Texas Municipal Retirement System

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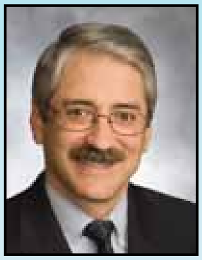
Main Street

For city officials and staff



From the Executive Director

This issue of *Main Street* includes two stories describing the effects of recent changes adopted by the Board of Trustees on October 9, 2013. The two changes were made after a great deal of analysis and almost a year of study by the System's actuary, Gabriel Roeder Smith & Company (GRS). The first proposal the actuary recommended was to update the mortality table used to calculate retirement annuities. See the story on page 3, which can be copied and distributed to your employees. The other change was to move from the Projected Unit Credit actuarial cost method to Entry Age Normal; the story describing the reasons and effects of this change is on page 4.

Our yearly roundup also includes a Legislative recap, timeline of the GASB pension disclosure rules, Investments overview, an important change in our Investments staff, and many City Correspondent and year-end reminders.

On a personal note, let me be the first to mention how much we will miss our departing Chief Investment Officer, Nancy Goerdel, who will soon be joining the ranks of happy TMRS retirees. I have had the privilege of working with Nancy for over 20 years. She has been an important part of the System's recent success (see story about Nancy and her successor, T.J. Carlson, page 6).

We are very grateful for our partnership with Texas cities. We appreciate all you do to communicate information about TMRS to your employees. If you need anything from us, just call!

Sincerely,

David Gavia

David Gavia
Executive Director

Recap of the 83rd Legislature

In the interim period prior to the start of the 83rd Regular Legislative Session, the TMRS Board's Advisory Committee on Retirement Matters met five times to discuss potential legislation (see list of current committee members on page 2). The Advisory Committee studied a variety of proposed plan changes but ultimately decided not to propose any legislative changes to the Board of Trustees. The Board adopted a resolution expressing its support for the TMRS plan design and encouraging the Legislature not to pursue any changes during the session.

During the Regular Session, which lasted from January 8 through May 27, members of the legislature filed several bills that proposed changes to TMRS,

continued on page 2

In Remembrance

This 2013 issue of *Main Street* is dedicated to H. Frank Simpson, a committed public servant and member of the TMRS Board of Trustees who passed away April 27, 2013. He served on the TMRS Board for 10 years, from 2003 until his death, and was its Chair in 2006 and 2012. As an advocate for Texas cities and a vocal supporter of TMRS, Mr. Simpson will be greatly missed.

Frank Simpson started his lifetime of public service as a utilities worker for the City of College Station in 1986, and then progressed to serve as City Manager for the Cities of Center, Webster, and Missouri City before returning to College Station as an Assistant City Manager and as a City Manager in 2013.

TMRS is deeply grateful for Mr. Simpson's hard work and leadership during a time of many changes, including the passage of HB 360 in 2009 and the passage of SB 350 in 2011.

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but none of these bills passed. Other bills were filed that addressed such topics as confidentiality and transparency for all pension systems in Texas, and some of these bills passed. However, the protection of member and retiree personal information was not affected. After the 83rd Regular Session came to an end, three special sessions were called during the summer. None of the legislation that passed during these sessions affected TMRS or other pension systems. The outcome of bills considered by the Legislature is provided on the Legislative page of the TMRS website.

In preparation for the next scheduled Regular Session of the 84th Legislature, which will convene on the second Tuesday in January, 2015, the Lieutenant Governor and Speaker of the House will announce interim study charges for the standing committees in their respective chambers. We expect the interest in pension-related matters to continue. Also, in 2014, the TMRS Advisory Committee is expected to meet to discuss issues and proposals related to TMRS.

We encourage your involvement to ensure the continued success of TMRS. If you have ideas or suggestions to enhance our plan design, feel free to contact Dan Wattles, Director of Governmental Relations, at *dwattles@tmrs.com.* ▲

2013 UPDATE
TMRS Board of Trustees

The Board of Trustees has experienced many changes in the past year. Governor Rick Perry appointed, and on March 27 the Texas Senate confirmed, Bill Philibert of Deer Park, to replace outgoing Trustee Ben Gorzell of San Antonio, for a term that expires February 1, 2019.

TMRS lost a member of the Board, H. Frank Simpson of College Station, in April (see dedication, page 1). At its meeting after Mr. Simpson's death, the Board voted to elect the sitting Vice Chair, Roel "Roy" Rodriguez, as the Chair for the rest of the 2013 calendar year. Jim Parrish of Plano was elected to the Vice Chair position.

In September, the Governor reappointed Julie Oakley, Director of Finance for the City of Lakeway, for a term that ends in February 2019. Also in September, David Landis, City Manager of Perryton, was appointed to fill the unexpired term of H. Frank Simpson, ending in February 2015.

In October, April Nixon, Chief Financial Officer for the City of Arlington, announced her upcoming retirement from the city. Her successor has not been named. ▲

2013 Board of Trustees

2013 Advisory Committee

Individual Class Members

Group Class Representatives

Main Street is sent to TMRS city contacts. If you have questions or suggestions, e-mail *communications@tmrs.com*. *ISSN 1559-9760.*

The New Annuity Purchase Rate Mortality Tables

Maintaining sustainable benefits for all members and retirees is the top priority of TMRS, and the System has undertaken a series of changes since 2007 to ensure that TMRS continues to be well-funded and that our members' benefits stay secure. Adopting a new, generational mortality table is part of that effort.

Why the Change Is Needed

TMRS annuities provide a retirement benefit for life. The life expectancy of Americans is longer than it was in 1981, the last time TMRS updated its mortality table for calculating annuities. Because life expectancy is longer, the pool of money that pays an individual's benefit (contributions, interest, and Updated Service Credit, if any) needs to stretch farther. With the continued use of the mortality table adopted in 1981, higher city contributions have been effectively "subsidizing" the difference between the annuity calculation and a retiree's longer lifetime of payments. The expectation for continued mortality improvement means the city "subsidies" (contribution rates) would continue to grow if a change is not made. Changing the tables will help cities continue to afford to participate in TMRS and will make benefit levels more sustainable for future employees. Employees and retirees may benefit from the change if the change makes it more likely that cities can maintain benefit levels over the long term.

How the Change Will Affect Members' Benefit Calculations

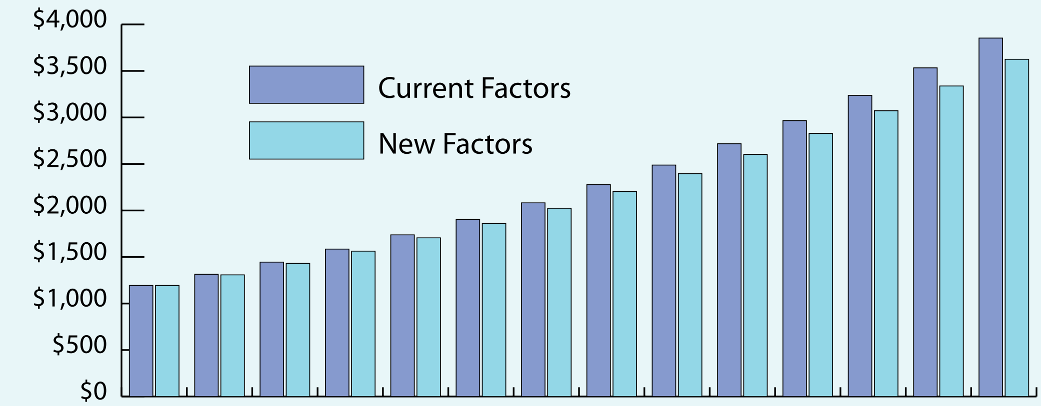
No current retiree's benefit will be affected. Likewise, once any active member retires, the **monthly amount calculated at the time of retirement will not decrease.** It is important to understand that a TMRS member's contributions, city matching funds, and interest earnings are not affected. What is changing is the Annuity Purchase Rate (APR) factor that takes into account the member's (and beneficiary's) remaining life expectancy, which is used to calculate the monthly payment. The new tables will be phased-in over 13 years beginning in January 2015. This schedule minimizes the impact on the benefits of active members closest to retirement.

The example charts at right show two examples of the possible effect of the APR mortality factor change on a member retiring at age 50 with 20 years of service from a city that provides a 2 to 1 match on a 7% contribution. The charts show the member's benefit if he or she continues to work through the 14-year period beginning January 1, 2014 under both the old and the new APR mortality factors. In these examples, the changes result in a reduction of approximately 0.5% per year for a joint and survivor option (top chart) and a reduction of approximately 1% per year for a retiree life only option (bottom chart).

The effects on any individual retirement will vary. The TMRS retirement estimate programs will be changed to recognize the new factors in early 2014.

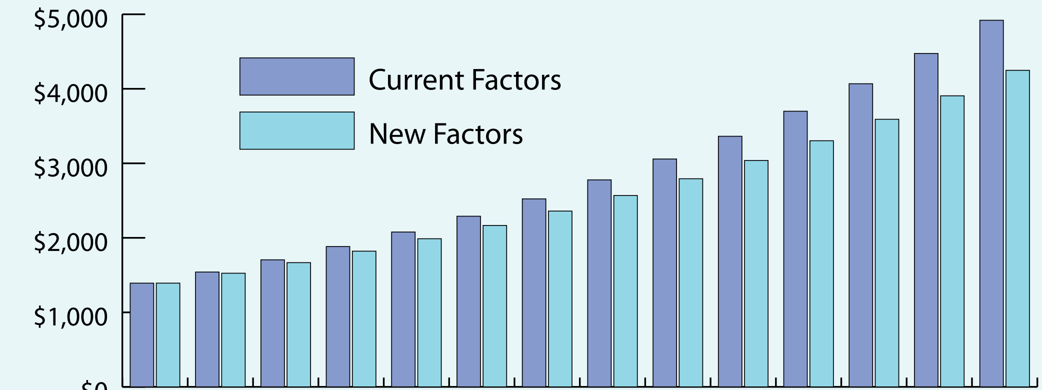
Examples*

A Member with a Joint and Survivor Annuity age 50 with 20 years of service, $45,000 salary, 7% and 2-to-1 match



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current Factors	1,194	1,314	1,445	1,585	1,738	1,903	2,082	2,277	2,488	2,717	2,966	3,237	3,533	3,853
New Factors	1,194	1,308	1,431	1,563	1,706	1,859	2,024	2,202	2,395	2,603	2,828	3,072	3,338	3,625

A Member with a Life-Only Annuity age 50 with 20 years of service, $45,000 salary, 7% and 2-to-1 match



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Current Factors	1,392	1,541	1,705	1,883	2,078	2,290	2,523	2,778	3,058	3,363	3,699	4,068	4,474	4,920
New Factors	1,392	1,525	1,667	1,821	1,988	2,166	2,359	2,568	2,793	3,038	3,303	3,591	3,906	4,248

* These are examples showing how a member's retirement calculation may be different under the new factors. Each individual calculation may vary, depending on city plans and member choices. These are estimates only.

Board Adopts Entry Age Normal Cost Method

The actuarial cost method of a retirement program is the methodology that allocates liabilities and determines the contributions required to fund benefits (see "TMRS Terms," back page). Most public retirement systems use a cost method called Entry Age Normal. Historically TMRS has used the Unit Credit (UC) and Projected Unit Credit (PUC) cost methods. In 2013, as part of TMRS' Strategic Plan, the Board of Trustees heard several presentations from the System's actuary, GRS, about changing TMRS' actuarial funding method from Projected Unit Credit (PUC) to Entry Age Normal (EAN). At the October meeting, the Board voted to adopt the proposed funding method.

There are many reasons why it is preferable to move to the EAN cost method at this time. EAN will:

- Provide more stability in employer contribution rates
- Remove bias for increasing normal costs
- Provide improved contribution predictability for cities joining TMRS
- Allow for an easier transition to the new GASB standards — the funding and accounting numbers would be under the same cost method rather than having widely different numbers under different cost methods. (See story on page 5.)

By changing the actuarial cost method at the same time that new mortality tables are adopted, most cities will see little change in contribution requirements. If a city's contribution rate increases more than 0.5% as a result of the change in cost methods, the city will be permitted to phase in to the higher rate at 0.5% per year until the full rate is reached.

Did You Know?

Electronic Payroll is the Way to Go!

Act Now to Receive Free TMRS Training!

In order to provide more user-friendly and efficient payroll processing, TMRS is giving away free registration to either our Annual Training Seminar or a Correspondent Certification course in 2014 for cities that sign up and submit their payroll electronically. Why should you submit your payroll electronically? It's:

- Faster
- Easier
- More secure
- Cleaner (fewer errors)
- Money-saving

TMRS will provide free registration for one employee from your city to one of our training events (a $75 or $125 value). To take advantage of this offer, your city only needs to sign up to send us your payroll electronically. As part of signing up, we will also provide quick and easy training on how to electronically submit your payroll. To sign up, please e-mail Chris Gillis at *cgillis@tmrs.com* or Chad Nichols at *cnichols@tmrs.com,* or call our office at 800-924-8677 and ask to speak to Chris or Chad.

After you are set up, you may choose which free TMRS event you wish to attend! ▲

Year-End Payroll Reminder

Please remember, your December 2013 monthly payroll report must be submitted to TMRS no later than January 15, 2014. It is very important that you meet 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 2014 city contribution rate takes effect with the January 2014 monthly report, which is due to TMRS no later than February 15, 2014.

Finance Notes • Finance Notes

Timeline of GASB Changes

June 2012 — The Governmental Accounting Standards Board (GASB) released its new standards for pension accounting, GASB Statement No. 67, “Financial Reporting for Pension Plans” (Plan Reporting), and GASB Statement No. 68, “Accounting and Financial Reporting for Pensions” (Employer Reporting). 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 — affect future financial reporting for TMRS cities.

Fiscal years beginning after June 15, 2013 – the first fiscal year in which GASB No. 67 – Plan Reporting, applies. For TMRS as a plan, this change affects the plan financial statements for fiscal year (calendar year) ending December 31, 2014. GASB No. 67 has no effect on employers.

Fiscal years beginning after June 15, 2014 – the first fiscal year in which **GASB No. 68 – Employer Reporting**, applies. For TMRS member cities, this change affects financial statements for fiscal years ending on June 30, 2015 or later.

June 2014 — TMRS provides (in electronic format) Rate Letters, with current GASB Statement No. 27 information – (this will be the last annual Rate Letter under the current format and accounting standards).

Fall 2014 — During the Fall, TMRS anticipates providing updates to cities — via the e-bulletin, the “Eye on GASB,” and web postings — to help them prepare for the GASB No. 68 changes.

June 2015 — TMRS provides (in electronic format) 2016 Rate Letters based on the 12/31/2014 valuation. TMRS also plans to provide (in electronic format) a GASB package to cities, under separate cover. This is the first year the new accounting rules are applicable with funding and accounting information separated.

GASB Change Preparation

- A Net Pension Liability (NPL) must be presented in the balance sheet on the face of the employer’s financial statement. The NPL is the accounting counterpart to the funding Unfunded Actuarial Accrued Liability (UAAL).
- GASB changes require the NPL to be calculated using the Entry Age Normal (EAN) actuarial cost method. Beginning with the December 31, 2013, valuation, the TMRS Board adopted the EAN cost method for funding purposes. Use of the same cost method for both funding and accounting purposes will be less confusing for member cities and their auditors.
- Pension expense is primarily the change in the NPL from the prior year with provisions for deferring certain items. Under current rules, pension expense is primarily the funding Actuarially Required Contribution (ARC), or Normal Cost rate + Prior Service rate.
- Under the new accounting rules, pension liabilities and pension expense will likely vary significantly from their funding counterparts (UAAL and ARC) and exhibit much more volatility from year to year. TMRS intends to send information to cities containing new GASB reporting requirements in June 2015 (based on the 12/31/2014 valuation).
- Cities should be sure their auditors are familiar with the upcoming reporting requirements as they are much more extensive than current rules.
- TMRS will provide (annually) the necessary data for cities and their auditors to enable them to comply with the new GASB pension reporting standards.

Stay tuned —TMRS will continue to provide more detailed information on these changes.

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, 2014, must provide a copy of the ordinance to TMRS before December 31, 2013.** 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*. ▲

Investments Notes

TMRS Thanks Nancy Goerdel…

In January 2014, TMRS' Chief Investment Officer, Nancy Goerdel, will begin her retirement. She is looking forward to spending time with her family.

Ms. Goerdel held key investment positions since joining TMRS in 1998. She became the CIO in 2010. Since 1998, the System's assets grew from $7.6 to $22 billion and TMRS' investment strategy diversified from primarily long bond investing into a diversified strategy beginning in 2008.

Ms. Goerdel said, "It's hard to believe I've been with TMRS 15 years! I've seen a lot of changes during that time, both at the fund and investment program levels. It's been an exciting opportunity, and I'll retire knowing that the program is in very good hands with a great team of professionals. I've enjoyed my time at TMRS and will definitely miss everyone!"

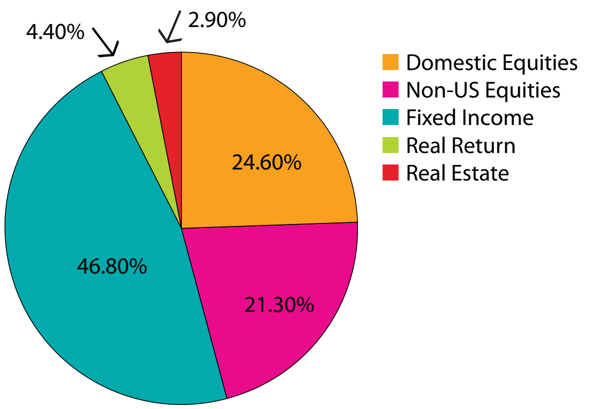
…And Welcomes T.J. Carlson

T.J. Carlson, former CIO of the Kentucky Retirement System, will be joining the TMRS staff in late 2013 as the next CIO of the System. He was formerly an Investment Principal at Ennis Knupp & Associates, and has filled the roles of CIO for the Marshfield Clinic in Wisconsin, CIO of the West Virginia Investment Management Board, and Senior Investment Officer for the Iowa Public Retirement System.

Investment Overview

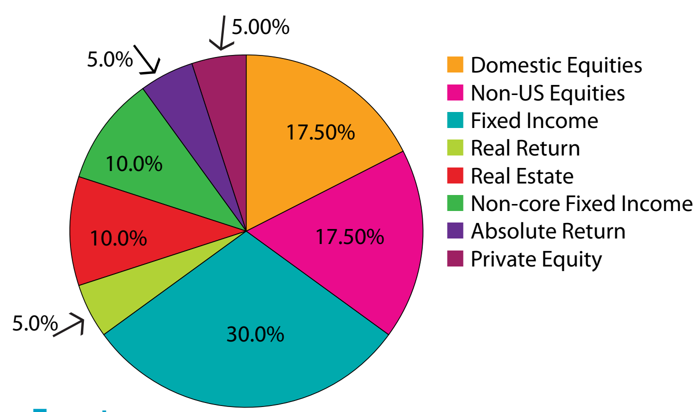
In 2013, TMRS continued its portfolio diversification (see charts below) with further allocations to Real Estate, and additional diversification within the Fixed Income and Equity allocations. A slow and methodical pace into new asset classes and strategies via ongoing research and due diligence efforts, coupled with dollar cost averaging into new investments over multiple time periods, continues to be TMRS' goal.

CURRENT AND TARGET ASSET DIVERSIFICATION AS OF 8/31/13



Current

Asset Allocation as of 8/31/2013 — 24.60% Domestic Equities, 21.30% Non-US Equities, 46.80% Fixed Income, 4.40% Real Return, 2.90% Real Estate.



Target

Long-term Asset Allocation Target — 17.5% Domestic Equities, 17.5% Non-US Equities, 30% Fixed Income, 5% Real Return, 10% Real Estate, 10% Non-Core Fixed Income, 5% Absolute Return, 5% Private Equity.

Annual Investment Returns:

–1.3% in 2008, 10.2% in 2009, 9.0% in 2010, 2.4% in 2011, 10.1% in 2012, 2.93% year-to-date as of 8/31/2013.

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

ONLINE TOOLS

Encourage Employees to Use MYTMRS
As a System, we are already seeing a big uptick in requests for retirement estimates, due to the change in APR Mortality Tables. You can help your employees immensely by showing them how to register for MyTMRS. Some employees may not be aware that their member data is available online.

Jump on the CITY PORTAL!
As a city employer, you can also provide much-needed assistance when employees come to you requesting retirement estimates – if you are on the City Portal. From the City Portal, it is easy for the City Correspondent to run estimates for employees at their request. If you're not already using this online tool, click City Portal button and get going!

- The TMRS City Portal is the best method to report payroll electronically!
- City Portal Training is available on www.tmrs.com.
- Sign up NOW for the City Portal to file your monthly payroll reports online! Also sign up for ACH to transmit your contribution (and get the TMRS training course FREE! — see page 4).
- Electronic submissions save time for both TMRS and our cities, resulting in faster retirement and refund processing with fewer errors.

The Power of Online (Fillable) Forms
Lately our Member Services department has been having issues with New Member forms and Beneficiary forms being legible. TMRS highly encourages cities and members to use the online pdf forms or have the employees complete them online then print for signing. Doing this ensures accuracy (no guessing or misunderstanding written information) and efficiency (the information only needs to be entered once)! Also, please remember to send forms in right away. In other words, don't wait to send them with your payroll report. ▲

CORRESPONDENT'S CHECKLIST

Return to Work Rules

As a city correspondent administering TMRS' plan, you will no doubt receive questions from retirees who wish to return to work for your city, or from current employees who wonder if they can return to work after retirement. Here is a checklist of the information they will need to know.

☑ **Separation from service needs to be "bona fide."** When employees terminate their positions with the city and apply for retirement, the city is required to certify the termination, which has to be "bona fide" for both state and federal tax law purposes. Applicable law does not allow a distribution if there isn't a bona fide termination. Generally, it would not be a bona fide termination if the employee separated from service and then later returned to work (either as an employee or an independent contractor) in any kind of pre-arranged manner.

☑ **If separation was bona fide, then return to work provisions will apply.** Assuming you have a bona fide termination and retire, but want to return to work, then the TMRS "return to work" provisions will apply. Under the TMRS Act, the "return to work" benefit suspension provision depends on whether a retiree returns to employment with the same city from which he or she retired. If you retire from your position with the city and are later re-employed (either as an employee or, in certain cases, as an independent contractor) by any TMRS member city, in a position requiring at least 1,000 hours of duty per year, you will resume membership in TMRS and make required contributions as an active member.

☑ **A general description of the rules is as follows:**

– If the employing city is a different city than the one the employee retired from, the retiree will continue to receive his or her monthly annuity.

– If a TMRS retiree returns to work (as an employee or, in some cases, as an independent contractor) for the same city he or she retired from, the monthly annuity will be suspended until such time as his or her employment with the city terminates, and he or she will forfeit the amount of the suspended payments.

– The only exception to this is if the retiree waits eight years before going back to the same city from which he or she retired. In 2011, a law was passed to modify the TMRS Act to still require the suspension of annuity payments while a retiree is re-employed with the same city, but to allow persons with at least an eight-year gap to recover the amount of suspended payments when they retire again from the city. ▲

Main Street
For city officials and staff

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

Calendar

2013

November	**11**	Holiday (Veteran's Day)
	19-20	TMRS 2013 Annual Training Seminar – Austin
	28-29	Holiday (Thanksgiving)
December	**5-6**	TMRS Board of Trustees Meeting – Austin
	24-25	Holiday (Christmas)

2014

January	**1**	Holiday (New Year's Day)
	20	Holiday (Martin Luther King Jr. Day)
February	**17**	Holiday (President's Day)
	20-21	TMRS Board of Trustees Meeting – Austin
March	**20-21**	TMRS Board of Trustees Meeting – Austin

TMRS TERMS

Actuarial Cost Method

Pension systems choose an actuarial cost method (or actuarial funding method) as a technique for establishing the amount of contributions needed to fund the plan and related accrued liability. The method is chosen to calculate the liabilities accruing under a pension plan (to pay for all the employer's retirements) and the funds that are needed to pay for them over time. Before 2007, TMRS used the Unit Credit cost method but changed to Projected Unit Credit in that year to provide advance funding of projected benefits (such as annually repeating Updated Service Credit and retiree COLAs). In 2013, the System changed to Entry Age Normal (see story, page 4).