

Texas Municipal Retirement System



TMRSFACTS

For City Officials

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TMRSFACTS

For City Officials

Purpose of this Guide

This guide for city officials — city managers, finance officers, and elected and appointed officials — is intended to provide the information you need to understand how the Texas Municipal Retirement System (TMRS) works. For a complete description of TMRS plan benefits, see the *Member Benefits Guide*.

What Is TMRS?

TMRS is a retirement system created by the Texas State Legislature in 1947 and administered in accordance with the **Texas Municipal Retirement System Act, Subtitle G, Title 8, Texas Government Code**, for municipal employees in the State of Texas. TMRS is a public trust fund that bears a fiduciary obligation to the public employees and retirees who are its beneficiaries. The Administrative Rules governing the System are adopted by the TMRS Board of Trustees and are contained in the **Texas Administrative Code, Title 34, Part 6**.

Pension and other benefits are administered by TMRS on behalf of almost 850 participating municipalities throughout the State of Texas. Cities voluntarily elect to participate in the System, and once they do so, state law requires full participation by all eligible employees of the member city. Cities choose from a menu of plan options to provide benefits they deem appropriate. The city's retirement plan description, as stated in the Governmental Accounting Standards Board (GASB) Compliance Data section of the TMRS Annual Rate Letter, reads as follows:

The City provides pension benefits for all of its eligible employees . . . through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

All eligible employees must participate in TMRS except for any excluded departments (such as firefighters or police who may be covered by other pension plans). The plan is “non-traditional,” which means it is not a standard salary and service-formula pension plan. It is “joint contributory,” which means that both the member and the employer city contribute to the plan; and it is a “hybrid defined benefit” plan, which means it has some elements of both defined benefit (DB) and defined contribution (DC) plans. Cities join TMRS voluntarily, and the plan decisions and modifications remain in the city's hands. Cities may change their plan provisions by ordinance.

Who Governs TMRS?

The TMRS Act provides that the governance of TMRS is entrusted to a six-member Board of Trustees, appointed by the Governor of Texas with the advice and consent of the Senate. Three Trustees are “Executive Trustees,” who are the chief executive officer; chief finance officer; or other officer, executive, or department head of a participating municipality. Three Trustees are “Employee Trustees,” who are employees of a participating municipality. A current list of Board members may be found on the TMRS website.

What Is the TMRS Advisory Committee? The 19-member Advisory Committee on Retirement Matters is appointed by the TMRS Board of Trustees and serves at the pleasure of the Board. The Advisory Committee provides valuable assistance to the Board in considering benefit changes and improvements to the System, and also acts as a voice for member, retiree, and city issues. Nine of the Advisory Committee members are “individual class”

members, appointed by the Board from a list of applicants. The other ten are “group class” members, representing the following organizations: Combined Law Enforcement Associations of Texas, Texas Municipal Police Association, Texas State Association of Fire Fighters, Service Employees International Union – San Antonio, Arlington Professional Firefighters Association, City of San Antonio, Texas Municipal League, Texas City Management Association, Government Finance Officers Association of Texas, and Texas Municipal Human Resources Association.

Full details on the Advisory Committee, the committee’s charter, and the application form for individual class membership are available on the TMRS website.

Where Can I Find the TMRS Statutes?

TMRS is governed by the Texas Government Code, Title 8, Subtitle G, Texas Municipal Retirement System, Chapters 851 General Provisions, 852 Membership, 853 Creditable Service, 854 Benefits, and 855 Administration. All amendments to the TMRS Act in the form of laws passed by the Texas Legislature are incorporated into this law. See Exhibit A for a timeline showing modifications to the provisions made under the TMRS Act.

Updated laws are available through www.statutes.legis.state.tx.us, and Administrative Rules are available through the Texas Secretary of State’s website, www.sos.state.tx.us. Other statutes also apply to TMRS as a governmental entity.

How Does the Plan Work?

TMRS is one of the nation’s oldest “hybrid” pension plans. Being a hybrid means we share some traits of defined benefit (DB) and defined contribution (DC) plans (see the Glossary, pages 14-17, for definitions). TMRS has many of the features of a DC, or “cash balance,” plan (where a member’s basic benefit is calculated based on account balances rather than on a benefit multiplier applied to salary and service), but investments are not member-directed like most DC plans. TMRS’ DB plan features include a 5% interest credit “floor,” Prior Service Credits, Updated Service Credit (USC), Cost of Living Adjustment (COLA) options, and a lifetime annuity payable upon retirement.

TMRS does not receive state money; it is funded by TMRS members and municipalities, plus earnings from System-wide investment income. As shown in Figure 1, the overall System assets reflect the accumulated value of employer and employee contributions, plus earnings from investments, less benefit payments and expenses.

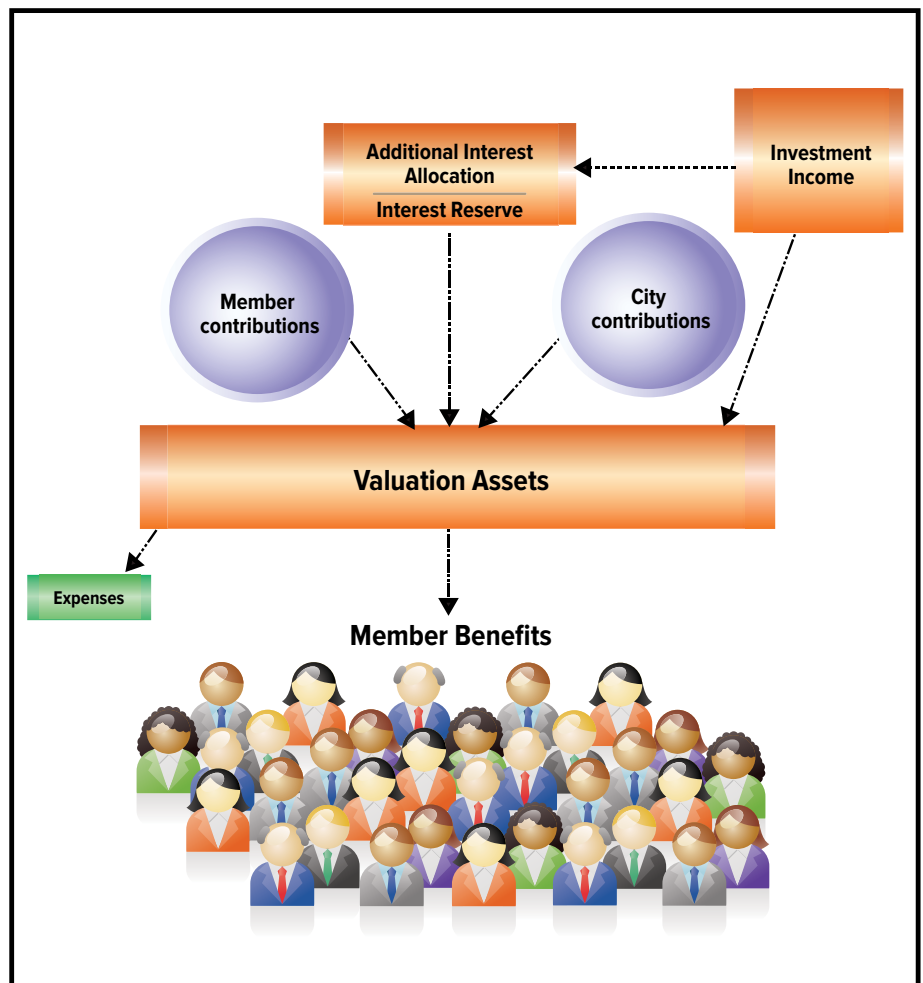


FIGURE 1. TMRS SYSTEM FUNDING MECHANICS (NOT TO SCALE)

Cities maintain close contact with TMRS in the three key areas of administration, plan design, and recordkeeping/payroll reporting:

City Correspondents – Each city designates at least one representative, or City Correspondent, to be responsible for the city’s administration of TMRS. To help with that responsibility, we offer a City Correspondent’s certification training course several times each year covering member benefits administration, and we include training courses in the TMRS Annual Training Seminar. In addition, we provide the TMRS City Portal, which is an online resource for cities (see description below). Correspondents handle the day-to-day administrative work and serve as the city’s primary contact with TMRS. A key part of their role at the city level is to educate members about the way TMRS works, but they are not considered to be “agents” of the retirement system.

City Decision-Makers – The city’s decision-makers include the mayor, city council or commission members, the city manager, the finance officer, and other municipal employees. These officials make decisions involving TMRS benefits, decide which plan provisions to offer to the city’s employees and retirees, and consider changes that affect plan costs.

Payroll Reporting – Every city must send its payroll report and remit funds to TMRS each month. These functions are usually performed by finance or accounting personnel. For more information, see “How Does My City Report Payroll?” on page 7.

The TMRS City Portal

The TMRS City Portal allows cities to perform several administrative tasks online. The City Portal gives authorized users online access (through a secure web URL) to a program with separate sections: Member Center, City Account Information, and Payroll. From this program, authorized city users may generate reports, run estimates at the request of member employees, and submit payroll data via TMRS’ FTP site. Authorized users can also view member account balances and service credit totals.

The City Portal may be accessed only by authorized users designated by each city. Each city must choose one City Portal Administrator, who is responsible for assigning rights to and training other users. In many cities, the Administrator is also the TMRS City Correspondent. Before cities may use the Portal, City Portal Administrators must receive training to ensure that the city’s other designated users understand how to navigate the Portal, what information may be accessed, and the importance of safeguarding member confidentiality. The City Portal Administrator must take a training course (either in a classroom setting or online on the TMRS website). After the Administrator receives training, the city must submit a signed legal document, the City Portal User Agreement.

How Are TMRS Retirement Benefits Funded?

All pension plans are funded on this basic equation: Contributions (C) + Income (I) = Benefits (B) + Expenses (E). Actuaries use actuarial assumptions to predict the values of B, E, and I, which then determine C. In TMRS, benefits plus expenses are funded by employee deposits, employer contributions, and investment earnings. For an update on TMRS’ investment diversification, see Exhibit B.

Each year, in determining the assets, liabilities, and contribution rates for each participating city, the TMRS consulting actuary performs an actuarial valuation based on the plan provisions in effect on December 31, the valuation date. The valuation examines current and future actuarial assets and liabilities and applies conservative assumptions and projections to determine the appropriate percentage of payroll needed to pay for the benefits the city has chosen to provide.

Contributions to fund retirement benefits typically have two components, both determined by the plan’s actuarial funding method and expressed as a percentage of payroll: Normal Cost contribution and Prior Service contribution. The Normal Cost is the present value of projected future benefits allocated to the current valuation year of service for all active members. The Prior Service contribution rate is the amount necessary to amortize the

Unfunded (Overfunded) Actuarial Accrued Liability (UAAL/OAAL) over the applicable period of time (amortization period) for that city. The Actuarial Accrued Liability (AAL) reflects the portion of the present value of projected future benefits allocated to all prior valuation years of service for all active, inactive, and retired members and beneficiaries. The Unfunded Actuarial Accrued Liability (UAAL) is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets (AVA) on the valuation date (see “Asset Smoothing” section on page 8 for more information on AVA). In the case of a surplus, the Overfunded Actuarial Accrued Liability (OAAL) is the difference between the AVA and AAL. The valuation also calculates each city’s “funded ratio,” which is the ratio of the Actuarial Value of Assets to Actuarial Accrued Liabilities.

From the city’s point of view, the deposit a city makes each month pays for the city’s Normal Cost plus a Prior Service amount that will amortize the UAAL/OAAL over the city’s amortization period (generally 25 or 30 years), plus the actuarially determined cost of the city’s Supplemental Death Benefits (if adopted). In other words, your city’s total plan cost is the combined cost of the retirement plan and Supplemental Death Benefit plan, if applicable.

As certified by our independent actuary, TMRS is funded in accordance with generally accepted actuarial principles and with the Actuarial Standards of Practice issued by the Actuarial Standards Board, complies with the TMRS Act, and complies, where applicable, with the Internal Revenue Code and Statements of the Governmental Accounting Standards Board (GASB). Each city’s funding objective, based on the benefit provisions chosen, is to accumulate, over the working career of each active member, sufficient assets to pay benefits as they become due and to finance any unfunded prior service benefits over a period of time not greater than 30 years (25 years for some cities). To accumulate funds for benefits, each member city maintains an account in the **TMRS Benefit Accumulation Fund (BAF)**. Employee deposits and interest credits are also held in trust in the BAF.

Each year, TMRS provides your city with a Rate Letter, which shows your actuarially determined plan cost information and your city’s funded ratio, along with additional detailed information (see Exhibit C). The year-to-year change in contribution rates and the trend over time in the funded ratio reflect your city’s progress toward funding its promised benefits.

The BAF is part of TMRS’ Fiduciary Fund. TMRS reports the Fiduciary Fund in two parts: the Pension Trust Fund and the Supplemental Death Benefits Fund. If your city elects to provide Supplemental Death Benefits (SDBs) for active members, with or without retirees, that money is held in a separate fund.

Pension Trust Fund Accounts – The TMRS Act has established the funds listed below. These funds comprise the net assets held in trust for benefits. For a full description of these funds, see the *TMRS Comprehensive Annual Financial Report (CAFR)*, Financial section.

- Benefit Accumulation Fund (BAF) — all contributions made by member employees, plus credited interest, and all contributions made by cities, plus investment income.
- Endowment Fund — investment income (Interest Reserve Account).
- Expense Fund — fund to cover administrative and maintenance costs of TMRS.
- Supplemental Disability Benefits Fund — a closed fund that has not received contributions since 1987 due to a change in the TMRS Act.

Each year we issue the TMRS CAFR, which provides the changes in the BAF balances for each city.

Supplemental Death Benefits Fund – TMRS also administers a cost-sharing multiple-employer defined benefit group-term life insurance plan. This is a voluntary program separately reported in the CAFR. Payments from this fund are similar to group-term life insurance benefits and are paid to the beneficiary of active employees (calculated based on the employee’s actual earnings for the 12-month period preceding the month of death). For retirees, the Supplemental Death Benefit (SDB) is considered a postemployment benefit other than pension benefit (OPEB) and is a fixed amount (currently \$7,500) paid to the beneficiary.

Fund Structure Reflects Combined (Restructured) Funds – Before legislative changes enacted in 2011 created the BAF, TMRS’ internal accounting structure required that we maintain separate funds for both member and city contributions. Additionally, a separate fund was maintained solely for administration of retiree pensions. For an explanation of the former structure and the change in state law that restructured TMRS funds, see the publication “TMRS Fund Restructuring Questions and Answers,” available on the TMRS website or by request from TMRS.

How Does My City Report Payroll?

This function is usually handled by the city’s payroll officer or TMRS City Correspondent. For monthly processing, each city sends a monthly payroll report and transmits the required employee and city contributions, which must be submitted by the 15th of the month after the month being reported (either by mail or electronically; TMRS recommends the latter). After the city has submitted the report (containing payroll data) and TMRS has received the contributions, the information must be added to the member’s account before any action (refund or retirement) may be taken on that account. Items in this monthly reporting are:

- Employee Contributions Report (TMRS-2)
- Summary of Monthly Payroll Report (TMRS-3)
- City’s Remittance (calculated on the Summary of Monthly Payroll Report)
- Remittance of Lump Sum Contributions (TMRS-3ADD), if needed

Cities are requested to report their payroll information electronically through the TMRS City Portal, which allows TMRS to process monthly information faster, increases efficiency, and reduces errors. We also encourage cities to transmit their funds electronically whenever possible using electronic funds transfer. To aid cities with payroll submission (both data and funds), a tutorial and reference materials are available on the TMRS website.

How Are Retirements Calculated?

Employees contribute to their accounts according to their city’s deposit rate of 5%, 6%, or 7% (cities were formerly allowed to adopt a 3% deposit rate, and three cities still use this rate). The city agrees to match the member’s deposits and interest credits, on the date of retirement, depending on the city’s matching ratio option (1 to 1, 1½ to 1, or 2 to 1). The only way the member may receive the city matching funds is to retire from TMRS and receive a monthly payment. City matching funds are not reduced if a member selects a Partial Lump Sum Distribution option.

When members retire with TMRS, a lifetime benefit is calculated based on the following factors:

- Total member deposits and interest credits
- City matching funds and other credits granted (such as Updated Service Credit)
- Member’s remaining life expectancy at retirement
- Monthly payment option chosen
- Beneficiary’s life expectancy (if member selects a plan that pays a lifetime benefit to a survivor), or the guaranteed term, if one is chosen
- Future interest credits at 5% per year
- Whether the member chooses to take a Partial Lump Sum Distribution

Interest on Member Accounts – Interest on member and city employee accounts is credited once each year. Member accounts are credited on December 31, calculated on the account balance as of January 1 of that calendar year. Since 2009, state law has provided that a guaranteed minimum of 5% interest be credited to each member’s account annually.

Interest on City Accounts – City accounts are also credited with interest as of December 31, based on their BAF account balance as of January 1. The amount of the city interest credit is set by the TMRS Board of Trustees at a Board meeting after the end of the year, once the fund’s total return on investments is determined. City interest credits are based on:

- The annual total return of the System’s entire portfolio, and
- Any allocation to or from reserves (see discussion of reserves below).

The actuarially assumed interest crediting rate to the city’s BAF account is 7%, but actual BAF crediting rates may vary from the expected rate depending on the investment return of the entire portfolio. In a year in which investment returns perform below expectations, interest credits to the BAF may be less than 7% and may even be negative.

Asset Smoothing – Asset smoothing is a well-established actuarial technique used by most public sector retirement plans in determining the Actuarial Value of Assets (AVA) used for valuation funding purposes only. The technique of “smoothing out” the natural year-to-year fluctuations (positive and negative) inherent in the investment markets is designed to minimize the contribution rate and funded ratio volatility that would occur if the Market Value of Assets (MVA) were used directly in the actuarial valuation calculations.

The TMRS Board has adopted a 10-year smoothing method with a 15% “soft” corridor on either side of the MVA to determine the AVA. Each year, the actuary recognizes 10% of the difference between the MVA and the expected AVA (based on the 7% return assumption). The AVA is further adjusted by 33% of any difference between the initial value and a 15% corridor on either side of the MVA, if necessary. Asset smoothing provides an employer with greater predictability of the value of its pension assets and thus greater predictability of its funding obligations; it does not affect long-term costs or funded positions, but it does have an impact on the timing of investment gain and loss recognition.

Interest Reserves – The TMRS Board has the discretion to maintain a reserve and change the amount of the reserve. Before 2011, the TMRS consulting actuary recommended that the System maintain a significant reserve fund to help mitigate wide annual swings in city contribution rates and funded status that might have resulted from a year with negative investment performance and the “leverage” that existed in the former TMRS fund structure. Restructuring the fund removed the structural volatility of the former fund divisions; therefore, the actuaries no longer recommend the maintenance of a large reserve. As a result, the Board redistributed all but \$100 million of the interest reserve (approximately \$1.1 billion as of December 31, 2010) to the city BAF accounts as an interest credit. This interest credit flowed into the city’s asset smoothing calculation, with 10% recognized as a gain in the December 31, 2010 AVA. The remaining 90% represents deferred gains and provides some protection against volatility in contribution rates due to future adverse investment experience.

How Do I Know My City’s Cost?

TMRS sends a Rate Letter each year containing detailed information on your city’s TMRS contribution rate and funding progress. The retirement portion of a member city’s contribution rate consists of the Normal Cost (NC) contribution rate and a Prior Service amount calculated to fund any UAAL/OAAL over a period not to exceed 30 years. The Normal Cost portion of the rate is the cost of benefits attributable to the current year of service for each active member and is determined by dividing the sum of the individual NC amounts for each participant by the current payroll.

What Is a UAAL or an OAAL? Determined each year as part of the actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL)/Overfunded Actuarial Accrued Liability (OAAL) is the difference between the Actuarial Accrued Liability (AAL) and the Actuarial Value of Assets (AVA). The actuarially determined contribution rate ensures that the UAAL/OAAL will be systematically amortized in an actuarially acceptable manner over a reasonable

period of time. The existence of a UAAL, by itself, is not necessarily an indicator that a plan is underfunded. Funding ratios should not be evaluated at one point in time; rather, funding progress is measured by the direction of the trend in the plan's funded ratio over time.

The UAAL generally has two components: 1) the cost of benefit increases that were not completely funded at the time of adoption, and 2) actuarial gains or losses. Liability for benefit increases is created:

- When the city grants Prior Service Credit to employees at the time the city begins participation in TMRS or under other special circumstances
- When the city grants an Updated Service Credit
- When the city grants an Annuity Increase (COLA) to its retirees
- When a city increases its plan benefits
- When a city decreases the age or service requirements for retirement eligibility

Actuarial gains or losses occur when the actual events during the year ("experience") do not match the actuarially assumed/expected events during the year. Gains (losses) on assets occur when actual investment returns are higher (lower) than anticipated. Liability gains (losses) occur when long-term assumptions (e.g., mortality, withdrawal, retirement, salary increases) are not met exactly. Determined each year by the actuarial valuation, actuarial gains (losses) decrease (increase) the AAL, are reflected in the resulting UAAL or OAAL, and are amortized separately as a level percent of payroll over the applicable (generally 25–30 years) closed amortization period.

Why Do Annual Contribution Rates Fluctuate? Contribution rates may increase or decrease from year to year due to changes in the plan provisions the city adopts, actuarial experience, or, less commonly, changes in actuarial assumptions or methodologies made by the TMRS Board with the advice of its consulting actuary.

Primary sources of annual rate changes for TMRS cities are:

- Benefit changes – Rates will increase (decrease) in the same direction as the change in benefit levels adopted. For example, ad hoc adoptions of Updated Service Credits and Annuity Increases (COLAs) will increase rates since these benefits have not been advance funded.
- The interest crediting rate to the BAF – Rates will increase (decrease) if the actual credit is below (above) the assumed 7% credit.
- Contribution Lag/Phase In – The "lag" refers to the one-year time delay between the valuation date and the contribution effective date. Actuarial gains (losses) occur when rates decrease (increase) from one year to the next. For example, an eligible city that chooses to contribute the minimum phase-in contribution will generate an actuarial loss in assets reflected as an increase in the following year's rate. Rates will stabilize for that city once it contributes at the Full Rate level.
- Liability growth – Rates will increase (decrease) with larger (lower) than expected growth in overall plan liabilities. The most significant sources for variance are turnover and individual salary increases that are different than expected.
- Payroll growth – Prior Service rates and the resulting UAAL/OAAL amortization payments are calculated on the basis of an assumed annual growth in overall payroll. Rates will increase (decrease) with overall payroll growth that is lower (higher) than expected.
- Normal Cost – Typically, the NC rate will increase (decrease) if the average age/service combination of the covered active member population increases (decreases) from one year to the next.

A reconciliation of your city's full contribution rate from the prior valuation is included in the Annual Rate Letter packet (see Exhibit C for contents of the packet). Your city's Rate Letter and enclosures (including GASB compliance data) are available on the TMRS website.

What Are Phase-in Rates? In 2007, when TMRS changed its actuarial cost method from Unit Credit to Projected Unit Credit, many cities with annually repeating benefits saw a significant increase in their contribution requirements due to the advance funding of projected future benefits. Any city that received a rate increase of 0.5% or greater due to actuarial method or assumption changes was given the option of paying a Phase-in Rate over an eight-year period beginning January 1, 2009, and ending December 31, 2016.

In addition, any increase in the 2010 rate due to the change in assumptions first reflected in the December 31, 2008, valuation was combined with the original phase-in balance and phased in over the remaining seven years of the phase-in period. Similarly, any decrease in the 2012 rate due to the combined impact of fund restructuring and new actuarial assumptions was offset against the remaining December 31, 2010, phase-in balance with the remainder, if any, phased in over the last five years (2012–2016, inclusive) of the original phase-in period.

A city paying the Phase-in Rate can expect to see the Phase-in Rate rise incrementally each year until the Full Rate is reached in 2016. Note that if the Phase-in Rate is utilized, the ultimate Full Rate in 2016 is expected to be higher than the comparable current year Full Rate due to the cumulative impact of contributions below the Full Rate level. Finally, a city paying any rate less than the Full Rate will generate a Net Pension Obligation that will need to be reported in the city's financial statements.

For those cities eligible for the Phase-in Rate, TMRS provides both the Phase-in and Full Rates each year in the Rate Letter (see Exhibit C). TMRS encourages any city that can pay the Full Rate to do so. It is also possible for a city to pay a rate between the Phase-in and Full Rate or even to pay a rate higher than the Full Rate if it so chooses. For detailed information on the Phase-in Rate, see your city's Rate Letter.

What Is the Maximum Contribution Rate Limit?

The Maximum Contribution Rate Limit is commonly referred to as the Statutory Maximum, or "Stat Max." The TMRS Act sets a limit as to the maximum amount the System can require a city to contribute in a given year, based on the level of benefits the city has chosen to provide.

The Stat Max does not limit the cost of a plan; it merely limits how much a city can be required to contribute in a given year for a certain benefit level, which may not be sufficient to fund the cost that year. For example, a city with a 6%, 1 to 1 ratio has a Stat Max of 8.50%. (This limit does not include the cost of Supplemental Death Benefits, if adopted.) The TMRS Act allows any city to enact an ordinance that removes the Stat Max. Cities that joined TMRS after 1996 are not subject to the Stat Max law, and many TMRS cities have enacted ordinances to remove the maximum limit.

If your city reaches this limit, we will let you know in the Annual Rate Letter, which suggests some possible solutions:

- Remove the Statutory Maximum Contribution Rate Limit (by ordinance)
- Increase, in certain cases, the Statutory Maximum Contribution Rate Limit (by ordinance)
- Pay the Actuarially Determined Calculated Rate (by ordinance; this is a one-year-at-a-time option, and causes annually repeating benefits to be turned off that year)
- Pay the Statutory Maximum Contribution Rate Limit (annually repeating benefits will be turned off)

If a city's actuarially determined contribution rate exceeds the city's Stat Max limit and the city does not act to remove or increase the Stat Max, annually repeating benefits (USC and Annuity Increases) will be automatically "turned off" until the rate drops back below the limit.

Why Do Cities Reach Stat Max? There is no single reason why cities reach the Maximum Contribution Rate Limit. In most cities where the contribution rate has exceeded the Stat Max, the contribution rate has increased gradually over a period of time. This may be due to different factors, e.g., a declining payroll base, benefit adoptions that have caused significant rate increases, or privatization of a department or work unit.

Each year, several TMRS cities exceed the Statutory Maximum Contribution Rate Limit. This trend is likely to continue in future years, especially since some cities are paying contributions under the eight-year “phase-in” period that began in 2009 (see page 10). Remember: the Stat Max is not intended to limit the actual cost of a certain level of benefits. Rather, it is intended to be the maximum amount TMRS can charge a city in a given year for a particular level of benefits. The amount a city contributes each year should not rest with the Stat Max but with what a city is willing to pay (or can afford) for its plan of benefits. If the cost of the plan is more than a city is willing to pay, then the city should consider limiting itself to only adopting a level of benefits it can afford to maintain.

The table in Figure 2 shows the differences in the Stat Max rates under the different deposit rate options and matching ratios chosen by the city.

FIGURE 2. STATUTORY MAXIMUM CONTRIBUTION RATE LIMITS

Deposit Rate	Matching Ratio		
	1 to 1	1 ½ to 1	2 to 1
3%*	5.50%	7.50%	9.50%
5%	7.50%	9.50%	11.50%
6%	8.50%	10.50% / 11.00%	12.50% / 13.50%
7%	9.50%	11.50% / 12.50%	13.50% / 15.50%

For the four options showing split limits, the left number is the base limit, and the right number is what the limit can be increased to.

**This deposit rate is no longer an option for new cities.*

What Roles Do the TMRS Actuaries Play?

The TMRS consulting actuary calculates the long-term cost of the pension benefits offered by each TMRS city and determines the annual contribution rate needed to fund those benefits. Using an actuarial funding method and actuarial assumptions, including retirement rates, salary growth, and investment income, the consulting actuary prepares an annual actuarial valuation of each city to determine the city’s actuarial accrued liability and measure it in relation to the city’s funding assets, both present and future. Besides the annual valuation, the consulting actuary determines costs for mergers and major plan changes within cities, assists the TMRS Board with policy decisions, and helps determine the expected cost of proposed legislation affecting TMRS.

The consulting actuary performs an annual actuarial valuation for each participating municipality, the results of which are reported in the Actuarial section of our Comprehensive Annual Financial Report (CAFR). Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress, included as a part of the Required Supplementary Information in the Financial section of the CAFR.

Approximately every four years, the consulting actuary performs an actuarial experience study and measures cities’ actual experience — such as rates of retirement, withdrawal, and mortality — and then compares it to the most recent set of actuarial assumptions. The actuary recommends any adjustments needed to the actuarial assumptions, and the Board considers the actuary’s recommendations and approves assumptions for the next valuation. An actuarial experience study was last performed for the year ending December 31, 2010, and the actuary’s recommended assumption changes were adopted and included in the December 31, 2010, valuation.

In addition to a consulting actuary, TMRS employs a Staff Actuary. The Staff Actuary works with the consulting actuary and helps cities with funding analysis, plan design cost issues, and other rate questions.

How Does TMRS Account for its Benefits?

As a public entity, TMRS follows the accounting guidelines and disclosure requirements established by the Governmental Accounting Standards Board (GASB). GASB standards require the disclosure of pension asset and liability information annually in a six-year-trend Schedule of Funding Progress. This disclosure includes the calculation of a plan's funded ratio, which is the primary measure of funding progress (Actuarial Value of Assets expressed as a percentage of the Actuarial Accrued Liability, or AAL). An increase in the funded ratio indicates improvement in the System or a city's ability to pay all projected benefits as they become due. The System or city is considered fully funded, at a point in time, if the funded ratio is greater than or equal to 100%. The Schedule of Funding Progress is presented to provide a consistent basis for measuring the System's (and city's) annual progress toward funding its actuarial liability in accordance with its actuarial funding method.

A funding progress disclosure, referred to as "GASB Compliance Data," is sent to each city annually in the Rate Letter packet and reflects information for the previous calendar year (your GASB Compliance Data enclosure may be downloaded from the TMRS website along with the rest of the Rate Letter packet). For example, Compliance Data for your city's GASB letter for the calendar year ended 2010 was sent to your city in the 2012 Rate Letter package in June 2011 and was also posted online.

The primary accounting rules that apply to TMRS and individual cities are:

- **GASB Statement No. 25** — Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (November 1994 – amendment pending)
- **GASB Statement No. 27** — Accounting for Pensions by State and Local Governmental Employers (November 1994 – amendment pending)
- **GASB Statement No. 43** — Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (April 2004)
- **GASB Statement No. 45** — Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (June 2004)
- **GASB Statement No. 50** — Pension Disclosures — An Amendment of GASB Statements 25 and 27 (May 2007)

Changes to GASB No. 25 and GASB No. 27 are likely to become effective for fiscal years beginning after June 15, 2013. Please see the TMRS website for the latest information on the effect the amendments may have on TMRS cities' accounting and reporting.

System-wide, the TMRS Pension Trust Fund and the Supplemental Death Benefits Fund are maintained on the accrual basis of accounting. This means that revenue is recorded when earned and expenses are recorded when incurred, regardless of when payment is made. Employer and employee contributions are recognized when due. Participant benefits are recorded when payable by law. Refunds are recorded and paid upon receipt of an approved application for refund. For more details, refer to the Financial section of the CAFR.

How Does a City Change its Plan Options?

If you wish to modify your existing plan elements, contact TMRS directly. The TMRS Regional Managers, Deputy Executive Director, or Staff Actuary can all help with plan change questions and requests. These members of the TMRS staff can analyze the effects of option changes on your contribution rate.

We will also send you model ordinances that can be used by your city council to adopt plan changes (see Exhibit D for a list of provisions that may be adopted by the city). By running an actuarial study for proposed plan changes before they are adopted, we can determine the effect the proposed changes will have on your city rate.

What Plan Modifications Are Allowed? TMRS offers a menu of choices. Full information about options cities may change by ordinance is available by calling TMRS. To review potential plan changes and the effects of such changes, see the Plan Changes Table in Exhibit F (inside back cover).

Summary of Recent TMRS Changes

In late 2007, the TMRS Board of Trustees approved several changes for the System, effective in 2008. These changes included:

- Amending the System's Investment Policy to diversify the investment portfolio (see Exhibit B).
- Changing the System's actuarial cost method from Unit Credit to Projected Unit Credit to provide advance funding of projected benefits, including annually repeating USC and COLAs.
- Extending the amortization period for the UAAL from a 25-year open period to a 30-year closed period for most cities.
- Adopting an eight-year schedule for phasing in contribution rate increases due to the changes in actuarial funding method and assumption changes.

In 2009, following interim deliberations by the TMRS Advisory Committee, the TMRS Board of Trustees adopted legislative recommendations that resulted in the passage of HB 360, by Kuempel (House) and Williams (Senate). HB 360 made three fundamental changes to the System:

- A 5% minimum annual interest credit was approved for member accounts and for the discount rate to be used in determining annuity purchase rates for retirees.
- Annual interest credits to cities can be set at a rate different than the rate credited to members.
- Annual interest credits to cities may be credited at a negative rate.

In 2011, following recommendations by the TMRS Advisory Committee, the TMRS Board of Trustees sought legislative passage of a statutory amendment to restructure the internal accounting funds of the System. SB 350 by Williams (Senate) and Truitt (House) replaced the former three-fund structure with the current BAF. The single fund structure reduced leverage and potential volatility in city contribution rates and resulted in lower contribution rates and better funded ratios for many cities. SB 350 caused the System's funded ratio to increase from 75.8% to 82.9% (as of December 31, 2010), and the UAAL to decrease from \$5.2 billion to \$3.5 billion.

Glossary

Actuarial Accrued Liability (AAL) – The present monetary value, actuarially determined, of the estimated cost of benefits payable to active and retired members, accrued in periods prior to the valuation date.

Actuarial Cost Method, or Actuarial Funding Method – Technique for establishing the amount of accruals needed for a pension plan and the related accrued liability. The appropriate method is chosen to calculate the liabilities accruing under a pension plan and the funds that are needed to pay for them over time.

Actuarial Experience Study – An analysis performed every few years by the actuary, in which the actuarial assumptions used are reviewed, both individually and in the aggregate, to ensure they are reasonable given current economic and demographic experience.

Actuarial Gain (Loss) – The difference between actual experience and that expected based on actuarial assumptions, during the period between the two actuarial valuation dates. A gain indicates better than expected experience, while a loss indicates experience less than anticipated.

Actuarial Value of Assets (AVA) – the value of plan assets used in the actuarial valuation. The AVA may differ from the Market Value of Assets (MVA).

Actuary – A professional trained in the mathematics of finance, probability, and statistics and credentialed by organizations representing their profession. Pension actuaries assign values to the probable amounts to be paid in the future and help establish a method for responsibly budgeting for those payments.

Amortization Period – The designated length of time that it takes for a liability to be reduced by means of periodic payments sufficient to liquidate the liability at maturity; the time over which pension liabilities will be “paid off.” In retirement systems, amortization periods may either be closed (so that all liabilities will be paid at a certain date, if assumptions are met) or open (where the amortization period is reset each year).

Annual Required Contributions (ARC) – The rate calculated by the actuary as required to fund the city retirement plan for a given year.

Annuity Increase, or Cost of Living Adjustment (COLA) – An option chosen by cities to provide an increase in annuities for retirees. The city chooses the adjustment amount: 30%, 50%, or 70% of the change in the Consumer Price Index (CPI) increase from the December before retirement through the December that is 13 months prior to the effective date of the increase. Annuity Increases may be adopted on either an annually repeating or ad hoc basis. Details about COLAs may be found in the TMRS booklet “City Guide to USC and COLAs.”

Benefit Accumulation Fund (BAF) – The primary TMRS pension trust fund. The BAF receives employee deposits, city contributions, and investment earnings. Member refunds and retirement annuities are paid from the BAF, but Supplemental Death Benefits (SDBs) are paid from their own trust fund.

Closed Amortization – The required contribution is calculated by the actuary so that at the end of the period the liability will be fully funded. TMRS cities have a closed 25- or 30-year amortization period.

COLA, or Cost of Living Adjustment (see Annuity Increase).

Contribution Rate – The annual percentage of your city’s payroll required to fund its TMRS plan. TMRS notifies you of your contribution rate each year (in the Rate Letter packet), and this sets the percent of payroll for the upcoming year. The contribution rate is the sum of the Normal Cost, the amount needed to amortize the UAAL or OAAL, and the Supplemental Death Benefit Cost, if that provision has been adopted by your city.

Current Service Annuity Reserve Fund (CSARF) – A TMRS internal accounting fund that was combined into the BAF. Prior to 2011, the CSARF was the account to which an employee’s deposits and interest credits plus the city matching funds were transferred when a person retired, and from which the current service portion of the person’s retirement benefit was paid.

Defined Benefit Plan (DB Plan) – A retirement plan in which the benefit paid to the employee is based on a formula determined by statute, regulation, or plan document, and not determined by the account balance. A DB plan literally “defines” the future benefit to be paid. Examples of traditional DB plans are the Teachers Retirement System of Texas and Social Security. DB plans are usually qualified pension trusts under Section 401(a) of the Internal Revenue Code.

Defined Contribution Plan (DC Plan) – A retirement plan in which the benefit is based on the amount of money in the individual participant’s account at retirement. A DC plan “defines” the contributions and maintains an individual account for each plan participant. Examples of DC plans include private-industry plans such as 401(k), 403(b), and governmental 457 deferred compensation plans.

Deposit Rate – The percentage of the member’s salary that constitutes the member deposits deducted from gross salary. Also called the employee contribution rate.

Employee – Municipal employees must join TMRS if they are employed with a city that participates in TMRS and in a position that regularly requires at least 1,000 hours of work per year. The city must classify each position as to whether or not it is “membership eligible.” Membership starts the first day of employment.

Employees Saving Fund (ESF) – A TMRS internal accounting fund that was combined into the BAF. Prior to 2011, the ESF contained all contributions made by member employees, plus credited interest, less refunds and transfers to CSARF.

Full Rate (see also, Phase-in Rate) – A term introduced in 2008 when cities were allowed to phase in contribution rate increases attributable to TMRS’ change in actuarial cost method. Generally speaking, an eligible city that pays the Full Rate is one that chose not to phase in contributions. For purposes of the retirement contribution, the Full Rate is the sum of the Normal Cost Rate and the Prior Service Rate. (Note that, for purposes of the Annual Rate Letter, Full Rate may refer to the Total Retirement Rate or, for those cities that have adopted an SDB, for the Total Combined Contribution, which includes the Total Retirement Rate and the SDB contribution.)

Funded Ratio – The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities, or AVA/AAL; an overall reflection of a pension plan’s health at a point in time. In TMRS, the System as a whole has a funded ratio, and individual cities have their own funded ratios. Your city’s funded ratio is shown in the Rate Letter packet and in the CAFR.

Funding Policy – The program for the amounts and timing of contributions to be made by plan members and employers to provide the benefits specified by the plan.

Glossary

Governmental Accounting Standards Board (GASB) – The governing body whose mission is to establish and improve standards of state and local governmental accounting and financial reporting. Most public entities follow the disclosure requirements of the GASB.

Level Dollar Amortization – A funding approach that resembles the funding of a traditional mortgage, where the payments are equal to each other over the amortization period. This type of amortization is an accelerated funding approach when compared to level percent of payroll amortization.

Level Percent Amortization – A funding approach where the contribution rate remains level when expressed as a percent of overall payroll, but where the dollar amount of payments increase incrementally over the amortization period commensurate with annual changes in payroll.

Matching Ratio – The ratio at which the city will match member deposits and interest credits at retirement. Options that may be chosen by the city are 1 to 1, 1½ to 1, and 2 to 1 (100%, 150%, and 200%, respectively).

Maximum Contribution Rate Limit (“Stat Max”) – The maximum percent of payroll, as set by the TMRS Act, that a city can be required to pay for a given plan level (deposit rate and matching ratio). This is not the actuarially calculated contribution rate; it is simply the most a city can be required to pay. For example, a city with a 6%, 1 to 1 ratio has a Stat Max of 8.50%. This limit does not include the cost of Supplemental Death Benefits, if adopted; it only applies to the retirement portion of the city’s contribution rate. TMRS cities have the authority to enact ordinances that remove, increase, or override the Stat Max. Many cities have chosen to remove this limit.

Member – An employee (see definition) or former employee for whom an account has been established in the BAF and whose membership has not terminated under the TMRS Act.

Municipality Accumulation Fund (MAF) – A TMRS internal accounting fund that was combined into the BAF. Prior to 2011, the MAF contained all Normal Cost and Prior Service contributions made by cities, plus credited interest, less transfers to CSARF and benefit payments.

Net Pension Obligation – The cumulative amount that a city has underpaid or overpaid (net pension asset), as compared to its required contribution rate, in a given year. This will normally be zero for a city, unless the city is paying a Phase-in Rate.

Normal Cost Contribution Rate – Actuarial present value of benefits allocated to the current valuation year by the actuarial cost method, expressed as a percentage of the covered payroll. Normal Cost information is included in the city’s Rate Letter.

Open Amortization – The method whereby an amortization period is renewed every year as part of the valuation process (also called a “rolling” amortization).

Other Post-Employment Benefits (OPEBs) – Post-employment benefits other than pension benefits. Specifically, for TMRS, the \$7,500 Supplemental Death Benefit payable to the beneficiaries of retirees of municipalities that have elected to offer the SDB falls under OPEB accounting rules.

Overfunded Actuarial Accrued Liability (OAAL) – The surplus or difference between the Actuarial Value of Assets and Actuarial Accrued Liability, determined as of the actuarial valuation date.

Phase-in Rate (see also, Full Rate) – Following TMRS' change in actuarial cost method in late 2007, cities with annually repeating benefits saw a significant increase in contribution requirements. Cities with an increase in excess of 0.5% were given the opportunity to "phase in" the increased contribution over an eight-year period beginning January 1, 2009. Each year, the Rate Letter provides these cities with a Full Rate and a Phase-in Rate to help them make their funding decision.

Prior Service Contribution Rate – The amount necessary to amortize the UAAL or OAAL over a specified period of time, expressed as a percentage of covered payroll.

Projected Unit Credit Actuarial Cost Method – A method under which the benefits of each individual included in the valuation are allocated by a consistent formula to valuation years based on years of service. Benefits are allocated equally to each year of service over the individual's career from date of hire to retirement. Under this method, actuarial gains (losses) reduce (increase) the Actuarial Accrued Liability.

Retirement Contribution Rate – The sum of the Normal Cost contribution rate and the Prior Service contribution rate stated as a Full Rate and Phase-in Rate, if applicable.

Supplemental Death Benefit (SDB) – A benefit payable, if adopted by the city, to the beneficiaries of deceased contributing members. This benefit is approximately equal to the active member's annual salary; an optional benefit is also payable to the beneficiary or estate of a deceased retiree in the amount of \$7,500. The SDB Rate is included in the Annual Rate Letter as a separate amount.

Unfunded Actuarial Accrued Liability (UAAL) – The difference between the Actuarial Accrued Liability and the Actuarial Value of Assets on the actuarial valuation date. The fact that a retirement plan has a UAAL is not necessarily an indication that a plan is not properly funded. The UAAL is funded systematically in an actuarially acceptable manner over a reasonable period of time.

Updated Service Credit (USC) – A provision adopted by city ordinance that may increase the value of employee retirement benefits by accounting for increases in salary later in the employee's career and factoring in city plan improvements. If a city adopts USC, it chooses the percentage of USC it will provide (50%, 75%, or 100%) and whether it will adopt USC on an annually repeating or ad hoc basis. Details about USC may be found in the TMRS booklet "City Guide to USC and COLAs."

Vesting – When a member has met the city's length-of-service requirement (either 5 or 10 years of service) to be guaranteed a retirement benefit upon the attainment of a certain age, provided they do not terminate their membership in the plan. Becoming vested increases an employee's potential to retire from TMRS and therefore increases the plan's liability. ♦

Exhibit A • TMRS Provisions Timeline

- 1947** ▶ Enactment of the TMRS Act, creating the Texas Municipal Retirement System.
- 1948** ▶ TMRS deposit rate established at 5%. First cities begin participation with a 1 to 1 city match.
- 1955** ▶ Maximum earnings limit for contributions to TMRS raised. 3% deposit rate added.
- 1960** ▶ Distributive Benefit (extra check) paid for the first time to retirees, equaling ½ a regular annuity check.
- 1963** ▶ TMRS allowed to invest in corporate securities. 2.5% interest rate limit removed.
- 1966** ▶ Multiple matching of future employee deposits by cities made available. 1½ to 1 and 2 to 1 matches added.
- 1968** ▶ Maximum TMRS deposit rate increased to 7%.
- 1969** ▶ Prior Service Credit options added. 20-year vesting and an earlier retirement provision added.
- 1975** ▶ Updated Service Credit, retirement Annuity Increases (COLAs), and buyback of previously forfeited credit provisions added. Could only be adopted once every four years.
- 1977** ▶ Proportionate Retirement Program created. Supplemental Death Benefit fund established; \$2,500 to survivors of retirees.
- 1979** ▶ 10-year vesting provision, retirement eligibility at 60 with at least 10 years of service, maximum entry age raised to 59, added as optional provisions for cities. Maximum entry age raised from 49 to 54 for all cities. Spouse or estate allowed to elect certain payment options upon the death of a member eligible to retire.
- 1981** ▶ Military Service Credit provision added. Elected officials allowed to participate as members of TMRS if they meet the 1,000-hour rule.
- 1983** ▶ Updated Service Credit for transfer employees provision added.
- 1984** ▶ Employer “pickup” adopted. This year also marks the start of taxation on withdrawals of deposits. Any return of deposits made after January 1, 1984 (refund or benefit) became subject to taxation.
- 1987** ▶ Maximum age for participation removed. 25-year, any-age retirement added. Surviving spouse benefit and Occupational Disability Retirement benefit added. 6% deposit rate added.
- 1989** ▶ Probationary Prior Service Credit added for employees working for a TMRS city on a probationary basis before 1989. 3% deposit rate dropped.
- 1991** ▶ Restricted Prior Service Credit and annually repeating Updated Service Credit and Annuity Increases (COLAs) added.
- 1993** ▶ Supplemental Death Benefit for survivors of retirees increased to \$5,000.
- 1995** ▶ 20-year, any-age retirement eligibility provision added.
- 1997** ▶ Partial Lump Sum Distribution added. “Pop-up” provision added (if retiree’s beneficiary dies before retiree, and retiree chose a retirement option that provided survivor benefits, the option “pops up” to retiree-only).
- 2001** ▶ Five-year vesting added.
- 2003** ▶ Military Service Credit changed to time credit only, with some exceptions. Supplemental Death Benefit for survivors of retirees increased to \$7,500 (effective date January 1, 2004).
- 2007** ▶ Cities allowed to voluntarily make payments above their contribution rate and above the statutory maximum contribution limit. Board allowed to modify amortization periods, establish rules regarding distributions to public safety officers under the federal Pension Protection Act, and clarify the calculation of Updated Service Credit.
- 2009** ▶ 5% minimum member interest credit and 5% minimum discount rate for annuity purchase calculation enacted. City interest credit varies from member rate and is based on total fund return.
- 2011** ▶ TMRS’ internal accounting funds (ESF, MAF, and CSARF) were combined into the BAF. Also, return-to-work provision added, which allows a TMRS retiree who returns to work for the same city at least eight years after retirement from that city to receive, upon retirement, a lump sum amount equal to the sum of his/her annuity payments that were suspended.

Exhibit B • Investment Overview

TMRS investments are held in trust for the exclusive benefit of members and their beneficiaries and invested under the provisions of the TMRS Act. The statutory investment guidelines for TMRS are found in the Texas Government Code, Sections 855.301 through 855.303. The Board of Trustees further defines investment guidelines for TMRS, and a copy of the Board's current TMRS Investment Policy Statement may be found on the "Investments" page of the TMRS website.

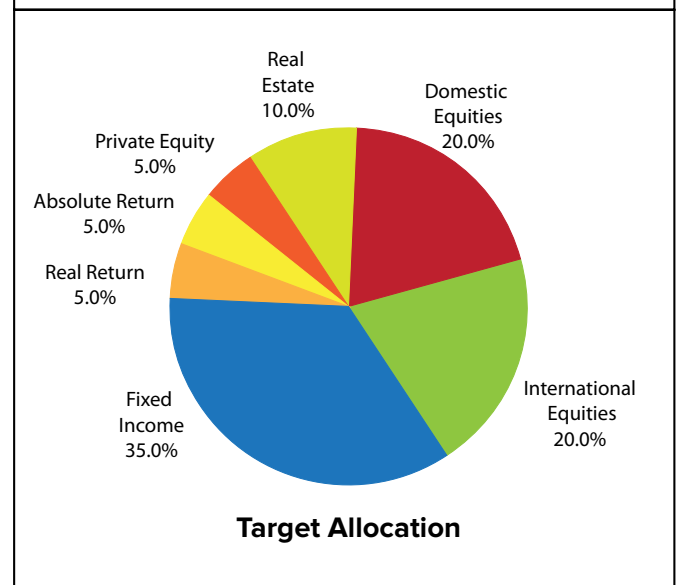
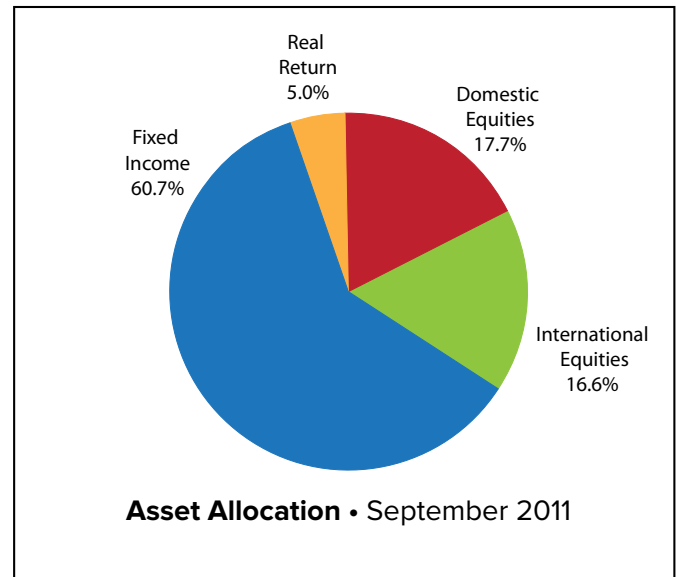
Principles and Objectives

The overall objective of TMRS' investment program is to ensure that members, retirees, and beneficiaries are provided with the benefits they have been promised by their employers at a reasonable and predictable cost to the employers. Assets will be invested for total return with appropriate consideration for portfolio volatility (risk) and liquidity. Emphasis should be on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS. Total return includes dividends, interest, and realized and unrealized capital appreciation.

Asset Allocation and Return Objective

The TMRS Board adopted a target asset allocation strategy in June 2009. This allocation is designed to meet the objective of generating the highest level of return consistent with the Board's risk tolerance while also providing sufficient liquidity to meet the System's cash flow needs. Specifically, the goal is to achieve a total return over rolling 5-year periods, consistent with the assumed long term rate of return on TMRS assets established by the actuary, currently 7%. The target asset allocation is being implemented at a measured pace over a multi-year period. The charts at right reflect the September 30, 2011, asset allocation as well as the target asset allocation.

TMRS Investment Portfolio



As of September 30, 2011, the target allocations for Real Return had been met, and the equity allocations were reached by year-end. Implementation of the Real Estate allocation began in 2011, and the Absolute Return allocation will be considered in 2012, followed by Private Equity in subsequent year(s). The Fixed Income allocation is funding the diversification efforts.

For current asset and performance information, see the "Investments" page on the TMRS website. A copy of the current Investment Policy Statement is also available on the TMRS website. ♦

Exhibit C • Annual Rate Letter Packet

The Rate Letter packet contains several sections, including:

- **Cover Letter** – A summary of the city’s contribution rate for the next plan year and an explanation of the contents of the packet, tailored for each city. The cover sheet breaks down Normal Cost, Prior Service, Total Retirement Rate, Supplemental Death Benefit (if any), and Total Combined Contribution Rate for the next plan year.
- **Executive Summary** – A comparison of the highlights of the prior year and the previous year’s actuarial valuation for your city. Included are membership counts, asset information, actuarial information, and contribution rate requirements.
- **Development of Actuarial Value of Assets** – A detailed calculation of the Actuarial Value of Assets (AVA), or smoothed value, for the latest actuarial valuation for your city.
- **Calculation of Contribution Requirements** – Detail on the calculation of the Full Retirement Rate (TMRS Plan Year - GASB ARC), Minimum Required Phase-in Retirement Rate, and the Supplemental Death Benefit Rate, if applicable, for your city. A comparison to the prior year’s actuarial valuation results is included.
- **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.
- **Historical Accumulation of BAF Balance** – A schedule of your city’s historical cash flows and interest credits used in developing the December 31 balance in each year’s actuarial valuation.
- **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 helping you make various other disclosures, such as the city’s official statement provided in connection with a bond offering.
- **Other information as needed for your city** – Additional material may include information about Maximum Contribution Rate Limits (Statutory Maximum rates), impact of legislation, etc.

This list reflects the Rate Letter packet for 2010. Some variation in its contents may occur in subsequent years. A copy of your city’s most current Rate Letter is available on the TMRS website.

Exhibit D • Menu of Optional Plan Benefits

Contact TMRS for sample resolutions to adopt or change plan features.
See inside back cover (Exhibit F) for details about adoption or change.

Basic Plan Options

- Employee contribution rate (5%, 6%, or 7%)*
- City matching ratio (1 to 1, 1½ to 1, 2 to 1)
- Vesting (5-year)**
- Retirement Eligibility (20-year, any age) †

* 3% contribution rate is no longer an option for new cities.

** 10-year vesting is no longer an option for new cities.

† 25-year eligibility is no longer an option for new cities.

Additional Features

- Updated Service Credit (USC)
- Annuity Increases (COLAs)
- Military Service Credit
- Probationary Prior Service Credit
- Restricted Prior Service Credit
- Buyback of forfeited TMRS credit
- Supplemental Death Benefits

Exhibit E • Other Resources for Cities

- E-bulletins*
- City visits, benefit fairs, council presentations upon request
- Annual Seminars
- Pre-Retirement Conferences
- Web-based resources
 - Breaking news on website; includes Legislative and Investment updates
 - Videos and tutorials (topics, including Retirement Options, Online Payroll Training, and Welcome to TMRS, are expanding yearly)
 - City Portal (protected city access for member data, report generation, and payroll posting)
 - Forms and publications (PDF format)
 - MyTMRS (for members)
- Print publications
 - *Main Street* (newsletter for city officials)
 - *Member Benefits Guide*
 - *City Guide to USC and COLAs*
 - *TMRS Facts* and “My City Plan” (for members)

*E-bulletins contain late-breaking news affecting cities and are issued as needed, approximately monthly. If you are not receiving e-bulletins, you may fill out the online form on the TMRS website under the “Cities” page.

Exhibits

Exhibit F • Plan Changes Table

By law, each city that decides to join TMRS must adopt the basic plan features designed for all cities (left column of Exhibit D). The options that individual cities may choose to add, modify, or discontinue are shown in this table. Changes may be made by ordinance at any time, but are effective on the dates shown.

Action / Plan Option	How are plan options added or changed?
Join TMRS	City Council, by ordinance
Increase employee contribution rate (up to 7%)	City Council, by ordinance; no employee consent required
Reduce employee contribution rate	To reduce rate takes a 2/3 vote of employees, then Council must adopt by ordinance
Change city matching ratio	City Council, by ordinance; no employee consent required
Reduce vesting requirement (from 10 years to 5) NOTE: Vesting may not be increased.	City Council, by ordinance; no employee consent required
Change retirement age/service requirement to 20-year, any age	City Council, by ordinance (after public hearing); no employee consent required
Adopt USC	City Council, by ordinance; USC can be adopted on its own or with COLAs; USC can be adopted ad hoc or annually repeating
Rescind repeating USC	City Council, by ordinance
Adopt or rescind USC – transfers	City Council, by ordinance
Adopt Annuity Increases (COLAs)	City Council, by ordinance. If this option is chosen, it must be adopted in tandem with USC or repeating USC. COLAs can be adopted ad hoc or annually repeating
Rescind annually repeating Annuity Increases (COLAs)	Must be dropped if annually repeating USC is dropped
Adopt or rescind Supplemental Death Benefit	City Council, by ordinance
Military Service Credit	City Council, by ordinance
Restricted Prior Service Credit (also Probationary Prior Service)	City Council, by ordinance
Buyback of refunded TMRS service	City Council, by ordinance. Employee must have previously refunded service, be on the payroll at time of adoption, and have 24 consecutive months of deposits with the city
Stop enrolling new employees*	City Council, by ordinance
Reduce USC percentage (reduction options are 50% or 75% of USC calculation)	City Council, by ordinance
Reduce COLA percentage (reduction options are 30% or 50% of CPI)	City Council, by ordinance

* Once a city has joined TMRS, it must continue to provide TMRS benefits for all eligible employees. By law, if a city stops active participation in TMRS, it must maintain the retirement accounts of the employees who have already joined the System. It must continue to fund existing pensions, and it must match at its established rate when its current employees retire.

When do changes take effect?	Outcome of changes
First day of month selected	Installs quality, competitive retirement plan for members.
First day of month selected	The higher the rate, the larger the benefit earned by the member; increases employee deposit pool.
First day of month after the 90th day after ordinance adopted	Reduces benefit for employees.
January 1 of the calendar year after adoption	By law, cities must match at least 1 to 1.
First day of month after adoption	Reducing vesting to 5 years allows members to vest earlier, or be entitled to a retirement benefit assuming a refund is not taken.
First day of month after adoption	Allows for earlier retirement; city can't go back to 25-year retirement once change is made.
January 1 of the year after adoption	Recalculation based on employee's most recent average salary can mean a better benefit for retirees but increases costs for employer city.
January 1 of the year after adoption	Benefits no longer adjusted for salary or plan changes.
January 1 of the year after adoption	Potentially increases costs for employer city because it allows USC eligibility to be transferred from another city.
January 1 of the year after adoption	Helps protect retiree benefits from inflation, but increases costs for employer city.
January 1 of the year after adoption	Future increases will only occur when city makes an ad hoc adoption. Benefits are not adjusted annually.
First day of the month after adoption. Benefit can only be discontinued effective January 1, if ordinance adopted before preceding November 1	Rescinding it reduces cost to city and eliminates a benefit. Adding it will increase costs.
First day of the month after adoption	Applying this credit to members' accounts does not increase the retirement benefit but may affect retirement eligibility for some members.
First day of month after adoption	Allows eligible employees who have previous public service, including active military, to receive time credit. Applying this credit to members' accounts does not increase the amount of their benefit but can add actuarial cost.
Date of adoption	No up-front cost for adoption of buyback. TMRS will estimate costs that accrue if some or all employees purchase their refunded service.
First day of month after adoption. This change only applies to employees starting after that date	City still must fund retirements of employees enrolled prior to adoption.
January 1 of the year after adoption	If employee is eligible for USC, amount will be smaller; previously granted USC continues to earn 5% interest.
January 1 of the year after adoption	Retirees previously receiving larger COLA percentage may not see an Annuity Increase for one or more years.

How to Contact TMRS

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