EXECUTIVE

WORKSHOP

Texas Municipal Retirement System

TMRS Makes Sense

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Texas Municipal Retirement System

TMRS
Makes $ense

TMRS Makes "Dollars & Sense" — for Cities

- Plan of choice for Texas cities; **voluntary** statewide retirement plan
- Benefits are funded by mandatory employee deposits, city contributions, and investment income
- Operates by local control: Each participating city controls employer costs by choosing its own options

System Soundness = City Choices

SYSTEM

- **All** TMRS benefits are ***fully advance-funded*** over each employee's active working career
- TMRS' System funded ratio is 85.8% and System-wide unfunded actuarial accrued liability (UAAL) is $4.03 billion (as of 12/31/15)

CITY

- Contribution rates* vary depending on benefits (e.g., 2.31% for cities with 5% / 1:1 match with no Updated Service Credit/ Cost of Living Adjustment (USC/COLA), vs. 15.76% for cities with a 7% / 2:1 match and repeating USC/COLAs
- Average contribution rate for all cities for 2017 is 13.24%

***Average rates weighted by payroll**

Makes Sense for Cities, cont.

- TMRS increases a city's workforce competitiveness in hiring: 866 cities participate in TMRS, and the number increases each year
- TMRS benefits are effectively portable across participating cities to help attract experienced employees
- A typical DB plan provides equivalent retirement benefits at about half the cost of a typical DC plan.*

Source: NIRS, "Still a Better Bang for the Buck," December 2014

Sound Local Funding

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Each city's plan is actuarially funded as a separate entity:

- Each city has its own assets, liabilities, and funded ratio
- TMRS determines each city's Actuarially Determined Employer Contribution (ADEC) based on the benefit plan chosen by city
- Cities must pay the ADEC every year, or reduce benefits if the ADEC is not sustainable
- All plans are funded over a closed period of no more than 25 or 30 years
- No pension contribution "holidays"

TMRS Makes "Dollars & Sense" — for the Public

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- The majority of a TMRS retiree's benefit is ***funded by investment earnings*** on member and city contributions over the member's career
- TMRS' administrative costs are low — approximately **0.24%*** of assets in 2015 (including investment management fees) — compared to an average of 1.00% for 401(k)s**
- TMRS' actuarial investment return assumption (net of expenses) is **6.75%** —one of the lowest in the country for large public sector plans

* Investment fees do not include fees that are paid directly out of private investment funds.

** Source: Center for American Progress, 2014 study.

Makes Sense for the Public, cont.

- TMRS is a “hybrid” cash balance defined benefit (DB) retirement plan that receives no state funding
- Decisions that affect costs are made locally
- TMRS invests **$24.3 billion** in the capital markets (12/31/15)
    - Investments are made through a well-diversified portfolio over a long investment horizon.
- TMRS benefits provide a stable income for retirees and may reduce their need for other public services

Makes Sense for the Public, cont.

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- TMRS benefits are economically important to Texas communities
- Most TMRS retirees live in the communities where they worked
- TMRS paid $1.2 billion in benefits and refunds in 2015, up from $1.1 billion in 2014
- A past study by economist Ray Perryman used a 2.379 multiplier to estimate the “ripple” effect of each benefit dollar, resulting in a statewide economic benefit of $2.617 billion.

TMRS Makes Sense — for Members

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- Retirement is traditionally described as a "three-legged stool," comprising:
  - Retirement Program
  - Social Security
  - Personal Savings
- 401(k)s and similar defined contribution (DC) plans were never intended to be the primary retirement vehicle
- Lifetime benefits for retirees and survivors provide long-term protection

Makes Sense for Members, cont.

- As members, city employees are rewarded by the prudent, diversified investment policies of the System (as opposed to relying on making personal investment decisions)
- A pension plan provides greater stability and less vulnerability to market fluctuations
  - Retirement savings of TMRS members were not affected by the severe market downturn of 2008; whereas 401(k) asset values declined more than 25% on average

If you have further questions, contact TMRS at

800-924-8677

or help@tmrs.com