EXECUTIVE WORKSHOP
Texas Municipal Retirement System

TMRS Makes Sense
TMRS
Makes $ense
Plan of choice for Texas cities; voluntary statewide retirement plan

Benefits are funded by mandatory employee deposits, city contributions, and investment income

Operates by local control: Each participating city controls employer costs by choosing its own options
System Soundness = City Choices

SYSTEM

• All TMRS benefits are **fully advance-funded** over each employee’s active working career

• TMRS’ System funded ratio is 85.8% and System-wide unfunded actuarial accrued liability (UAAL) is $4.03 billion (as of 12/31/15)

CITY

• Contribution rates* vary depending on benefits (e.g., 2.31% for cities with 5% / 1:1 match with no Updated Service Credit/Cost of Living Adjustment (USC/COLA), vs. 15.76% for cities with a 7% / 2:1 match and repeating USC/COLAs

• Average contribution rate for all cities for 2017 is 13.24%

*Average rates weighted by payroll
• TMRS increases a city’s workforce competitiveness in hiring: 866 cities participate in TMRS, and the number increases each year

• TMRS benefits are effectively portable across participating cities to help attract experienced employees

• A typical DB plan provides equivalent retirement benefits at about half the cost of a typical DC plan.*

Sound Local Funding

Each city’s plan is actuarially funded as a separate entity:

- Each city has its own assets, liabilities, and funded ratio
- TMRS determines each city’s Actuarially Determined Employer Contribution (ADEC) based on the benefit plan chosen by city
- Cities must pay the ADEC every year, or reduce benefits if the ADEC is not sustainable
- All plans are funded over a closed period of no more than 25 or 30 years
- No pension contribution “holidays”
The majority of a TMRS retiree’s benefit is funded by investment earnings on member and city contributions over the member’s career.

TMRS’ administrative costs are low — approximately 0.24%* of assets in 2015 (including investment management fees) — compared to an average of 1.00% for 401(k)s**.

TMRS’ actuarial investment return assumption (net of expenses) is 6.75% — one of the lowest in the country for large public sector plans.

* Investment fees do not include fees that are paid directly out of private investment funds.
** Source: Center for American Progress, 2014 study.
Makes Sense for the Public, cont.

- TMRS is a “hybrid” cash balance defined benefit (DB) retirement plan that receives no state funding
- Decisions that affect costs are made locally
- TMRS invests $24.3 billion in the capital markets (12/31/15)
  - Investments are made through a well-diversified portfolio over a long investment horizon.
- TMRS benefits provide a stable income for retirees and may reduce their need for other public services
• TMRS benefits are economically important to Texas communities

• Most TMRS retirees live in the communities where they worked

• TMRS paid $1.2 billion in benefits and refunds in 2015, up from $1.1 billion in 2014

• A past study by economist Ray Perryman used a 2.379 multiplier to estimate the “ripple” effect of each benefit dollar, resulting in a statewide economic benefit of $2.617 billion.
Retirement is traditionally described as a “three-legged stool,” comprising:

- Retirement Program
- Social Security
- Personal Savings
- 401(k)s and similar defined contribution (DC) plans were never intended to be the primary retirement vehicle
- Lifetime benefits for retirees and survivors provide long-term protection
Makes Sense for Members, cont.

• As members, city employees are rewarded by the prudent, diversified investment policies of the System (as opposed to relying on making personal investment decisions)

• A pension plan provides greater stability and less vulnerability to market fluctuations

• Retirement savings of TMRS members were not affected by the severe market downturn of 2008; whereas 401(k) asset values declined more than 25% on average
If you have further questions, contact TMRS at 800-924-8677 or help@tmrs.com