What Is Updated Service Credit (USC)?

Updated Service Credit (USC) is an optional benefit feature of the TMRS retirement plan. The USC calculation, performed on a TMRS member’s account, may grant supplemental dollar credits that can increase a member’s benefit at retirement in certain situations. A city may adopt or rescind the USC provision by ordinance.

USC is designed to help a member’s benefit maintain its value over the duration of the member’s career. In calculating USC, TMRS looks at increases in the member’s salary and at any changes the city has made to its TMRS plan, such as the deposit rate or the city’s matching ratio.

How Does USC Work?

Generally, USC protects the retirement benefit by taking into account substantial increases in the employee’s salary and any changes the city may have made to its TMRS plan. Although USC may increase the value of the benefit at retirement, USC neither affects the amount of money in your member account, nor the refunded amount you receive if you leave the city and withdraw your deposits and interest.

Some cities include a “TRANSFER” feature in the USC calculation. With this feature, if a member has deposits in other TMRS cities, the USC will include all service and account balances from each city.

Remember

■ USC will only be part of your benefit if you retire and receive a monthly retirement payment, and the city has chosen this option as part of its plan.

■ Once you receive USC, that credit will be part of the combined city and member account balance used to form your monthly benefit when you retire. USC will earn 5% interest every year until you retire.

■ USC is included in your retirement estimates.

■ Not all employees at the city will receive USC. If an employee has had no significant salary increases over his/her career or there’s been no change to the city’s matching ratio or member deposit rate, it’s unlikely that employee will receive a USC.

How Can a City Adopt USC?

Cities adopt or modify USC by ordinance. Prior to adoption, TMRS prepares an actuarial study to determine the cost of the USC adoption. After receiving the TMRS study, the city determines whether it will adopt USC and the percentage (50%, 75%, or 100%) of Updated Service Credit.

The easiest way to tell if your city has USC is to use My City Plan on the TMRS website to check your city’s specific plan. The USC percentage (50%, 75%, or 100% generally) and the effective year will be shown. An R beside the year indicates that your city has chosen to repeat the USC calculation every year. A T by the percentage indicates your city will include a transfer credit for service with other cities. If no percentage is shown, your city has not adopted USC.

How Is USC Calculated?

For the purposes of determining USC, a study date (the December 31 that is 13 months prior to the effective date of the USC adoption) is used to determine the average USC salary. A hypothetical balance is then calculated based on the average USC salary, the current employee deposit rate, city matching
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ratio, and 3% annual interest assumption. This hypothetical balance is then compared to the member’s actual deposits, earned interest, and matching funds. If the hypothetical balance is greater, then the difference between these two balances is the base updated service credit to which the percentage adopted is applied.

Other Important Questions about USC

Q. If my city grants USC, who will receive it?
A. To be eligible for USC, you must have made at least 36 monthly deposits on or before the USC study date. The study date is 13 months before the date the city adopts the ordinance. Even a member who meets the qualification may not receive USC. If a city has not increased the member deposit rate or city matching ratio during the member’s career and the member has not received significant salary increases, the USC calculation may not result in a credit.

Q. What if I have worked at more than one city and they both offer USC?
A. Each city is responsible for any USC earned in that city. If your current city offers a transfer provision, the USC calculation works just like the member’s regular calculation but factors in any service you may have with previous TMRS cities.

Q. Why can’t I see USC in my account statements?
A. Although USC may increase the value of your retirement benefit, it is not reflected in the member contributions listed for your account. USC only becomes part of your benefit at the time you retire and draw an annuity. USC, if any, is included in the retirement estimates on your statement at the current level of your city’s (or cities’) adoption.

Example Calculation

Definitions

Average updated service compensation – the average salary for the 36 months preceding the study date. The highest and lowest monthly salaries are disregarded and the remaining 34 months are averaged.

Hypothetical reserves – the reserves that would have accumulated as of the study date under the plan of benefits in effect on the date of adoption, based on the average updated service compensation (above) and earning 3% annual interest.

Actual reserves – the balance as of the study date that includes member deposits, interest, city matching funds, and other credits funded by the city.

Sample USC Calculation: (Dollar amounts are for illustration only)

$40,000 hypothetical reserves
$38,000 actual reserves
$2,000 base Updated Service Credit
× 100% (or other USC percentage adopted)
$2,000 Updated Service Credit

Note: The member always keeps the greater of
1) the new USC that is granted, or
2) a previous USC granted, which earns 5% annual interest.

If the hypothetical reserves are not greater than the actual reserves, no additional USC is granted; however, the member does keep any previous USC granted (if any), which earns 5% interest each year.

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