

# Main Street

For city officials and staff

## TMRS Board Approves Investment Policy Changes

The TMRS Board of Trustees met in Austin November 16 in a Joint Meeting with the Investment Committee. Following consultation with R.V. Kuhns and Associates, the Board took a number of actions, including:

- Approved amendments to the TMRS investment policy to begin diversification of TMRS' assets into equities (stocks). The target investment allocation for 2008 is to move approximately 12% of the portfolio into equity index funds by year end.
- Approved the hiring of Hillswick Asset Management, LLC, to provide oversight and guidance to TMRS staff in the management and administration of the internally managed fixed income portfolio.
- Directed TMRS staff and R.V. Kuhns and Associates to begin interviews for index fund managers.

TMRS has historically been invested 100% in fixed income instruments (bonds). Recent trends in the investment environment have led the Board to consider other types of assets, culminating in the decision to adopt a more diversified strategy. A five-year goal of 60% equities, 40% fixed income has been discussed. Watch the TMRS Website and future publications for more details. ♦

## From the Executive Director

### Dear City Correspondents and Officials:



By the time you receive this newsletter, you should have received correspondence from me containing rate projections for your city's TMRS plan.

The letter included two sets of charts showing your City's contribution rate under scenarios that will be considered by the TMRS Board of Trustees in

December. The insert page in this newsletter contains more information about the changes and why we are making them.

It is important to emphasize that TMRS is not in a crisis. We are examining these actuarial changes well in advance of any shortfall in funding. Under these scenarios, cities that have adopted annually repeating annuity increases will see significant increases in their contribution rates, but these higher rates will provide sound advance-funding of the benefits and will produce lower actuarial liabilities and more positive funding ratios over time.

We are also taking a close look at how the System invests money (see above). Declining member interest rates and changes in how we calculate future liabilities make it imperative that we invest in a manner that will produce a higher rate of return over time. Most investment experts agree that interest rates will continue to stay low and that TMRS' income over the past 20 years is a circumstance that is not likely to be repeated.

The significance of a change in our investment policy is shown by the two exhibits in the letter we sent you. With a diversified investment portfolio, the future assumed rate of investment income to the fund will be 7%. Under the current all-bond approach, our actuary would recommend a 5.5% investment return. The difference in city rates under these two scenarios is dramatic.

I hope all TMRS cities will see the years ahead as an opportunity to make a great system even better. TMRS retirement benefits have been a vital part of the compensation package for Texas city employees for almost 60 years — providing security and portability across the State while also feeding state and local economies.

Now the TMRS Board and staff, along with our advisors and our cities, are laying the groundwork for an even better future. Thank you for your support.

Sincerely,

Eric Henry

# Advisory Committee Gearing up for Work

When the TMRS Board of Trustees met in Austin on August 17, they implemented a new Charter for the Advisory Committee on Retirement Matters, downloadable from [www.TMRS.com](http://www.TMRS.com) under What's New and FAQs. The purpose of the Advisory Committee is to allow stakeholders (members and retirees), city officials, and policy-makers (elected officials) to share their input and perspective on issues being reviewed by the TMRS Board of Trustees.

Current members of the Advisory Committee are:

- **Dr. Susan Helt**, Director of Public Information, City of Plano
- **John Lewis**, City Councilmember, City of North Richland Hills
- **George Logan**, Retiree Advisor
- **Ronald E. Cox**, Former Board Member
- **Jim Moore**, Deputy Fire Chief, City of Mesquite
- **Lynn McIlhaney**, City Councilmember, City of College Station
- **Keith Brainard**, City Councilmember, City of Georgetown
- **Isaac Valencia**, Police Lieutenant, City of Corpus Christi
- **Jim Starr**, Retiree Advisor

Several members' terms will expire at the end of the year. If you or someone from your city has an interest in serving on the Advisory Committee, please contact [ExecOffice@TMRS.com](mailto:ExecOffice@TMRS.com). ♦

## Coming Soon, to a Mailbox Near You –

### TMRS FACTS for City Officials

This new guide for city managers, finance officers, and elected and appointed officials offers a complete overview of how TMRS works. It is a resource for new cities and those who would like to gain a better understanding of the partnership between TMRS and its member cities. Copies will be available on request beginning in December, and we will post a PDF of the 24-page publication on the Website. ♦



# Form Facts

Don't forget these important considerations when using and submitting TMRS forms:

1. It is critical that you include the **monthly salary** on the New Member forms when enrolling new employees. This is particularly important as we approach the end of the year because this data is required for TMRS' annual valuation.
2. Check the employee's vested status. If vested, be sure they have a Change of Beneficiary for Vested Members (TMRS-007V) on file. Many members don't realize they need to **file a new beneficiary form after vesting**.
3. Double check the employer certification portion of forms. On refund forms, to be correct, you must provide the **actual date of the last payroll deduction** by month and year.
4. Scan forms to be sure **current addresses** are used. The current address must be on file for TMRS to send estimates and annual statements to the member.
5. Member data can get muddled if you hold on to forms, particularly enrollment forms. Please **send them as soon as you get them** – don't let them stack up.
6. Forms for dealing with the new provisions for **Public Safety Officers** will soon be available on the Web. (see "Correspondent's Checklist" on page 6).

**Thank You For All That You Do as  
a Partner With TMRS!**

## 2007 Interest Rate Recap

Most of your employees are now aware that the interest rate for 2007 was set by the Board at the statutory rate of 5%. Interest will be credited to member accounts on December 31, 2007, based on the account balance as of January 1, 2007. Members will be able to see this interest credit on MyTMRS® in early January, and it will also be reflected on the Annual Statements sent out next spring.

If you have received questions from your employees, please inform them that the rate of 5% reflects investment performance of the TMRS trust fund in a low-interest environment over the past year. Also, if you have contact with retirees who did not receive the extra payment this year, please reiterate that the Extra Payment is not a guaranteed benefit. ♦

## DID YOU KNOW?

# Separation from Service Must Be “Bona Fide”

Employees participate in TMRS until they retire, die, or separate from service. Upon separation, employees may apply for a distribution (refund or retirement), and the city is required to certify the termination, which must be bona fide. This is important for state and federal tax law purposes. An opinion from TMRS Legal Counsel has concluded the TMRS Act only permits distributions on account of a bona fide separation from service. For example, the TMRS Act does not permit a distribution if an employee resigns and is rehired by the same city in a prearranged manner.

Similarly, a bona fide separation from service is also important for federal tax purposes. TMRS is a qualified pension plan, which means it meets various requirements of the Internal Revenue Code and is eligible for favorable tax treatment. One of the requirements of the Internal Revenue Code is that a pension plan cannot allow in-service distributions prior to normal retirement age. An in-service distribution occurs when a distribution is made before an employee has a separation from employment.

The Internal Revenue Service has ruled that if an employee resigns and is rehired by the same city in a prearranged manner, a distribution to that employee is likely to be an impermissible in-service distribution that could disqualify the city's plan, subjecting it and its employees to adverse tax consequences.

Therefore, a bona fide separation from service is required for both state and federal tax law purposes. ♦

# Calendar Of Events

## December 3-4

Correspondent Certification Course  
TMRS Headquarters, Austin

## December 7-8

TMRS Board of Trustees Meeting  
Austin

December 24-25 • Holiday (Christmas)

January 1 • Holiday (New Year's Day)

January 21 • Holiday (Martin Luther King, Jr. Day)

## Month of January

Mailing to Retirees about Annuity Increases

February 18 • Holiday (President's Day)

March 21 • Holiday (Good Friday)

## March 28-29

TMRS Board of Trustees Meeting  
Austin

## April 25

TMRS Board and Advisory Committee Meeting  
Austin

May 26 • Holiday (Memorial Day)

## Information About Benefit Limit

The IRS sets yearly maximum salary contribution rates over which contributions cannot be made. Employees who began participating with TMRS on or after January 1, 1996, are subject to this compensation limit. While it does not affect many employees, those who are affected may have reported TMRS contributions returned to the city, ultimately affecting their wages subject to federal income tax.

TMRS identifies members that may be affected by this limit every year and makes every effort to advise both the members and their employers. The new limit for 2008 has been increased from \$225,000 to \$230,000.

If you have any employees who may exceed the limit in any given year, you may wish to consider implementing maximum compensation limits on the contributions submitted to TMRS, either monthly or at the end of the year. Contact TMRS at 800.924.8677 for more information. ♦

Turn this sheet over for a flyer you can copy and distribute about the GAO’s analysis of the soundness of government retirement systems.



# Changes on the Horizon

**A**s TMRS considers changes, two key points to remember are:

- Each city chooses the benefits it provides to its employees.
- The benefits current members have earned under TMRS will not be reduced or altered.

Three key areas of change are likely to occur over the next two years:

- Changing investment policy and strategy to diversify investments and improve investment returns (see page 1).
- Changing the actuarial funding method from Unit Credit to Projected Unit Credit to better account for future liabilities, especially liabilities that result from annually repeating annuity increases (COLAs).
- Adopting a *closed* 25-year amortization method instead of the current *open* 25-year method to improve cities’ funded ratios over time.

The modifications will make TMRS a stronger retirement system and will help cities pay for their benefits in a more measured, predictable manner. Remember, any changes made will not affect your city’s 2008 contribution rate.

## Investment Adjustments

Throughout most of its history, TMRS has invested solely in fixed income instruments with the intent of preserving principal and generating a 5% or greater interest credit for member accounts. Our fixed-income investment strategy has served us well, but in the current low-interest environment, we need to improve our return on assets.

Future steps will be gradual and carefully considered, designed to increase the System’s investment earnings while maintaining an appropriate level of risk. In September, the Board approved the selection of R.V. Kuhns & Associates as the first investment consultant to TMRS. The firm is assisting the Board in its examination of TMRS’ current investment policies and practices, beginning with an asset/liability study.

## Actuarial Adjustments

TMRS is considering making the System’s actuarial cost method one that will “pre-fund” COLAs and Updated Service Credit that are granted on an annually repeating basis. In the long run, the actuarial changes will cause the System to be better funded, and cities will gain more control over their pension costs. However, in the short run, cities may see higher contribution requirements.

## City Communications

Watch for e-bulletins, mailings, publications, and Website updates for information on these changes. E-bulletins have been sent to all city contacts for whom we have valid e-mail addresses. If you have not been receiving them and would like to do so, send an e-mail to [bulletin@TMRS.com](mailto:bulletin@TMRS.com).

So far, we have sent out the following information (all are downloadable from the Website; click on “Breaking News for Cities”):

Date	Title / Topic
8/7/07	E-Bulletin Vol 1 - News for City Managers and Finance Officers
8/10/07	Letter Packet - Historical Data and Explanation. Data sheet with each city’s numbers.
9/6/07	E-Bulletin Vol 2 - Update on Mailings and Meetings
9/7/07	Letter Packet - Estimated Effects of Actuarial Changes
9/14/07	E-Bulletin Vol 3 - TMRS Board of Trustees Meeting
11/19/07	E-Bulletin Vol 4 –Rate projection mailing
11/19/07	Letter Packet – Rate Projections with and without repeating USC and COLAs and showing two levels of investment return.

After the overwhelming response to the funding-themed annual seminar, we plan to divide our Annual Training Seminar into two separate events — one aimed at City Correspondents and the other aimed at Finance Officers and City Managers. We are also creating Regional Funding Workshops for cities (stay tuned to the TMRS Website for information about next year’s workshops). In addition to these workshops, we will continue to send field representatives to cities upon request. ♦

## Good News About Public Retirement Systems —

It is important to remember the vital role public retirement systems play in the lives of hundreds of thousands of public employees. TMRS is dedicated to maintaining accounting compliance and System transparency. As we move into an era of change, we believe in communicating as much as we know and in proactively addressing situations we see arising in the future. We are taking this extra care because we want all our cities to continue to offer top-notch plans, and all future retirees to receive quality pensions for life.

# “Getting Retirement Right”

The Government Accounting Office recently issued a report on the financial health of state and local government pensions, confirming that public pensions such as TMRS are managing obligations, protecting benefits, and “getting retirement right.” In a report to Congress, the GAO also stated that state and local governments have mechanisms in place to protect pension benefits and comply with fiduciary responsibilities.

Keith Brainard, research director for the National Association of State Retirement Administrators and a member of the TMRS Advisory Committee, said of the GAO’s findings, “This report demonstrates that pre-funding a modest, yet stable, retirement income for the nation’s working and retired populations is a worthy and attainable goal. We hope this report will inject a dose of common sense into the retirement security discussion. This is a system that is advance funded and provides a safe, secure, and cost-effective retirement income for some 20 million workers and retirees.”

The GAO report, “State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs,” found that:

- Most of the nation’s 126 largest public retirement plans analyzed (including TMRS) are well funded.
- State and local governments generally set aside monies in advance to finance pension commitments.
- Strategies typically are in place to manage future pension obligations. GAO predicts that state and local governments as a group may need to increase contribution rates slightly – less than one-half of one percent of payroll – to meet future costs and fund obligations.
- Investment earnings provided 63.7 percent of pension funding from 1982 to 2005, according to U.S. Census data.
- Pension funding is kept on course by making actuarially required contributions.
- Most state and local government employees are required to contribute a percentage of salary to help finance their pension benefit, which typically is not the case in the private sector.
- Pension benefit protections typically are set forth in state constitutions and/or state and local laws, which also often have provisions to prevent the elimination or reduction of benefits.
- Typically, pension funds are established as trusts that are managed by boards in accordance with state constitutions and/or statutes. Boards establish operation and management policies to guide financial controls, reporting, investment strategy, and actuarial assumptions. Board trustees are fiduciaries with independence for managing the funds, and often receive counsel from investment professionals, actuaries, and advisors.
- If a state and local government is making actuarially required contributions, its pension plan can have a funded ratio below 100 percent yet still be on track toward full actuarial funding. The funding status is a measure that captures a government’s ongoing effort at one point in time to fund its future pension liability, generally expressed as the ratio of assets to liabilities. ♦

*SOURCE: NASRA press release, “GAO Finds State and Local Government Pensions Well Funded.” If you would like a copy of the NASRA press release, send an e-mail to [communications@tmrs.com](mailto:communications@tmrs.com). More information about the GAO report is available at <http://www.gao.gov/docsearch/abstract.php?rptno=GAO-07-1156>.*

## CORRESPONDENT'S CHECKLIST

### New Provisions for TMRS Public Safety Officers

**HELPS Provision Benefits Retired Officers.** In January 2008, TMRS will begin participation in a program made possible by the Healthcare Enhancement for Local Public Safety (HELPS) provision of federal tax law. This provision allows retired or permanently disabled public safety employees to elect an amount to be deducted from their TMRS benefit payment on a pre-tax basis to pay for health care or long-term care insurance premiums. The amount a retired officer excludes from taxable income on his or her tax return may not exceed \$3,000 in one year. If a retired (or retiring) officer wishes to make this election, the amount is directly transferred by TMRS to an insurer. To qualify for this program, an employee had to have separated from service as a "public safety officer." The definition of a public safety officer includes the following employees:

- An individual involved in crime and juvenile delinquency control or reduction, or enforcement of the criminal laws (including juvenile delinquency), including but not limited to police, corrections, probation, parole, and judicial officers.
- Professional firefighters
- Officially recognized or designated:
  - Public employee members of a rescue squad or ambulance crew
  - Chaplains of fire departments and police departments

TMRS will be mailing forms in early December to retirees that have been identified as public safety officers. Retirees will be coming to you to certify their status as public safety officers at the time of separation. Their ability to use this benefit will depend on your certification.

If the retiree is in a health plan administered by your city, TMRS will coordinate payments through the city. If retirees are in a separate plan, TMRS will coordinate payments with that plan.

**No Penalty for Distributions after Reaching Age 50.** In 2006, federal tax law was changed to permit those public safety employees who separate from service in the year they reach age 50, or later, to waive the 10% IRS penalty on lump sum distributions. Under previous law, all employees could separate at age 55 or older and waive the penalty. To qualify, TMRS members must separate from service in the year they turn 50, or later, and be serving as a public safety officer when they leave city employment. Then, if they choose to receive a Partial Lump Sum Distribution at retirement OR choose to receive a refund of their deposits after they separate from service, they may not have to pay the 10% IRS penalty.

- The definition of "public safety employee" is limited to those employees who provide police protection, firefighting services, or emergency medical services. Note that the definition is more restrictive than the public safety officer definition used for the HELPS provision above.
- Refund and retirement applications are being revised to include a checkbox for public safety employees. If an employee has indicated that they were a public safety employee, a certification form will be mailed to the city to certify the status of the employee at the time of separation.

Forms will be posted on the TMRS Website soon. Encourage those who come to you to consult with a tax advisor or the Internal Revenue Service to determine their eligibility for these provisions. When in doubt, have them call TMRS. ♦

# Texas Municipal Retirement System

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*Main Street* is sent directly to TMRS city contacts and correspondents twice a year. 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](mailto:communications@TMRS.com).

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