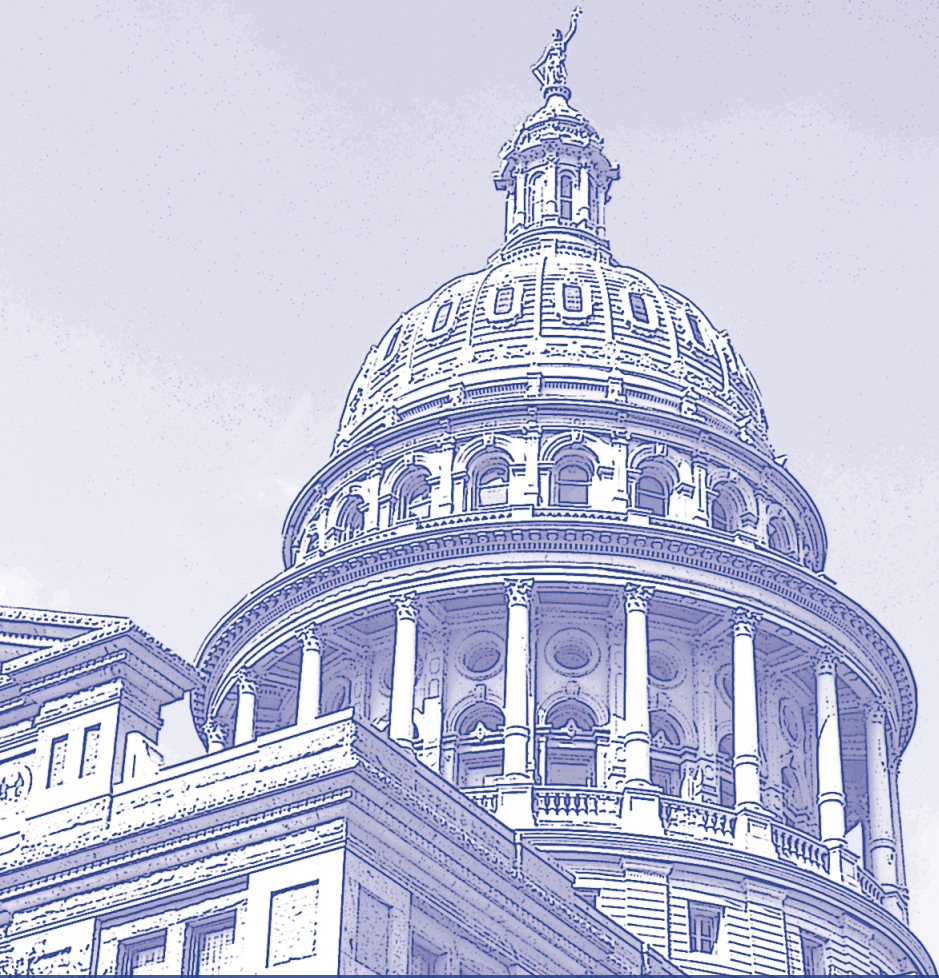


# Guide to TMRS

Texas Municipal Retirement System



for the 81<sup>st</sup>  
Texas Legislature

February 2009

## What is TMRS?

The Texas Municipal Retirement System (TMRS) was created by the Texas Legislature in 1947. TMRS does not receive state funds but is governed by state law. Texas municipalities choose to participate in TMRS to provide retirement benefits to their employees.

We started out with 9 cities in 1948 and have grown to 827\* participating cities, ranging in size from 1 to 6,304 contributing members. Our pension fund covers 134,885\* active employees and 32,143\* retirees.

TMRS makes a large impact on the Texas Economy. A study by The Perryman Group in 2006 determined that participation in TMRS affects the financial well-being of thousands of Texans, and payments through the system are a notable source of economic growth for communities across the state. The majority of our retirees live in Texas. The System's membership, contributions, and payments have expanded in recent years; in 2006 alone, the impact of TMRS money resulted in \$1.32 billion in annual spending and 9,365 permanent jobs.

Cities voluntarily choose to participate in TMRS. Once a city joins the System, TMRS requires enrollment of all eligible employees of the city. We provide a menu of plan options for our cities so they can tailor their particular plan to match their city's needs.

A city that joins TMRS decides on an employee contribution rate (5, 6, or 7% of gross salary) and the city matching ratio (1:1, 1.5:1, or 2:1) to help fund employees' retirements. Vesting for the majority of cities is 5 years, and retirement eligibility is 20 years of service at any age, or 5 years of service and attained age of 60. In addition to these basic options, cities may add features to their plan; these additional options include Updated Service Credit (USC), Annuity Increases (COLAs), service credit for other government employment or military service, buyback of forfeited TMRS credit, and Supplemental Death Benefits. All plan decisions and modifications remain in the cities' hands; plan provisions may be changed only by city ordinance.

\* Figures as of 12/31/07, *TMRS Comprehensive Annual Financial Report*.

Copyright 2008, Texas Municipal Retirement System

This brochure is an informal presentation of information about TMRS and related issues. If any specific questions of fact or law should arise, the statutes will govern. TMRS is a registered trademark of the Texas Municipal Retirement System. The TMRS logo is a trademark of the Texas Municipal Retirement System.

## **HB360 by Kuempel/SB908 by Williams contain changes recommended by the TMRS Board of Trustees.**

Although TMRS has operated well for 60 years, changes in the economic markets and the demographics of our membership have led the TMRS Board of Trustees to identify legislative changes that will help ensure the future soundness of the System.

***This legislation is the most important in the 60-year history of TMRS.***

### **What's in HB360/SB908?**

The TMRS Board of Trustees, acting as fiduciaries of the plan, with the advice of the Legislative Stakeholder Group (LSG), has approved a short list of changes that need to be made to the TMRS Act. These changes included in HB360/SB908 will do three things:

1. Guarantee an annual interest credit of at least 5% to member accounts and set the annuity purchase rate for retirees at a minimum of 5%
2. Allow the crediting of unrealized income
3. Allow city accounts to receive annual interest at a rate different from the member rate, including negative interest

### **Why is HB360/SB908 needed?**

#### **☑ To allow continued diversification of the TMRS fund and to improve investment returns**

In 2007, the TMRS Board voted to begin diversifying the System's investments from its traditional 100% investment in bonds to a diversified portfolio similar to that of other public retirement systems.

A diversified portfolio will improve the fund's performance over time and reduce the risk associated with having all assets in a single type of security. For years TMRS has relied on the income stream from bonds to pay annual interest. In the current economic environment, however, the projected income stream from bonds is lower than at any time in recent history. To preserve members' benefits and to mitigate future city contribution rate increases, TMRS is moving to a total market return-based investment strategy.

☑ **To guarantee that member interest rates and annuity purchase rates will remain at least 5% in the future**

Without diversification, member interest rates and annuity purchase rates (to fund retirements) will fall below 5%. Although many members believe that 5% is currently a guaranteed statutory rate, that is not true. The bill will guarantee a minimum 5% rate.

☑ **To provide a more robust income stream within acceptable risk parameters**

In 2007, TMRS changed the actuarial cost method that is used to determine city contribution rates. One effect of this change was to cause rate increases for cities that have chosen to provide retiree Cost of Living Adjustments (COLAs) and Updated Service Credits for active members on an automatic, annually repeating basis. Without this change, these cities would have seen their contribution rates increase while the funded status of their plan decreased. Asset diversification will improve investment income over time and help keep retirement benefits affordable for cities while reducing the risk associated with a portfolio invested entirely in a single class of investment.

☑ **To enable TMRS, over time, to build a strong reserve fund for the future**

One item discussed by the LSG and the TMRS Board that does not require legislative change is also crucial to the future health of the System. TMRS maintains a reserve fund now, but with the new funding structure, the role of a strong reserve policy will be more important. The Board will work with the Advisory Committee and the System's actuaries in 2009 to determine a sound reserve policy for the future. Once established, a reserve fund can help reduce the volatility of city contribution rates and, in the long term, provide a basis for equitably sharing future investment returns.

## **Why is TMRS diversifying investments in an uncertain financial market?**

TMRS is a long-term investor. Although the stock market has been erratic lately, over time, stocks are expected to outperform bonds, and a diversified portfolio is the best defense against downturns in the economy. It is important to note that HB360/SB908 does not grant TMRS any additional investment authority — the System

already has statutory authority to diversify its portfolio into securities other than bonds, provided they are prudent investments. HB360/SB908 will allow the crediting of interest to member and city accounts that is appropriate with a total market return strategy.

## **What happens if HB360/SB908 doesn't pass?**

### **☑ Member interest rates will fall below 5%**

If TMRS remains mainly in bonds, the income stream will not support a 5% interest rate over time, and the rate could fall below 5% — possibly as early as 2016. Likewise, the annuity purchase rate that is used to calculate monthly benefits at the time a person retires will not be sustainable at 5%. Rates below 5% represent a direct benefit reduction for future retirees.

### **☑ City contribution rates (percentage of payroll) will rise even higher in the near future**

The current actuarial valuation of TMRS is based in part on an assumption that TMRS investments will earn an average 7% return over time. Without diversification, the return assumption will need to be set at a lower percentage. Without assumed future investment earnings at a 7% rate, city contributions will increase immediately, beginning with the December 2009 actuarial valuation. Cities with annually repeating benefits that have already experienced significant contribution rate increases will see even higher rates. Some cities that cannot afford the higher costs may reduce TMRS benefits for members prospectively.

## **Who helped craft HB360/SB908?**

In 2008, TMRS created the Legislative Stakeholder Group (LSG). The Chair and Vice-Chair of the LSG were TMRS Board members, and the organizations participating in the LSG included:

- ▶ Arlington Professional Firefighters Association
- ▶ City of San Antonio
- ▶ Combined Law Enforcement Associations of Texas
- ▶ Government Finance Officers Association of Texas
- ▶ Service Employees International Union – San Antonio
- ▶ Texas City Management Association

(cont.)

- ▶ Texas Municipal Human Resources Association
- ▶ Texas Municipal League
- ▶ Texas Municipal Police Association
- ▶ Texas State Association of Fire Fighters
- ▶ Several local elected officials

The LSG met throughout 2008 and heard presentations from actuaries, TMRS staff, and representatives of the Texas County and District Retirement System, which has similar provisions already in place. After much discussion, the entire group arrived at a consensus on recommendations that were presented to and approved by the TMRS Board.

In recognition of the value of the LSG, in September 2008 the TMRS Board expanded the Advisory Committee for Retirement Matters, a group created by TMRS to provide input to the Board and to enhance communications with members, retirees, and elected officials. The Advisory Committee now includes representatives from each of the associations that participated in the LSG.

We believe that the makeup of the LSG and the consensus they reached created a broad base of support for the TMRS legislative package.

## **What about other TMRS issues?**

The TMRS Board chose to limit its proposal to the three core items listed on page 3, but we are aware that other ideas may be brought forward for discussion or introduced as bills. During the legislative session, TMRS will act as a resource for other proposals that might affect the System.

## How do I contact TMRS?

### **Eric Henry**

Executive Director and Chief Investment Officer  
*ehenry@TMRS.com*

### **Eddie Solis**

Government Relations Director  
*esolis@TMRS.com*

### **TMRS Headquarters Building**

1200 North Interstate 35  
Austin, TX 78701

### **Mailing Address**

P.O. Box 149153  
Austin, TX 78714-9153

**Toll-free** • 800.924.8677

**Local** (in greater Austin) • 512.476.7577

**Fax** • 512.476.2903

**Website** • *www.TMRS.com*



**Texas Municipal Retirement System**