

# CITY OF TEXAS CITY, TEXAS

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Mayor:  
Matthew T. Doyle

Commissioners:  
Mike Land  
Tommy Clark  
Dee Ann Haney  
Dedrick D. Johnson, Sr.  
Donald B. Singleton  
J.W. Wilson, Jr.

***Cheryl T. Hunter, CPA***  
***Director of Finance***

November 17, 2008

Mayor Matthew T. Doyle and  
Members of the City Commission

Dear Mayor and City Commissioners:

In early 2007, Texas Municipal Retirement System (TMRS) informed each member cities that the current actuarial assumptions did not take into account Updated Service Credits (USC) or cost of living increases which are granted to retirees. These benefits, which the City has adopted, have been historically funded on a pay-as-you-go basis. This has led to regular increases in member cities' rates and a decrease in the overall funding of the retirement system. TMRS announced that it intended to study the impact of these benefit components and make potential changes in the way benefits are being funded. After careful deliberation, the TMRS board approved several changes to the actuarial methods and plan assumptions. The board changed the actuarial method from unit credit to projected unit credits. Projected unit credit will allow the actuaries to consider the future financial impact of updated service credits and cost of living increases, and these benefits will begin to be pre-funded instead of funded on a pay-as-you-go basis. To mitigate the impact of this change, the board approved an eight-year transition period. During this time, cities will be able to phase in the higher contribution rates instead of being required to fund these new rates immediately. Also, the board changed the amortization period from a 25-year open period to a 30-year closed period. Under a closed amortization period, contribution rates are higher, but a greater percentage of the unfunded balance is paid off each year. Finally, the board approved changes to the investment policy. TMRS has historically invested solely in fixed income investments. The board authorized the selection of an investment advisor to begin shifting a portion of investments into equity securities as a way to diversify the portfolio's holdings and earn higher returns than could be obtained with fixed income investments.

The City's maximum rate is 19.79% and the phase-in rate for 2008-09 is 15.63%, which the City chose the phase-in rate. The phase-in rate exceeds the maximum contribution rate that TMRS can require the City pay under state law. Based on the employees deposit rate of 7% and the City's 2 to 1 matching ratio, the City's statutory maximum contribution rate is 15.50%. If the City chose to pay less than the retirement cost rate, the difference will be reflected as an increase in the City's unfunded actuarial liability and will cause a decline in the City's funded ratio. Under the new actuarial cost method and assumptions, the City's unfunded actuarial accrued liability (UAAL) as of December 31, 2007 is \$23,690,613 which is 151.1% of covered payroll.

*"QPS – Quality Public Service"*

The projected financial impact for each phase-in year follows:

Year	Fiscal Year	Full Rate	Phase-In Amount	Phase-In Rate	Gross Covered Payroll	Contribution Amount	% Increase
1	2008-09	19.79%	-4.16%	15.63%	\$ 16,830,543	\$ 2,630,614	
2	2009-10	19.79%	-3.57%	16.22%	17,503,765	2,839,111	7.93%
3	2010-11	19.79%	-2.98%	16.81%	18,203,915	3,060,078	7.78%
4	2011-12	19.79%	-2.38%	17.41%	18,932,072	3,296,074	7.71%
5	2012-13	19.79%	-1.79%	18.00%	19,689,355	3,544,084	7.52%
6	2013-14	19.79%	-1.19%	18.60%	20,476,929	3,808,709	7.47%
7	2014-15	19.79%	-0.60%	19.19%	21,296,006	4,086,704	7.30%
8	2015-16	19.79%	0.00%	19.79%	22,147,846	4,383,059	7.25%

Assumptions:

- a.) City elects the phase-in rate each year.
- b.) City does not make changes to the current plan to reduce maximum rate.
- c.) Gross Covered Payroll assumes 4% increase each year.
- d.) Gross Covered Payroll assumes no additions or deletions in budgeted positions.

Of the rate increase, eighty-percent (80%) is attributed to Updated Service Credits and twenty-percent (20%) is attributed to Cost of Living Annuity (COLA) increases. The City can only modify these two areas in order to reduce the financial impact. It cannot change vesting requirements, buy-back or prior service credits, or the twenty (20) year/any age eligibility, which were all approved by ordinance in prior years. The City could opt to “turn off” the Updated Service Credits and Cost of Living Annuity increases rather than have them on an “annual repeating basis”, this would mean the City would have to adopt them year-to-year on an ad hoc basis, it is important to note the ad-hoc adoption does not reduce the costs of these benefits. Therefore, after much discussion with TMRS, the decision has been made to take a “wait and see” attitude for the next year before recommending changes, as the plan is still in transition due to the changes mentioned above.

Lastly, as mentioned above, the City’s contribution rate for 2009 is 15.63%, which is over the City’s statutory maximum contribution rate of 15.50%. The statutory maximum contribution rate was mandated in the TMRS Act when the City became a participating member in the late 1950’s, this has now since changed, since 2001, all new participating Cities are not mandated by a statutory maximum contribution rate. Since the City’s plan falls under the older TMRS Act, an ordinance is needed to lift the statutory maximum contribution rate and it is recommended *no* maximum statutory contribution rate be stated under the new ordinance.

Please let me know if you have any questions regarding the above. Thank you.

Sincerely,

Cheryl T. Hunter  
Director of Finance

**Texas Municipal Retirement System (TMRS)  
Changes in Actuarial Cost Method and Assumptions**

- 1.) Change in the Actuarial Cost Method from Traditional Unit Credit (UC) to Project Unit Credit (PUC).
- 2.) Change from a 25-year open amortization period to a 25-year closed amortization period.
- 3.) Updated Service Credit (USC) and Annuity Increases (COLAs).
- 4.) Investment Return Assumption – In December 2007, the TMRS Board adopted a 7% investment return assumption, based on a change in investment policy that will result in a portfolio diversified at approximately 60% equities and 40% fixed income at the end of a 5 year period. Under the prior investment policy (100% fixed income), the assumption would have been 5.5%. Diversification of the fund after 2008 will require passage of legislation by the Texas Legislature in 2009.

**City of Texas City  
Texas Municipal Retirement System (TMRS)  
Plan Provisions**

Employee Deposit Rate:	7%
Municipal Current Matching Ratio:	2-1
Updated Service Credit (%):	100-T
Year Effective (For Updated Service Credit):	2003-R
Annuity Increase (%):	70
Year Effective (For Annuity Increase):	2003-R
Military Service Credit:	6-90
Buy-Back Effective Date:	01-01-03
Vesting Requirements:	5 yrs.
Service Requirement Eligibilities:	5 yrs/age 60 or 20 yrs/any age
Number of Contributing Members:	418

“T”-includes Transfer Credits

“R”-Annually Repeating

## **-EXPLANATION OF PLAN PROVISIONS-**

**Buyback of Service Credit** – If one has been a TMRS member and has ended their membership by leaving employment and withdrawing their deposits, then return to work for a TMRS city, they are eligible to buy back the TMRS service that was refunded. To buy back service credit one must:

- Be an employee of the city and a member of TMRS on the date of the buyback ordinance's adoption;
- Have at least 24 consecutive months of service credit as an employee of the city adopting the ordinance; and
- Re-deposit, in one lump sum, all of the amount previously refunded plus a reinstatement fee equal to 5% of the amount you withdrew for each year since your refund. The member account with TMRS is credited with the lump sum payment, while the 5% reinstatement fee is credited to the City's account with the System.

**Cost of Living Annuity (COLA) Increase** – The City grants an increase (when the cost of living increases) to retirees in order to protect their benefit from the effects of inflation. The City's plan provides for increase of 70% (maximum percentage) of the Consumer Price Index (CPI). The cost of living change is measured from the December before the member's retirement through the December that is 13 months prior to the effective date of the CPI increase. The calculated increase is applied to the retiree's original monthly retirement payment.

**Current Service Credit** – Current Service Credit is the credit a member earns for each month of active employment with a TMRS city. An active member receives one month of Current Service Credit for every month in which the member makes the required deposit to TMRS. For most TMRS members, the majority of service credit will be Current Service Credit.

**Employee Deposit Rate** – Each month, the City withholds 7% of an active member's gross monthly income and deposits the money in a TMRS account in the member's name.

**Extra Payments (Distributive Benefit)** – Each year, when the TMRS Board of Trustees determines the interest rate to be applied to member accounts, they also may grant retirees an Extra Payment from TMRS's investments. The Extra Payment is not guaranteed, and the amount of the payment, if any, depends upon the investment income of the System.

**Military Service Credit** – TMRS recognizes two types of Military Service Credit. One type, governed by the federal Uniformed Services Employment and Reemployment Rights Act (USERRA) is available to all TMRS members. The other type is adopted by the City and in order to qualify the following conditions must be met:

- Active duty service cannot have been terminated on dishonorable terms; and
- Have not received credit for the same military service in any other retirement system or programs established under the laws of the State of Texas.

## **-EXPLANATION OF PLAN PROVISIONS (Continued)-**

**Municipal Current Matching Ratio** – For every month a member makes a deposit to TMRS, the City agrees to match deposits and interest at a rate of 2 to 1. The City's match of deposit and interest is held in the City's TMRS account until the member retires, at which time the match becomes part of the member's benefit. The only way to receive the City's matching funds is to retire from TMRS and receive a monthly payment.

**Prior Service Credit** – When a City joins TMRS, the employees of that City receive credit for service performed before the City joined. Each city determines the percentage value and pays the cost of the service credit granted.

**Service Requirement Eligibilities** – The necessary service credit and age requirement needed to be eligible for retirement. In order to retire from the City and receive monthly payments, the member must:

- Be at least 60 years of age and have at least five years of service credit with TMRS  
or
- Have at least 20 years of service credit with TMRS, regardless of age.

**Updated Service Credit (USC)** – A special feature of the TMRS retirement plan that may increase the value of the member's retirement benefits. The City has adopted USC as part of its TMRS plan. Updated Service Credit is designed to help career member's benefits maintain their value. In calculating USC, TMRS looks at the changes in a member's salary over their career and at any changes the City has made to its TMRS plan, such as the member's deposit rate or the City's matching ratio. In many cases, the USC can increase the member's monthly retirement payment. USC protects benefits by including increases in the member's salary and any changes the City might have made to its TMRS plan and assuming those increases and changes have been in effect throughout the member's career. In most cases, a member's salary should increase over their career, due to inflation and to promotions and raises. Monthly deposits to TMRS during a member's early career may be substantially lower than they are in later years. USC is only a part of a member's benefit if they retire and receive a monthly payment. USC interest is prorated in the year the member retires, so the member receives the value of their USC no matter which month they choose to retire. The member must have made 36 monthly member deposits to be eligible for USC.

**Vesting Requirements** – A member has worked enough years (5 yrs) and established enough service credit to meet the minimum length-of-service requirement for retirement. Once vested, a member may leave City employment and may leave deposits with TMRS and retire with a TMRS retirement benefit when the member has reached age 60, or met other retirement requirements that may be necessary.