



May 30, 2014

City #01159

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

Subject: 2015 Municipal Contribution Rate

Dear City Official:

Presented below are your city’s contribution requirements to the Texas Municipal Retirement System (TMRS) for Plan Year 2015 (Calendar Year 2015, PY2015) as determined by the December 31, 2013 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 April 1, 2014 and the actuarial assumptions and methods adopted by the TMRS Board. Effective January 1, 2015, your city’s monthly contribution rates will be as follows:

	<u>Phase-in Rate</u>	<u>Full Rate</u>
Normal Cost	10.55%	10.55%
Prior Service	<u>5.26%</u>	<u>5.70%</u>
Total Retirement Rate	15.81%	16.25%
Supplemental Death Benefit	<u>0.14%</u>	<u>0.14%</u>
Total Combined Contribution	15.95%	16.39%

The actuarial liabilities and contribution rates determined as part of the December 31, 2013 actuarial valuation reflect a change in post-retirement mortality assumptions, actuarial cost method, and amortization policy. Please see the “Actuarial Changes” section for more detailed information. 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 also 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 PY2015. **The Total Combined Contribution Rate shown in the Phase-in Rate column above represents the minimum required contribution rate to TMRS for PY2015.** The difference represents the portion of your Full Rate that is eligible to be phased in. Please see the “Phase-in Rates” section 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 2015 Full Rate, the contribution shortfall will be reflected in your city’s unfunded actuarial accrued liability and contribution rate in subsequent years as well as 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

Actuarial Changes	A summary of actuarial changes adopted by the Board effective with the December 31, 2013 actuarial valuation.
Executive Summary	A comparison of the highlights of the December 31, 2013 and December 31, 2012 actuarial valuations for your city. Included are membership counts, asset information, actuarial information, and contribution rate requirements.
Calculation of Contribution Requirements	Details 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. Comparisons before and after the actuarial changes and to the 2012 actuarial valuation results are included.
Development of Actuarial Value of Assets	A detailed calculation of the Actuarial Value of Assets (AVA), or smoothed value, for the December 31, 2013 actuarial valuation for your city. A comparison to the December 31, 2012 AVA is included.
Historical and Projected Accumulation of the BAF Balance	This schedule provides your city with historical cash flows, interest credits and the year-end balance of its Benefit Accumulation Fund (BAF), as well as projected values for calendar/plan years 2014 and 2015.
Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report	A detailed reconciliation of changes in your city’s Full Retirement Rate since the prior valuation. This includes the combined impact of the actuarial changes adopted by the Board.
GASB Compliance Data	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 other disclosures, such as the city’s official statement provided in connection with a bond offering. Note that, beginning with the rate letter to be mailed in 2015, GASB information will be provided in a separate document.
Phase-in Rates	An explanation of “Phase-in” including a question and answer section on Phase-in contributions and how they might affect your city.

Actuarial Changes

Since 2007, the TMRS Board of Trustees has adopted a series of changes (actuarial and investment) to ensure that TMRS continues to be well funded and that members' benefits remain secure and sustainable over generations of workers. As part of this continued effort and in accordance with the current strategic goal "to maintain the actuarial soundness of the retirement program by examining actuarial assumptions and methodologies and making changes where appropriate," the TMRS Board of Trustees adopted the actuarial changes summarized below at its October 2013 Board meeting, based on the recommendations of the System's consulting actuary, Gabriel Roeder Smith & Company (GRS). These actuarial changes were adopted as a "package," to be first reflected in the December 31, 2013 actuarial valuation. The combined impact of the following changes is shown in the Reconciliation of Full Retirement Rate section of this letter.

Post-Retirement Mortality Assumptions

In 2013, the Board instructed GRS to study the appropriateness of the mortality tables used in calculating the Annuity Purchase Rate (APR) factors for determining service and disability retirement benefits. The APR factors being used in 2013 were adopted in 1981 and had not been updated since that time. The recent mortality analysis showed that the mortality tables used in calculating the APRs no longer accurately reflected a member's life expectancy at retirement. The study also showed that use of the old mortality table in determining benefits had caused city contribution rates to rise and that rates would continue to increase due to the longer payout period over longer retiree lifespans. Consequently, GRS recommended that the APR factors be based on an updated mortality table on a fully generational basis. A generational mortality table is more accurate and includes automatic adjustments over time to reflect the expectation for continued mortality improvement (increasing life expectancies). It also eliminates the upward bias in city contribution rates that was inherent in the old APRs. In addition, rate stabilization may help cities sustain current benefit levels.

The revised APR factors, based on an updated generational mortality table, are effective for retirement dates on or after January 31, 2015 and will be implemented over the 13-year period beginning January 1, 2015 and ending December 31, 2027. The 13-year implementation period was chosen to provide a good balance between the impact on (1) the retirement annuities for members closest to retirement age and (2) city contribution rate increases.

While the mortality tables used in calculating the APR factors that determine retirement benefits had not been updated since 1981, those used for valuation purposes in determining actuarial liabilities and contribution rates were updated in both the 2007 and 2011 actuarial experience study to reflect continued mortality improvement. In order to align the mortality tables used in calculating benefits with those used for valuation purposes, GRS recommended that the valuation mortality assumptions also be based on the updated mortality tables on a fully generational basis beginning with the December 31, 2013 actuarial valuation.

Change to Entry Age Normal Actuarial Cost Method

The Board also requested that GRS review the advantages of changing the actuarial cost method for funding purposes from the Projected Unit Credit (PUC) method to the Entry Age Normal (EAN) method. While volatility in contribution rates can never be completely eliminated, the EAN cost method produces contribution rates that are more predictable and that exhibit less volatility than those produced under the PUC cost method. Even though the EAN cost method will result in higher initial Actuarial Accrued Liabilities and lower funded ratios than under the previous PUC method, a primary goal of TMRS is to minimize contribution rate volatility. A change to the EAN cost method for funding purposes is another step toward accomplishing this objective. A secondary reason for changing to the EAN cost method is that, beginning in 2014, under Governmental Accounting Standards Board (GASB) Statement No. 67 and No. 68, EAN is the required actuarial cost method to be used for financial reporting purposes. By determining the individual employer funding requirements using the same actuarial cost method as that required for financial reporting, TMRS eliminates the potential confusion resulting from utilizing two different cost methods. In addition, under EAN, for most employers, assets will be accumulating to the same target actuarial liabilities for both funding and reporting purposes.

Amortization Policy

In order to minimize the impact on contribution rates resulting from the changes in the retiree mortality assumptions and the actuarial cost method, GRS recommended that the individual employer amortization periods be adjusted to the extent necessary and allowable under current TMRS statutes and Board rules. In general, the TMRS Act allows for amortization periods up to 25 years. TMRS Rule 123.7 allows the Board to decrease amortization periods or to extend amortization periods to a maximum of 30 years for employers who experience a contribution rate increase in excess of 0.5% as a result of actuarial changes, including a change in actuarial cost method and/or actuarial assumptions.

As part of the actuarial changes adopted in 2007, the Board elected to close the amortization period for all employers and to ladder the amortization of future liabilities over the respective 25- or 30-year amortization period. Subsequently, in 2009, the Board adopted a stricter amortization policy for ad hoc benefit enhancements, which are separately amortized over a closed 15-year period on a level dollar basis. Because of the closed and laddered amortization approach effective since December 31, 2007, an individual employer's Unfunded Actuarial Accrued Liability (UAAL) as of December 31, 2013 consists of seven or more laddered UAAL bases, and these bases can be non-ad hoc and/or ad hoc.

To implement the 2013 actuarial changes, and to minimize the impact of the actuarial changes on contribution rates, the December 31, 2013 actuarial valuation reflects the following amortization policy:

1. For all employers, the current individual non-ad hoc bases (ladders) are aggregated, and the amortization period is determined as a single equivalent amortization period. The single amortization period is then adjusted as described in items 2 and 3 below, if applicable. All ad hoc bases (ladders) remain unchanged.
2. The single amortization period for the combined non-ad hoc UAAL base is decreased to the extent necessary for any city to keep the city contribution rate from decreasing.

3. The single amortization period for the combined non–ad hoc UAAL base is increased to the extent necessary for any city to keep the city contribution rate from increasing.
 - a. For cities where the combined impact of the actuarial changes results in an initial rate increase of less than or equal to 0.50% and the single amortization period determined under item 1 above is less than or equal to 25 years, the amortization period is increased to a maximum of 25 years.
 - b. For cities where the combined impact of the actuarial changes results in an initial rate increase of less than or equal to 0.50% and the single amortization period determined under item 1 above is greater than 25 years, the amortization period is not adjusted except as described in item 4 below.
 - c. For cities where the combined impact of the actuarial changes results in an initial rate increase of greater than 0.5%, the amortization period is increased to a maximum of 30 years.
4. After these steps have been completed, the single equivalent amortization period is rounded up to the next integer, not to exceed 25 or 30 years, as applicable.

If a city's amortization period (see page 7, item 8 under the December 31, 2013 EAN column) exceeds 25 years, the city may request, in writing, that TMRS recalculate the contribution rate using a 25-year closed amortization period. The prior service contribution rate for a city that reduces its amortization period to 25 years will be slightly higher, but will amortize the UAAL faster. Please note that a city can accomplish the same result, with more financial flexibility, by making annual voluntary additional contributions.

Executive Summary

Valuation as of TMRS Plan Year (PY) Ending	12/31/2013	12/31/2012
Membership as of the Valuation Date		
• Number of		
- Active members	306	293
- Retirees and beneficiaries	58	53
- Inactive members	<u>124</u>	<u>132</u>
- Total	488	478
• Prior year's payroll provided by TMRS	\$ 14,356,845	\$ 13,853,458
• Valuation Payroll	\$ 15,017,614	\$ 14,287,970
Benefit Accumulation Fund (BAF) Assets		
• Market BAF Balance	\$ 32,010,689	\$ 27,113,958
• BAF crediting rate for PY	9.70%	9.95%
• Interest credited on beginning BAF balance	\$ 2,631,283	\$ 2,251,204
• Municipal contributions	2,229,502	2,129,279
• Member contributions during year	1,008,631	969,742
• Benefit and refund payments	972,686	862,326
Actuarial Value of Assets (AVA)	\$ 30,541,625	\$ 26,273,784
Return on AVA	7.62%	7.42%
AVA as a Percentage of BAF	95.41%	96.90%
Actuarial Information		
• Actuarial accrued liability (AAL)	\$ 45,615,815	\$ 38,771,665
• Actuarial value of assets (AVA)	30,541,625	26,273,784
• Unfunded actuarial accrued liability (UAAL)	15,074,190	12,497,881
• UAAL as % of pay	105.0%	90.2%
• GASB #27 Funded ratio	67.0%	67.8%
• Employer normal cost	10.55%	10.13%
• Prior Service Rate	5.70%	5.49%
Contribution Rates for TMRS Plan Year (PY)		
• Member	2015 7.00%	2014 7.00%
• Full retirement rate (GASB ARC)	16.25%	15.62%
• Phase-in retirement rate (minimum)	15.81%	15.15%
• Supplemental Death rate	0.14%	0.14%
Total Employer Contribution Estimates for PY		
• Projected payroll	2015 \$ 15,468,142	2014 \$ 14,716,609
• Minimum Phase-in contribution rate	15.95%	15.29%
• Estimated employer contribution	\$ 2,467,169	\$ 2,250,170

Note: TMRS Plan Year coincides with Calendar Year

Results from prior year reflect the plan provisions used in the 12/31/2013 valuation report.

Calculation of Contribution Requirements

	From Valuation Report as of			
	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>EAN (NEW)</u>	<u>PUC (OLD)</u>		
1. Prior year's payroll reported to TMRS	\$ 14,356,845	\$ 14,356,845	\$	13,853,458
2. Valuation payroll	15,017,614	15,017,614		14,287,970
3. Employer normal cost rate	10.55%	10.36%		10.13%
4. Actuarial liabilities				
a. Active members	\$ 32,057,511	\$ 29,340,300	\$	27,472,405
b. Inactive members	3,310,416	3,455,456		3,249,970
c. Annuitants	<u>10,247,888</u>	<u>9,853,010</u>		<u>8,049,290</u>
d. Total actuarial accrued liability	\$ 45,615,815	\$ 42,648,766	\$	38,771,665
5. Actuarial value of assets	<u>30,541,625</u>	<u>30,541,625</u>		<u>26,273,784</u>
6. Unfunded actuarial accrued liability (UAAL) (4d - 5)	\$ 15,074,190	\$ 12,107,141	\$	12,497,881
7. Funded ratio (5 / 4d)	67.0%	71.6%		67.8%
8. GASB 25 Equivalent Single Amortization Period*	30.0 years	24.1 years		25.1 years
9. Assumed payroll growth rate	3.00%	3.00%		3.00%
Contribution Rate for TMRS Plan Year:	2015			2014
10. Full retirement rate				
a. Normal cost	10.55%	10.36%		10.13%
b. Prior service	<u>5.70%</u>	<u>5.19%</u>		<u>5.49%</u>
c. Full retirement rate	16.25%	15.55%		15.62%
11. Minimum phase-in retirement rate				
a. Full retirement rate (10c)	16.25%	15.55%		15.62%
b. Less phase-in deferral	<u>(0.44%)</u>	<u>(0.24%)</u>		<u>(0.47%)</u>
c. Minimum phase-in retirement rate	15.81%	15.31%		15.15%
12. Supplemental Death rate	0.14%	0.14%		0.14%
13. Combined contribution rates				
a. Combined full rate (10c + 12)	16.39%	15.69%		15.76%
b. Combined phase-in rate (11c + 12)	15.95%	15.45%		15.29%

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

Development of Actuarial Value of Assets

	Year Ending	
	12/31/2013	12/31/2012
1. Actuarial value of assets (AVA) as of January 1	\$ 26,273,784	\$ 22,377,323
2. a. Employer Contributions	\$ 2,229,502	\$ 2,129,279
b. Member Contributions	1,008,631	969,742
c. Benefit and Refund Payments	<u>972,686</u>	<u>862,326</u>
d. Net external cash flow	\$ 2,265,447	\$ 2,236,695
3. Expected assets as of December 31 (includes earnings equal to 7.0% of 1.)	\$ 30,378,396	\$ 26,180,431
4. Actual BAF balance as of December 31	\$ <u>32,010,689</u>	\$ <u>27,113,958</u>
5. Deferred earnings/(shortfall) (4. – 3.)	\$ 1,632,293	\$ 933,527
6. Deferred earnings/(shortfall) recognized (10% x 5.)	\$ 163,229	\$ 93,353
7. Preliminary actuarial value of assets as of December 31 (3. + 6.)	\$ 30,541,625	\$ 26,273,784
8. a. 85% of market value of assets (85% x 4.)	\$ 27,209,086	\$ 23,046,864
b. 115% of market value of assets (115% x 4.)	36,812,292	31,181,052
9. Actuarial value of assets (AVA) as of December 31 (7. perhaps partially limited by 8.)	\$ 30,541,625	\$ 26,273,784

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 and Projected Accumulation of the BAF Balance

Year Ending December 31, (1)	Payroll for the Year (2)	Effective Retirement Contribution Rate ^a (3)	Employer Contributions for the Year (4)	Member Contributions for the Year (5)	Benefit Payments (6)	External Cash Flow for the Year (7)	Interest Credit (8)	BAF Balance ^b (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
2012	\$ 13,853,458	15.37%	\$ 2,129,279	\$ 969,742	\$ (862,326)	\$ 2,236,695	\$ 2,251,204	\$ 27,113,958
2013	\$ 14,356,845	15.53%	\$ 2,229,502	\$ 1,008,631	\$ (972,686)	\$ 2,265,447	\$ 2,631,283	\$ 32,010,689
2014	\$ 15,017,614	15.15%	\$ 2,275,169	\$ 1,051,233	\$ (1,239,495)	\$ 2,086,907	\$ 2,240,748	\$ 36,338,344
2015	\$ 15,468,142	15.81%	\$ 2,445,513	\$ 1,082,770	\$ (1,404,721)	\$ 2,123,562	\$ 2,543,684	\$ 41,005,590

a. Effective retirement contribution rate is the actual rate determined by dividing the employer 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 2014 to 2015, 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 12/31/2012 Valuation (PY 2014 Rate)	15.62 %
Benefit changes	0.00 %
Return on Actuarial Value of Assets	(0.07)
Contribution lag/phase in	0.00
Payroll growth	(0.11)
Normal cost	0.23
Liability growth	(0.12)
Subtotal Experience Change	(0.07)
Actuarial Changes	0.70
Total change	0.63 %
Full Rate from 12/31/2013 Valuation (PY 2015 Rate)	16.25 %

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, 2013, the return on an AVA basis was 7.62%. 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, 2013 set the rate effective for Calendar Year 2015). **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.

Cities should carefully consider whether to pay the minimum Phase-in Rate, the Full Rate, or a rate somewhere 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 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 “Phase-in Rates” section.

Payroll Growth - Shows the increase or decrease in the contribution rate associated with higher 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 for an employee is the contribution rate which, if applied to a member’s compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate.

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.

Actuarial Changes - Shows the change in the contribution rate associated with the combined impact of the change in (a) funding method from Projected Unit Credit to Entry Age Normal, (b) post-retirement mortality assumptions used in the liability calculation and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy.

GASB Compliance Data

For the Employer's Applicable Accounting/Fiscal Year

City of: Schertz

(Please note that, beginning in 2015, GASB Compliance Data will be provided separately from the TMRS Contribution Rate Letter)

The attached pages contain data specific to your city (TMRS city or "employer"), 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 may be 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.

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 2013</i>	<i>Plan Year 2014</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 (expressed as age / years of service)</i>	<i>60/5, 0/20</i>	<i>60/5, 0/20</i>
<i>Updated Service Credit</i>	<i>100% Repeating, Transfers</i>	<i>100% Repeating, 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 Entry Age Normal (EAN) cost method (EAN was first used in the December 31, 2013 valuation; previously, the Projected Unit Credit actuarial cost method had been used). 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 for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The salary-weighted average of the individual rates is the total normal cost rate. 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 (i.e., the December 31, 2013 valuation will determine the contribution rate beginning January 1, 2015).

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 ¹
2. Interest on Net Pension Obligation	1,400	Interest ² * (7)
3. Adjustment to the ARC	<u>(1,259)</u>	(7) / amortization factor
4. Annual Pension Cost (APC)	12,141	(1) + (2) + (3)
5. Contributions Made	<u>(10,000)</u>	Actual Contributions
6. Increase (decrease) in net pension	2,141	(4) + (5)
7. Net Pension Obligation/(Asset), beginning of year	<u>20,000</u>	
8. Net Pension Obligation/(Asset), end of year	\$ 22,141	(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 from 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 information 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 15.887.

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>
2011	\$	\$	%	\$	16.115	15.65%
2012	\$	\$	%	\$	16.619	15.37%
2013	\$	\$	%	\$	16.260	15.49%
2014	\$	\$	%	\$	15.887	15.62%
2015*	\$	\$	%	\$	17.618	16.25%

* **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 2015 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 2014 were determined as part of the December 31, 2011 and 2012 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2013, also follows:

<i>Valuation Date</i>	<i>12/31/2011</i>	<i>12/31/2012</i>	<i>12/31/2013</i>
<i>Actuarial Cost Method</i>	<i>Projected Unit Credit</i>	<i>Projected Unit Credit</i>	<i>Entry Age Normal</i>
<i>Amortization Method</i>	<i>Level Percent of Payroll</i>	<i>Level Percent of Payroll</i>	<i>Level Percent of Payroll</i>
<i>GASB 25 Equivalent Single Amortization Period</i>	<i>26.1 years; closed period</i>	<i>25.1 years; closed period</i>	<i>30.0 years; closed period</i>
<i>Amortization Period for new Gains/Losses</i>	<i>30 years</i>	<i>30 years</i>	<i>30 years</i>
<i>Asset Valuation Method</i>	<i>10-year Smoothed Market</i>	<i>10-year Smoothed Market</i>	<i>10-year Smoothed Market</i>
<i>Actuarial Assumptions:</i>			
<i>Investment Rate of Return *</i>	<i>7.0%</i>	<i>7.0%</i>	<i>7.0%</i>
<i>Projected Salary Increases *</i>	<i>Varies by age and service</i>	<i>Varies by age and service</i>	<i>Varies by age and service</i>
<i>* Includes Inflation at</i>	<i>3.00%</i>	<i>3.00%</i>	<i>3.00%</i>
<i>Cost-of-Living Adjustments</i>	<i>2.1%</i>	<i>2.1%</i>	<i>2.1%</i>

Comment: Cities with a fiscal year ending December 31 (i.e., the calendar year), would indicate that the required contribution for fiscal year 2014 was determined as part of the December 31, 2012 actuarial valuation; as such, the 2011 valuation information shown above would not be included in the disclosure.

Funded Status and Funding Progress – In October 2013, the TMRS Board approved actuarial changes in (a) the funding method from Projected Unit Credit to Entry Age Normal, (b) the post-retirement mortality assumptions used in calculating liabilities and contribution rates and in the development of the Annuity Purchase Rate factors, and (c) the amortization policy. These actuarial changes were effective with the December 31, 2013 actuarial valuation. For a complete description of the new actuarial cost method and assumptions, please see the December 31, 2013 TMRS Comprehensive Annual Financial Report (CAFR).

The funded status as of December 31, 2013, 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)
12/31/2013	\$30,541,625	\$45,615,815	67.0%	\$15,074,190	\$14,356,845	105.0%

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)

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 %
12/31/2012	26,273,784	38,771,665	67.8	12,497,881	13,853,458	90.2
12/31/2013	30,541,625	45,615,815	67.0	15,074,190	14,356,845	105.0

SUPPLEMENTAL DEATH BENEFITS FUND

GASB Statement No. 45:

In addition, GASB Statement No. 45 may be applicable if your 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 2013	Plan Year 2014
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Comment: This chart can be used 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 2014, 2013 and 2012 were \$____, \$____ and \$____, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

<i>Plan/ Calendar Year</i>	<i>Annual Required Contribution (Rate)</i>	<i>Actual Contribution Made (Rate)</i>	<i>Percentage of ARC Contributed</i>
<i>2011</i>	<i>0.01%</i>	<i>0.01%</i>	<i>100.0%</i>
<i>2012</i>	<i>0.01%</i>	<i>0.01%</i>	<i>100.0%</i>
<i>2013</i>	<i>0.01%</i>	<i>0.01%</i>	<i>100.0%</i>
<i>2014</i>	<i>0.01%</i>	<i>(city to provide)</i>	<i>(city to provide)</i>
<i>2015</i>	<i>0.01%</i>	<i>(city to provide)</i>	<i>(city to provide)</i>

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

Remember, the disclosure should state the contributions for the City's respective fiscal year. As in the pension disclosure, the City can determine the \$ contributions made each month by multiplying its 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

After the change in TMRS' actuarial cost method and assumptions 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. Calendar year 2015 is the final year in which a city may have a phase-in rate resulting from the 2007 actuarial changes.

At the October 2013 meeting, the TMRS Board of Trustees approved a "package" of actuarial changes to be first reflected in the December 31, 2013 actuarial valuation (see the Actuarial Changes section for details). Even though these actuarial changes were adopted as a package in an effort to minimize the impact on contribution rates, some cities' contribution rates increased as a result of these changes (see the line for Actuarial Changes in the Reconciliation of Full Retirement Rate section). Any city that experienced an increase of 0.50% or more due to the 2013 actuarial changes will be given the option to phase in 0.50% per year until the full retirement rate is reached.

Your city is eligible for a contribution rate phase-in due to one or both of the phase-in options discussed above. If the contribution rate increase due to the 2013 actuarial changes is less than 0.5%, then the 2007 phase-in balance is applicable. On the other hand, if the contribution rate increase due to the 2013 actuarial changes is 0.5% or more, then a new phase-in balance is established equal to the sum of the 2013 actuarial changes rate increase and the remaining 2007 phase-in balance, if any.

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 to allow cities to make additional contributions to TMRS.

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

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. 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.

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. Specifically, the amortization of actuarial gains created by additional contributions will decrease the Full Rate (by a decrease in the Prior Service Rate) in the following year's actuarial valuation. Cities that make contributions in excess of the Full Rate should also see their funding ratios improve more rapidly.

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

Yes. For any year in which your city is eligible to phase in the full retirement rate, 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 will be reduced by the decrease in the Full Rate. 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 2014, will my 2015 contribution rate be recalculated?

Yes. 2015 contribution rates will be re-determined for cities that adopt changes in plan benefits before the end of calendar year 2014.