Presentation for:

House Pensions, Investments and Financial Services Committee

February 13, 2019
TMRS Overview

- TMRS is a voluntary statewide retirement plan that provides retirement, disability, and death benefits for Texas municipal employees.

- Established by the Texas Legislature in 1947; TMRS is a “hybrid” cash balance plan.

- TMRS does not cover employees in Houston, Dallas, Ft. Worth, Austin, El Paso, or Galveston which administer their own retirement plans; San Antonio municipal employees do participate in TMRS.
TMRS Overview

• TMRS operates under state law but receives no state funds and does not administer a health care plan

• Funding for benefits comes from employee contributions, city contributions, and investment income

• Each participating city selects the benefit levels for its employees from a menu of options

• Cities can prospectively modify benefits to control costs
Six-member Board of Trustees appointed by the Governor, confirmed by the Texas Senate

Board members are unpaid; serve staggered six-year terms

The Board exercises fiduciary responsibility by:
• Selecting all major investment and non-investment consultants
• Making all investment manager decisions
• Adopting and regularly updating 5-year Strategic Plan

The Board has also established six committees to assist with decision-making
The Board has adopted and updates:
  • By-Laws
  • Actuarial Funding Policy
  • Investment Policy Statement

The Board is in compliance with the Pension Review Board requirements and guidelines
  • Reporting
  • Minimum Educational Requirements (MET Program)
  • Funding
TMRS Membership

As of December 31, 2018:

- 887 cities participate in TMRS
- Over 112,350 employees contribute to TMRS
- Over 60,650 retirees and beneficiaries receive benefits
- Participating cities vary in size from over 6,000 employees to 13 cities with just one employee
- 86% of our member cities are either fully or partially covered by Social Security
Cash Balance Plan Design: Basic Structure

• Employee deposit rate: 5%, 6%, or 7% by city option
• Employer match of contributions at retirement:
  • 1:1, 1.5:1, or 2:1 by city option
• Employee deposit rate and employer match can be increased or decreased prospectively
• Benefit at retirement is based on accumulated deposits, and employer match — similar to a traditional Defined Contribution plan
Sound Funding

Each city is actuarially funded as a separate entity:

• Each city has its own assets, liabilities and funded ratio

• TMRS calculates the Actuarially Determined Employer Contribution (ADEC) for each city based on their chosen benefit plan; Cities are required to pay the ADEC

• New actuarial liabilities are funded over a closed amortization period of no more than 25 years
The System-wide Funded Ratio has improved from a low of 73.7% in 2007 to 87.4% as of December 31, 2017.*

*The System funded status for 2018 will be available in May, 2019
TMRS Assets and Investments

• In 2018:
  • TMRS administered $27.6* billion in assets
  • TMRS paid $1.4* billion in benefits, up from $1.3 billion in 2017 and $1.16 billion in 2016
  • Investment Return Assumption is 6.75%**

*Preliminary. Final 2018 figures will be available in May, 2019

**The TMRS Board reduced the expected rate of return from 7% to 6.75% in July, 2015
## Current and Target Asset Allocation

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Current Allocation (as of 12/31/2018)</th>
<th>Long-Term Target Asset Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>18.3%</td>
<td>17.5%</td>
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<tr>
<td>International Equities</td>
<td>15.7%</td>
<td>17.5%</td>
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<tr>
<td>Core Fixed Income</td>
<td>14.9%</td>
<td>10%</td>
</tr>
<tr>
<td>Non-Core Fixed Income</td>
<td>18.7%</td>
<td>20%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>9.6%</td>
<td>10%</td>
</tr>
<tr>
<td>Real Return</td>
<td>10.7%</td>
<td>10%</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>9.2%</td>
<td>10%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>2.0%</td>
<td>5%</td>
</tr>
<tr>
<td>Short-term Investments</td>
<td>0.9%</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The estimated investment return for 2018 net of fees was -2.43%; the net return for 2017 was 13.78%.

<table>
<thead>
<tr>
<th>Yearly annualized returns* for the period ending 12/31/2018</th>
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<tbody>
<tr>
<td>3 year</td>
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<tr>
<td>5.92%</td>
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Important Legislative Changes

81st Legislative Session: HB 360 (Kuempel)
- Enabled total return strategy and investment diversification

82nd Legislative Session: SB 350 (Williams)
- Restructured TMRS’ internal accounts, which reduced unfunded liabilities System-wide by $1.4 billion

85th Legislative Session: HB 3056 (Meyer)
- Permits the City of University Park (a TMRS city) to close its Texas Local Fire Fighters Retirement Act plan and enroll new fire department employees in TMRS
In 2018, TMRS concluded a long-term study of the TMRS Act, resulting in numerous suggestions to improve administrative efficiencies.

The TMRS Board, with input from the Advisory Committee on Benefit Design, studied these suggestions and certain benefit design suggestions.

The TMRS Board voted unanimously to only pursue nine administrative changes to improve TMRS operations.

The legislation is currently being drafted by Legislative Council.
Recognition of TMRS Practices

• Named “Public Plan Sponsor of the Year” for 2009 by *PlanSponsor* magazine

• In a 2012 study by the Texas State Comptroller’s Office, TMRS was one of only three Texas plans that met all benchmarks for financial stability

• Identified in 2017 by the Center for State and Local Government Excellence as one of five systems nationwide that have developed effective approaches to pension reporting and communication
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