

Main Street

For city officials and staff

A Session for Legislative Communication

The TMRS Board of Trustees has decided not to pursue any legislation to amend the laws that govern TMRS in the 83rd Regular Session of the Texas Legislature. In the past two legislative sessions, bills were passed to improve the TMRS System by ensuring the future soundness of benefits and establishing a more efficient funding structure.

In the interim since the 82nd Regular Session, the Board's Advisory Committee on Retirement Matters met five times to discuss proposals to submit to the TMRS Board for their consideration. In August, after discussing COLA options and other potential benefit changes, the Committee declined to recommend any proposals to the Board for the 83rd Session. The Committee decided that although certain ideas discussed in the interim had merit, the most serious issue looming for this next session is providing accurate information to legislators to ensure they understand that TMRS does not face the same problems as do some retirement systems in other states. The TMRS Board of Trustees concurred, deciding at their September 2012 meeting to not propose any legislation for the 83rd Session, though it is possible other groups may propose legislative changes.

The Value of TMRS

There will be many new legislators in the 83rd Session. Therefore, it is especially important for TMRS to explain the value and merits of our System, how we differ from other systems, how TMRS provides advantages over a defined contribution (or 401(k)-type) plan, and how TMRS and Texas plans in general are different from some of the other plans around the country that are experiencing negative publicity. Our message must be clear: **Texas plans are soundly funded and well-run, and TMRS is one of the strongest Texas plans.**

Several groups around the state have made an issue of public retirement programs and may be seeking legislation in the coming session, either proposing to change all public defined benefit plans into defined contribution programs or to make other sweeping changes to public employee benefits without regard to the condition or merits of individual plans. A public debate of these issues is a good thing, but there have also been many generalizations and even misinformation that portray all public retirement systems as the same, and in crisis.

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From the Executive Director

Dear City Correspondents
and Officials,

It's hard to believe 2012 is about to wrap up, and that another legislative session will be upon us in a few weeks. We are sorry to lose a great supporter of TMRS in the Texas House, Representative Vicki Truitt, the outgoing Chair of the Pensions, Investments and Financial Services Committee (PIFS), who will not be returning in 2013. Appointed as Chair of PIFS in 2007, Representative Truitt has provided even-handed oversight and guidance for Texas public pensions. Her experience has served both the taxpayers of Texas and the members and retirees of all the retirement systems. She was instrumental in helping TMRS make the changes that we have undertaken in the last five years and was the House sponsor of SB 350 last session. TMRS thanks her for her wisdom and service.

In addition to a report on legislative matters (see story at left), in this issue of *Main Street*, we present new resources for cities, reminders for City Correspondents, and a summary of issues that have surfaced this year in finance and payroll. Also included in this issue is a sheet of information about TMRS that we hope you will find helpful in the ongoing public debate about pension issues.

Thank you for all you do to communicate information about TMRS to your employees. We're here for you — if you need anything, just give us a call.

Sincerely,

A handwritten signature in black ink that reads "David Gavia". The signature is written in a cursive, flowing style.

David Gavia
Executive Director

To assist you in understanding and discussing TMRS, we are providing a flyer in this issue (middle sheet) that includes key facts about TMRS that you may find useful in discussing the System with interested parties.

Although the Legislative Session does not begin until January 8, 2013, members are able to start pre-filing bills on the first Monday following the general election, which was November 12. TMRS will track pension-related legislation and make sure that information on significant bills is posted on our website. If you have questions about the upcoming session, contact Dan Wattles, TMRS' Governmental Relations Director, at dwattles@tmrs.com. ▲

Finance Notes

Send Ordinance Changes to TMRS ASAP

Any city that has adopted an ordinance to adopt or change TMRS provisions, including Annuity Increases (COLAs) or Updated Service Credits, to be effective January 1, 2013, must provide a copy of the ordinance to TMRS **before December 31, 2012**. TMRS sends an acknowledgment upon receipt of ordinances. If you have not yet transmitted your ordinance to TMRS, or if you have transmitted an ordinance and have not yet received an acknowledgment of receipt, contact us immediately. Please call or e-mail La Shelle Ruiz at 800-924-8677 or lruiz@tmrs.com.

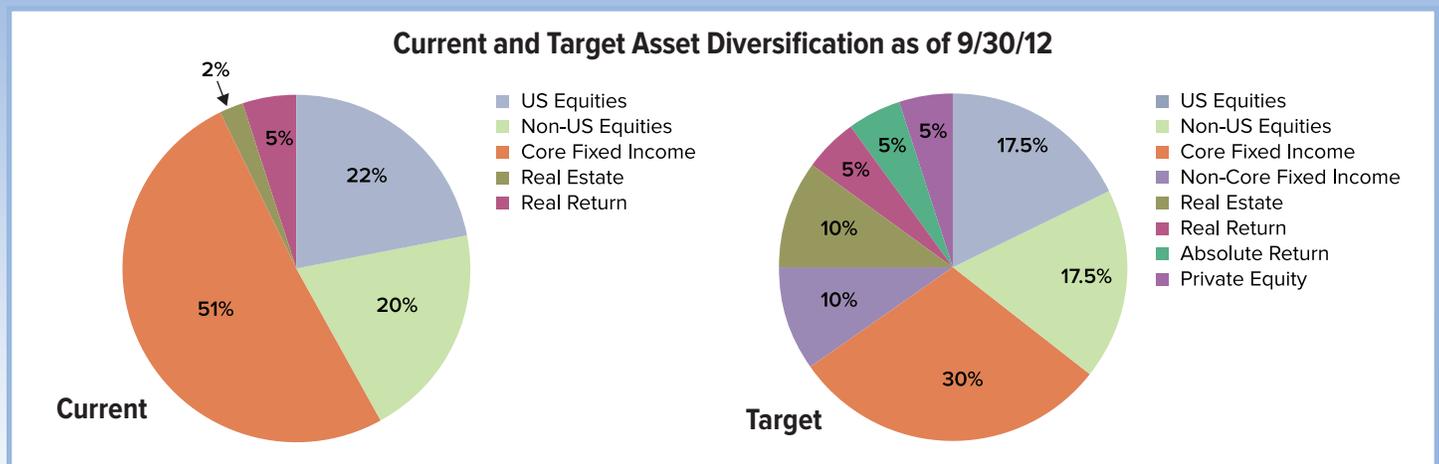
GASB's New Standards

The Governmental Accounting Standards Board (GASB) released its long-anticipated new standards for pension accounting in June. These standards are the result of several years of data collection, analysis, study, discussion, and feedback. Two major changes — the **separation of the accounting from the funding of pension benefits** and the **placement of the net pension liability directly on the employer's balance sheet** — will affect financial reporting for TMRS cities. These GASB statements will take effect for employers (cities) for fiscal years ended June 30, 2015, or later.

TMRS will provide more detailed information on these changes through the e-bulletin and the "Eye on GASB" update on the TMRS website. ▲

Investment Overview

In 2011 and 2012, TMRS continued its portfolio diversification (see charts below) with allocations to Real Return and Real Estate classes as well as additional diversification within the Fixed Income and Equity allocations. A slow and methodical pace into new asset classes and strategies via ongoing research and due diligence efforts, coupled with dollar cost averaging into new investments over multiple time periods, continues to be TMRS' goal.



For detailed summaries of diversification progress and performance within individual funds, consult the quarterly summaries posted on the TMRS website under Investments. ▲

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Texas Municipal Retirement System

TMRS Overview

- TMRS is a statewide retirement system that cities may elect to join
- TMRS is a “hybrid” **cash-balance** defined benefit retirement plan rather than a traditional, formula-based defined benefit plan
- TMRS **does not receive any state funds** and does not administer a health care plan
- Benefits are based on a **member’s account balance** at retirement. The retirement benefit is funded through mandatory employee deposits, city contributions, and investment income
- For a full-benefit TMRS plan, investment income provides as much as 80% of a 20-year employee’s benefit

Local Control

- Each city chooses from a menu of benefit options to design a retirement program that suits its needs
- Certain benefits chosen **can be prospectively modified by each city to control costs**
- Each city stands on its own by having its own actuarial assets, liabilities, and funded ratio

Conservative Plan Features

- TMRS’ **Investment Return Assumption is 7%**, one of the lowest among large public plans
- Each city’s unfunded liability is amortized over a closed period of no more than 30 years
- Each member’s benefits are advance funded over the member’s working career
- **Double-dipping is not permitted**
- **Pension “spiking” is not an issue** due to cash balance design
- Contribution “holidays” are not allowed; every city must pay required contribution

Funded Status

- TMRS’ funded status was **85.1% as of 12/31/2011**. The ratio has increased significantly over the past three years:

2008	2009	2010
74.4%	75.8%	82.9%

Investments & Fees

- TMRS administers \$18.5 billion in assets, as of 12/31/2011
- Annual investment returns were -1.3% in 2008, 10.2% in 2009, 9.0% in 2010, and 2.4% in 2011

Yearly averages for the period ending 12/31/2011:

3 year average	5 year average	10 year average
7.2%	5.5%	7.0%

- Investment management fees are among the lowest in the industry, just .056% in 2011
- **TMRS’ total administrative costs in 2011 were 0.15% of net assets**

Benefits

- The **average annual annuity** received by TMRS retirees in 2011 was **\$16,306 at inception**
- TMRS paid a total of \$810 million in benefits in 2011, up from \$743 million in 2010



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TMRS – The retirement program of choice for Texas cities since 1948

- 849 cities have chosen to participate in TMRS.
- TMRS has over 101,000 contributing members and 39,000 annuitants.
- TMRS does not cover employees in Houston, Dallas, Austin, Fort Worth, Galveston, or El Paso, which have their own local plans. TMRS covers only the non-uniformed employees in San Antonio. In 39 TMRS cities, fire fighters are members of a separate local plan.

For more information, contact the TMRS Travel Team manager for your region

Anthony Mills, Regional Manager
East/Northeast Texas
amills@tmrs.com

Lorraine Moreno, Regional Manager
South/Southwest Texas
lmoreno@tmrs.com

David Rodriguez, Regional Manager
North/Northwest Texas
droduiguez@tmrs.com

The TMRS Travel Team can provide:

- **Employee training**
- **City council presentations**
- **Budget workshop support**
- **Pre-retirement conferences**
- **Other services on request**

2012 Board of Trustees

H. Frank Simpson, Chair

Deputy City Manager, College Station

Julie Oakley, Vice Chair

Director of Finance, Lakeway

Ben Gorzell

Chief Financial Officer, San Antonio

April Nixon

Chief Financial Officer, Arlington

Jim Parrish

Human Resources Director, Plano

Roel “Roy” Rodriguez, PE

Assistant City Manager/MPU General Manager, McAllen

2012 Advisory Committee*

*as of November 7, 2012

Individual Class Members

Allen Bogard, City Manager, Sugar Land

Ronald E. Cox, TMRS Retiree

Michael Dane, Assistant City Manager / Chief Financial Officer, San Angelo

Dean Frigo, Assistant City Manager for Financial Services, Amarillo

Neil Resnik, City Councilmember, Addison

Wayne Riddle, Mayor, Deer Park

Victor Hernandez, City Councilmember, Lubbock

Randle Meadows, President of the Arlington Police Association

Charles Windwehen, TMRS Retiree

Group Class Representatives

David Crow, Arlington Professional Fire Fighters

Kevin Lawrence, Texas Municipal Police Association

Scott Kerr, Texas State Association of Fire Fighters

Joe Angelo, City of San Antonio

Jerry Gonzalez, Service Employees International Union, San Antonio

Don Byrne, Texas Municipal Human Resources Association

Mike Perez, Texas City Management Association

Bob Scott, Government Finance Officers Association of Texas

Mike Staff, Combined Law Enforcement Associations of Texas

Monty Wynn, Texas Municipal League

PAYROLL POINTERS

TMRS' Online Payroll Training Module (with forms video) is available at www.tmr.com/payroll_training.php

Please Update TMRS when you have Changes in Payroll Personnel!

Please notify TMRS whenever an employee who compiles the city's TMRS Monthly Payroll Report leaves employment or changes jobs within your city. Let us know of payroll personnel changes so that we can assist your city and the new payroll person to ensure accuracy and timeliness in reporting monthly payrolls.

Year-End Payroll Reminder

Please remember, your December 2012 monthly payroll report must be submitted to TMRS **no later than January 15, 2013**. It is very important that you make this deadline in order to avoid being assessed late interest, and also to prevent the delay of December retirement processing. Also, please remember that your 2013 city contribution rate takes effect with the **January 2013 monthly report**, which is due to TMRS no later than February 15, 2013.

TMRS Payroll Audit Findings

The TMRS Internal Auditor conducted field audits of 10 TMRS cities randomly selected in late 2011 and early 2012. Although the audit findings were generally very positive, a few areas for improvement were noted, and TMRS will be providing further communication and training on specific payroll issues.

Payroll Q&A

Q. What is the "1,000-hour rule"?

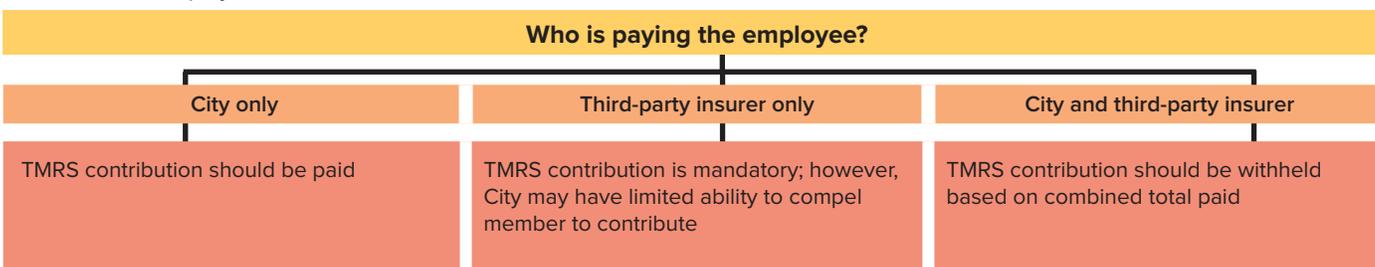
- A. The TMRS Act defines an "employee" as "... a person ... who receives compensation from and is certified by a municipality as being **regularly engaged** in the performance of duties of: ... an appointive office or position that **normally** requires services from the person for not less than 1,000 hours a year; or [certain elective offices]" (emphasis added). To apply this "1,000-hour rule" to your city's payroll reporting, consider the following:
- If the **position** meets the 1,000-hour rule, any person hired to fill that position **MUST** be enrolled in TMRS
 - Employees hired to fill these positions do not have the option to decline participation
 - Cities should monitor or re-evaluate these **positions** periodically to determine if the 1,000-hour rule is being met
 - It is the city's responsibility to keep current, accurate records of TMRS-eligible employees

Q. What is "compensation"?

- A. The TMRS Act defines "compensation" as "...the **sum** of payments made to an employee for performance of personal services ..." (emphasis added). The types of payments considered "compensation" include, but are not limited to, base pay, overtime, vacation, and sick leave (including payments for unused vacation and sick leave), longevity pay, certification pay, severance pay, employer pickup of employee contributions to TMRS, "cafeteria plan" benefits, and almost any other form of payment made to an employee, *other than direct expense reimbursement*. In short, all payments to the employee are considered compensation **except direct expense reimbursements**.

Q. How do I handle worker's compensation for purposes of TMRS contributions?

- A. The answer depends on whether the employee is receiving payments from the city or from a third-party insurer. This chart helps you visualize:



TMRS City Portal

The best method to report payroll electronically!

City Portal Training is available on the TMRS website at www.tmr.com → City Portal

Sign up NOW for the City Portal to file your monthly payroll reports online! We also strongly encourage you to sign up for ACH to transmit your contribution. Electronic submissions save time for both TMRS and our cities, resulting in faster retirement and refund processing and fewer errors.

CORRESPONDENT'S CHECKLIST

- Help TMRS Keep Addresses Up-to-Date!**
Please remind your employees to keep their addresses current with TMRS, not just with city HR records. Without a valid address on file, employees will not receive annual statements, TMRS newsletters, and other mailings. Please remind your employees that if they need to update their address, they must complete a TMRS-CHNG (Address or Name Change) form and fax it to 512-476-5576 or mail it to P.O. Box 149153, Austin, TX 78714-9153.
- Information on New Member Forms Affects Your City's Contribution Rate!**
When a new member joins TMRS, certain personal information is provided. This information includes date of birth, gender, and monthly salary. This information is fundamentally important because it is part of the actuary's annual valuation process, which determines your city's rate each year. Please be sure that any New Member Enrollment form (TMRS-0016) transmitted to TMRS is accurate and complete. Missing or incorrect information can affect your city's contribution rate.
- Signatures on Forms Need to Be "Real"**
TMRS has been receiving faxes and PDFs bearing digital "signatures" in a cursive font. Please let your members know that these do not constitute acceptable signatures, and TMRS cannot accept e-signatures of any type at this time. Forms bearing digital signatures will be returned for hand-written signatures. After the form is hand signed, it may be faxed or mailed to TMRS.

TMRS TERMS

Bona Fide Separation

For an employee to be entitled to retire or refund, there must be a "bona fide" separation of employment from all TMRS cities. In a bona fide separation from employment, the relationship between the employee and employer is completely severed. If there is any type of pre-arrangement with the employer (written or verbal) to return to work for the same city from which the employee retired or refunded, there is no bona fide termination of employment. Internal Revenue Code rules applicable to TMRS require a bona fide termination of employment, and if cities and employees do not comply, this noncompliance could jeopardize TMRS' tax-qualified plan status.

Calendar

2012

November

22-23

Holiday (Thanksgiving)

December

6-7

TMRS Board of Trustees Meeting
Austin

24-25

Holiday (Christmas)

2013

January

1

Holiday (New Year's Day)

21

Holiday (Martin Luther King Jr. Day)

February

18

Holiday (President's Day)

21-22

TMRS Board of Trustees Meeting

March

21-22

TMRS Board of Trustees Meeting

29

Holiday (Good Friday)

Main Street is sent directly to TMRS city contacts and correspondents. 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.

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ISSN 1559-9760

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