a lump sum payment, with or without interest, or re-annuitized upon his/her re-retirement.

Summarized Advantages	Summarized Disadvantages
A. Eliminates the preferential carve out for employees retired at least eight years	B. Treats the retiree differently than any other private or public employer
C. Lifts penalty for returning to work after a reasonable separation period without a penalty and true loss of annuity payments already earned	D. May not be affordable for the employee; could have an overwhelming negative impact on retirees hoping to return to work for their current employers E. TMRS administrative burden (as would exist with any change)
F. Removes the retirees' concerns that he/she retired too early or at the wrong time	
G. Allows the retiree's city to compete for the services of that employee on a level playing field, and provides cities more workforce flexibility, particularly for those in geographically isolated areas and for those who have "key knowledge" positions	H. Some employers/employees could possibly take advantage of the system I. Allows the city an opportunity not to fill that position with a promotion or a new hire
J. Less likely to be perceived by the Legislature and public as "double dipping"	K. Possibility of negatively affecting retirement trends for TMRS as a whole
L. Fiscal impact on cities would be insignificant since the payout would not change	M. May affect city contribution rates and COLA provisions

Return to Work: Additional Considerations

- Should the retiree be made whole (to some degree)? In what way?
- To whom would such a provision apply?
 - a) Future retirees only?
 - b) Those who have already retired but have yet to return to work at their last-employing city?
 - c) Those retirees who have already returned to work for their last-employing city with less than an eight year break in service?

Break



**Presentation and Refinement of
Advantages and Disadvantages
Compiled from Committee
Survey:
COLA and Catch-up Provision
Options**



COLA/Catch-up Option 1 Description

Allow cities to adopt a COLA (either ad hoc or repeating) at 30%, 50%, or 70% of CPI based only on the change in the CPI in the most recent year. In other words, allow a city to adopt a COLA that does not include the catch up feature.

COLA and Catch-up Provision Option 1: Questions for the Committee's Consideration

- Are there additional advantages or disadvantages not reflected in this listing that ought to be included?
- Do any summarized issues need clarification?

COLA and Catch-up Provision Option 1: Advantages and Disadvantages
Summarized Issues from July 2016 Advisory Committee Survey
For Discussion Purposes Only

Option 1 Description

Allow cities to adopt a COLA (either ad hoc or repeating) at 30%, 50%, or 70% of CPI based only on the change in the CPI in the most recent year. In other words, allow a city to adopt a COLA that does not include the catch-up feature.

Summarized Advantages	Summarized Disadvantages
A. Removes an administrative obstacle while retaining local control, local fiscal responsibility, and providing flexibility that is currently lacking	B. Allowing cities to opt in and out of the COLA without some type of limitation may eventually create unintended consequences to the System overall
C. Tied to cost of living as opposed to being arbitrary	
D. Makes it easier for cities to plan for the COLA, and adjust to annual budget challenges	E. Ease of change; the COLA is an expensive proposition, even without the retroactive provision
F. Might encourage some cities to offer a COLA or restore a partial COLA where one hasn't been offered or has been discontinued, thereby increasing the total percentage of TMRS annuitants receiving a COLA	
G. Modernizes the COLA option in a common sense, simple to understand way	
H. Retirees will see an increase regardless of whether the catch-up feature is included	I. Could put retirees more at risk to unknown future changes in their monthly pension; ultimately could lead to lower benefits over time
J. Provides one additional feature for cities to use to recruit and retain talent	
K. Creates consistency among an employer's salary adjustment practices between actives and retirees (i.e., actives do not receive retroactive salary adjustments for prior years without an increase)	
L. Defendable with the Legislature	

COLA Option 2 Description

Allow cities to adopt a COLA (either ad hoc or repeating) at a flat rate based on a percentage of the retiree's annuity. In other words, a COLA not tied to the CPI change, 5% for example, subject to IRS limitations. By definition, a flat rate COLA does not have a catch-up feature.

COLA and Catch-up Provision Option 2: Questions for the Committee's Consideration

- Are there additional advantages or disadvantages not reflected in this listing that ought to be included?
- Do any summarized issues need clarification?

COLA and Catch-up Provision Option 2: Advantages and Disadvantages
Summarized Issues from July 2016 Advisory Committee Survey
For Discussion Purposes Only

Option 2 Description

Allow cities to adopt a COLA (either ad hoc or repeating) at a flat rate based on a percentage of the retiree's annuity. In other words, a COLA not tied to the CPI change, 5% for example, subject to IRS limitations. By definition, a flat rate COLA does not have a catch-up feature.

Summarized Advantages	Summarized Disadvantages
A. Gives cities an additional COLA option	B. Not defensible with the Legislature and the public
C. Removes an administrative obstacle while increasing local control and local fiscal responsibility	D. Does not encourage sustainable COLA patterns over the long term and might jeopardize the opportunity for retirees to receive future COLAs because they are easy to discontinue
E. May provide the greatest flexibility for cities as long as the catch-up feature is not applied	F. Some employers could possibly take advantage of the provision, which could lead to criticism, especially if the flat rate percentage is an amount that is viewed as unacceptable
G. Allows a city to better manage current resources while still providing a salary adjustment to retirees	H. Allowing cities to opt in and out of the COLA without some type of limitation may eventually create unintended consequences to the System overall
I. Understandable and a possibly a better benefit to retirees than the current COLA provision	J. COLA granted may not be reflective of inflationary conditions causing the COLA to fall short at times, potentially for long periods, without improvement

Review of the Session and Next Steps



Next Steps

- Aon Hewitt and Staff will work together to finalize the lists of advantages and disadvantages for each option based upon Committee input
- The summarized input along with the Committee survey results will be provided to the Board for its consideration
- A summary of today's meeting will be provided to you for your review and distribution to your respective stakeholder groups
- Should you be unclear about anything discussed today or have follow up questions, please contact TMRS staff

Public Comment



Adjournment

Thank You For Your Time!

