

All Together Now

Updated Service Credit and COLA Provisions

**Presented by
Anthony Mills, Regional Manager**



USC and COLA provisions

Active employees

- Updated Service Credit is an optional provision that may grant supplemental dollar credits that can increase retirement benefits in certain situations

Retirees

- An Annuity Increase (COLA) is an optional provision that will grant retirees an annuity increase based in the yearly change in the Consumer Price Index (CPI)

USC and COLA provisions

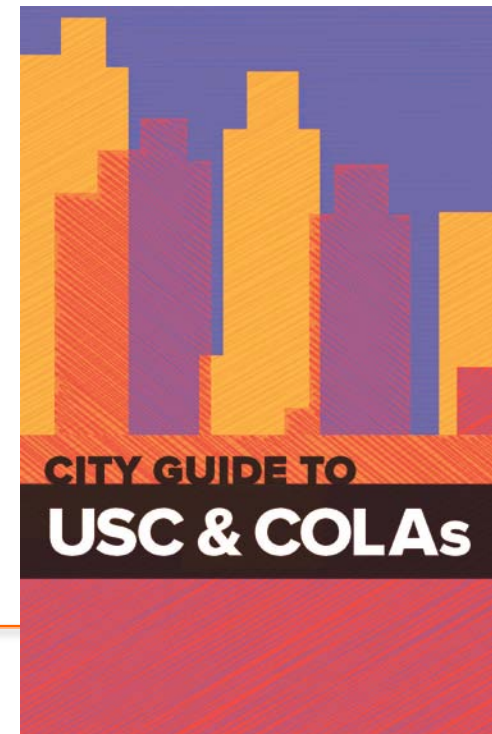
Both provisions were added to TMRS options in 1976

- Often adopted together, but USC can be adopted alone
- If the city adopts a COLA, it must adopt a USC
- The provisions may be adopted by ad hoc, or repeating, ordinances
- Once adopted, the provisions are effective the next January 1

TMRS will provide model ordinances. Call your Regional Manager, TMRS Staff Actuary Leslee Hardy, or Deputy Executive Director Eric Davis.

Understanding USC

- There is a cost to the city to adopt USC; additional pension liability incurred
- City must choose the level of USC
 - 100% USC
 - 75% USC
 - 50% USC
- Ad hoc or repeating



Understanding USC, cont.

- Study date
 - Calculated each January
- Member's average salary
 - Based on 36 most recent deposits prior to study date (drops the highest and lowest)
- Employee deposit rate (study)
- City matching ratio (study)
- 3% annual interest assumption



Understanding USC, cont.

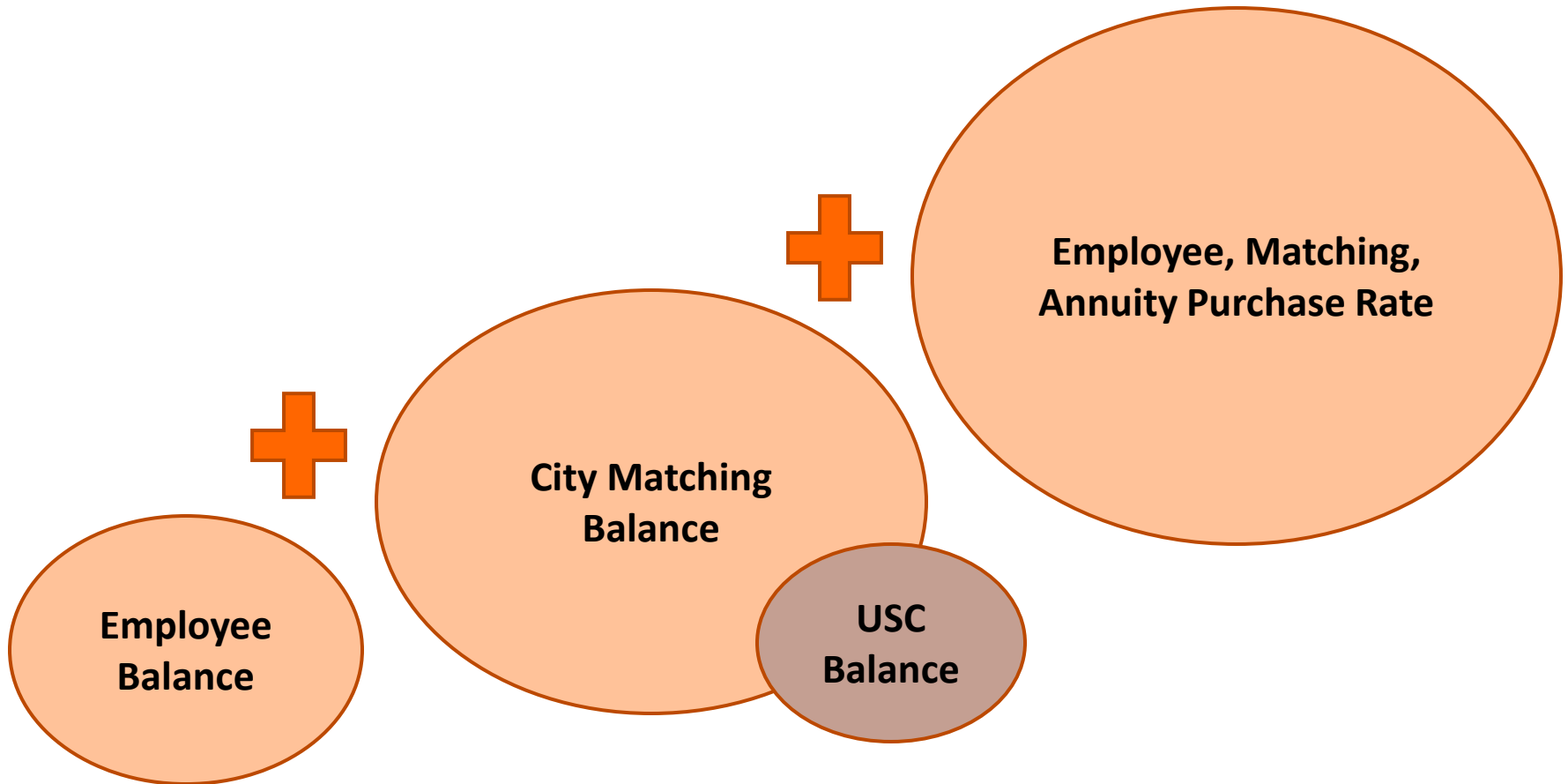
Hypothetical
reserve balance
\$40,000

VS.

Actual reserve
balance
\$38,000

\$2,000 @ 100% USC
\$1,500 @ 75% USC
\$1,000 @ 50% USC

Understanding USC, cont.



Understanding USC, cont.

- If USC calculation is higher, a USC credit is awarded
 - Will earn 5% interest; may be replaced by a higher USC
- If USC calculation is lower, no USC credit is awarded
- If city turns off or reduces the option, employees do not lose already earned USC
- Ad hoc adoptions are amortized over a 15-year level dollar schedule

Not Every Employee will Earn a USC. Why?

- USC assumes 3% annual accumulation interest, which is less than the actual interest earned
- Salary increases and plan design affect USC:
 - If member has had no significant salary increase
 - If city matching rate or deposit rate has not changed

...Then there would be no USC credit

USC's "Transfer" Feature

- Members with service in more than one city are eligible
- Member must be eligible for USC in current city
 - 48 months of service needed
- Employing city's deposit rate and matching used in the calculation
- City must adopt regular USC also to adopt Transfer USC
- Calculation is based on member's total TMRS career (active accounts)

USC and the City's Rate



Plan Change Study

GRID 2011

For Informational Purposes Only
 Effective Date - January 1, 2011
 Report Date - September 10, 2010

Proposed Plans

<u>Plan Provisions</u>	<u>Current</u>	<u>1</u>	<u>2</u>
Deposit Rate	7.00%	7.00%	7.00%
Matching Ratio	2 to 1	2 to 1	2 to 1
Updated Service Credit	100% (Repeating)	0%	100%
Transfer USC **	Yes	No	Yes
Annuity Increase	70% (Repeating)	0%	0%
20 Year/Any Age Ret.	Yes	Yes	Yes
Vesting	5 years	5 years	5 years
<u>Contribution Rates</u>	<u>2011</u>	<u>2011</u>	<u>2011</u>
Normal Cost Rate	9.32%	6.59%	6.64%
Prior Service Rate	6.94%	3.06%	3.12%
Retirement Rate	16.26%	9.65%	9.76%
Supplemental Death Rate	0.21% (A & R)	0.21% (A & R)	0.21% (A & R)
Total Rate	16.47%	9.86%	9.97%
Unfunded Actuarial Liability	\$16,195,935	\$7,130,361	\$7,215,272
Amortization Period	30 years	30 years	30 years
Funded Ratio	64.45%	80.46%	80.27%
Phase-In Total Rate	14.44%	N/A	N/A
Study exceeds 13.50% stat max	Yes	No	No

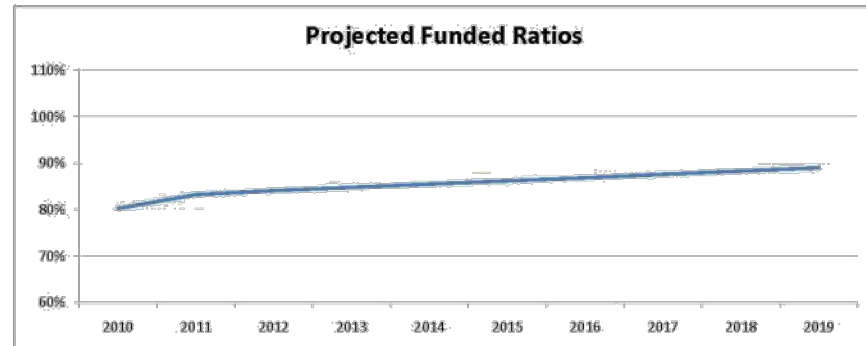
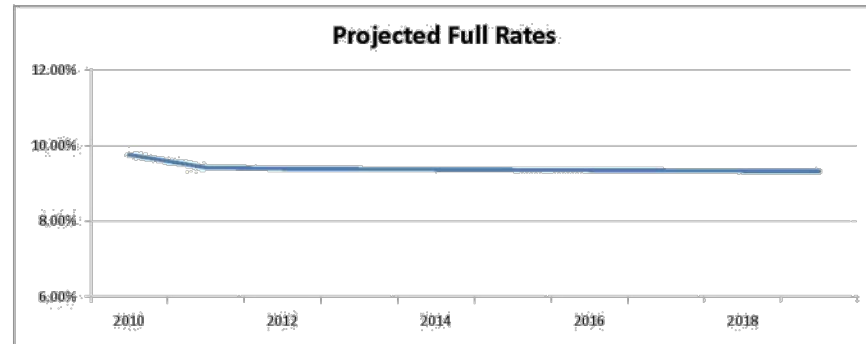
USC and the City's Rate, cont.

Projection of Valuation Results - Pension Only



Summary of Proposed Benefit Provisions			
Employee Contribution Rate	7.00%	USC	100% Ad Hoc with Transfer
Employer Match Rate	2-1	COLA	No COLA
Vesting	5 years	Retirement Eligibility	Age 60 with 5 years of service or 20 years of service

Calendar Year	Projection Results							
	2010	2011	2012	2013	2014	2015	2016	2017
Full Rate	15.48%	9.76%	9.42%	9.39%	9.38%	9.37%	9.36%	9.35%
Estimated Contribution	2,246,545	1,460,218	1,451,630	1,490,417	1,533,495	1,577,816	1,623,416	1,670,332
Funded Ratio (MAF)	80.3%	83.2%	84.1%	84.8%	85.5%	86.2%	86.9%	87.6%



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A Note to Remember about USC

- Cities that have USC and also have had a 7% deposit rate and 2:1 matching ratios for a long time will eventually see the provision becomes less of a factor. Only employees who make substantial pay increases would see new USCs.

About the Annuity Increase (COLA)

- COLAs are granted by cities to help retirees' annuity payments keep pace with inflation. The optional provision must be adopted in conjunction with USC.

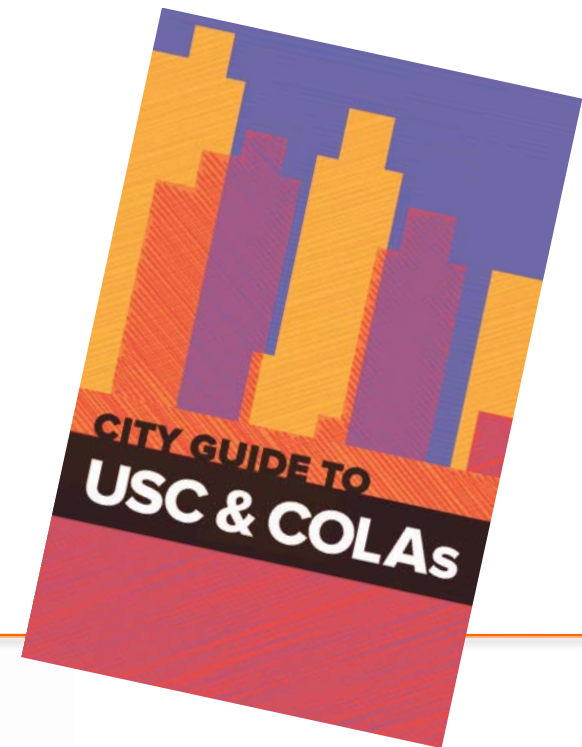


Notes about TMRS COLAs

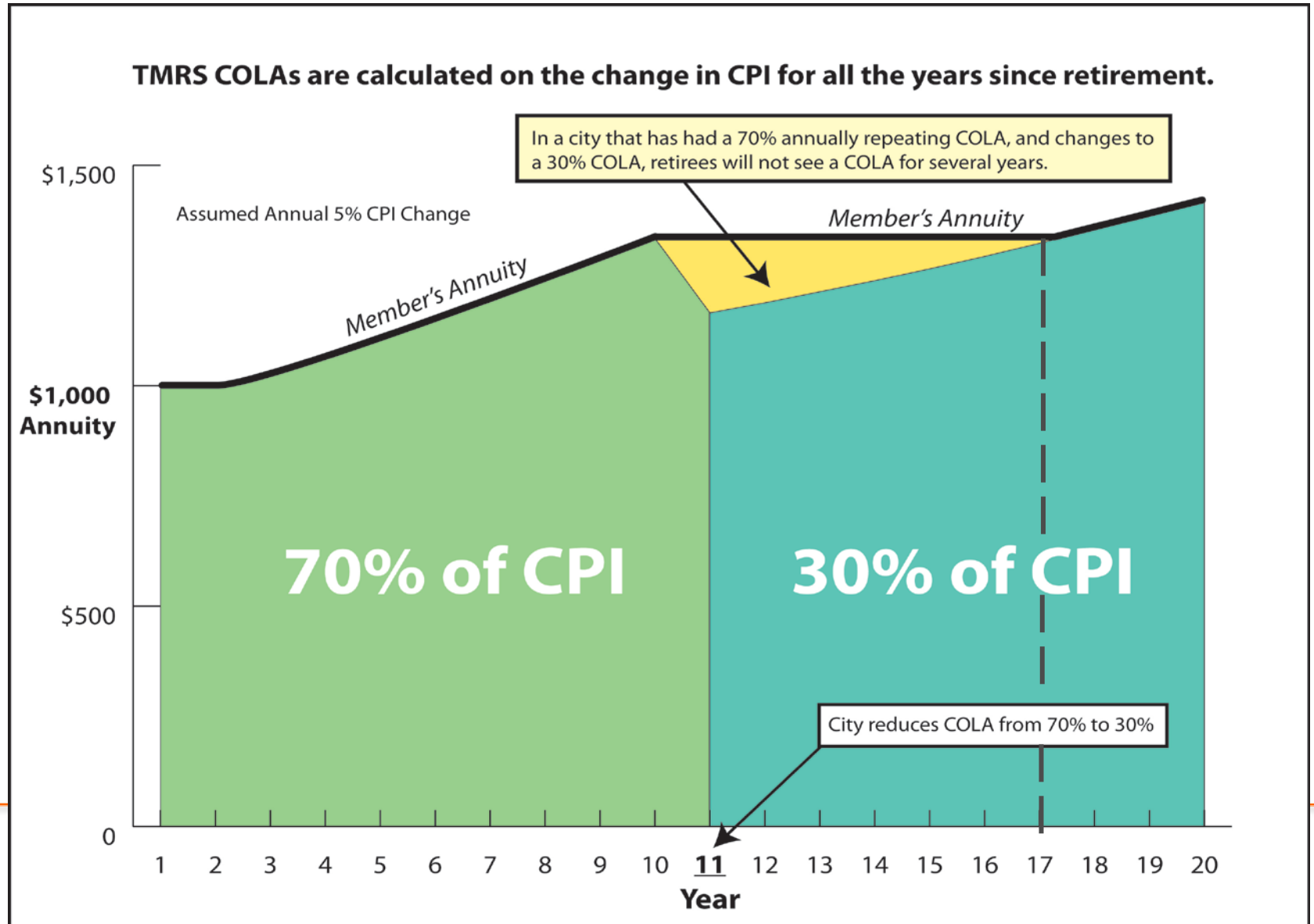
- TMRS COLAs are calculated on the change in CPI over the entire time a member is retired
- If a city has been granting 70% of CPI annually repeating COLAs and changes to a lower COLA percentage, retirees are not likely to see any benefit increase for several years

Understanding COLAs

- There is a cost to the city to adopt COLAs. Additional pension liability incurred
- City must choose the level of COLA
 - 70% CPI
 - 50% CPI
 - 30% CPI
- Ad hoc or repeating



Effect of Reduction in COLA Percentage



Comparison of COLA Percentages on Annuity

Mr. Smith Date Retired: 12/31/1999 Annuity Increase Provision: 70% Auto Original Annuity \$1,126.52			
Year	30%	50%	70%
Jan-00	1,126.52	1,126.52	1,126.52
Jan-01	1,135.59	1,141.64	1,147.69
Jan-02	1,147.35	1,161.23	1,175.11
Jan-03	1,152.91	1,170.51	1,188.11
Jan-04	1,161.57	1,184.94	1,208.31
Jan-05	1,168.58	1,196.63	1,224.67
Jan-06	1,180.96	1,217.25	1,253.54
Jan-07	1,194.36	1,239.58	1,284.81
Jan-08	1,204.67	1,256.77	1,308.87
Jan-09	1,221.65	1,285.07	1,348.49
* Higher annuity will always prevail if city drops to a lower percentage of CPI.			

COLAs and the Contribution Rate



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Phase-In Total Rate	14.44%	N/A	N/A
Study exceeds 13.50% stat max	Yes	No	No

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Remember that COLAS...

- Vary from year to year
- Typically create higher pension liability for cities than USC
- It is also important to understand:
 - The inter-generational cost of repeating ordinance
 - Ad hoc adoptions are amortized over a level dollar 15-year schedule

QUESTIONS?