TMRS

insight

Texas Municipal Retirement System

Volume 16
Number 1
Spring 2007

The Newsletter for TMRS® Members

TMRS Bill Advances in the 80th Legislature

In early February, Representative Edmund Kuempel (R-Seguin) filed the TMRS Bill, House Bill 1244, and Senator Tommy Williams (R-The Woodlands) filed the companion, Senate Bill 681. A committee substitute for HB 1244 has passed out of the House Pensions and Investments Committee and should be heard soon on the floor of the House. If finally passed by the Legislature, the following recommendations of the TMRS Board of Trustees will become part of the law governing TMRS:

If passed by the Legislature, the TMRS Bill would give cities more flexibility in paying for their TMRS benefits.

- Allow cities to make additional contributions to TMRS above the calculated contribution rate, on a voluntary basis, to give cities more flexibility in paying for their TMRS benefits; and modify the maximum contribution rate limits for cities so that additional contributions can be made.
- Permit the TMRS Board to set amortization periods for funding TMRS pension liabilities, but

Continued on page 2

Notice to Members

Some TMRS members have received communications from financial service providers that offer to coordinate their product with your TMRS benefit.

TMRS absolutely does not give or sell any information about our members to any commercial enterprise or service provider.

Please note that TMRS does not endorse these products. As with any financial decision, TMRS recommends that you get advice from a variety of sources before you make a decision that may affect your financial security.

From the Interim Executive Director

Dear Friends,

We hope you are having a safe and prosperous year. These are exciting times for TMRS because we are talking with Legislators about the TMRS Bill (HB 1244 by Rep. Kuempel and SB 681 by Sen. Williams), which is designed to provide TMRS member cities with more flexibility in how they pay for their portion of *your* TMRS retirement benefit. See the story on this page for more information.

This issue of *Insight* also explains the effect of one of the federal Pension Protection Act provisions on some of TMRS' members – public safety employees. Stories on mid-career retirement planning and tax planning are included to help you think about your retirement future.

TMRS is in transition yet continues to run smoothly and serve its member cities. Our Board of Trustees is searching for our next Executive Director, and we hope to have someone for that position soon. In the meantime, I can assure you that our staff continues to move forward with many projects and accomplish good things on behalf of our members.

TMRS exists to provide a sound retirement for municipal employees across Texas. If you have any questions, or if we may be of assistance, please call on us.

Sincerely,

Eric W. Davis

Eric W. Davis

TMRS™
Texas Municipal Retirement System

Bill Advances in the 80th Legislature

Continued from page 1

the period will not be longer than 25 years. This keeps current limits and provides added funding flexibility.

- Amend the TMRS Act to permit and grant the TMRS Board rulemaking authority regarding distributions to qualified health insurance providers for retired public safety officers under the federal Pension Protection Act.

The portion of the bill that gives cities the option for making additional contributions will provide an important tool for cities if they want to fund their TMRS plan more aggressively.

As substituted, the bill no longer includes the additional matching ratios and the return to work language included in the original filed version of the bill.

For ongoing coverage of the progress of this legislation, go to our Website, www.TMRS.com, and click on the Legislative button. From here you can click on the link to see the bill's status in the Legislature.✦

2006

Annual Statement Mailing

The Annual Statement you receive every spring is a snapshot of your TMRS benefit, showing your account balance, annual interest, annual contributions, beneficiaries, cities of service, and your total service credit. The 2006 Annual Statements (reflecting member account information as of December 31, 2006) were sent to your address on file in late March and early April.

Be sure to look at your statement carefully. If any of your personal or beneficiary information is incorrect, please let us know. The Annual Statement is a key tool in your retirement planning since it contains estimates showing various retirement options (see story on "Mid-Career Retirement Planning," page 3). ✦

Did You Know?

The Pension Protection Act (PPA), a new federal law adopted in August 2006, carries a helpful provision for certain TMRS public safety employees.

The main focus of the Act was to provide new guidelines for private sector pension plans. Most of the PPA applies only to non-governmental pensions and does not affect TMRS or its members.

...If you are a public safety officer, new federal legislation may affect the taxes you pay at retirement.

One provision, however, affects public safety officers (fire, police, and emergency medical personnel, generally) and may reduce the taxes they pay at retirement or when receiving a refund.

Under the new law, public safety officers who receive a payment (either a Partial Lump Sum Distribution or a refund) in the year they turn 50 or later are not subject to the 10% penalty that applies to other employees who retire or withdraw their deposits before age 55 (see article on page 4).

In late 2006, TMRS contacted cities to determine which members who had retired or refunded after August were eligible under the new law. TMRS is developing ongoing procedures to identify those members who will be excluded from the 10% penalty.

In the meantime, if you are a public safety officer considering retirement or a withdrawal of your deposits in the year you turn 50 or later, please call 800.924.8677 and let TMRS know your status as a public safety officer so that we can correctly report your taxable income. ✦

Cover Your Bases

Mid-Career Retirement Planning

It's never too early to start thinking about retirement. The advantage of TMRS membership is that you are automatically saving for your future, and when you retire, your city will match your deposits at your city's rate.

In addition to your future TMRS retirement, you might also wish to think about other sources of income, as well as handling the disposition of your estate and preparing a will.

In the middle years, workers frequently ponder career options, job changes, or ways to spark their existing position. But looking at the future is even more important. It can help you determine how much longer you wish to work and give you an overall game plan.

Here are some suggestions for mid-career workers:

- Understand how your TMRS plan works and what the system offers (a good way to do this is to attend a TMRS Regional Pre-Retirement Conference or a TMRS presentation for employees at your city).
- Get credit for all your eligible service, including other public service and military service, if your city offers Restricted Prior Service Credit or Military Service Credit.
- Review your Annual Statement carefully, and call or e-mail TMRS with questions or updates.
- Request estimates to review your TMRS plan options.
- Identify any financial, tax, legal, and estate issues that may affect your benefits.
- Have a rough idea when you want to retire, and figure out how much money you'll need to live on after retirement.
- Give yourself extra breathing space by contributing to an additional plan (such as a 457 plan) during your working years.
- Have an estate plan in place.
- Have a will drafted and review all beneficiaries on all accounts.

Regional Pre-Retirement Conferences are one-day events designed to help you better understand your TMRS benefits and make plans for your retirement. The programs combine TMRS speakers with experts in Social Security benefits and financial planning. In 2007, four Pre-Retirement Conferences have been planned — in Pearland (March 27-28), Abilene (May 24), Lufkin (June 5-6), and Fort Stockton (July 10). To attend a conference, speak to your TMRS representative, or send an e-mail to communications@tmrs.com. ✦

Calendar of Events

April 27
TMRS Board and Advisory Committee Meeting, Austin

May 24
Regional Pre-Retirement Conference – Abilene

May 28
Holiday (Memorial Day)

June 5-6
Regional Pre-Retirement Conference – Lufkin

June 20-21
TMRS Board Meeting
San Antonio

July 4
Holiday (Independence Day)

July 10
Regional Pre-Retirement Conference – Fort Stockton

August 17
TMRS Board and Advisory Committee Meeting, Austin

September 3
Holiday (Labor Day)

Septmember 7-8
TMRS Board Meeting, Austin

How to Contact TMRS

Location
1200 North Interstate 35
Austin, TX 78701

Mailing
P.O. Box 149153
Austin, TX 78714-9153

Toll-free • 800.924.8677

Local (in Austin) • 512.476.7577

Website • www.TMRS.com

E-mail • phonecenter@TMRS.com

TMRS insight

TEXAS MUNICIPAL RETIREMENT SYSTEM
PO Box 149153 • Austin, Texas 78714-9153

PRESORTED STANDARD
US POSTAGE PAID
AUSTIN, TEXAS
PERMIT NO 2644

TMRS TERMS - 10% PENALTY

A "10% Penalty" is additional federal income tax that may be incurred if you receive a lump sum payment or refund from TMRS before you reach age 59½.

Here is how it works:

When you retire, if you choose to receive part of your benefit as a **Partial Lump Sum Distribution (PLSD)**, that lump sum will be taxable income for the year in which it is paid to you, if you do not roll it over to an IRA or other eligible plan. Similarly, if you leave city employment and apply for a **refund**, that money will be taxable income for the year in which it is paid to you, if you do not roll over the money to an eligible plan or IRA.

In certain cases, if you do not roll over your PLSD or refund, you may be subject to an additional 10% tax penalty. You may not incur the additional 10% penalty if you terminate employment with your employing city in the year you turn age 55 or later. You may need to file IRS Form 5329 with your income tax return to claim this exemption from the penalty. If you terminate employment before the year you turn age 55, and then decide to receive a refund directly (not rolled over) before age 59½ — you may incur the additional 10% tax. (See page 2 for information about a federal law that affects the 10% penalty for public safety officers.)

This 10% penalty is in addition to the regular income tax you will owe. Federal income tax law requires TMRS to withhold 20% of a PLSD or refund unless it is rolled over to an IRA, a Section 457 deferred compensation plan for governmental employees, or another eligible plan. Always consult your tax advisor about these matters. ✦

INSIGHT is dedicated to the needs of our members. If you have questions, suggestions, or ideas for stories, send a fax or an e-mail to the editor at 512.225.3781 or communications@TMRS.com.