

An Update on the Texas Municipal Retirement System

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Presented by

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2017 Issues

- Unprecedented negative attention to local pension plans in Texas – not TMRS
- Funding, administration, plan design, and governance issues are drawing the attention of elected officials, the press, and the public
- It is more important than ever to distinguish TMRS from other, troubled plans



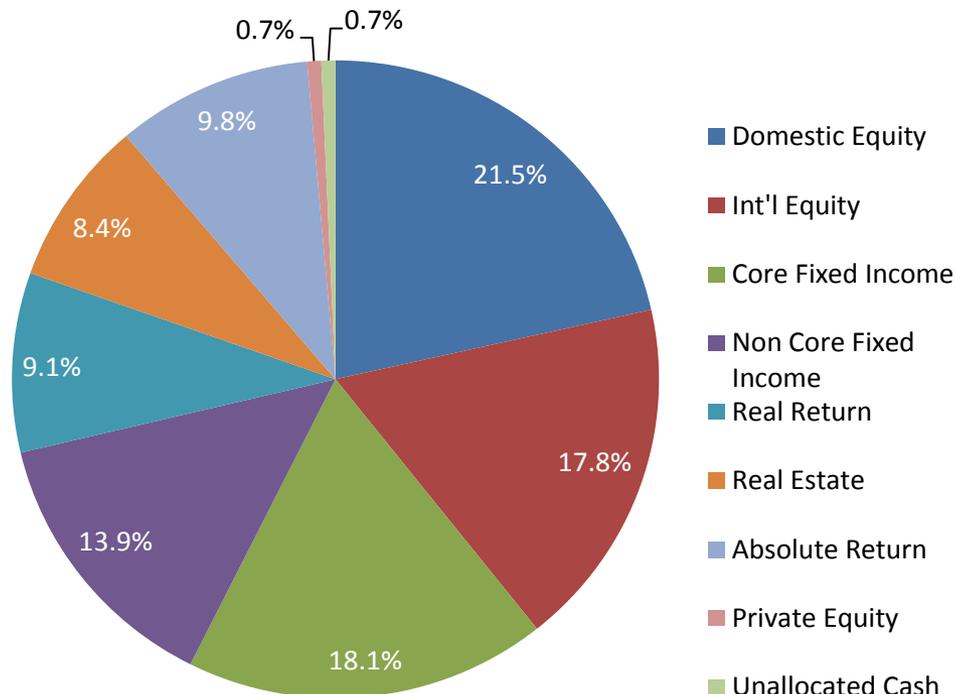
TMRS History & Membership*

- Over 870 cities participate in TMRS (not Houston, Dallas, Ft. Worth, Austin, El Paso, or Galveston).
- TMRS has approximately 108,000 active member accounts and 58,000 annuitants.*
- Governed by 6-member Board appointed by Governor with Senate approval.*
- Participating cities vary in size from over 6,000 employees (San Antonio non-uniformed employees) to just 1 employee (12 TMRS cities).*

* Approximate numbers as of 12/31/16

TMRS Investments

Asset Allocation as of 6/30/2017



Total Market Value: \$26.7 Billion

Returns (gross fees) as of 06/30/2017

1-Year Average	11.26%
3-Year Average	5.02%
5-Year Average	7.22%
10-Year Average	7.07%
20-Year Average	7.54%
25-Year Average	8.04%

TMRS' Funding Basics

- TMRS is a “hybrid” **cash-balance defined benefit plan** with statutory provisions in place that ensure oversight and responsible funding.
- TMRS' investment return assumption is **6.75%**, one of the lowest among large public plans.
- Several changes have been made since 2007 to ensure **long-term, advance funding** of all benefits; except Ad Hoc adoptions of Updated Service Credit (USC) and COLAs.
- All changes have also helped **reduce volatility** of city contributions from year to year.

TMRS' Funding Basics

- Each participating city controls employer costs by choosing its own options
- Each city is funded as a separate entity
- The city's employer contribution determined annually under this funding policy is called the Actuarially Determined Employer Contribution (ADEC)
- Cities must pay the ADEC every year, or reduce benefits if the ADEC is not sustainable
- No pension contribution "holidays"

System Soundness = City Choices

SYSTEM

- TMRS' System funded ratio is 86.3% and System-wide UAAL is \$4.12 billion (as of 12/31/16)
- All city plans are funded over a closed period of no more than 25 or 30 years

CITY

- Contribution rates* vary depending on benefits (e.g., 2.31% for cities with 5% / 1:1 match with no USC/COLA, vs. 15.76% for cities with a 7% / 2:1 match and repeating USC/COLAs)
- Weighted average contribution rate for all cities for 2017 is 13.24%

*Average rates weighted by payroll

Why Cities Choose TMRS

- TMRS increases a city's workforce competitiveness in hiring.
- TMRS benefits are effectively portable across participating cities to help attract experienced employees.
- More benefit for the taxpayer dollar: a defined benefit (DB) plan provides equivalent retirement benefits at about half the cost of a typical defined contribution (DC) plan.*

How the Public Benefits from TMRS

- Competitive benefits help build a better workforce
- 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 **0.31%*** of assets in 2016 (including investment management fees) — compared to an average of 1.00% for 401(k)s**

* Investment fees do not include fees that are paid directly out of private investment funds.

** Source: Center for American Progress, 2014 study.

How the Public Benefits, cont.

- TMRS invests **\$26.7 billion*** in the capital markets
 - 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, post-retirement



* As of 6/30/17

How the Public Benefits, cont.

- Most TMRS retirees live in the communities where they worked.
- TMRS paid \$1.2 billion in benefits, up from \$1.1 billion in 2015. These benefits are spent mostly in or near the cities that contributed to the plan.
- A past study by economist Ray Perryman used a 2.379 multiplier to estimate the “ripple” effect of each benefit dollar.

How Members Benefit

- TMRS provides a lifetime benefit with survivor options
- Members receive the benefit of 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

85th Texas Legislative Session

- Significant attention was paid to retirement systems in Dallas and Houston – bills passed to address funding and structural concerns
- Two other bills were passed that affect the investments of public plans
- Other bills were proposed but did not pass; they were aimed at creating a dialogue about the long-term sustainability of defined benefit retirement systems

TMRS-Related Legislation Passed

- HB 3056 – Permits the City of University Park to close its TLFFRA plan for fire fighters and enroll new fire department employees in TMRS
- SB 500 – Suspends the annuity payments of an elected member of a public retirement system who is convicted of a felony after the effective date of the Act (July 6, 2017) and who committed the offense while in office and performing duties of the office

TMRS-Related Bills that Failed to Pass

- HB 3670 – Proposed changes to the law governing TMRS retirees who return to work to the same city from which they retired. Would have required a retiree's annuity to be recalculated upon re-retirement. For retirees who returned to work after 8 years, interest would be required to be paid on their suspended benefits.
- SB 1752 – Would have authorized a home rule city to hold an election that could close a defined benefit plan and create a defined contribution plan for new hires.
- HB 632 – Proposed to cap the amount of an annuity from a retirement system based on the pay of an active duty military officer or federal employee.

Special Session

- Special Session was held July 18 – August 15
- Sunset reauthorization for 5 regulatory agencies and 19 other items were on the session call
- Pensions not on the call; however, a hearing was held on two bills refiled from the regular session
- Bills on 10 of the 20 issues passed; an additional Special Session has not been called

Pensions in the News

- Pension problems may include:
 - Benefits that are not sustainable
 - Required contributions that are not being made
 - Unrealistic assumptions may understate pension costs and lead to long-term problems
 - Controversy over state vs. local governance
- All these issues affecting specific plans may be examined in the current legislative session



How TMRS' Plan Design Addresses Potential Problems



Benefits that are not sustainable...

- Benefits are chosen by each city; if a city feels benefits are not sustainable, they can be prospectively reduced.
- TMRS cash balance design bases benefits on accumulated deposits and interest, not a formula.
- The average “original” TMRS benefit received by retired TMRS members at retirement was \$17,711 (an average of all the initial retirement annuities of retiring TMRS members from 1997 through 2016).

Required contributions that are not being made...

- State law requires funding discipline: each city must pay the actuarially determined amount to advance fund all benefits over 25 years.
- No “pension holidays” or delayed contributions are allowed.
- In the event that a city cannot afford its contributions, benefits may be prospectively reduced by the city to reduce costs.



Unrealistic assumptions may understate pension costs and lead to long-term problems...

- TMRS assumes an annual investment return of 6.75%, one of the lowest assumptions among all plans.
- Other actuarial assumptions are examined and adjusted regularly as needed.
- TMRS has modernized its life expectancy tables to address longevity of retirees.



Controversy over State vs. Local Governance

- TMRS is centrally governed by a 6-member Board of Trustees, appointed by the Governor, but benefit decisions are made by city officials.



- TMRS is subject to oversight by the State Pension Review Board and state legislative committees.

Recognition of TMRS Practices

- Named Public Plan Sponsor of 2009 by *PlanSponsor Magazine*
- In a 2012 study by the Texas State Comptroller's Office, TMRS was one of only three Texas plans to meet all benchmarks for financial stability
- Meets all of the funding guidelines currently under consideration by the Texas State Pension Review Board
- We were recognized in 2017 by the Center for State and Local Government Excellence as one of five systems nationwide that have developed effective approaches to pension reporting, communication and transparency.



QUESTIONS

