



June 1, 2016

City #00206

City Official
City of Burton
P.O. Box 255
Burton, TX 77835-0255

Subject: 2017 Municipal Contribution Rate

Dear City Official:

Presented below are your city's contribution requirements to the Texas Municipal Retirement System (TMRS) for Plan Year 2017 (Calendar Year 2017, PY2017) as determined by the December 31, 2015 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, 2016 and the actuarial assumptions and methods adopted by the TMRS Board. Effective January 1, 2017, your city's monthly contribution rates will be:

Normal Cost	1.64%
Prior Service	<u>7.79%</u>
Total Retirement Rate	9.43%
Supplemental Death Benefit	<u>0.10%</u>
Total Combined Contribution	9.53%

The Total Retirement Rate shown above represents the Actuarially Determined Employer Contribution (ADEC) for PY2016 based on current TMRS funding policy. The actuarial liabilities and contribution rates determined as part of the December 31, 2015 actuarial valuation reflect a change in actuarial assumptions based on the results of the 2015 experience study for the period ending December 31, 2014. Please see the "Actuarial Changes" section for more detailed information. Full information on your contribution rate, including an explanation of changes, is contained in the attached report.

IMPORTANT NOTE: The pension disclosure and financial statement information necessary to assist your city with the financial reporting requirements of the Governmental Accounting Standards Board (GASB) will be provided in a separate document available later this summer.

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

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Actuarial Changes

As part of their continued effort to ensure that TMRS is well funded and that members' benefits remain secure and sustainable over generations, the TMRS Board of Trustees adopted the actuarial changes summarized below at its December 2015 Board meeting, based on the results of the 2015 experience study and the recommendations of the System's consulting actuary, Gabriel Roeder Smith & Company (GRS). The combined impact of the following changes is shown in the "Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report" section of this letter.

Actuarial Assumption Changes

The TMRS Act requires that at least once every 5 years, the System's consulting actuary perform an actuarial experience study and make recommendations to the Board based on the results of that study. Current Board policy is to conduct an actuarial experience study every four years. Accordingly, during 2015, TMRS' consulting actuary, GRS, conducted an experience study for the period ending December 31, 2014. A single set of assumptions is not expected to be suitable forever. As the actual experience of a plan unfolds or the future expectations change, the assumptions should be reviewed and adjusted accordingly. The actuarial assumptions used in the annual actuarial valuations and reviewed as part of the experience study are generally grouped into the following two major categories:

1. Economic assumptions – investment return, salary increases, overall payroll growth, inflation
2. Demographic assumptions – rates of termination, forfeiture, service retirement, disability retirement, pre-retirement mortality, post-retirement mortality

The Board adopted several changes in actuarial assumptions including:

- Reduction in the investment return assumption from 7% to 6.75%
- Reduction in the inflation assumption from 3% to 2.5%
- Reduction in individual salary increases
- Reduction in projected cost of living adjustments (COLAs) consistent with lower inflation
- Reduction to the 3% payroll growth assumption for cities with patterns of population decline
- Reduction in the rates of termination and modification of classification and city multipliers
- Reduction in forfeiture rates (withdrawal of member deposits) for vested members not eligible for retirement
- Reduction in rates of disability

Asset Valuation (Smoothing) Method Modification

An asset smoothing method is the technique used in determining the Actuarial Value of Assets (AVA) which recognizes gains or losses in pension assets over some period of time in order to reduce the effects of normal market volatility on contribution rates. In TMRS, the AVA is based on the Market Value of Assets (MVA) with ten-year smoothing applied. This is accomplished by recognizing each year 10% of the difference between the MVA and the expected AVA, based on the assumed rate of investment return. The AVA is further adjusted by 33% of any difference between the initial value and a 15% corridor

around the MVA. Effective with the December 31, 2015 actuarial valuation, a provision was added to the current 10-year smoothing method to ensure that an asset gain or loss from an individual year is fully recognized within 10 years. Also, beginning with the December 31, 2015 actuarial valuation, a System-wide calculation to determine the ratio of the smoothed value to the market value in aggregate will be performed and that ratio will then be applied to each city's MVA in determining their individual AVA. Previously, the AVA was determined for each individual city based on the cash flow and asset levels of that city.

Amortization Policy Modification

In TMRS, for underfunded plans, amortization of the Unfunded Actuarial Accrued Liability (UAAL) is a level percentage of payroll over a closed period using the process of "laddering" which separately tracks different amortization components or bases. For all new losses, including benefit enhancements, occurring after December 31, 2015, the maximum amortization period will be 25 years for all cities. Previously, some cities amortized their losses over a 30-year period. Bases created on or before December 31, 2015 will continue to be amortized on their original schedule. This change will have no impact on the December 31, 2015 actuarial valuation, but will affect future valuations for certain cities.

Executive Summary

Valuation as of TMRS Plan Year (PY) Ending	12/31/2015
Membership as of the Valuation Date <ul style="list-style-type: none"> Number of <ul style="list-style-type: none"> - Active members 1 - Retirees and beneficiaries 0 - Inactive members <u>0</u> - Total 1 Prior year's payroll provided by TMRS \$ 17,657 Valuation Payroll \$ 35,315 	
Benefit Accumulation Fund (BAF) Assets <ul style="list-style-type: none"> Market BAF Balance \$ 2,465 BAF crediting rate for PY 0.06% Interest credited on beginning BAF balance \$ 0 Municipal contributions 1,582 Member contributions during year 883 Benefit and refund payments 0 	
Actuarial Value of Assets (AVA) <ul style="list-style-type: none"> Market BAF Balance \$ 2,465 Actuarial Value of Assets (AVA) 2,532 AVA as a Percentage of BAF 102.7% Return on AVA* 	
Actuarial Information <ul style="list-style-type: none"> Actuarial accrued liability (AAL) \$ 17,181 Actuarial value of assets (AVA) 2,532 Unfunded actuarial accrued liability (UAAL) 14,649 UAAL as % of pay 83.0% Funded ratio (AVA/AAL) 14.7% Employer normal cost 1.64% Prior Service Rate 7.79% 	
Contribution Rates for TMRS Plan Year (PY) <ul style="list-style-type: none"> Member 2017 5.00% Full retirement rate (ADEC) 9.43% Supplemental Death rate 0.10% 	
Total Employer Contribution Estimates for PY <ul style="list-style-type: none"> Projected payroll \$ 36,374 Combined contribution rate 9.53% Estimated employer contribution \$ 3,466 	

Note: TMRS Plan Year coincides with Calendar Year

* Return on AVA is calculated prior to actuarial changes.

Calculation of Contribution Requirements

<u>December 31, 2015</u>				
		New Assumptions		Old Assumptions
1.	Prior year's payroll provided by TMRS	\$	17,657	\$ 17,657
2.	Valuation payroll		35,315	35,315
3.	Employer normal cost rate		1.64%	1.28%
4.	Actuarial liabilities			
a.	Present active members	\$	17,181	\$ 16,360
b.	Present inactive members		0	0
c.	Annuityants		<u>0</u>	<u>0</u>
d.	Total actuarial accrued liability	\$	17,181	\$ 16,360
5.	Actuarial value of assets		<u>2,532</u>	<u>2,465</u>
6.	Unfunded actuarial accrued liability (UAAL) (4d - 5)	\$	14,649	\$ 13,895
7.	Funded ratio (5 / 4d)		14.7%	15.1%
8.	Equivalent Single Amortization Period*		6.0 years	6.0 years
9.	Assumed payroll growth rate		3.00%	3.00%
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Contribution Rate for TMRS Plan Year:			<u>2017</u>	
10.	Full retirement rate			
a.	Normal cost		1.64%	1.28%
b.	Prior service		<u>7.79%</u>	<u>7.44%</u>
c.	Full retirement rate		9.43%	8.72%
11.	Supplemental Death rate		0.10%	0.10%
12.	Combined contribution rates (10c + 11)		9.53%	8.82%

* New Losses are laddered on 6-year period.

Summary of Benefit Provisions

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:

	Plan Year 2016
Employee deposit rate	5%
Matching ratio (city to employee)	1 to 1
Years required for vesting	5
Retirement Eligibility (Age /Service)	60/5, 0/20
Updated Service Credit	0%
Annuity Increase (to retirees)	0% of CPI
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Amortization Bases and Payments

Year Established	Description	Years Remaining	Base	Payment
2015	2015 Experience	6	\$13,895	\$2,611
2015	2015 Actuarial Changes	6	<u>754</u>	<u>142</u>
	Total		14,649	2,753

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)		
2015	\$ 17,657	8.96%	\$ 1,582	\$ 883	\$ (0)	\$ 2,465	\$ 0	\$ 2,465
2016	\$ 35,315	8.96%	\$ 3,164	\$ 1,766	\$ (28)	\$ 4,902	\$ 166	\$ 7,533
2017	\$ 36,374	9.43%	\$ 3,430	\$ 1,819	\$ (54)	\$ 5,195	\$ 508	\$ 13,237

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.