TMRS Contribution Rates for 2009

Phase-In Rates and Full Rates

Cities that experienced an increase greater than 0.5% in their 2009 contribution rate due to TMRS' changes in actuarial cost method and assumptions were granted an automatic 30-year amortization period and allowed to phase in the increase over an 8-year period, beginning in 2009. Your rate letter for 2009 shows your city's Phase-In Rate and your city's Full Rate for TMRS benefits.

Every city must pay at least the Phase-In Rate, but TMRS strongly encourages any city that can make contributions at a higher rate to do so. The sooner a city increases its contributions to the Full Rate level, the sooner the city will begin paying the full cost of its benefits. Contributing at a rate less than the Full Rate defers payment of the contribution shortfall to later years and creates a Net Pension Obligation under GASB 25 which must be disclosed in the city's annual financial report.

For more information about your city's Phase-in Rate, please see your May 2008 rate letter.

Additional City Contributions

If your city wishes to make monthly contributions above the minimum required Phase-in Rate, simply remit the contributions along with your regular monthly payment and enter the actual contribution rate you are paying in the blank on Line 2A of the *Summary of Monthly Payroll Report.* There is no need to account for them or describe them separately on this report as long as line 2A is properly filled in. Please note that a previous month's additional contributions cannot be used in a later month to meet the required monthly minimum rate indicated above.

If your city wishes to make a lump sum contribution apart from your monthly payroll contribution (such as a budget surplus at year-end), please use the TMRS form *Remittance of Lump Sum City Contributions* (formerly *Remittance of Additional City Contributions)*, available on the TMRS website.

All 2009 contributions will be reflected in your city's year-end Municipality Accumulation Fund (MAF) asset balance. Additional contributions made during 2009, if any, will directly reduce the Unfunded Actuarial Accrued Liability as calculated in the December 31, 2009 actuarial valuation, the basis for calendar year 2011 required contribution rates.

The information you receive for your GASB disclosure in the spring of 2010 will reflect any and all contributions made during 2009.

The TMRS Actuarial Cycle

While the TMRS actuarial valuation process is familiar to most city financial and benefits staff, the following explanation is for those employees who are new to the process.

An actuarial valuation is performed for each TMRS city's plan as of December 31 of each year. The valuation looks at each city's actuarial assets and liabilities, the experience of the city's plan over the year (including such factors as retirements, turnover (withdrawal), salary increases, deaths, and other changes in the covered group of employees and retirees), as well as any plan changes that have been made by the city in the course of the year. The December valuation provides the basis for the contribution rate that will be in effect for the year beginning a year and a day **after** the valuation date.

For example, the actuarial valuation that will be performed as of December 31, 2008 will determine the rate your city will pay beginning in January 2010. Any changes (or additional contributions) your city makes to its plan before December 31 of a year will be included in that year's valuation.

The results of the December 31, 2008 valuation will be available in spring 2009 and will provide the basis for the rate letters that will be sent to cities reflecting the TMRS required contribution rate for calendar year 2010.

The December 31, 2008 Actuarial Valuation

The 2008 valuation is the first to be performed for TMRS by the actuarial firm of Gabriel, Roeder, Smith & Company (GRS). In preparing their valuation, GRS recommended three modifications to the actuarial assumptions that were approved by the TMRS Board of Trustees in December 2008. These modifications include:

1. Increase the assumed discount rate for the Municipality Accumulation Fund from 7.00% to 7.50%.

2. Explicitly value the Cost of Living Adjustments (COLAs) related to the projected Employee Savings Fund balances of active participants.

3. Immediately apply the Salary Scale assumptions without a one-year delay.

The net cost effect of these three changes will vary among all TMRS cities. As a general guideline, most cities with annually repeating benefits will see a small increase in their 2010 city contribution rate resulting from these assumption changes, while most cities without annually repeating benefits will see a slight decrease. These changes will be reflected in the rate letter you receive in spring 2009.

Actuarial Experience in 2008

While the results of the December 31, 2008 valuation will not be reported until spring 2009, there is reason to expect that there will be negative actuarial experience (actuarial losses) included in the year's data, especially in the area of investment returns. The actuarial losses in investments may be offset by actuarial gains (positive actuarial experience) in other areas (salaries, withdrawals, retirements, etc); however, the combined overall actuarial experience is likely to be negative for the year.

Under the actuarial cost methodology adopted by the TMRS Board in 2007, actuarial gains and losses are amortized over a closed period of either 25 or 30 years for most cities. Amortizing actuarial experience gains and losses over this period of time will help mitigate the impact on city contribution rates.

TMRS Legislation in 2009

Another factor that may affect city contribution rates in the future is legislation that has been filed in the current session of the Texas Legislature. HB360 by Edmund Kuempel is the most important legislative initiative in the history of TMRS and is essential to the continued success of the system.

The bill contains three key proposals:

1. Guarantee an annual interest credit of at least 5% to member accounts and set the discount rate used in developing the annuity purchase rate for retirees at a minimum of 5%

2. Allow the crediting of unrealized income or losses from investments to city accounts

3. Allow city accounts to receive their annual interest credit at a rate different from the member rate, including negative interest

Without this legislation, it is highly likely that city contribution rates will increase when future annual actuarial valuations are performed. Please watch the TMRS website and e-bulletins for information on the progress of this important bill during the legislative session.

TMRS Seminar on Funding, Investments, and Legislation

This year, for the first time, TMRS will host a spring seminar in Austin focused on issues critical to the system, including actuarial matters, investment outlook, and legislation. The seminar will take place March 1 – 3, at the Hyatt Regency Austin. Please see the TMRS website and e-bulletins for registration information.

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