What Is a Contribution Rate?

Your city participates in the Texas Municipal Retirement System (TMRS), a pension plan that will pay a lifetime benefit to employees who qualify for membership and who retire from your city. Each year, TMRS' consulting actuary conducts an actuarial valuation of your city’s TMRS plan to determine the Actuarially Determined Employer Contribution (ADEC) rate that is required to fund your plan. This contribution rate is expressed as a percentage of your covered employee payroll. TMRS' funding policy is designed to minimize volatility from year to year. Following each actuarial valuation, TMRS provides your city with an Annual Rate Letter that shows the components of your contribution rate for the upcoming Plan Year: January 1 through December 31. Individual city Rate Letters are posted on the TMRS website in early June. The TMRS Act requires all participating cities to contribute the actuarially determined contribution rate each year.

How Is Your Plan Funded?

All retirement plans, including TMRS, are funded using this basic equation:

\[ \text{Contributions (C)} + \text{Income (I)} = \text{Benefits (B)} + \text{Expenses (E)} \]

Your employees’ deposits of 5%, 6%, or 7% of their pay plus the city’s contribution is the (C) in this equation. Those combined contributions along with income in the form of investment returns (I) make up the assets that fund lifetime benefits (B) for your employees and pay the System expenses (E). The costs of the benefits (B) are tied directly to the actuarial experience of your city (e.g., retirements, terminations, salary patterns, mortality, economic conditions).

Interest on city accounts is credited December 31 of each year, based on your Benefit Accumulation Fund (BAF) account balance as of January 1 of that calendar year. The interest credit rate is set by the TMRS Board of Trustees at a meeting after the fund’s total return on investments is determined.

Why Do City Rates Fluctuate?

The primary financial objective of TMRS, as stated in the policy, is to “pre-fund the long-term costs of promised benefits to plan members and beneficiaries at an approximate level percent of payroll from year to year.” Even though TMRS tries to keep contributions level from year to year, city rates are likely to fluctuate slightly. The annual valuation of your plan analyzes these fluctuations; reasons for fluctuations may include changes in your city’s plan provisions, actuarial experience, or, less commonly, changes in actuarial assumptions/methodologies made by the TMRS Board with the advice of its consulting actuary.

How Does TMRS Receive the City’s Contribution?

The total combined contribution rate is submitted to TMRS as part of the city’s monthly Payroll Report. The Monthly Payroll Report consists of: the Employee Contributions Report, the Summary of Monthly Payroll Report, the city’s remittance as calculated on the Summary, and additional contributions, if needed. The best way to submit your city’s payroll is through the TMRS City Portal.
FAQs about City Rates (ADEC)

Q. What TMRS plan features affect the cost of our city’s plan?

A. The design of each city’s plan has the most effect on the cost of the plan. Each city in TMRS chooses an Employee Deposit Rate (5%, 6%, or 7%), City Matching Ratio (1:1, 1.5:1, or 2:1), Vesting Requirement (5 or 10 years), and Retirement Eligibility Requirements (20 or 25 years). A quick way to view a city’s chosen features is “My City Plan” on the TMRS website.

The optional Updated Service Credit (USC) and Annuity Increase (COLA) provisions make a significant cost impact on a city’s rate. These costs are reflected in both the Normal Cost and the Prior Service portion of the rate. TMRS uses the Entry Age Normal actuarial funding method that funds an employee’s benefit over his or her working career. For cities that have repeating USC/COLA provisions, much of the cost of USC/COLAs is reflected in the Prior Service rate. The Prior Service rate is also viewed as the rate necessary to amortize the Unfunded Actuarial Accrued Liability (UAAL). TMRS’ amortization policy uses the process of laddering over closed periods, with new experience losses not to exceed 25-year periods.

Q. What is the UAAL?

A. The UAAL is the liability associated with retirement benefits that is not covered by the actuarial value of assets. If a city has a UAAL, a portion of the annual contribution rate is dedicated to amortizing the UAAL over the specified period of time for your city. Although the UAAL may be a large number, the ADEC provides a “payment plan” to reduce it to zero over time. Many TMRS cities have a negative UAAL and are “overfunded.”

Q. Is the city rate based on TMRS experience as a whole or on individual city experience?

A. Each year, our consulting actuarial firm evaluates each city’s past year’s history, including the number of retirements, refunds, deaths, salary increases, and overall payroll increase/decrease. Rates are based on each city’s demographics and experience.

Q. How does investment return affect the city’s rate?

A. Funds are pooled for investment purposes but each city has assets allocated to its BAF and the annual investment income is credited to those assets. Note that, in a bad year, the allocation may be negative. Since investment returns will fluctuate from year to year, TMRS has adopted a 10-year actuarial smoothing technique to help insulate city rates from dramatic volatility in the market.

Q. Is a city allowed to pay more than required?

A. Each city in TMRS is required to pay its ADEC. Cities may choose to contribute more than the ADEC. If additional payments are made, the city makes more rapid progress toward reducing its UAAL.

Q. How do plan changes affect the rate?

A. Cities control which of the available features they wish to include in their plans. If a plan becomes too costly, the City Council can reduce benefits and the cost of the plan to fit within the city’s budget. Benefits can be added at the city’s discretion as well.

Q. How can I get more information about the rate?

A. Your city’s Regional Manager can answer most rate questions, including providing projections of the costs of proposed plan changes. For more complex issues, such as the effect of making additional contributions, the TMRS Director of Actuarial Services can help.