



May 17, 2012

City #01159

City Official  
City of Schertz  
1400 Schertz Pkwy  
Schertz, TX 78154

**Subject: 2013 Municipal Contribution Rate**

Dear City Official:

Presented below are your city’s contribution requirements to the Texas Municipal Retirement System (TMRS) for Plan Year 2013 (Calendar Year 2013, PY2013) as determined by the December 31, 2011 actuarial valuation. The actuarially determined contribution rates for retirement benefits and Supplemental Death Benefits (SDB), if any, are based on your city’s plan provisions in effect as of March 1, 2012 and the actuarial assumptions and methods adopted by the TMRS Board. Effective January 1, 2013, your city’s monthly contribution rates will be as follows:

|                             | <u>Phase-in Rate</u> | <u>Full Rate</u> |
|-----------------------------|----------------------|------------------|
| Normal Cost                 | 9.68%                | 9.68%            |
| Prior Service               | <u>5.10%</u>         | <u>5.81%</u>     |
| Total Retirement Rate       | 14.78%               | 15.49%           |
| Supplemental Death Benefit  | <u>0.15%</u>         | <u>0.15%</u>     |
| Total Combined Contribution | 14.93%               | 15.64%           |

Full information on your rate, including an explanation of changes, and the pension disclosure data to assist your city with the reporting requirements of the Governmental Accounting Standards Board (GASB) are contained in the attached report.

The Total Retirement Rate shown in the Full Rate column above represents the Annual Required Contribution (ARC) under GASB Statement No. 27 for PY2013. **The Total Combined Contribution Rate shown in the Phase-in Rate column above represents the minimum required contribution rate to TMRS for PY2013.** The difference represents the portion of your Full Rate that is being phased in over the remaining three years (2014-2016, inclusive) of the original eight-year period that began January 1, 2009. Please see the section titled *Phase-in Rates* for more information. **Your city must contribute at least the Phase-in Rate, though TMRS highly recommends that each city contribute as much toward the Full Rate as possible. Please note that if your city chooses to contribute at a rate below the 2013 GASB ARC, a Net Pension Obligation (NPO) equal to the contribution shortfall will be created (or an additional NPO will be generated if your city has already been paying the Phase-in Retirement Rate during 2009- 2012), which must be reflected in your employer’s financial statement.**

If you have questions about your rate or if you wish to evaluate potential changes in your TMRS plan, contact TMRS at 800-924-8677.

Sincerely,

Eric W. Davis  
Deputy Executive Director

## Table of Contents

|   |   |
|---|---|
| <b>Executive Summary</b>  | A comparison of the highlights of the December 31, 2011 and December 31, 2010 actuarial valuations for your city. Included are membership counts, asset information, actuarial information, and contribution rate requirements.   |
| <b>Calculation of Contribution Requirements</b>                                     | Detail on the calculation of the Full Retirement Rate (TMRS Plan Year - GASB ARC), Minimum Required Phase-in Retirement Rate, and the Supplemental Death Rate, if applicable, for your city. A comparison to the 2010 “restructured” actuarial valuation results is included.                                     |
| <b>Development of Actuarial Value of Assets</b>                                     | A detailed calculation of the actuarial value of assets (AVA), or smoothed value, for the December 31, 2011 actuarial valuation for your city.  |
| <b>Historical Accumulation of the BAF Balance</b>                                   | This schedule provides your city with historical cash flows, interest credits and year-end balance of its Benefit Accumulation Fund (BAF).  |
| <b>Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report</b> | A detailed reconciliation of changes in your city’s Full Retirement Rate since the prior valuation.   |
| <b>GASB Compliance Data</b>   | A summary of information to assist you in completing the disclosures in your city’s annual financial statements regarding your participation in TMRS. This information may also be useful in making various other disclosures, such as the city’s official statement provided in connection with a bond offering. |
| <b>Phase-in Rates</b>   | An explanation of “Phase-in” including a question and answer section on Phase-in contributions and how they might impact your city.   |

## Executive Summary

| Valuation as of TMRS Plan Year (PY) Ending          | 12/31/2011            | 12/31/2010            |
|---|-----------------------|-----------------------|
| <b>Membership as of the Valuation Date</b>          |                       |                       |
| • Number of   |                       |                       |
| - Active members                                    | 286                   | 284                   |
| - Retirees and beneficiaries                        | 46                    | 37                    |
| - Inactive members                                  | <u>131</u>            | <u>121</u>            |
| - Total   | 463                   | 442                   |
| • Prior year's payroll provided by TMRS             | \$ 13,125,349         | \$ 12,612,346         |
| • Valuation Payroll                                 | \$ 13,655,059         | \$ 13,083,704         |
| <b>Benefit Accumulation Fund (BAF) Assets</b>       |                       |                       |
| • Market BAF Balance                                | \$ 22,626,060         | \$ 19,812,460         |
| • BAF crediting rate for PY*                        | 2.37%                 | 7.5%                  |
| • Interest credited on beginning BAF balance*       | \$ 469,099            | \$ 656,100            |
| • Municipal contributions                           | 2,054,126             | 1,946,083             |
| • Member contributions during year                  | 918,774               | 882,864               |
| • Benefit and refund payments                       | 628,401               | 198,151               |
| Actuarial Value of Assets (AVA)                     | \$ 22,377,323         | \$ 18,696,437         |
| Return on AVA                                       | 7.15%                 | n/a                   |
| AVA as a Percentage of BAF                          | 98.90%                | 94.37%                |
| <b>Actuarial Information</b>                        |                       |                       |
| • Actuarial accrued liability (AAL)                 | \$ 35,296,880         | \$ 31,792,634         |
| • Actuarial value of assets (AVA)                   | 22,377,323            | 18,696,437            |
| • Unfunded actuarial accrued liability (UAAL)       | 12,919,557            | 13,096,197            |
| • UAAL as % of pay                                  | 98.4%                 | 103.8%                |
| • GASB #27 Funded ratio                             | 63.4%                 | 58.8%                 |
| • Employer normal cost                              | 9.68%                 | 9.36%                 |
| • Prior Service Rate                                | 5.81%                 | 6.01%                 |
| <b>Contribution Rates for TMRS Plan Year (PY)</b>   |                       |                       |
| • Member  | 2013<br>7.00%         | 2012<br>7.00%         |
| • Full retirement rate (GASB ARC)                   | 15.49%                | 15.37%                |
| • Phase-in retirement rate (minimum)                | 14.78%                | 14.42%                |
| • Supplemental Death rate                           | 0.15%                 | 0.15%                 |
| <b>Total Employer Contribution Estimates for PY</b> |                       |                       |
| • Projected payroll                                 | 2013<br>\$ 14,064,711 | 2012<br>\$ 13,476,215 |
| • Minimum Phase-in contribution rate                | 14.93%                | 14.57%                |
| • Estimated employer contribution                   | \$ 2,099,861          | \$ 1,963,485          |

Note: TMRS Plan Year coincides with Calendar Year

Results from prior year reflect the plan provisions used in the 12/31/2011 valuation report.

\* For 12/31/2010, reflects interest credit on beginning balance of former MAF.

## Calculation of Contribution Requirements

|   | From Valuation Report as of |                          |
|---|-----------------------------|--------------------------|
|   | <u>December 31, 2011</u>    | <u>December 31, 2010</u> |
|   | (1)                         | (2)                      |
| 1. Prior year's payroll reported to TMRS                | \$ 13,125,349               | \$ 12,612,346            |
| 2. Valuation payroll                                    | 13,655,059                  | 13,083,704               |
| 3. Employer normal cost rate                            | 9.68%                       | 9.36%                    |
| 4. Actuarial liabilities                                |                             |                          |
| a. Active members                                       | \$ 25,726,546               | \$ 24,872,090            |
| b. Inactive members                                     | 3,639,126                   | 2,513,601                |
| c. Annuitants   | <u>5,931,208</u>            | <u>4,406,943</u>         |
| d. Total actuarial accrued liability                    | \$ 35,296,880               | \$ 31,792,634            |
| 5. Actuarial value of assets                            | <u>22,377,323</u>           | <u>18,696,437</u>        |
| 6. Unfunded actuarial accrued liability (UAAL) (5 – 4d) | \$ 12,919,557               | \$ 13,096,197            |
| 7. Funded ratio (5 / 4d)                                | 63.4%                       | 58.8%                    |
| 8. GASB 25 Equivalent Single Amortization Period*       | 26.1 years                  | 27.1 years               |
| 9. Assumed payroll growth rate                          | 3.00%                       | 3.00%                    |
|   |                             |                          |
| Contribution Rate for TMRS Plan Year:                   | 2013                        | 2012                     |
| 10. Full retirement rate                                |                             |                          |
| a. Normal cost  | 9.68%                       | 9.36%                    |
| b. Prior service  | <u>5.81%</u>                | <u>6.01%</u>             |
| c. Full retirement rate                                 | 15.49%                      | 15.37%                   |
| 11. Minimum phase-in retirement rate                    |                             |                          |
| a. Full retirement rate (10c)                           | 15.49%                      | 15.37%                   |
| b. Less phase-in deferral                               | <u>(0.71%)</u>              | <u>(0.95%)</u>           |
| c. Minimum phase-in retirement rate                     | 14.78%                      | 14.42%                   |
| 12. Supplemental Death rate                             | 0.15%                       | 0.15%                    |
| 13. Combined contribution rates                         |                             |                          |
| a. Combined full rate (10c + 12)                        | 15.64%                      | 15.52%                   |
| b. Combined phase-in rate (11c + 12)                    | 14.93%                      | 14.57%                   |

\* New Gains/Losses are laddered on 30-year period.

## Development of Actuarial Value of Assets

|  | Year Ending   |
|--|---------------|
|  | 12/31/2011    |
|  | (1)           |
| 1. Actuarial Value of Assets (AVA) as of January 1   | \$ 18,696,437 |
| 2. a. Employer Contributions   | \$ 2,054,126  |
| b. Member Contributions  | 918,774       |
| c. Benefit and Refund Payments   | 628,401       |
| d. Net external cash flow  | \$ 2,344,499  |
| 3. Expected Assets as of December 31<br>(includes earnings equal to 7.0% of 1.)              | \$ 22,349,686 |
| 4. Actual BAF balance as of December 31  | \$ 22,626,060 |
| 5. Deferred earnings/(shortfall) (4. – 3.)   | \$ 276,374    |
| 6. Deferred earnings/(shortfall) recognized (10% x 5.)                                       | \$ 27,637     |
| 7. Preliminary actuarial value of assets as of December 31<br>(3. + 6.)                      | \$ 22,377,323 |
| 8. a. 85% of market value of assets (85% x 4.)   | \$ 19,232,151 |
| b. 115% of market value of assets (115% x 4.)  | 26,019,969    |
| 9. Actuarial value of assets (AVA) as of December 31<br>(7. perhaps partially limited by 8.) | \$ 22,377,323 |

**Note:**

To help mitigate the natural year-to-year fluctuations (positive and negative) in the investment markets, the TMRS actuary has recommended Asset Smoothing. Nearly all public sector retirement systems employ some form of smoothing. Smoothing does not impact long-term plan costs or funded positions, but does impact timing of investment gain and loss recognition. The TMRS Board of Trustees has adopted a 10-year smoothing method with a 15% corridor to determine the System’s actuarial value of assets (AVA). This “smoothing method” is intended to help reduce the volatility of the contribution rates from one year to the next. The corridors detailed above on line 8 keep the AVA within a certain range of the market value of assets. The AVA is a component that must be disclosed by the city in its Schedule of Funding Progress (see GASB Compliance Data section).

Expected and actual BAF balances as of December 31 may be off a dollar due to rounding.

### Historical Accumulation of the BAF Balance

| Year Ending<br>December 31,<br>(1) | Payroll<br>for the Year<br>(2) | Effective<br>Retirement<br>Contribution<br>Rate <sup>a</sup><br>(3) | Employer<br>Contributions<br>for the Year<br>(4) | Member<br>Contributions<br>for the Year<br>(5) | Benefit<br>Payments<br>(6) | External Cash<br>Flow for the<br>Year<br>(7) | Interest<br>Credit<br>(8) | BAF<br>Balance <sup>b</sup><br>(9) |
|------------------------------------|--------------------------------|---|--|--|----------------------------|--|---------------------------|------------------------------------|
|                                    |                                | (4) / (2)   |  |  |                            | (4) + (5) + (6)                              |                           |                                    |
| 2011                               | \$ 13,125,349                  | 15.65%  | \$ 2,054,126                                     | \$ 918,774                                     | \$ (628,401)               | \$ 2,344,499                                 | \$ 469,099                | \$ 22,626,060                      |

a. Effective retirement contribution rate for 2011 is the actual rate determined by dividing the contribution received by the payroll paid.

b. BAF Balance may be off a dollar due to rounding.

## Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report

Actuarial valuations are based on long term assumptions, and actual results in a specific year can, and almost certainly will, differ as actual experience deviates from the assumptions. The following table provides a detailed breakdown of changes in the retirement portion of your city's contribution rate. This analysis reconciles the change in the retirement portion of your city's contribution rate from 2012 to 2013, but will not reflect any change in the cost of the Supplemental Death Benefit (SDB), if your city currently has this provision. (Any changes in the cost of the SDB are primarily due to the change in mortality assumptions and/or changes in the average age of your city's employee group and/or the number of covered retirees.) Following the table below is a brief description of the common sources for deviation from the expected.

| Change in Full Retirement Rate                     |         |
|--|---------|
| Full Rate from 12/31/2010 Valuation (PY 2012 Rate) | 15.37 % |
| Benefit changes                                    | 0.00 %  |
| Return on Actuarial Value of Assets                | (0.01)  |
| Contribution lag/phase in                          | (0.02)  |
| Payroll growth                                     | (0.07)  |
| Normal cost  | 0.32    |
| Liability growth                                   | (0.10)  |
| Total change                                       | 0.12 %  |
| Full Rate from 12/31/2011 Valuation (PY 2013 Rate) | 15.49 % |

**Benefit Changes** - Shows the increase or decrease in the contribution rate associated with any modifications made to the member city's TMRS plan provisions. This will also include any changes to the amortization period adopted by ordinance.

**Return on Actuarial Value of Assets (AVA)** - Shows the change in the contribution rate associated with the return on the AVA being different than the assumed 7.0%. For the year ending December 31, 2011, the return on an AVA basis was 7.15%. The impact may show as 0.00% due to rounding.

**Contribution Lag / Phase In** - Shows the total increase or decrease in the contribution rate associated with the phase in of contributions and/or any additional contributions above the full rate. The effect of the "Contribution Lag" is also included here and refers to the time delay between the actuarial valuation date and the date the contribution rate becomes effective. For TMRS member cities, the "Contribution Lag" is one year (i.e., the Actuarial Valuation as of December 31, 2011 set the rate effective for Calendar Year 2013). **The impact of the "Contribution Lag" is expected to become immaterial once a city is contributing the Full Rate and the Full Rate stabilizes.**

If a city chooses to contribute the minimum phase-in contribution, the difference between the Full Rate and the Phase-in Rate will be reflected as an actuarial loss in the next valuation's UAAL. This will increase the Full Rate for future valuations. **As the phase-in deferral base is recognized over the next three valuations, the magnitude of the change due to the phase-in should decrease.**

*This is an important decision for a city to make in regard to utilizing the minimum Phase-in Rate versus contributing at the Full Rate, or a rate in between.* If a city begins to contribute the Full Rate immediately, the actuarial valuation anticipates that the Full Rate will stabilize for the duration of the amortization period. However, if the minimum phase-in contribution schedule is utilized, the ultimate Full Rate at the end of the phase-in period would be expected to be higher than the current Full Rate. For more information on the impact of the phase-in, please refer to the section *Phase-in Rates*.

**Payroll Growth** - Shows the increase or decrease in the contribution rate associated with larger or lower than expected growth in the member city's overall payroll. The amortization payments are calculated assuming payroll grows at 3.0% per year. Overall payroll growth in excess of 3.0% will typically cause a decrease in the prior service rate.

**Normal Cost** - Shows the increase or decrease in the contribution rate associated with changes in the average normal cost rate for the individual city's population. The normal cost rate is the allocated cost of next year's benefit accruals. Typically, the normal cost rate will increase if the average age/service combination of the covered population increases and decrease if the average age/service combination decreases.

**Liability Growth** - Shows the increase or decrease in the contribution rate associated with larger or lower than expected growth in the member city's overall plan liabilities. The most significant sources for variance will be individual salary increases compared to the assumption and turnover.



# GASB Compliance Data

For the Employer's Applicable Accounting/Fiscal Year

City of: Schertz

The attached pages contain data specific to your city and are being provided to all participating Texas Municipal Retirement System (TMRS) employers to assist your city in complying with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)* and if applicable, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

**The actual disclosures required by GASB Statements 50 and 45 must be based on the circumstances specific to each individual employer; as such, the disclosure(s) is(are) the responsibility of the city (employer) and its independent public accountant.**

Please note that any reference to Plan Year (PY) in the following pages refers to the TMRS Plan Year, which coincides with the Calendar Year and Valuation Year, January 1 – December 31.

Items not in italics are comments provided to assist you in completing your financial statement disclosures. Items *in italics* are sample language and charts that are part of the required disclosures.

## PENSION PLAN

GASB Statement No. 27 as amended by GASB Statement No. 50:

Note that participating municipalities should comply with the **GASB Statement No. 50** provisions for an **agent multiple-employer defined benefit pension plan**. The GASB statement provides an example of the note disclosures in **Illustration 6** (Notes to the Financial Statements for an Employer Contributing to an Agent Multiple-Employer Defined Benefit Pension Plan). In addition, the participating employer can refer to the footnotes in the TMRS Comprehensive Annual Financial Report (CAFR) to obtain a general description of the TMRS plan, how contributions are made, and how benefits are determined.

In making its disclosures, the employer may need to consider (not intended to be an all-inclusive list):

- Its accounting year (employer fiscal year is likely different than TMRS' December 31 plan year and the valuation period)
- If additional voluntary contributions were made to TMRS during the employer's fiscal year (additional voluntary contributions were permitted effective January 1, 2008)
- The disclosure of a net pension asset or net pension obligation, as a result of paying more or less than the annual required contribution (ARC)

## **Notes to Financial Statements**

### **Plan Description**

*The City provides pension benefits for all of its eligible employees [any exceptions such as firefighters would be inserted here by the City] through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the city are within the options available in the governing state statutes of TMRS.*

*TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at [www.TMRS.com](http://www.TMRS.com).*

*The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:*

|   | <i>Plan Year 2011</i>                | <i>Plan Year 2012</i>                |
|---|--------------------------------------|--------------------------------------|
| <i>Employee deposit rate</i>  | <i>7%</i>                            | <i>7%</i>                            |
| <i>Matching ratio (city to employee)</i>  | <i>2 to 1</i>                        | <i>2 to 1</i>                        |
| <i>Years required for vesting</i>   | <i>5</i>                             | <i>5</i>                             |
| <i>Service retirement eligibility<br/>(expressed as age / years of<br/>service)</i> | <i>60/5, 0/20</i>                    | <i>60/5, 0/20</i>                    |
| <i>Updated Service Credit</i>   | <i>100% Repeating,<br/>Transfers</i> | <i>100% Repeating,<br/>Transfers</i> |
| <i>Annuity Increase (to retirees)</i>   | <i>70% of CPI Repeating</i>          | <i>70% of CPI Repeating</i>          |

### **Contributions:**

*Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.*

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

[city should provide chart similar to the “sample chart” shown below, if applicable]

**SAMPLE**  
**DO NOT USE “AS IS” FOR YOUR CITY**  
**USE VALUES APPLICABLE TO YOUR OWN CITY**

|  |                 |                             |
|--|-----------------|-----------------------------|
| 1. Annual Required Contribution (ARC)                | \$ 12,000       | \$ of ARC <sup>1</sup>      |
| 2. Interest on Net Pension Obligation                | 1,400           | Interest <sup>2</sup> * (7) |
| 3. Adjustment to the ARC                             | <u>(1,203)</u>  | (7) / amortization factor   |
| 4. Annual Pension Cost (APC)                         | 12,197          | (1) + (2) + (3)             |
| 5. Contributions Made                                | <u>(10,000)</u> | Actual Contributions        |
| 6. Increase (decrease) in net pension                | 2,197           | (4) + (5)                   |
| 7. Net Pension Obligation/(Asset), beginning of year | <u>20,000</u>   |                             |
| 8. Net Pension Obligation/(Asset), end of year       | \$ 22,197       | (6) + (7)                   |

1. The fiscal year \$ ARC is determined by the sum of the applicable \$ ARC for each month in the city’s fiscal year. The \$ ARC for each month is determined by multiplying the PY % ARC (Full Retirement Rate) by the applicable payroll for that month (for payroll, cities can use “gross earnings” as noted on line 1 of their TMRS-3 “Summary of Monthly Payroll Report”).

2. Should be the interest rate used in determining the ARC for the period. This is 7% for the 2008 and 2009 ARC; 7.5% for the 2010 and 2011 ARC; and 7% for the 2012 ARC and thereafter.

**Comment: Cities that contribute at the level of the ARC (which is at the Full Retirement Rate) each year do not need to go through the above exercise for determining the Annual Pension Cost.** For these cities, the Net Pension Obligation should be \$0 and the Annual Pension Cost will be equal to the actual contributions made for the fiscal year.

Beginning in 2008, member cities were allowed to make additional contributions. In addition, beginning in 2009, certain eligible member cities could elect to contribute a minimum amount equal to their ARC less a “Phase In” of the increase from the change to the Projected Unit Credit cost method in the 2007 valuation (i.e., contribute at the Phase-in Rate). Both of these instances will cause a city to have an actual contribution different than the actuarially determined Annual Required Contribution (ARC), and therefore, accrue a net pension obligation (asset) on its balance sheet. In subsequent years, this Net Pension Obligation (Asset) will be amortized using the same amortization factor used to determine the ARC for a given year. We have included the amortization factor used to determine the prior service rate applicable to the time period indicated in the “Three-Year Trend Information” chart shown on the following page. This is a step required to determine the

Adjustment to the ARC (line 3 in the sample chart above) and ultimately the Annual Pension Cost (line 4 in the sample chart above) as described in GASB Statement No. 27.

The above chart is an example of a schedule to include in your financial statements; we have provided a column to the right of the schedule, describing the calculation. Please note, all of the values should be based on your city's fiscal year, not the TMRS plan year. The example above has a Full Rate (ARC) of 12% and made actual contributions equal to 10% (\$10,000 in contributions). There was an NPO of \$20,000 at the beginning of the period with an interest rate of 7.0% and an amortization factor of 16.619.

***Three-Year Trend Information***

| <i>Fiscal Year Ending</i> | <i>Annual Pension Cost(APC)</i> | <i>Actual Contribution Made</i> | <i>Percentage of APC Contributed</i> | <i>Net Pension Obligation/ (Asset)</i> | <i>Amortization Factor*</i> | <i>Annual Required Contribution Rate*</i> |
|---------------------------|---------------------------------|---------------------------------|--------------------------------------|--|-----------------------------|---|
| 2009                      | \$                              | \$                              | %                                    | \$                                     | 17.329                      | 14.91%                                    |
| 2010                      | \$                              | \$                              | %                                    | \$                                     | 16.377                      | 15.43%                                    |
| 2011                      | \$                              | \$                              | %                                    | \$                                     | 16.115                      | 15.65%                                    |
| 2012                      | \$                              | \$                              | %                                    | \$                                     | 16.619                      | 15.37%                                    |
| 2013*                     | \$                              | \$                              | %                                    | \$                                     | 16.260                      | 15.49%                                    |

\* **Comment:** Neither of the last two columns should be shown in the actual exhibit in the city's disclosure. This is being provided to assist the city in completing the calculation from the prior page. Also, the city is only required to show three years of information; the 2013 row is shown only to provide the city with the applicable amortization factor for determining the Annual Pension Cost.

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

| Valuation Date                                | 12/31/2009                | 12/31/2010                | 12/31/2011                |
|---|---------------------------|---------------------------|---------------------------|
| Actuarial Cost Method                         | Projected Unit Credit     | Projected Unit Credit     | Projected Unit Credit     |
| Amortization Method                           | Level Percent of Payroll  | Level Percent of Payroll  | Level Percent of Payroll  |
| GASB 25 Equivalent Single Amortization Period | 28.1 years; closed period | 27.1 years; closed period | 26.1 years; closed period |
| Amortization Period for new Gains/Losses      | 30 years                  | 30 years                  | 30 years                  |
| Asset Valuation Method                        | 10-year Smoothed Market   | 10-year Smoothed Market   | 10-year Smoothed Market   |
| Actuarial Assumptions:                        |                           |                           |                           |
| Investment Rate of Return *                   | 7.5%                      | 7.0%                      | 7.0%                      |
| Projected Salary Increases *                  | Varies by age and service | Varies by age and service | Varies by age and service |
| * Includes Inflation at                       | 3.00%                     | 3.00%                     | 3.00%                     |
| Cost-of-Living Adjustments                    | 2.1%                      | 2.1%                      | 2.1%                      |

**Comment:** Cities with a fiscal year ending December 31 (i.e., the calendar year), would indicate that the required contribution for fiscal year 2012 was determined as part of the December 31, 2010 actuarial valuation; as such, the 2009 valuation information shown above would not be included in the disclosure.

**Funded Status and Funding Progress –**

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Funded Ratio | Unfunded AAL (UAAL) | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|--------------|---------------------|-----------------|---|
|                          | (1)                       | (2)                               | (3)          | (4)                 | (5)             | (6)                                     |
|                          |                           |                                   | (1) / (2)    | (2) - (1)           |                 | (4) / (5)                               |
| 12/31/2011               | \$22,377,323              | \$35,296,880                      | 63.4%        | \$12,919,557        | \$13,125,349    | 98.4%                                   |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

### **Required Supplementary Information**

#### *Texas Municipal Retirement System*

#### *Schedule of Funding Progress:*

*(unaudited)*

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets</i> | <i>Actuarial Accrued Liability (AAL)</i> | <i>Funded Ratio</i> | <i>Unfunded AAL (UAAL)</i> | <i>Covered Payroll</i> | <i>UAAL as a Percentage of Covered Payroll</i> |
|---------------------------------|----------------------------------|--|---------------------|----------------------------|------------------------|--|
|                                 | <i>(1)</i>                       | <i>(2)</i>                               | <i>(3)</i>          | <i>(4)</i>                 | <i>(5)</i>             | <i>(6)</i>                                     |
|                                 |                                  |  | <i>(1) / (2)</i>    | <i>(2) - (1)</i>           |                        | <i>(4) / (5)</i>                               |
| <i>12/31/2009</i>               | <i>\$13,946,029</i>              | <i>\$25,584,067</i>                      | <i>54.5 %</i>       | <i>\$11,638,038</i>        | <i>\$12,321,349</i>    | <i>94.5 %</i>                                  |
| <i>12/31/2010</i>               | <i>18,696,437</i>                | <i>31,792,634</i>                        | <i>58.8</i>         | <i>13,096,197</i>          | <i>12,612,346</i>      | <i>103.8</i>                                   |
| <i>12/31/2011</i>               | <i>22,377,323</i>                | <i>35,296,880</i>                        | <i>63.4</i>         | <i>12,919,557</i>          | <i>13,125,349</i>      | <i>98.4</i>                                    |

|   |
|---|
| <b>SUPPLEMENTAL DEATH BENEFITS FUND</b> |
|---|

GASB Statement No. 45:

In addition, GASB Statement No. 45 may be applicable to your city if the city has elected to participate in the Supplemental Death Benefits Fund (SDBF) **for its retirees**. Participating municipalities should comply with the **GASB Statement No. 45** provisions for a **cost-sharing multiple-employer defined benefit healthcare plan**. The GASB statement provides information in paragraph 24 and also an example of the note disclosures in **Illustration 4** (Notes to the Financial Statements for an Employer Contributing to a Cost-Sharing Multiple-Employer Defined Benefit Healthcare Plan). In addition, the participating employer can refer to the footnotes in the TMRS CAFR to obtain a general description of the SDBF.

In making its disclosures, the employer may need to consider its accounting year if the employer’s fiscal year is different than TMRS’ December 31 plan year (PY) and the valuation period.

**Notes to Financial Statements:**

*The city also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The city elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees [this sentence should be updated to reflect the city’s actual provisions as noted in the chart below]. The city may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.*

*The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an “other postemployment benefit,” or OPEB.*

| Your city offers supplemental death to: | Plan Year 2011 | Plan Year 2012 |
|---|----------------|----------------|
| Active employees (yes or no)            | Yes            | Yes            |
| Retirees (yes or no)                    | Yes            | Yes            |

**Comment:** This chart can be utilized to complete the footnote information above regarding your city’s plan provisions for SDBF.

**Contributions**

Note: Your city is only required to disclose participation in the Supplemental Death Benefits Fund for OPEB reporting purposes if you provide this coverage to your retirees.

*The city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.*

*The city's contributions to the TMRS SDBF for the years ended 2012, 2011 and 2010 were \$ \_\_\_\_\_, \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively, which equaled the required contributions each year.*

***Schedule of Contribution Rates:***

***(RETIREE-only portion of the rate)***

| <b><i>Plan/<br/>Calendar<br/>Year</i></b> | <b><i>Annual Required<br/>Contribution<br/>(Rate)</i></b> | <b><i>Actual<br/>Contribution Made<br/>(Rate)</i></b> | <b><i>Percentage of<br/>ARC<br/>Contributed</i></b> |
|---|---|---|---|
| 2009                                      | 0.02%   | 0.02%   | 100.0%  |
| 2010                                      | 0.01%   | 0.01%   | 100.0%  |
| 2011                                      | 0.01%   | 0.01%   | 100.0%  |
| 2012                                      | 0.01%   | (city to provide)                                     | (city to provide)                                   |
| 2013                                      | 0.01%   | (city to provide)                                     | (city to provide)                                   |

**Comment:** Your city can disclose the ARC in dollars (as noted in sentence above) or in a chart similar to the above. In addition, the city is only required to show three years of information; additional years have been provided for informational purposes only.

The city is reminded that the disclosure should state the contributions for the cities respective fiscal year. As in the pension disclosure, the city can determine the \$ contributions made by summing their monthly payroll by the retiree-portion SDBF rate noted above (payroll can be obtained from line 1 of the TMRS-3 report). Cities should also note that TMRS only allowed a Phase-in Rate for the pension contributions; all contributions to the SDBF are paid at the stated % rate above and as such, the % of ARC contributed will always be 100%.



## **Phase-in Rates**

Following the change in TMRS' actuarial cost method as of the December 31, 2007 actuarial valuation, any city that experienced an increase of 0.50% or more due to actuarial assumption or method changes was given the option to phase in the higher rate over an eight-year period beginning January 1, 2009. Your city was eligible for that option.

In addition, any increase in your 2010 rate due to the change in assumptions first reflected in the December 31, 2008 valuation was combined with your original phase-in balance and phased in over the remaining seven years of the phase-in period. Similarly, the decrease in your 2012 Full Retirement Rate due to the combined impact of SB 350 and new actuarial assumptions first reflected in the December 31, 2010 "restructured" valuation was offset against your December 31, 2010 pre-restructuring phase-in balance with the remainder, if any, phased in over the remaining five years of the phase-in period. The 2013 rate reflects the fifth year of the original eight-year phase-in period.

### **What rate should my city pay?**

Your city must contribute at least the Phase-in Rate and should consider paying more than this amount.

### **Can my city contribute more than the Phase-in Rate?**

You may contribute at any rate you choose, but you must contribute at least the Phase-in Rate. Your city may choose to pay (1) the Full Rate, (2) a rate between the Phase-in Rate and the Full Rate, or (3) a rate above the Full Rate. The TMRS Act was amended effective January 1, 2008 allowing cities to make additional contributions to TMRS.

### **What is the impact of paying the Phase-in Rate or a rate below the Full Rate?**

Contributing at a rate less than the Full Rate during the phase-in period will affect your city in at least the following two ways:

(1) Each year that the actual contribution rate is less than the Full Rate, the difference generates an actuarial loss in the following year's actuarial valuation, which must be amortized as part of the UAAL by an increase in the Prior Service rate. All other things being equal, the Full Rate for each successive year of the phase-in period will reflect the cumulative increases in the Prior Service rate from all prior years; therefore, for a city that contributes the Phase-in Rates exactly, the 2016 Full Rate will reflect the cumulative effect of seven incremental increases in the Prior Service rate. Cities that pay the Phase-in Rate or any rate less than the Full Rate are also likely to see their funding ratio decline or increase at a slower rate each year.

(2) In accordance with GASB Statement No. 27, your city will need to disclose a Net Pension Obligation (NPO) in its financial statements to reflect the difference between the Annual Pension Cost and the actual contributions made. More information about GASB reporting requirements is discussed in the GASB Compliance Data Attachment.

**What is the impact of contributions in excess of the Full Rate?**

Contributions above the Full Rate will have the exact opposite effect on your city as described above for contributions less than the Full Rate – (1) the amortization of actuarial gains created by additional contributions will decrease the Full Rate (by a decrease in the PS Rate) for the following year and (2) reduce the NPO, if any, or create or increase a Net Pension Asset (NPA) for financial statement purposes. A city that makes contributions in excess of the Full Rate should also see its funding ratio improve more rapidly.

**Can my city pay the Full Rate this year and change to the Phase-in Rate in a later year?**

Yes. Each year during the eight-year phase-in period, TMRS will send you a rate letter showing both the Phase-in Rate and the Full Rate. The Phase-in Rate will be the minimum rate you must pay. As mentioned earlier, a city should consider paying more than the Phase-in Rate.

**If my city makes plan changes that increase the cost of our plan (benefit improvements), can we phase in those additional costs?**

No. The contribution rate increase due to benefit improvements will not change the Phase-in Amount used in determining the Phase-in Rate. The Phase-in Rate will increase by the same amount as the Full Rate. The Phase-in Rate was intended to assist those cities that needed additional time to budget for the Full Rate. Any city making plan changes should consider paying the Full Rate.

**If my city makes changes that decrease the cost of our plan (benefit reductions), will our Phase-in Rate be affected?**

Yes. Reductions in the Full Rate because of a plan benefit reduction will change the amount being phased in and the Phase-in Rate beginning with the year the plan changes are effective. The portion of the amount being phased in and not yet recognized (4/5th in 2012, 3/5th in 2013, 2/5th in 2014, 1/5th in 2015 and 0/5th in 2016) will be reduced by the decrease in the Full Rate to be phased in evenly over the remainder of the eight-year phase-in period. In 2013, there are four years remaining (2013-2016, inclusive) of the original eight-year phase-in period. If the decrease in the Full Rate due to reductions in plan benefits exceeds the remaining phase-in balance, your required contribution rate will be the reduced Full Rate based on the new plan provisions.

**If I make a plan change in 2012, will my 2013 contribution rate be recalculated?**

Yes. 2013 contribution rates will be re-determined for cities that adopt changes in plan benefits prior to the end of calendar year 2012.