

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

TMRS Governance

- 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

TMRS Governance

- 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

TMRS Funded Status

- 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

Asset Class	Current Allocation (as of 12/31/2018)	Long-Term Target Asset Allocation
U.S. Equities	18.3%	17.5%
International Equities	15.7%	17.5%
Core Fixed Income	14.9%	10%
Non-Core Fixed Income	18.7%	20%
Real Estate	9.6%	10%
Real Return	10.7%	10%
Absolute Return	9.2%	10%
Private Equity	2.0%	5%
Short-term Investments	0.9%	0%
Total	100%	100%

TMRS Investment Performance

- The estimated investment return for 2018 net of fees was -2.43%; the net return for 2017 was 13.78%

Yearly annualized returns* for the period ending 12/31/2018				
3 year	5 year	10 year	20 year	30 year
5.92%	4.72%	6.43%	6.50%	8.25%

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

86th Session: Proposed Changes

- 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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