**TMRS® Cities Need the City Portal**

The City Portal provides online access for cities to member information and reporting capabilities. Right now, registered City Portal users can do these things:

- Report monthly payroll electronically
- Provide assistance to employees (such as help run estimates)
- Run administrative reports (such as a list of retirement-eligible employees)

The City Portal will also be extremely important as part of the GASB 68 reporting process next year (see page 3). The SOC-1 (type2) audit report ("SOC report"), which will be essential information for your city’s auditors, will likely be available through the City Portal but not on the TMRS public website. Other information needed for GASB disclosure requirements is likely to be provided through the Portal too.

TMRS staff members are currently conducting a campaign to sign up cities that are not currently using the Portal. Why wait for them to contact you? See www.tmrs.com/city_portal.php for all the information you need to become a City Portal user! ▲

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**From the Executive Director**

Dear City Correspondents and Officials,

This issue of *Main Street* is being distributed at the TML Annual Convention in Houston, as well as through the mail, so we are including a special pull-out sheet that summarizes the events of 2014 and some general information about TMRS that may be useful to your city.

As you have probably noticed, TMRS is producing only one issue of *Main Street* each year. Our principal method of communication with cities is through the “TMRS E-Bulletin for Cities,” which we send out approximately monthly. See the story on page 9 for information about keeping your e-mail address up-to-date, and how to get on the e-bulletin list if you are not currently receiving it.

Don’t forget to check out the TMRS 2014 Annual Training Seminar flyer, also an insert in this issue after page 4. This year’s theme is “Exploring TMRS,” and we hope you can come to the seminar in November. Whether you are an HR professional who directly administers TMRS benefits, a city finance officer, or in the city manager’s office, I believe you will find programming at our event to suit your interests.

We appreciate our partnership with cities and are grateful for your continued efforts to communicate TMRS-related news to your employees. We are here for you, so if you need anything, let us know!

Sincerely,

David Gavia
Executive Director
Board Update

In October 2013, Governor Perry appointed David Landis of Perryton to replace the late H. Frank Simpson of College Station. In December, Jim Jeffers of Nacogdoches was appointed to take up the remaining term of retiring Trustee April Nixon. TMRS thanks Ms. Nixon for her dedication and service. At its December 2013 meeting, the Board elected Roel “Roy” Rodriguez of McAllen as Chair for 2014 and Julie Oakley of Lakeway as Vice Chair.

Legislative Interim and the Advisory Committee

The 84th Regular Legislative Session convenes the second Tuesday in January, 2015. In preparation for the session, the Advisory Committee on Retirement Matters met three times to study potential benefit plan design changes. A majority of the Committee ultimately decided that changes to the available plan options are not needed at this time. This conclusion was conveyed to the TMRS Board at their August meeting.

Neither the House Pensions Committee nor the Senate State Affairs Committee had interim charges directly affecting TMRS. However, an update on TMRS progress was provided to the Pensions Committee at their July hearing. As we get closer to the 84th Session, be aware that legislation can be “pre-filed” 60 days in advance of when the session convenes. TMRS staff will track legislation affecting our retirement system and post it on the Legislative page of our website. If you have questions about the Advisory Committee, interim activities, or upcoming session, contact Dan Wattles, TMRS Director of Governmental Relations, at dwattles@tmrs.com.

Current Members of the Advisory Committee

Individual Class: Allen Bogard, City Manager, Sugar Land; Michael Dane, Assistant City Manager / Chief Financial Officer, San Angelo; Dean Frigo, TMRS Retiree; Victor Hernandez, City Councilmember, City of Lubbock; Bryan Langley, Assistant City Manager / Chief Financial Officer, Denton; Julie Masters, Mayor, Dickinson; Charles Windwehen, TMRS Retiree; two vacancies.

Group Class: David Crow, Arlington Professional Fire Fighters; Jerry Gonzalez, Service Employees International Union, San Antonio; Scott Kerr, Texas State Association of Fire Fighters; Kevin Lawrence, Texas Municipal Police Association; Greg Vick, Texas City Management Association; Tadd Phillips, Texas Municipal Human Resources Association; Bob Scott, Government Finance Officers Association of Texas; Greg Shipley, Combined Law Enforcement Associations of Texas; and Monty Wynn, Texas Municipal League.

2014 Board of Trustees

Roel “Roy” Rodriguez, PE, Chair
City Manager, McAllen

Julie Oakley, CPA, Vice Chair
Director of Finance, Lakeway

James “Jim” Paul Jeffers
City Manager, Nacogdoches

David Landis
City Manager, Perryton

Jim Parrish
Deputy City Manager – Administrative Services, Plano

Bill Philibert
Human Resources Director, Deer Park

New Pension Plan Study to Be Published

The Texas Pension Review Board (PRB) has been working diligently to implement provisions of House Bill 13, passed by the 83rd Texas Legislature. Two important provisions in this bill affect TMRS and its member cities. First, the PRB is required to establish an education training system for public retirement system trustees and administrators. Second, the PRB must conduct a study of the financial health of public retirement systems in Texas, including each system’s ability to meet its long-term obligations, taking into account the contributions made to, benefits paid by, and investments made by the public retirement system. It is important for member cities to know that in addition to including System-wide information in this report, the PRB also intends to publish city-specific information in the report as well. This will include employee and employer contribution rates, funded ratio, amortization period, and whether or not each city participates in the federal Social Security program. The final report is due to the Texas Legislature by December 31, 2014.

Main Street is sent to TMRS city contacts once per year. If you have questions or suggestions, e-mail communications@tmrs.com.

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This newsletter is an informal presentation of information about TMRS and related issues. If any specific questions of fact or law should arise, the statutes will govern. TMRS, MyTMRS, and the TMRS logo are registered trademarks of the Texas Municipal Retirement System.
Cities with fiscal years beginning after June 15, 2014 will be subject to the new GASB 68 reporting requirements at the end of their fiscal year. Whether your city is big or small, your finance officer and your city’s external auditors should be learning about the new standards. Your finance staff and HR staff should also be aware of the User Entity Controls that need to be in place to ensure accurate reporting of TMRS participation at your city. Here are a few key points:

- A major concept to be explained to elected officials and other financial statement users involves the Net Pension Liability (NPL). The NPL is a new number reported on the balance sheet in the employer’s financial statements and will likely reflect a larger pension liability than shown in past years.

- The new standard requires the use of the Entry Age Normal (EAN) funding method for reporting purposes. TMRS began using EAN with the 12/31/2013 actuarial valuation for funding purposes.

- In March 2014, TMRS sent letters to city finance officers and city managers to alert them to the upcoming SOC audit of TMRS. TMRS will be providing cities with a SOC-1 (type 2) audit report, which documents controls in place at TMRS; the report will also contain an audit opinion as to whether the controls were operating effectively for the audit period. This report will likely be available to your city via the City Portal (see story on page 1) for reference by your auditors.

- In recent years, City Rate Letters, posted to the website in late May, have contained GASB information for your city’s financial report. In 2015, the GASB information will be quite different and will be provided separately from the City Rate Letter. Both documents will be available online.

**Issues for City Human Resources and Payroll Personnel**

Certain controls need to be in place and operating effectively at your city (“User Entity Controls”) to ensure that your city and your external auditor can rely on the results of the SOC report. The User Entity Controls need to be in place throughout your city’s fiscal year (for GASB 68, those cities with a 6/30/2015 fiscal year-end should have the controls in place no later than 7/01/2014). Information submitted to TMRS, such as participation by eligible employees and covered compensation, must be accurate. If these controls are not already in place, the city will need to establish them. See the letter to cities under the “Eye on GASB” web page for examples of the User Entity Controls.

Watch for other information on GASB in the next few months in e-mail and on the TMRS website. Specific questions from finance personnel and city auditors can be e-mailed to pensionaccounting@tmrs.com.

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**DID YOU KNOW?**

**Legal Note**

If your city is in an employment dispute and the parties want to enter into a settlement agreement or court order that includes or addresses any TMRS benefits, it is essential that the parties contact the TMRS Legal Department to discuss the proposed settlement before you sign any agreement or go to court.

Unfortunately, sometimes we receive already signed settlement agreements or court orders that say “X” is to be done with regard to TMRS benefits, and we have to tell the parties that the TMRS Act doesn’t allow us to do “X.”

To prevent this, please contact us before anything is finalized to discuss what the parties are asking to do. Our Legal team will be able to let them know if what they want to do is permitted under the TMRS Act. Questions? Contact the TMRS Legal Department at 800.924.8677.
The “1,000-Hour Rule” is the nickname for the legal requirement used for determining who is an employee under the TMRS Act for purposes of participating in TMRS. While there is no statutory definition for “full-time” or “part-time” employees, cities must base the employee’s eligibility for membership in TMRS on the number of hours the employee is normally expected to regularly work over the course of one year. If the position “normally requires” a person to work at least 1,000 hours a year, then the person employed in that position is an “employee” eligible (and required) to participate. If the person doesn’t meet this eligibility requirement but later moves into an eligible position, he/she becomes a member of TMRS on the date he/she is employed in the eligible position.

The determination of whether an employee should be counted as a member of TMRS should be made based on the position and not the person. If the position meets the TMRS 1,000-hour rule, any person hired to fill that position MUST be enrolled in TMRS. Keeping accurate records is important. Remember that employees hired to fill eligible positions do not have the option to decline participation. Cities should monitor or reevaluate all city positions periodically to determine if the TMRS 1,000-hour rule is being met. Finally, it is the city’s responsibility to keep current, accurate records of TMRS-eligible employees. Correct enrollment of employees in TMRS will be one of the User Entity Controls under the new GASB 68 standards (see story, page 3).

Q&A for 1,000-Hour Rule

Q. Our city budgets 1,600 hours for two part-time employees. Are they TMRS eligible?
A. Key words to remember in assessing positions for eligibility are “normally required” and “regular.” If these are regular positions (not temporary) and the work is normally spread equally between the two positions, they would not be eligible because the total hours normally required would be 800 each. However, if the work normally is spread unevenly, and one of the positions regularly requires services of not less than 1,000 hours annually, then that employee must be enrolled in TMRS and the other would not be enrolled.

Q. Do the 1,000 hours include paid leave hours, or only 1,000 hours worked?
A. Paid leave hours are included as part of the position’s participatory requirement. The participation requirement is based on the position’s normal hours — not on the actual hours a particular employee may work in a given year. ▲

Upcoming Training Events

Two important training opportunities for cities take place in November. Our largest training event, the TMRS Annual Training Seminar, will be held November 17 and 18 at the Austin Sheraton Hotel. As in past years, we will be offering two training tracks — one for TMRS administrators and one for city finance personnel. A seminar agenda will be posted on the website soon. The registration form and seminar flyer for “Exploring TMRS” are included in this issue.

Also in November, we’ll be offering our last 2014 Regional Pre-Retirement Conference — in Denton on November 5. If you’re in North Texas and your city employees would like to know more about how to retire with TMRS, please encourage them to attend. If you have questions about any of these events, don’t hesitate to contact us at communications@tmrs.com. ▲
TMRS® provides valuable benefits that help cities attract and retain quality employees. TMRS retirement benefits are funded by a combination of employee deposits, city contributions, and investment income. Here are some of TMRS®’ recent and ongoing projects:

**Mortality Tables Updated** – Based on recommendations made by the TMRS consulting actuary, the Board adopted generational life expectancy tables effective in January 2015. The tables will be phased in over a 13-year period so that the effect will be minimized on employees planning to retire in the next few years. There is no effect on current retirees.

**Entry Age Normal (EAN) Actuarial Cost Method Adopted** – Last year the Board approved changing from the Projected Unit Credit actuarial cost method to Entry Age Normal (EAN). EAN removes bias for increasing normal costs and gives more stability in city contribution rates. It also allows for an easier transition to the new GASB standards. The combined impact of EAN and the retiree mortality table update resulted in little change in 2015 contribution rates for most cities. Any city with a rate increase larger than 0.5% can phase in the new rate at 0.5% per year.

**GASB Preparation** – New pension accounting standards for employers/cities (GASB 68) begin for fiscal years beginning after June 15, 2014. Accounting under GASB 68 means the Net Pension Liability (NPL) will be calculated using the Entry Age Normal actuarial cost method. The NPL and pension expense will appear in the employer’s financial statements. **City Finance staff and the city’s auditor should be aware of these changes.**

As part of GASB preparation, TMRS will provide municipalities (“user entities”) with a SOC-1 (type 2) audit report, which documents controls in place at TMRS. City auditors should read and understand the SOC report, to gain an understanding of the controls in place at TMRS. See the “Eye on GASB” page on the TMRS website for information as we update it.

**MyTMRS Upgrade** – The online tool that allows members to see their service history, beneficiaries, and retirement estimates, is expanding to provide additional data.

### Increasing Retirements

TMRS retirements continue to grow annually. The annual amount paid to retirees increased from $472.1 million in 2004 to $946.5 million in 2013.
**Legislative Report**

The TMRS Advisory Committee on Retirement Matters met three times in 2014 to discuss potential legislative recommendations to the Board. The majority of the Committee recommended that the Board not seek legislation in 2015 but focus on legislator education and preserving the current benefits.

**Investments**

TMRS administered $23.5 billion in assets, as of 6/30/14. Annual investment returns were -1.3% in 2008, 10.2% in 2009, 9.0% in 2010, 2.4% in 2011, 10.1% in 2012, and 9.86% in 2013. For detailed summaries of diversification progress and performance within individual asset classes, consult the summaries posted on the TMRS website under About TMRS → Investments. As of June 2014, TMRS continued to diversify within the Public Equities asset class (including rules-based and active strategies), and within the Fixed Income asset class. The current overweight in Equities and Fixed Income is funding the ongoing implementation of other asset classes, and the allocation to those classes will reduce over time. The Absolute Return asset class was funded in August 2014. The Real Estate portfolio continues to be built out by investing in Core, Value-Added, and Opportunistic real estate investments at a measured pace. The Real Return asset class is fully funded through a Global Inflation-Linked Bond (GILB) strategy. The Private Equity asset class is expected to begin funding in late 2015.

**Asset Allocation as of 6/30/14**

- U.S. Equities: 26.7%
- Non-U.S. Equities: 4.3%
- Core Fixed Income: 4.3%
- Non-Core Fixed Income: 0.3%
- Real Return: 5%
- Real Estate: 17.5%
- Private Equity: 5%
- Absolute Return: 17.5%
- Unallocated Cash: 22.5%

**Long-term Asset Allocation**

- U.S. Equities: 17.5%
- Non-U.S. Equities: 17.5%
- Core Fixed Income: 10%
- Non-Core Fixed Income: 10%
- Real Return: 5%
- Real Estate: 30%
- Private Equity: 5%
- Absolute Return: 5%
- Unallocated Cash: 0%

**TMRS • Facts to Remember**

**Cash Balance Plan Design** — Instead of providing a traditional “defined benefit” based on a percentage of salary, the TMRS retirement benefit is based on the contributions made by an employee, plus the matching amount agreed to by the city, plus interest income credited to the employee’s account over the employee’s career.

**Flexibility** — TMRS is a statewide retirement system that cities may elect to join. Each TMRS city designs its own plan from a menu of available options, choosing its employee deposit rate and city match, as well as other optional provisions like COLAs and Updated Service Credit.

**Low Administrative Costs** — TMRS assesses no administrative fee to employees or cities. The administration of TMRS is funded from a small portion of the System’s annual investment earnings. For 2013, the total annual administrative expenses for TMRS, including investment costs, was approximately 0.13% of the retirement fund’s net assets.

**Advance Funded Benefits and Healthy Funded Ratio** — State law requires every TMRS city to pay the full actuarially required contribution each year. Benefits are advance-funded over the employee’s active working career, with any unfunded liability amortized over a maximum of 25 or 30 years. Individual cities participating in TMRS have their own funded ratio (the ratio of a pension plan’s assets to its total liability). The funded ratio for the System as a whole as of 12/31/13 was 84.1%.

**Conservative Assumptions** — TMRS relies on an assumed annual investment return assumption of 7%, one of the most conservative assumptions among major public retirement systems.
2014 Annual Training Seminar
Exploring TMRS

Texas Municipal Retirement System
Enclosed is my check or money order payable to TMRS for:

$125 Please send in registration form with fee by 11/05/2014. Space is limited to the first 300 registrants.

Please check events you will attend — your registration fee includes one guest for the Monday evening event.

- Monday breakfast and lunch (registrant only)
- Monday buffet reception
- Tuesday breakfast (registrant only)

Your registration fee must accompany this form.

Make check or money order payable to TMRS. Sorry, we cannot accept credit cards.

TMRS Annual Training Seminar
ATTN: Accounting Department
P.O. Box 149153
Austin TX 78714-9153

Please call Angela at 800.924.8677 (ext. 3715) if you have any questions.

We look forward to seeing you in Austin!
File Payroll Electronically and Receive FREE TMRS training!

In order to improve payroll processing, TMRS is giving away free registration to either our 2014 Annual Training Seminar or a Correspondent Certification course in 2015 for cities that sign up and submit their payroll electronically.

Why submit your payroll electronically? It’s:

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

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, e-mail Chris Gillis at cgillis@tmrs.com or Chad Nichols at cnichols@tmrs.com, or call our office at 1-800-924-8677 and ask to speak to Chris or Chad.

After you are set up and have submitted your first payroll, you may choose which free TMRS event you wish to attend! ▲

What Entry Age Normal Means to Your City

The TMRS Board of Trustees voted in October 2013 to change the System’s actuarial cost method from Projected Unit Credit to Entry Age Normal (EAN). This change has a significant effect on how the TMRS benefits your city provides will be paid for in future years.

Your city’s required contribution rate over future years will be less volatile, in keeping with other changes made by TMRS since 2007. Entry Age Normal spreads the costs of members’ pension benefits more evenly over their careers and is the cost method used by most public sector plans.

The new pension liability reporting standards under GASB 68 (see story on page 3), require that the calculation be made under Entry Age Normal. By making the change in the actuarial cost method to EAN, the Board has ensured that the liability numbers associated with plan funding and those used for financial reporting will be much closer.

Rate letters sent to cities in May 2014 contained attachments showing the effect of this change in actuarial cost method as well as the change in mortality tables on city contribution rates. For most cities, the change in their contribution rate was slight. Cities that saw a contribution increase of 0.5% or more will be allowed to phase in the increase. ▲

Keep City Contact E-mails Up-to-Date!

It’s very important for TMRS to have correct information, including e-mail addresses, for your city’s TMRS contacts and City Portal authorized users. We are providing more and more information electronically, so it is crucial, particularly when people resign or retire and replacements are named, to notify TMRS of any e-mail address or other changes. The mailing list for the TMRS e-bulletin is maintained separately from other TMRS city data, and you may change your e-mail preferences for the e-bulletin when you receive a mailing or by sending a note to communications@tmrs.com. We appreciate you getting the word out to your city’s employees, authorized contacts, and City Portal users. ▲

Financial Publications Available

The 2013 TMRS Comprehensive Annual Financial Report (CAFR) was approved by the Board of Trustees on June 20 and is available in PDF format from the TMRS website. The CAFR is downloadable by sections. Also available is the 4-page 2013 TMRS Summary Annual Financial Report, which has been sent to all members and retirees in the summer issues of INSIGHT and RetirementWise.
**Calendar**

**2014**

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<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>September 18-19</td>
<td>TMRS Board of Trustees Meeting – Austin</td>
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<tr>
<td>October 23-24</td>
<td>TMRS Board of Trustees Meeting – Austin</td>
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<tr>
<td>November 5</td>
<td>Regional Pre-Retirement Conference - Denton</td>
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<tr>
<td>November 11</td>
<td>Holiday <em>(Veteran’s Day)</em></td>
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<tr>
<td>November 17-18</td>
<td>TMRS 2014 Annual Training Seminar – Austin</td>
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<tr>
<td></td>
<td><em>(See registration form in this issue)</em></td>
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<tr>
<td>November 27-28</td>
<td>Holiday <em>(Thanksgiving)</em></td>
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<tr>
<td>December 4-5</td>
<td>TMRS Board of Trustees Meeting – Austin</td>
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<tr>
<td>December 24-25</td>
<td>Holiday <em>(Christmas Eve and Christmas Day)</em></td>
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**2015**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>January 1</td>
<td>Holiday <em>(New Year’s Day)</em></td>
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<tr>
<td>January 19</td>
<td>Holiday <em>(Martin Luther King Jr. Day)</em></td>
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<tr>
<td>February 16</td>
<td>Holiday <em>(President’s Day)</em></td>
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<tr>
<td>April 3</td>
<td>Holiday <em>(Good Friday)</em></td>
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<tr>
<td>May 25</td>
<td>Holiday <em>(Memorial Day)</em></td>
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