

# EXECUTIVE WORKSHOP



AGENDA	Presentations at <a href="http://www.tmr.com/workshop.php">www.tmr.com/workshop.php</a>
9:30	Breakfast
10:00	Welcome and Introductions
10:15	2019 Update on TMRS
10:30	Legislative Update
10:45	Actuarial Update
11:00	Investments Update
11:45	Questions/Summary
12:00	Lunch

# TMRS EXECUTIVE WORKSHOP



[www.tmrs.com/workshop.php](http://www.tmrs.com/workshop.php)

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# TMRS Overview

## Legislative Update

## Actuarial Update

Anthony Mills, Senior Regional Manager  
Dan Wattles, Governmental Relations Director  
Leslee Hardy, Actuarial Services Director

[www.tMrs.com/workshop.php](http://www.tMrs.com/workshop.php)



# TMRS Overview

# TMRS History & Membership

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- 887 cities participate in TMRS (not Houston, Dallas, Ft. Worth, Austin, El Paso, or Galveston).
- TMRS has approximately 112,000 contributing members and 66,000 retirees and beneficiaries.
- Governed by 6-member Board appointed by Governor with Senate approval.
- The Board selects an Executive Director to oversee all operations of the organization



# TMRS Basics

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- Each city chooses its own benefit design
- Each city pays an actuarially determined contribution rate
- Cities can control the contribution rate by modifying the benefit design



# System Soundness = City Choices

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## SYSTEM

- TMRS' System funded ratio is 87.1% and System-wide UAAL is \$4.35 billion (as of 12/31/18)
- All city plans are funded over a closed period of no more than 25 or 30 years

## CITY

- Contribution rates\* vary depending on benefits (e.g., 2.63% for cities with 5% / 1:1 match with no USC/COLA, vs. 15.51% for cities with a 7% / 2:1 match and repeating USC/COLAs)
- Weighted average contribution rate for all cities for [2019 is 13.09%]

\*Average rates weighted by payroll



# Transparency

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- Transparency best practices
  - Resource page for cities for earning the Texas State Comptroller's Transparency Star for Pensions
- Recognized in 2017 by the Center for State and Local Government Excellence as one of five systems nationwide that have developed effective approaches to pension reporting, communication, and transparency.
- All public presentations to Board posted on website immediately after each meeting



# Data Security

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- MyTMRS is undergoing major security enhancements prior to rollout of direct deposit and retirement applications
- Multi Factor Authentication is coming soon for the City Portal
- Please report any suspected hacking or data theft your city experiences to TMRS



# Customer Service Initiatives

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- Increased communications, redesigned [www.tmr.com](http://www.tmr.com)
  - Expanded topic flyers, Facebook, online videos
  - My City Plan on website, e-subscription management
- Online capabilities in MyTMRS®
  - Beneficiary changes (in most cases)
  - Withholding changes
  - Communications preferences (allows member to opt out of receiving printed publications by mail)
- You may be interested in
  - GASB 75 Resource webpage (affects cities that offer Supplemental Death Benefits)
  - Funding video



# Events for Cities

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- TMRS' Annual Seminar November 3-5, 2019 at the JW Marriott San Antonio Hill Country Resort & Spa
- Executive Workshops
- Regional Conferences for members
- Mid-career employee meetings at city request
- City Correspondent Certification Courses



# TMRS Governance

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- TMRS is subject to the oversight of the State Pension Review Board (PRB) as well as Legislative Committees and meets all PRB requirements for funding and reporting
- TMRS consultants, such as our actuaries, meet or exceed all the standards for their respective professions
- The main state law governing TMRS is the TMRS Act



# Legislative Update

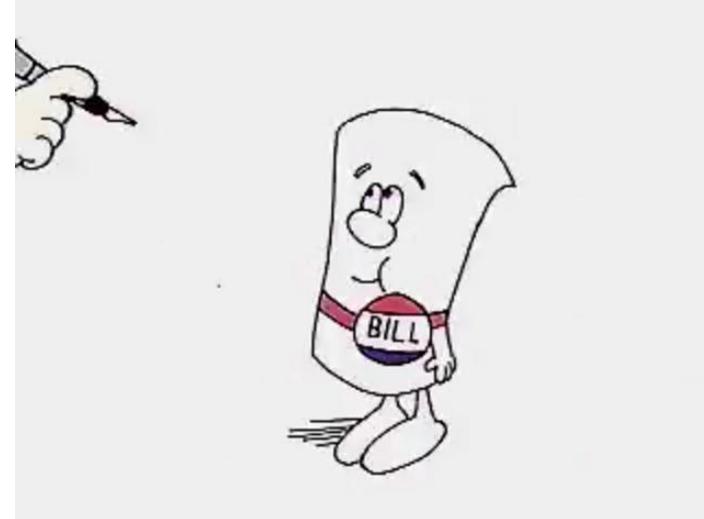
# Legislative Update

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After much herding of cats, we passed a bill this year!



Preparing for Legislative Session



Results of Legislative Session



# Preparing for the 86<sup>th</sup> Session

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## TMRS preparation for the 86<sup>th</sup> 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 changes; but decided to pursue operational and administrative changes
- Obtained bill sponsors; TMRS bills filed (SB 1337 / HB 2821)



# Results of the 86<sup>th</sup> Session

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- TMRS Bill
  - SB 1337 passed (without resource testimony) and signed into law on June 16<sup>th</sup>
  - 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 86<sup>th</sup> Session

## Summary of SB 1337: *(Specifics provided in handout)*

- Benefit –Related Changes
  - Updated Service Credit
  - Buy-Backs
  - Excluded Prior Service Credit
  - Occupational Disability

**Summary of TMRS Bill (SB 1337)**

Senate Bill 1337 (SB 1337), by Senator Huffman (House sponsor Representative Flynn) was passed by the Texas Legislature in 2019 and signed by the Governor. The bill's provisions are effective January 1, 2020.

As a public retirement system, applicable provisions of the Texas Government Code require TMRS to distribute to active members and retirees a summary of any significant changes made to the TMRS Act that affect contributions, benefits, or eligibility. The following information is being provided in accordance with that requirement, but includes a summary of all significant changes made by SB 1337, not just ones affecting contributions, benefits, or eligibility. SB 1337 significant provisions include:

**Updated Service Credit (USC)**  
Beginning January 1, 2022, a member must be a contributing employee of a municipality on the Updated Service Credit (USC) "study date" to be eligible to receive a USC from that city. Under the TMRS Act, the "study date" is January 1 of the year immediately preceding the January 1 on which the USC will take effect. For example, January 1, 2018 was the "study date" for any January 1, 2019 USC credit.

**Buy Backs**  
Under the TMRS Act, USC is typically calculated only once a year in January. SB 1337 clarifies administrative procedures providing that (i) if a member who has an option to buy back previously refunded service, exercises the buy back and retires within the same calendar year, and (ii) if a city from which the member is retiring has a USC ordinance in effect for January 1 of that same calendar year, then TMRS may recalculate the member's USC prior to his/her retirement for purposes of determining the annuity. For example, assume Member A has a buy back option and is working at City 1; if (i) Member A exercises the buy back in May 2019 and retires from City 1 in June 2019, and (ii) City 1 has a USC ordinance with an effective date of January 1, 2019, then TMRS may recalculate Member A's USC prior to retirement.

TMRS notes that, while a buy back may be exercised at any time after a member becomes eligible for it, historically members with buy backs often wait until the time they retire to exercise the buyback. Members with buy back options should consider what effect, if any, the above change to USC eligibility might have on potential USC calculations related to their buy back and whether the member wants to exercise their buy back option before the change to USC eligibility becomes effective January 1, 2022.

**Occupational Disability**  
Under the TMRS Act, occupational disability is a benefit that allows a member who is disabled, to the degree that he or she cannot perform the duties of his or her occupation, to retire if his/her application is approved by the TMRS Medical Board. The benefit is not subsidized and is based on the member's account, city match, and interest at the time of determining the disability retirement.

SB 1337 removes an administrative provision that allowed TMRS to apply an income test to occupational disability retirees, which could result in a reduction of the annuity. The income test will no longer be applicable after January 1, 2020.

SB 1337 adds a provision that allows TMRS to require (by written request from TMRS) a disability retiree who is younger than age 60 to submit to a medical examination or otherwise provide evidence of continued disability. If a retiree does not comply with the request, TMRS may suspend their disability benefit. If a benefit is suspended and the retiree subsequently complies within four years of the request, the suspended payments may be paid and the benefit resumed. If, as result of a medical examination, the retiree is found to no longer meet the requirements for occupational disability, the benefit can be suspended until the retiree turns age 60.

**Excluded Prior Service Credit (EPSC)**  
When a city joins TMRS, Prior Service Credit (PSC) is granted for all months of employee service to the city before the city joins TMRS at a percentage (from 10% to 100% of calculated value) determined by the city. Because the Texas Constitution forbids a person from receiving benefits from more than one public retirement system for the same service, in some circumstances the PSC provision could present an obstacle for a city that wants to join TMRS but already provides retirement benefits to their employees. Examples include cities that wish to join TMRS that have had an existing retirement plan in effect; cities that have one or more departments covered by other retirement systems and that now wish to enroll employees of those departments in TMRS; and cities that joined TMRS but then suspended their TMRS membership for employees hired after a certain date, adopted another retirement arrangement for such employees, and now wish to rejoin TMRS for those employees.

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Over →



# Results of the 86<sup>th</sup> Session

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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 87<sup>th</sup> Session

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- 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

# 2019 Experience Study Results

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- An Experience Study is a review of the assumptions and methods used by the actuary
- TMRS Act requires one every five years, but the Board Policy is to perform one every four years
- This report tries to answer these questions for each assumption
  - What was TMRS' actual experience?
  - How does that compare with current assumptions?
  - Is a change warranted?



# Experience Study

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- Assumptions are not static and should be updated to reflect economic conditions, member behavior, retirement/termination/salary patterns, and mortality
- Based on results of the study, the Actuary recommends revised assumptions to the TMRS Board of Trustees, and the Board considers the Actuary's recommendation and makes the final decision for the System
- The individual assumptions as well as the overall assumption set should be reasonable
- Keeping assumptions up-to-date will minimize gains and losses and manage volatility of the contribution rates for TMRS cities



# Summary of Contribution Impact

- In general, this is a rather uneventful experience study
- The change to the USC assumptions makes up a majority of the impact
- Other recommendations are mainly offsetting

	Dec 31, 2018 Valuation	Change from USC Load	Change from All Other Sources	Net Change (2) + (3)	Net Illustrated Results New Assumptions
	(1)	(2)	(3)	(4)	(5)
Full Contribution Rates:					
Straight Average	8.97%	0.19%	-0.06%	0.13%	9.10%
Payroll Weighted Average	13.58%	0.31%	-0.03%	0.28%	13.86%

# Effect of Experience Study

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## Based on the December 31, 2018 Valuation

- Most cities (98%) will see less than 1.00% increase in contribution rates resulting from the Experience Study assumption changes
- 88% of cities will have a rate increase less than 0.50%
- Most cities that have a rate increase over 1.00%
  - Are Overfunded and impacted by the change in surplus policy
  - Have a unique turnover assumption that decreased
  - Are very small



# The Investment Return Assumption

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- Actuaries use a “building block” approach  
Long Term annual Investment Return Rate =  
Inflation Rate + Annual Real Rate of Return
- TMRS’ long-term rate of return assumption is 6.75%  
2.50% Inflation + 4.25% Real Return
- GRS examined the this assumption thoroughly in the 2019 Asset Liability, Asset Allocation, and Experience Studies and found the current 6.75% assumption to be reasonable
- No recommended change



# Updated Service Credit (USC)

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- This is a unique benefit provision
- Attempts to overlay a final pay adjustment for promotions and changes in benefit provisions into a cash balance benefit design
- Different from a final pay design in that once a USC has been granted, it will grow at 5% from that point on and can never grow slower during years of low pay increases
- Since we began projecting USC calculations in the valuation, we have seen consistent losses associated with this provision



# Updated Service Credit (cont.)

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- If not recognized, this is a bias
  - Within a city, the net gains are not large enough to offset net losses
- Recommending the addition of a load into the USC calculation equal to 0.1% per year into the future that the calculation is occurring
- Increase in liabilities and costs for cities with this provision (0.31% rate increase on average)
- We will monitor this provision to assess whether a larger load is necessary



# Post-Retirement Mortality

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- Last study in 2013 for data through 2011 (adopted generational mortality)
- TMRS has enough experience to provide full credibility to an analysis based on our own experience
- Created a custom table called the 2019 Municipal Retirees of Texas Mortality Table
- Change improvement assumption to “Scale UMP” to project future improvement mortality (approximately 1% per year). Current assumption is approximately 1.5% per year
- No recommended change to Annuity Purchase Rate factors
- Results in a slight decrease in liabilities and costs



# Payroll Growth Assumption

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- The UAAL is amortized based on annuity factors that use a payroll growth assumption (currently 3.0% maximum)
- Adjustments are made for cities with declining populations
- Due to the new property tax limit and with half of the TMRS active population being eligible to retire in the next 10 years, having a more conservative assumption may be prudent and will decrease pressure of increasing rates over time
- Recommend lowering to 2.75%
- Results in a slight increase in the prior service rate



# Amortization Policy

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- Beginning with actuarial losses occurring in the 2020 valuation and benefit increases effective January 1, 2021 and after, lower the amortization period from 25 years to 20 years
- Change the amortization strategy for overfunded cities from a 25 year open amortization to one that keeps the current overfunded status in place. Current policy pushes overfunded status back to 100%
- Reduce the amortization period for ad hoc benefit enhancements from 15 years to 12 years
- All result in an increase in the prior service rate



# Supplemental Death Benefit Plan

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- Funded on a term cost (pay-as-you-go) basis
  - Contributions towards actives is 100% of premiums
  - Contributions towards retirees is 33% of premiums (\$2,500 of \$7,500) to pay down balance in the Fund
- The fund balance is declining quite rapidly
  - Approximately a decade left based on current trends
- Also, the new accounting rules make it harder to apply the credit to the retiree premiums; would be cleaner if credit is applied to active premiums



# Supplemental Death Benefit Plan Recommendations

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- Recommend to fund term cost for retirees at 100% of premiums
  - Would increase average rate for retiree coverage by 0.08%
- Allow for a credit towards the active premiums equal to 2% of fund balance
  - Would decrease average rate for active coverage by 0.03%
- Net impact will be a 0.05% increase in SDB premiums (will vary by city)



# Recommendations

Material Impact	Current Assumption	Proposed Assumption	Impact on Liabilities/Costs
Load for USC Asymmetry	None	0.10% per year	Increase ++ for those that have USC
<b>Noticeable Impact</b>			
Surplus Credit for Overfunded Cities	Credit over 25 years	Credit over all future years	Increase + for those that are overfunded
Post-Retirement Mortality for Valuation Purposes	Age 65 Life Expectancy as of 2015: 17.9/20.8 Scale BB (1.5% Annual Improvement)	Age 65 Life Expectancy as of 2015: 18.2/21.7 Scale UMP (1.0% Annual Improvement) Assume no cross subsidy in APR over time	Decrease -
Rates of Termination (A/E Ratio)	<10 YOS: 106% >10 YOS: 110%	101% 104%	Decrease -

# Recommendations (cont.)

Minor Impact	Current Assumption	Proposed Assumption	Impact on Liabilities/Costs
Percent Selecting 50% Survivor Form of Payment	None	100%	Decrease
Individual Salary Scale Including Steps	4.78%	4.96%	Increase
Payroll Growth Rate (Amortization Growth)	3.00%	2.75%	Increase
Percentage taking Refund (A/E Ratio)	93%	96%	Increase
Supplemental Death Fund	100% term cost for Actives \$2,500 for retirees	Give 2% of Fund as Credit on Actives \$7,500 for Retirees	Increase
Population Decline	163 Impacted, avg 0.6%	202 Impacted, avg 0.5%	Net Increase
City Termination Load		As much as +/- 5%	Net Decrease

# Recommendations (cont.)

No Impact			
Amortization Period for New Sources of UAAL	25 Years	20 Years	Volatility will slightly increase Reduces down side on Funded Ratio
Amortization Period for Ad Hoc COLAs	15 Years	12 Years	Will increase cost approx. 15%
Inflation	2.50%	2.50%	None
Nominal Investment Return	6.75%	6.75%	None
Long-Service Salary Scale	3.50%	3.50%	None
Patterns of Retirement	86%	92%	None

# Summary of System-wide Results

	Dec 31, 2018 Valuation	Change from USC Load	Change from All Other Sources	Net Change (2) + (3)	Net Illustrated Results New Assumptions
	(1)	(2)	(3)	(4)	(5)
Actuarial Accrued Liability (AAL)	\$33,731	\$65	\$23	\$88	\$33,819
Actuarial Value of Assets	<u>29,385</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,385</u>
Unfunded Actuarial Accrued Liability (UAAL)	\$4,346	\$65	\$23	\$88	\$4,434
Funded Ratio	87.1%	-0.2%	0.0%	-0.2%	86.9%
Average Funding Period (Years)	18.2	0.1	0.0	0.1	18.3
Full Contribution Rates:					
Straight Average	8.97%	0.19%	-0.06%	0.13%	9.10%
Payroll Weighted Average	13.58%	0.31%	-0.03%	0.28%	13.86%
Normal Cost %	8.61%	0.25%	-0.15%	0.10%	8.71%
Prior Service %	4.97%	0.06%	0.12%	0.18%	5.15%

\$ amounts in millions

# TMRS Dashboard Rollout

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- By the end of 2019, there will be a Dashboard available on our website reflecting valuation data beginning with calendar year 2010
- It will provide both historical data by city as well as a comparison with all other active TMRS cities (“Peer Comparison”)

# Dashboard – Historical

City: TMRS

### Employer Contribution Rates

Phase in Minimum: 15.74%  
Full Rate: 15.74%

### Funded Ratios

Based on Smoothed Assets: 83.6%

### 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 Annuitants: 35

### 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: 10/01/2019 10:03:40 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

Accrued Liability and Assets



# Dashboard – Peer Comparison

City: TMRS

### Employer Contribution Rates

Phase in Minimum: 15.74%

Full Rate: 15.74%

### Funded Ratios

Based on Smoothed Assets: 83.6%

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Valuation Date: 12/31/2018

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Data As Of: 10/01/2019 10:03:40 AM

### 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%

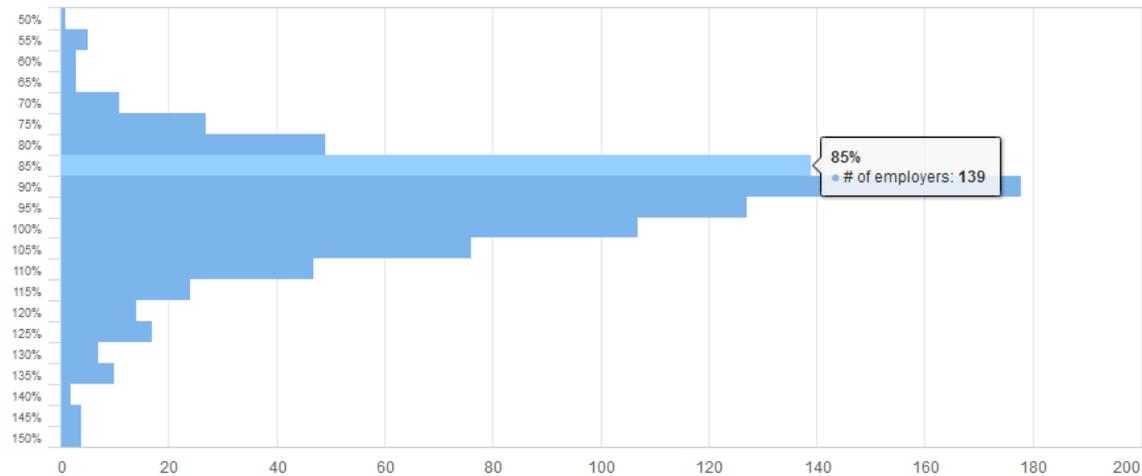
Employer Match: 2 : 1

Vesting: 5 years

Member Deposit Rate: 7%

Retirement Eligibility: 20 years

TMRS Peer Comparison: Funded Ratio



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# QUESTIONS?

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