2019 Annual Seminar

Presentations Available at www.tmrs.com/ats.php
System Soundness

Legislative, Actuarial, and Finance Roundup

Presenters:
Dan Wattles, TMRS Governmental Relations Director
Mark Randall, Chief Executive Officer, GRS Consulting
Bob Scott, Chief Financial Officer, City of Carrollton
Legislative Update
Legislative Update

After much wrangling, we passed a bill this year!

Preparing for Legislative Session

Result of Legislative Session
Preparing for the 86th Session (Cattle Drive)

TMRS preparation for the 86th Session:
• Performed internal review of governing statutes
• Developed a prioritized inventory of suggested changes
• TMRS Board presented with 19 priority suggestions; finally narrowed to nine
• TMRS Board assigned benefit design topics to Advisory Committee on Benefit Design; held meetings and received input
• Board decided not to seek benefit design changes, but decided to pursue operational and administrative changes
• Obtained bill sponsors; TMRS bills filed (SB 1337 / HB 2821)
Results of the 86th Session (Last Rodeo)

• TMRS Bill
  • SB 1337 passed (without resource testimony) and signed into law on June 16, 2019
  • Effective January 1, 2020

• Other pension-related measures that passed
  • SB 2224 (all public retirement systems required to adopt a funding policy)
  • SB 322 (independent analysis of assets and provide performance report)

• Teacher Retirement System
  • SB 12: TRS Reform Bill provides for gradual contribution increases from the state and active employees (from 6.8% to 8.25% by each) and schools (2%) by 2025 / also provides a one-time payment to members
  • State contributions to system total $1.1 billion for biennium
  • Public Education provided $6.5 billion to improve public education and pay teachers
  • $5.1 billion to lower property taxes
Results of the 86th Session (Last Rodeo)

Summary of SB 1337: (Specifics provided in handout)

- Benefit-Related Changes
  - Updated Service Credit
  - Buy Backs
  - Excluded Prior Service Credit
  - Occupational Disability
Results of the 86th Session (Last Rodeo)

Summary of SB 1337: (Specifics provided in handout)

• Operational / Administrative Proposals
  • Amortization periods
  • Board meetings
  • Immunity and liability protection
  • Legal advisory
  • Protection of confidential information / Audit Working Papers
  • Investment of assets / definition of Security
  • Authority for TMRS to distribute certain information electronically
Preparing for the 87th Session (Next Rodeo)

• Review remaining statutory suggestions
• Prioritize and make recommendations to TMRS Board
• Board will determine what topics to study and whether to pursue additional legislative changes
• If necessary, obtain input from the Advisory Committee on Benefit Design
• Brief Board members / constituencies as we go along
• Preliminary decision by February; final decision by September
• Legislative session begins January 12, 2021
Actuarial Update
What TMRS and GRS Provide to Cities

• Annual Actuarial Valuations: tmrs.com | Cities | Actuarial Reports
• Annual Rate Letters: tmrs.com | Cities | City Rate Letters
• GASB 68 and GASB 75 Letters: tmrs.com | Cities | Eye on GASB
• Plan Change Studies and Projection Reports: Available from TMRS staff
• Actuarial analysis and comparisons: Continue to be available from TMRS staff and, coming soon, the TMRS Dashboard!
• Actuarial Experience Study: every four years
• Continual research and analysis on actuarial assumptions, recommendations to Board
Historical – Assets and Liabilities

TMRS Dashboard

Sample Screens

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Assets and Liabilities
- Contribution Rates
- Funded Ratio
- Unfunded
- Asset Values
- Amortization Period
- Participant Counts
- Risk Metrics
- Cash Flow

Accrued Liability and Assets

- Actuarial Accrued Liability: $45,268,777
- Actuarial Value of Assets: $37,475,973

TMRS
- Valuation Date: 12/31/2018
- Accrued Liability: $49,390,903
- Smoothed Assets: $41,295,238
- Active Annual Payroll: $11,624,611

Member Data Summary
- Number of Actives: 114
- Average Age: 47.46
- Average Service: 11.51
- Number of Inactives: 30
- Number of Annuants: 35

Benefit Provisions
- COLA: 70%
- USC: 100%(T)
- ER Match: 2 : 1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years
Historical – Contribution Rates

Employer Contribution Rates
- Phase in Minimum: 15.74%
- Full Rate: 15.74%

Funded Ratios
- Based on Smoothed Assets: 83.6%

Data As Of: 10/07/2019 11:51:29 AM

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Assets and Liabilities
- Contribution Rates
- Funded Ratio
- Unfunded
- Asset Values
- Amortization Period
- Participant Counts
- Risk Metrics
- Cash Flow

Retirement Contribution Rate by Calendar Year

- 2014: Full Rate: 16.85%
- Phase in Minimum: 16.37%

TMRS
Dashboard
Sample Screens
Historical - Asset Values

City: TMRS

Employer Contribution Rates
Phase in Minimum: 15.74%
Full Rate: 15.74%
Funded Ratios
Based on Smoothed Assets: 83.6%

Data As Of: 10/07/2019 11:51:29 AM

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Assets and Liabilities
- Contribution Rates
- Funded Ratio
- Unfunded
- Asset Values
- Amortization Period
- Participant Counts
- Risk Metrics
- Cash Flow

TMR

Member Data Summary
Number of Actives: 114
Average Age: 47.46
Average Service: 11.51
Number of Inactives: 30
Number of Annuitants: 35

Benefit Provisions
COLA: 70%
USC: 100%(T)
ER Match: 2 : 1
Vesting: 5 years
Member Deposit Rate: 7%
Retirement Eligibility: 20 years

Assets

2018
- Market Value: $38,877,961
- Actuarial Value: $41,295,238
# Historical – Amortization Periods

### Employer Contribution Rates
- Phased In Minimum: 15.74%
- Full Rate: 15.74%

### Funded Ratios
- Based on Smoothed Assets: 83.6%

Data As Of: 10/07/2019 11:51:29 AM

<table>
<thead>
<tr>
<th>City: TMRS</th>
<th>TMRS</th>
<th>Member Data Summary</th>
<th>Benefit Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date: 12/31/2018</td>
<td>12/31/2018</td>
<td>Number of Actives: 114</td>
<td>COLA: 70%</td>
</tr>
<tr>
<td>Accrued Liability: $49,390,903</td>
<td>49,390,903</td>
<td>Average Age: 47.46</td>
<td>USC: 100%(T)</td>
</tr>
<tr>
<td>Smoothed Assets: $41,205,238</td>
<td>41,205,238</td>
<td>Average Service: 11.51</td>
<td>ER Match: 2 : 1</td>
</tr>
<tr>
<td>Active Annual Payroll: $11,624,611</td>
<td>11,624,611</td>
<td>Number of Inactives: 30</td>
<td>Vesting: 5 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Number of Annuitants: 35</td>
<td>Member Deposit Rate: 7%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retirement Eligibility: 20 years</td>
</tr>
</tbody>
</table>

### Available Dashboards
- Historical
- Peer Comparison

### Available Charts
- Assets and Liabilities
- Contribution Rates
- Funded Ratio
- Unfunded
- Asset Values
- Amortization Period
- Participant Counts
- Risk Metrics
- Cash Flow

### Single Equivalent Amortization Period

<table>
<thead>
<tr>
<th>Year</th>
<th>Amortization Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>27.2</td>
</tr>
<tr>
<td>2011</td>
<td>26.3</td>
</tr>
<tr>
<td>2012</td>
<td>25.3</td>
</tr>
<tr>
<td>2013</td>
<td>26.0</td>
</tr>
<tr>
<td>2014</td>
<td>25.0</td>
</tr>
<tr>
<td>2015</td>
<td>24.2</td>
</tr>
<tr>
<td>2016</td>
<td>23.3</td>
</tr>
<tr>
<td>2017</td>
<td>22.3</td>
</tr>
<tr>
<td>2018</td>
<td>21.5</td>
</tr>
</tbody>
</table>
Historical – Risk Metrics

- Employer Contribution Rates
  - Phase in Minimum: 15.74%
  - Full Rate: 15.74%
- Funded Ratios
  - Based on Smoothed Assets: 83.6%

Data As Of: 10/07/2019 11:51:29 AM

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Assets and Liabilities
- Contribution Rates
- Funded Ratio
- Unfunded
- Asset Values
- Amortization Period
- Participant Counts
- Risk Metrics
- Cash Flow

Risk Metrics

2015
- Liability / Payroll: 425%
- Assets / Payroll: 341%
- Unfunded / Payroll: 84%
Peer Comparison – Funded Ratios

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Funded Ratio: 83.8%
- Normal Cost: 11.17%
- Employer Contribution: 15.74%
- Unfunded / Payroll: 78%
- Amortization Period: 22 years
- COLA: 70%
- Updated Service Credits: 100%
- Employer Match: 2:1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years

TMRS Peer Comparison: Funded Ratio

Data As Of: 10/01/2019 10:03:49 AM

Benefit Provisions
- COLA: 70%
- USC: 100%(T)
- ER Match: 2:1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years

Member Data Summary
- Number of Actives: 114
- Average Age: 47.46
- Average Service: 11.51
- Number of Inactives: 30
- Number of Annuitants: 35

Employer Contribution Rates
- Phase in Minimum: 15.74%
- Full Rate: 15.74%
- Funded Ratios: 83.6%

Based on Smoothed Assets: 83.6%
Peer Comparison – Employer Contributions

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Funded Ratio: 83.6%
- Normal Cost: 11.17%
- Employer Contribution: 15.74%
- Unfunded / Payroll: 70%
- Amortization Period: 22 years
- COLA: 70%
- Updated Service Credits: 100%
- Employer Match: 2:1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years

TMRS Peer Comparison: Employer Contributions

19% # of employers: 12
Peer Comparison – Amortization Periods

Available Dashboards
- Historical
- Peer Comparison

Available Charts
- Funded Ratio: 83.6%
- Normal Cost: 11.17%
- Employer Contribution: 15.74%
- Unfunded / Payroll: 70%
- Amortization Period: 22 years
- COLA: 75%
- Updated Service Credits: 100%
- Employer Match: 2:1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years

TMRS Valuation Date: 12/31/2018
Accrued Liability: $49,390,903
Smoothed Assets: $41,295,238
Active Annual Payroll: $11,624,611

Member Data Summary
- Number of Actives: 114
- Average Age: 47.46
- Average Service: 11.01
- Number of Inactives: 30
- Number of Annuitants: 55

Benefit Provisions
- COLA: 70%
- USC: 100%(T)
- ER Match: 2:1
- Vesting: 5 years
- Member Deposit Rate: 7%
- Retirement Eligibility: 20 years

Data As Of: 10/07/2019 12:08:08 PM

TMRS Peer Comparison: Single Equivalent Amortization Period
Finance Update
Service Organization Control (SOC) Reports

• SAS 55-1988 “Consideration of the Internal Control Structure in a Financial Statement Audit” required auditors to assess internal controls for outsourced operations
• Service organizations were inundated with information requests from their clients’ auditors, leading to the issuance of SAS 70 Service Organizations in 1992
• Originally used primarily for remote IT processing, applications are expanding rapidly
• SLGEP use of SOC reports to address GASB 68 implementation issues is the latest example
• SOC reports can also be used for investment managers, deferred compensation record keepers, third party administrators, revenue billing and collection, and a variety of other outsourced financial services
Service Organization Control (SOC) Reports

• Various refinements have been made since 1992 with the standard now found in the Codification AT-C 801

• A typical SOC report can be lengthy and will contain:
  • Management assertions (what management is trying to accomplish)
  • The controls in place to accomplish those assertions
  • An opinion on whether the controls are suitable to accomplish the control objective
  • Results of testing on whether controls were operating effectively (Type 2 only)
Service Organization Control (SOC) Reports

• Categories of SOC reports are 1 or 2, based on the COSO definition of the three objectives of all organizations
  • Financial Reporting (1)
  • Compliance (2)
  • Operations
  • Less-common, SOC 3 reports do not relate to operations but are high-level reports intended for public distribution

• In addition, SOC reports can be either Type 1 or 2
  • **Type 1** – includes the service auditor’s opinion on the fairness of the presentation of the service organization’s description of controls that had been placed in operation and the suitability of the design of the controls to achieve the specified control objectives *as of a point in time*.
  • **Type 2** – starts with the information contained in a Type 1 service auditor’s report and adds to it the service auditor’s opinion on whether those controls were operating effectively during a specified period of time.
Characteristics of SOC Reports

A SOC 1 Type 2 report reports on a service organization’s internal controls over the generation of information included by a third party in its financial statements for a specified period of time (e.g., one year)

• To issue the report, the service auditor needs to have performed testing throughout the time period specified.
• By definition, testing cannot be done after the period has ended, and as a result, SOC 1 Type 2 reports are typically issued shortly after the end of a time period (four to six weeks)
• With complex organizations processing millions of transactions per year, the service auditor will invariably report some findings (often called exceptions), and management will furnish a response
• Exceptions do not necessarily mean that the system of controls is not working effectively and can occur without the service auditor modifying their report
• Users of SOC reports should note the frequency of exceptions, including whether the same exception is noted in multiple years to consider possible impacts on financial information
• Due to the detail and often sensitive/proprietary nature of the processes and controls being described, SOC reports are most often limited distribution
2018 SOC Report

• Performed by TMRS’ external auditor, CLA (Clifton, Larsen, Allen)
• Is limited in access/only available through the City Portal
• Addresses controls in regard to 1) census data (liability side of the valuation) and 2) processes generating the Schedule of Changes in Fiduciary Net Position (asset side of each city's valuation)
• These areas are addressed through 10 Control Objectives with only minor exceptions noted.
• Independent Auditor’s Report — unmodified “clean” opinion that the controls implemented by TMRS were fairly presented, adequately designed, and operating effectively to meet the stated control objectives for the period May 1, 2018 through April 30, 2019.
GASB Update

• GASB 84 regarding Fiduciary Activities is effective this year
• GASB has issued an exposure draft regarding Section 457 Plans that could require employers (TMRS cities) to begin reporting 457 plans as part of their fiduciary activities
  • The standard supersedes GASB 32 and requires any 457 plan that meets the definition of a pension plan be reported in accordance with the existing guidance, including GASB 84
  • GASB’s definitions of pension plan and pensions are very broad and inclusive; i.e., pension is defined as retirement income
  • If passed, this will have accounting and auditing impacts to employers
  • SOC reports regarding 457 Plan providers should already be reviewed by employers but will also be an important piece of audit evidence for external auditors if they are to be included with fiduciary activities
Questions?

Presentations Available at www.tmrs.com/ats.php