TMRS Rate Stabilization

Part of the Toolkit

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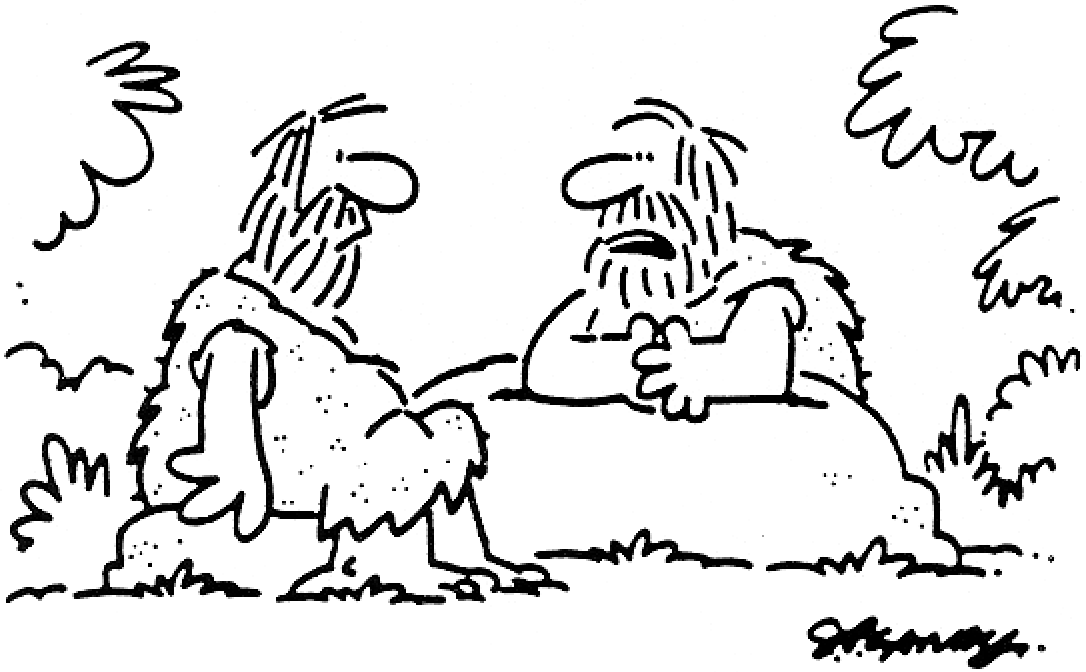
Mark Randall

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Where have we come and where are we headed?

Evolution is good



Our retirement plan is that when you get too old to fish, they cut you up and use you for bait.

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Change in Funding Method

- In 2007, the TMRS Board of Trustees approved the change to the Projected Unit Credit (PUC) actuarial funding method
  - Change was needed to improve funded ratios long term and to pre-fund annually repeating benefit enhancements:
    - Cost-of-Living Adjustments (COLAs or Annuity Increases)
    - Updated Service Credits (USC)

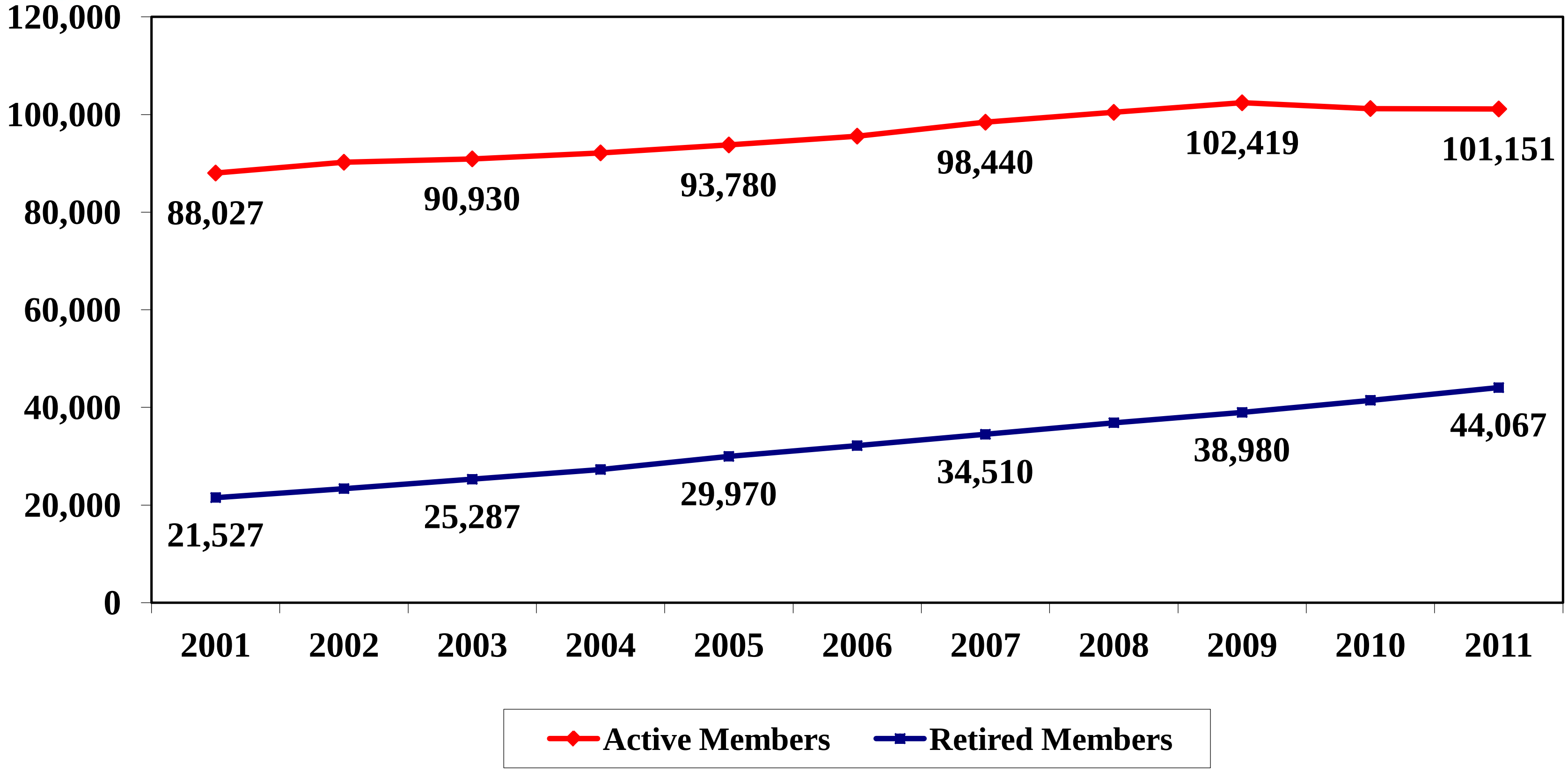
Ad hoc Benefit Enhancements

- These are *additional, one time enhancements granted which impact past accruals only*
  - COLAs and Updated Service Credits
  - These benefits were not accrued while services were received, therefore, were not advance funded for
- In June 2009, Board approved that all future ad hoc benefit enhancements be amortized over a 15 year period with a level dollar payment schedule

Diversification and Restructuring

- HB 360 – 2009 Legislative Session – *Diversification*
- SB 350 – 2011 Legislative Session – *Restructuring*

Active Members & Retired Members



1.4% average increase in active members since 2001

7.4% average increase in retired members since 2001

There are currently 2.3 actives for every retiree, down from 4.1 in 2001

Summary of System-wide Results

	December 31, 2011	December 31, 2010	December 31, 2009
Actuarial Accrued Liability	$21,563	$20,481	$21,525
Actuarial Value of Assets	$18,347	$16,986	$16,306
Unfunded Actuarial Accrued Liability	$3,216	$3,495	$5,219
Funded Ratio	85.1%	82.9%	75.8%
Average Funding Period (Years)	25.6	26.8	27.8
Minimum Contribution Rates:			
Straight Average	8.20%	8.04%	9.20%
Payroll Weighted Average	12.94%	12.92%	14.25%

$ amounts above are in Millions

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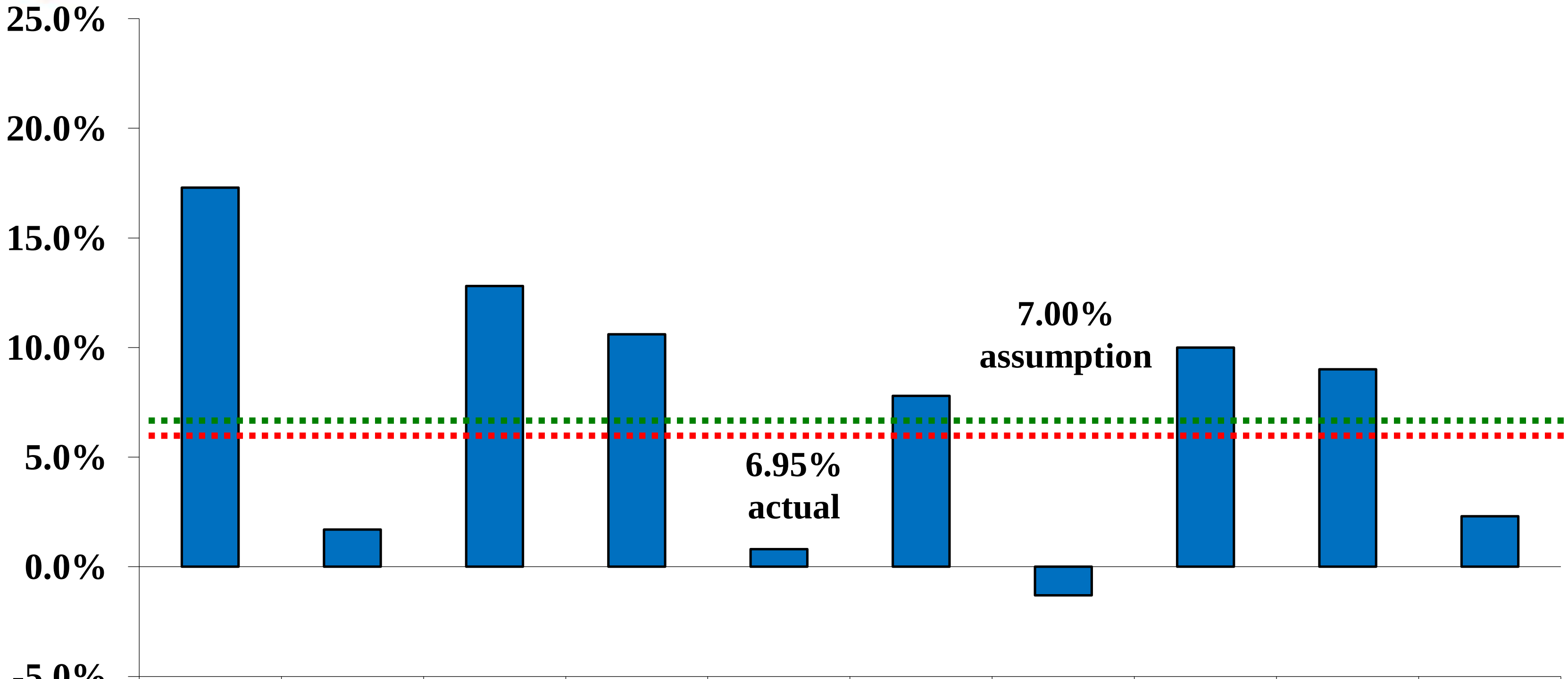
Recent Asset Performance



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Market	17.3%	1.7%	12.8%	10.6%	0.8%	7.8%	-1.3%	10.0%	9.0%	2.3%

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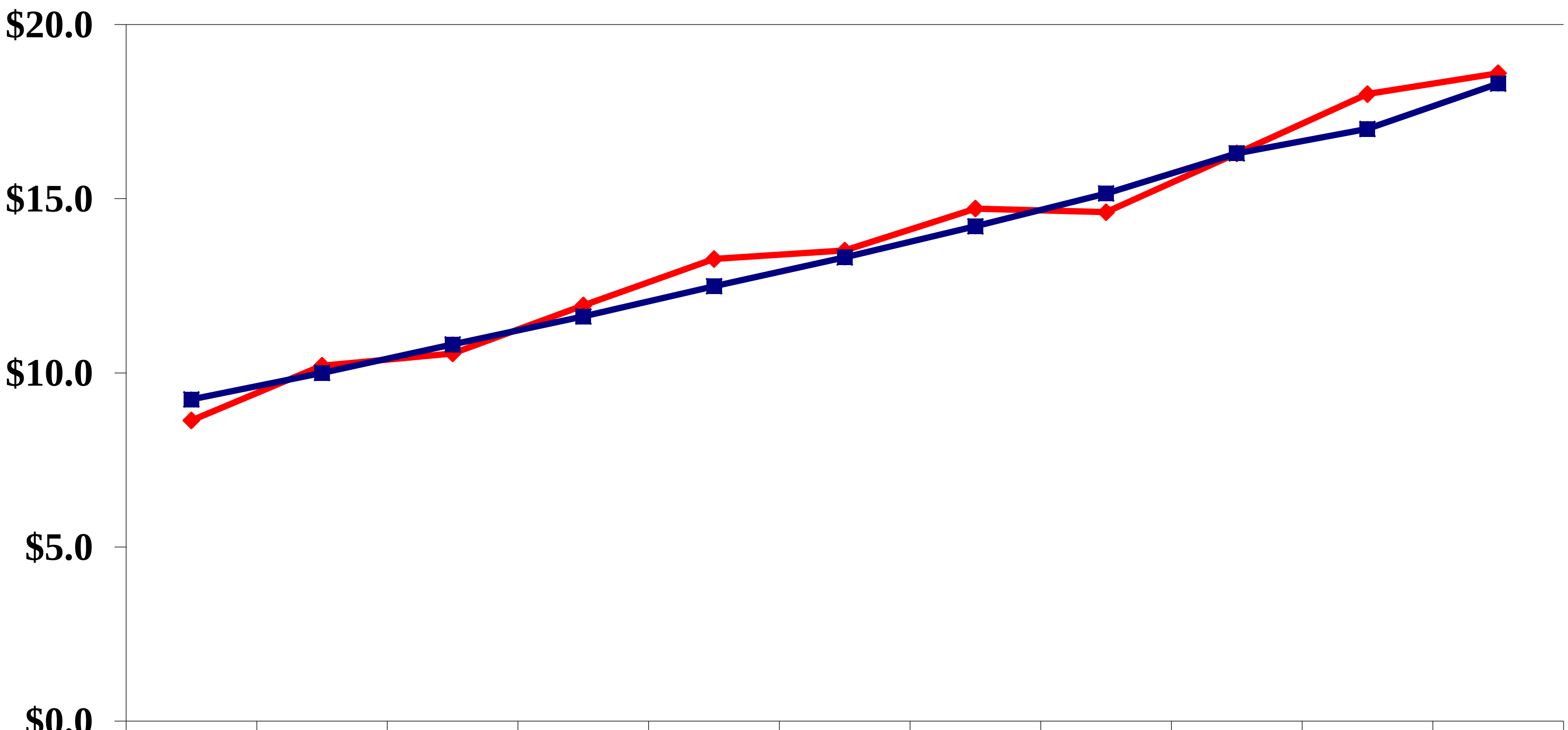
Market and Actuarial Values of Assets

$ amounts are in Billions



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Market	$8.6	$10.2	$10.6	$11.9	$13.3	$13.5	$14.7	$14.6	$16.3	$18.0	$18.6
Actuarial	$9.2	$10.0	$10.8	$11.6	$12.5	$13.3	$14.2	$15.1	$16.3	$17.0	$18.3

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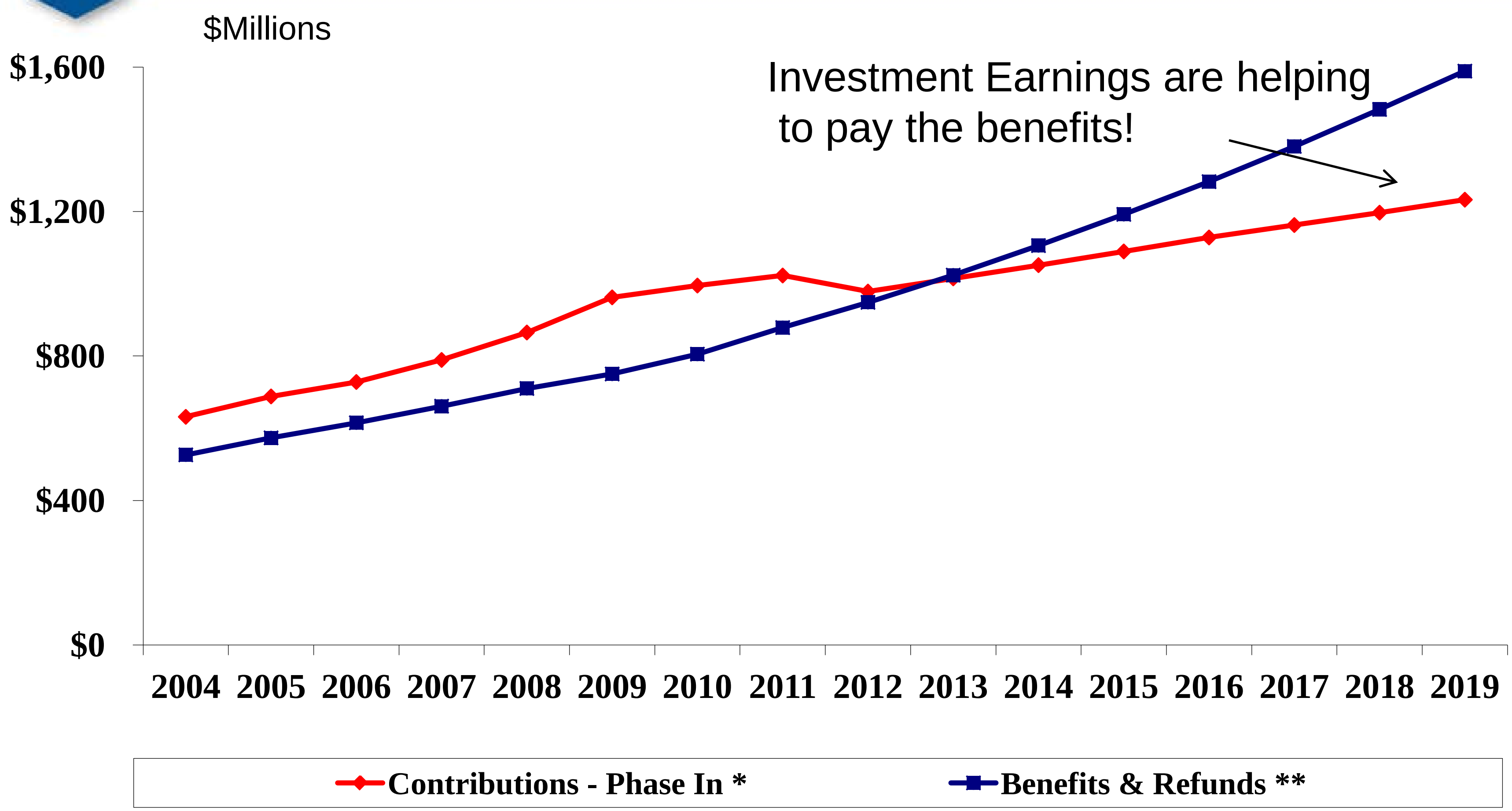
Projected Contributions versus Benefits and Refunds



* Includes member and employer contributions

** Includes administrative and investment expenses

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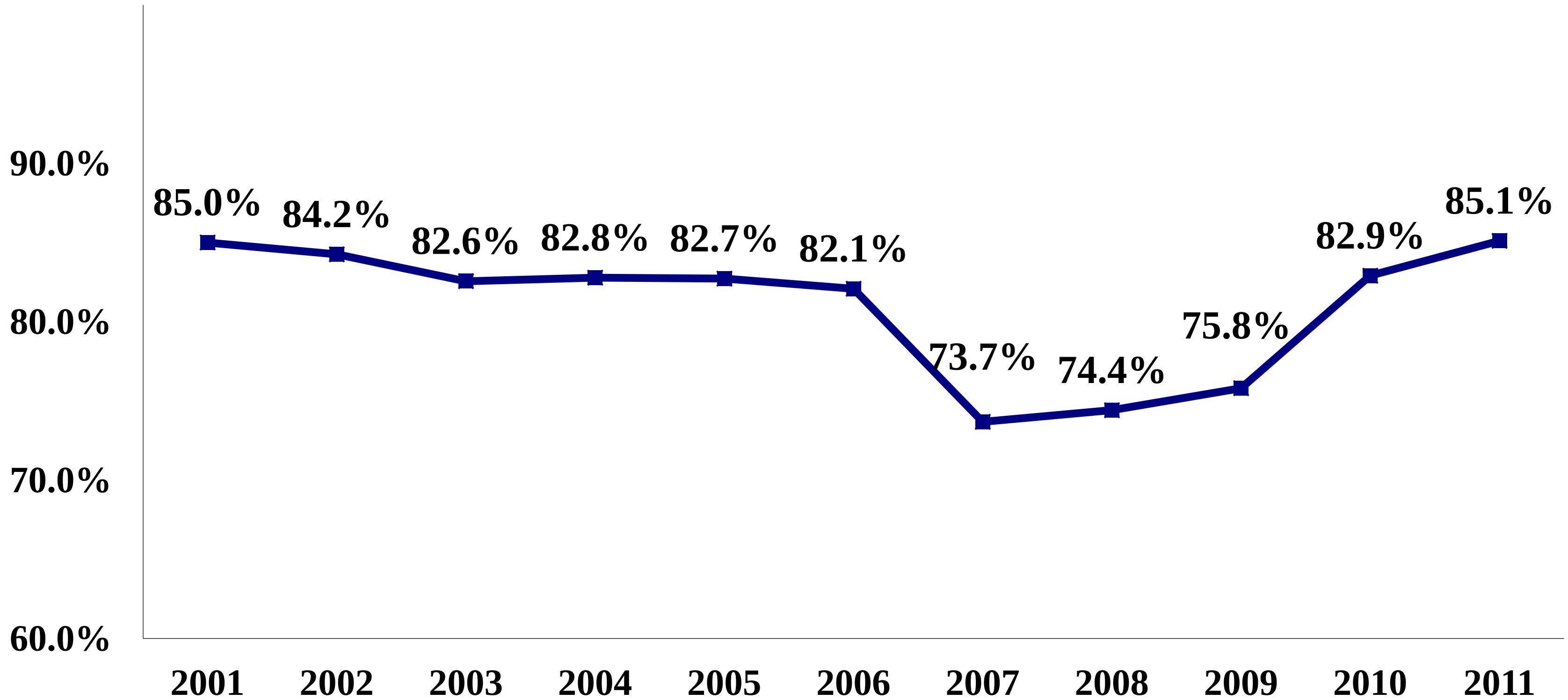
Funded Ratio Percentages

The System-wide Funded Ratio has increased four years in a row to its highest level in 10 years



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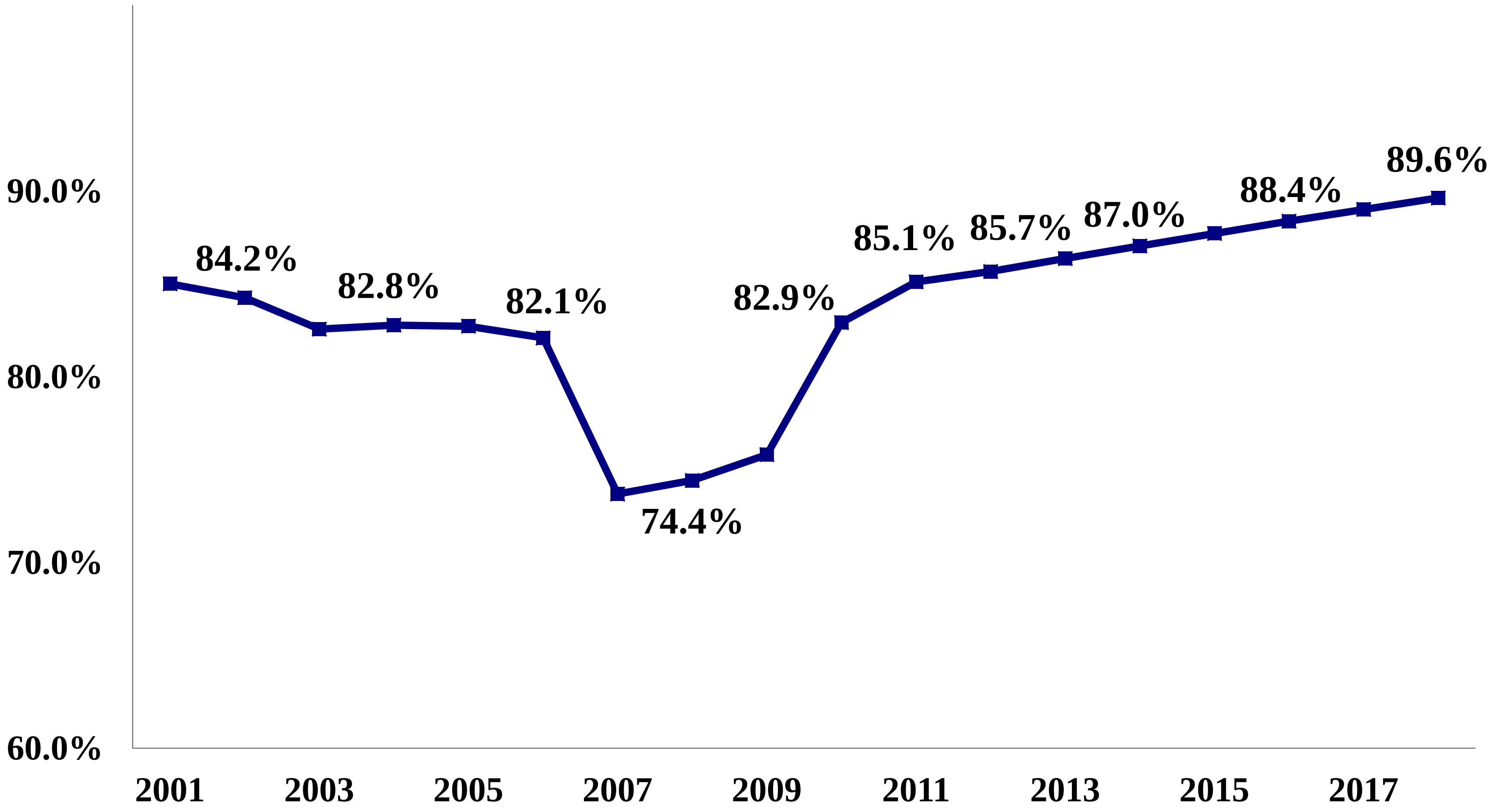
Projected Funded Ratio



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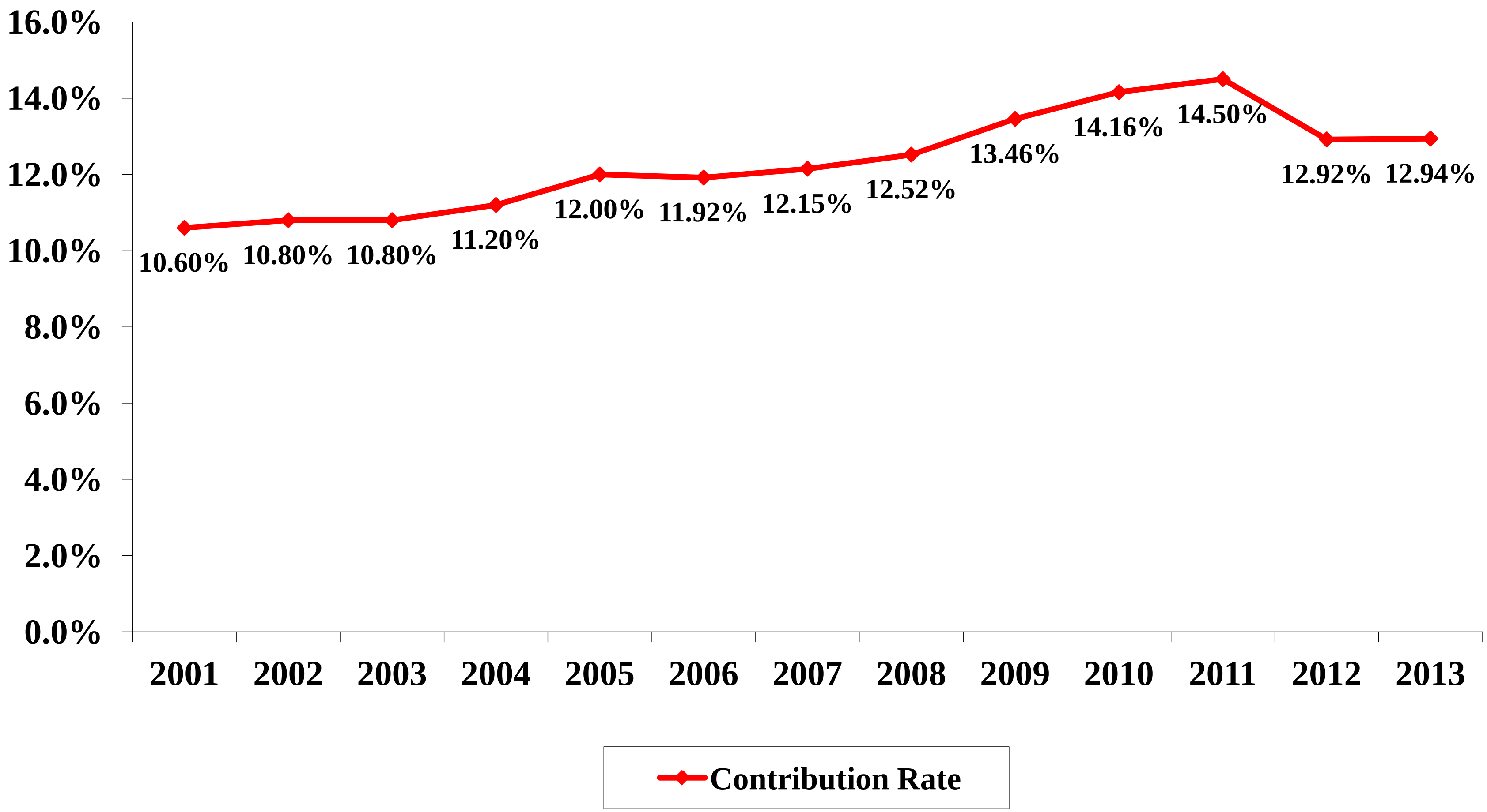
Historical Payroll Weighted TMRS Contribution Rates



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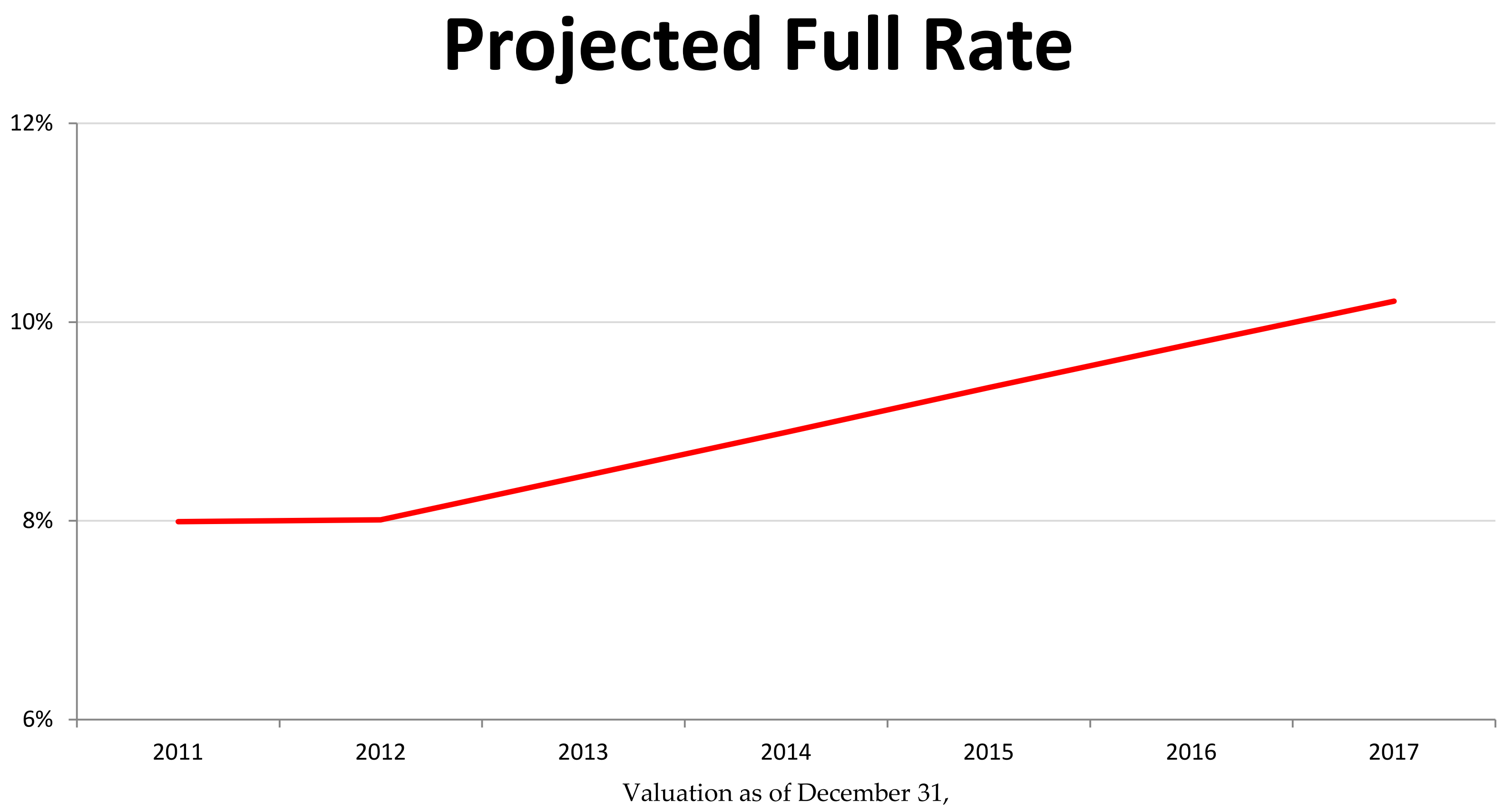
An example of the antithesis of Rate Stabilization …

Example of why adopting an ad hoc COLA year after year is not a good thing



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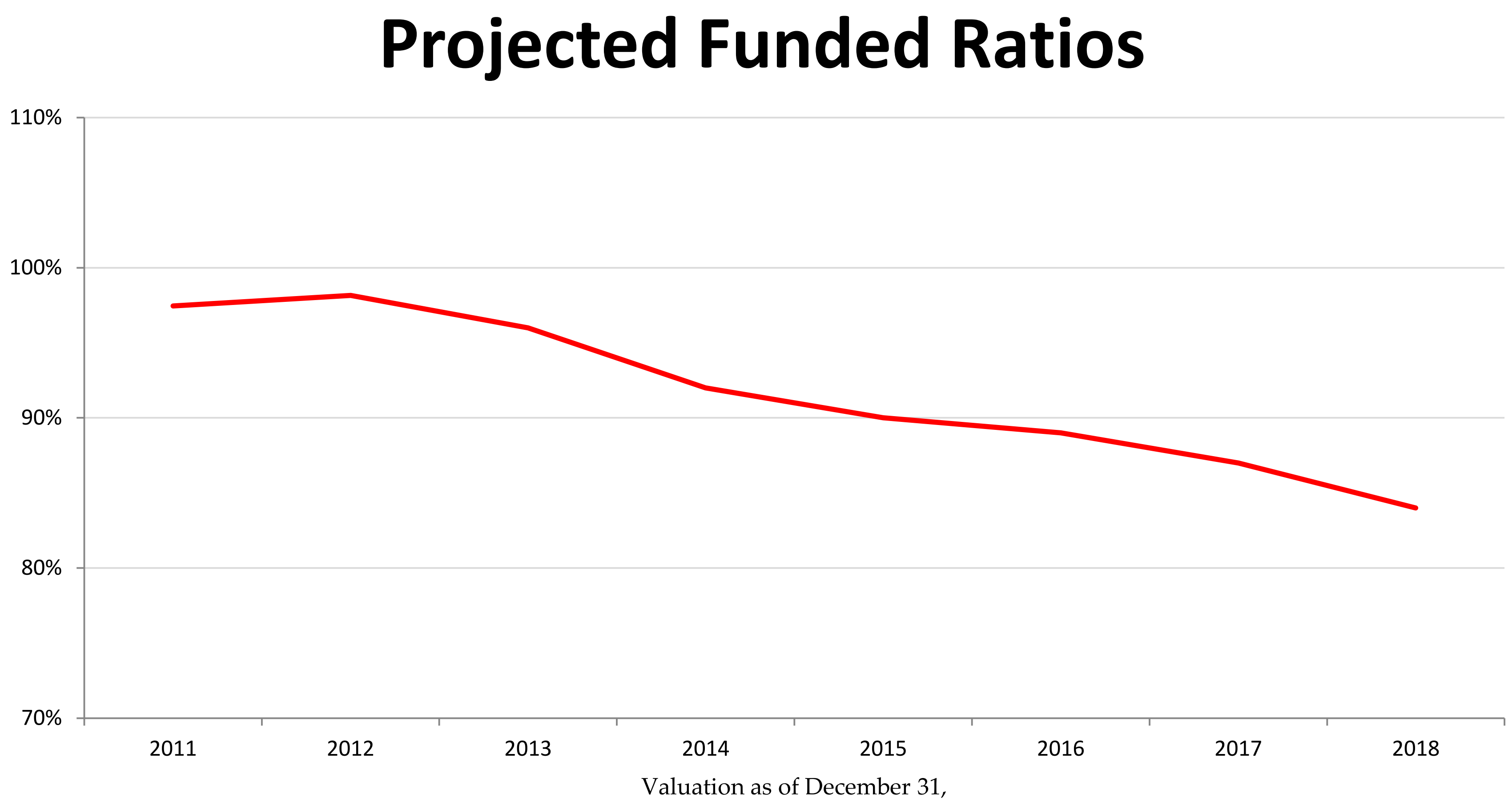
Example of why adopting an ad hoc COLA year after year is not a good thing



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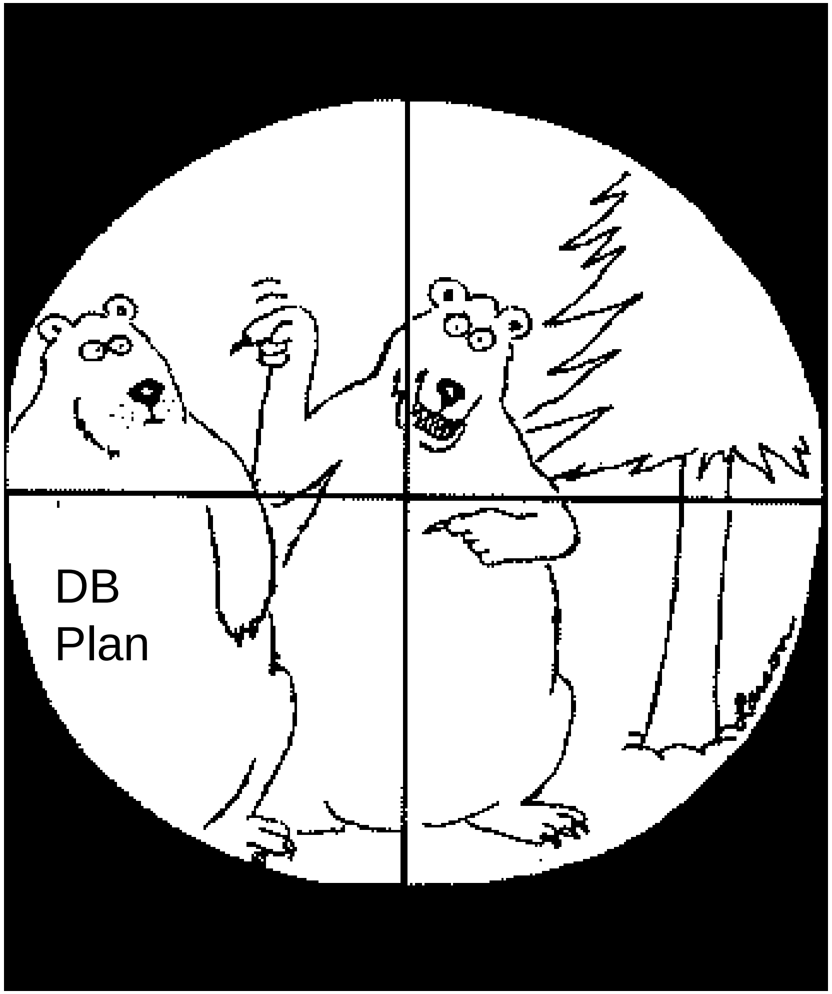
Sustainability is survival



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In Summary

- System-wide Funded Ratio continues to increase
  - Overall asset and liability gains
- Most cities are now paying their Full Rate
- Expectation is for an increasing funded ratio over the next few valuations and continued stability in the contribution rates

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Replacement Ratios

- What percent of working income is sustained after retirement?
- What is an adequate income level in retirement?
- Key factors:
  - Health care costs – HUGE and highly variable
  - Inflation
  - Longevity
  - Lifestyle

What replacement ratio in retirement to maintain current standard of living?

"Rule of thumb": 80%

- Social Security?
  - Roughly 20% to 40%
- How much have you saved?
- Your employer's (all of them) plan?

Together, these sources form a "replacement ratio", or percentage of working income that employees can rely on in retirement

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Replacement income for Jane Smith

- Retirement Age: 65
- Gross income: $55,000
- Typical calculations show an adequate income in retirement of $41,600 – roughly 76% replacement ratio

Replacement income for Jane Smith

- Why is it less?
  - Retirees no longer pay FICA taxes on their income to Social Security and Medicare
  - Federal income taxes on Social Security benefits are lower than those on employment income
  - Jane no longer has to save for retirement, which means a larger share of her income can go to current consumption
  - Major expenses may also be eliminated or reduced, such as housing (if a mortgage is paid off) and children's education costs
  - Some expenses related to work (such as clothing and transportation) *may* be lower in retirement

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Replacement income for Jane Smith

- But …
  - By far, the largest factor not specifically addressed by these models is **health care costs**, which are typically a major expense in retirement
    - For a person with "average health care expenses", Jane may need around 100% income replacement to maintain her standard of living *and* pay health care costs

Remember to consult your Actuary!

Probably knows less than you do about the future. However, his inability to communicate in any understandable terms could be useful in some situations.

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