TMRS
TEXAS MUNICIPAL RETIREMENT SYSTEM

May 23, 2013

City #00830

City Official
City of McKinney
P.O. Box 517
McKinney, TX 75070-0517

Subject: 2014 Municipal Contribution Rate

Dear City Official:

Presented below are your city's contribution requirements to the Texas Municipal Retirement System (TMRS) for Plan Year 2014 (Calendar Year 2014, PY2014) as determined by the December 31, 2012 actuarial valuation. The actuarially determined contribution rates for retirement benefits and Supplemental Death Benefits (SDB), if any, are based on your city's plan provisions in effect as of April 1, 2013 and the actuarial assumptions and methods adopted by the TMRS Board. Effective January 1, 2014, your city's monthly contribution rates will be as follows:

	Phase-in Rate	Full Rate
Normal Cost	11.22%	11.22%
Prior Service	3.84%	4.27%
Total Retirement Rate	15.06%	15.49%
Supplemental Death Benefit	0.13%	0.13%
Total Combined Contribution	15.19%	15.62%

Full information on your rate, including an explanation of changes, and the pension disclosure data to assist your city with the reporting requirements of the Governmental Accounting Standards Board (GASB) are contained in the attached report.

The Total Retirement Rate shown in the Full Rate column above represents the Annual Required Contribution (ARC) under GASB Statement No. 27 for PY2014. **The Total Combined Contribution Rate shown in the Phase-in Rate column above represents the minimum required contribution rate to TMRS for PY2014.** The difference represents the portion of your Full Rate that is being phased in over the remaining two years (2015-2016, inclusive) of the original eight-year period that began January 1, 2009. Please see the "Phase-in Rates" section for more information. **Your city must contribute at least the Phase-in Rate, though TMRS highly recommends that each city contribute as much toward the Full Rate as possible. Please note that if your city chooses to contribute at a rate below the 2014 GASB ARC, a Net Pension Obligation (NPO) equal to the contribution shortfall will be created (or an additional NPO will be generated if your city has paid the Phase-in Retirement Rate during 2009- 2013), which must be reflected in your employer's financial statement.**

If you have questions about your rate or if you wish to evaluate potential changes in your TMRS plan, contact TMRS at 800-924-8677.

Sincerely,

Eric W. Davis

Eric W. Davis
Deputy Executive Director

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Executive Summary

Valuation as of TMRS Plan Year (PY) Ending	12/31/2012	12/31/2011
Membership as of the Valuation Date		
• Number of		
- Active members	793	758
- Retirees and beneficiaries	179	165
- Inactive members	234	242
- Total	1,206	1,165
• Prior year's payroll provided by TMRS	$ 47,463,682	$ 47,490,291
• Valuation Payroll	$ 51,196,918	$ 50,465,754
Benefit Accumulation Fund (BAF) Assets		
• Market BAF Balance	$ 138,879,154	$ 120,457,816
• BAF crediting rate for PY	9.95%	2.37%
• Interest credited on beginning BAF balance	$ 11,985,079	$ 2,641,061
• Municipal contributions*	6,527,181	6,149,567
• Member contributions during year	3,322,458	3,324,320
• Benefit and refund payments*	3,413,381	3,202,728
Actuarial Value of Assets (AVA)	$ 134,332,842	$ 119,057,419
Return on AVA	7.42%	7.15%
AVA as a Percentage of BAF	96.73%	98.84%
Actuarial Information		
• Actuarial accrued liability (AAL)	$ 169,233,811	$ 156,549,456
• Actuarial value of assets (AVA)	134,332,842	119,057,419
• Unfunded actuarial accrued liability (UAAL)	34,900,969	37,492,037
• UAAL as % of pay	73.5%	78.9%
• GASB #27 Funded ratio	79.4%	76.1%
• Employer normal cost	11.22%	10.73%
• Prior Service Rate	4.27%	4.55%
Contribution Rates for TMRS Plan Year (PY)	2014	2013
• Member	7.00%	7.00%
• Full retirement rate (GASB ARC)	15.49%	15.28%
• Phase-in retirement rate (minimum)	15.06%	14.63%
• Supplemental Death rate	0.13%	0.12%
Total Employer Contribution Estimates for PY	2014	2013
• Projected payroll	$ 52,732,826	$ 51,979,727
• Minimum Phase-in contribution rate	15.19%	14.75%
• Estimated employer contribution	$ 8,010,116	$ 7,667,010

Note: TMRS Plan Year coincides with Calendar Year

Results from prior year reflect the plan provisions used in the 12/31/2012 valuation report.

* Excludes contributions to/benefit payments from the IRC §415(m) Full Benefit Arrangement fund

Calculation of Contribution Requirements

		From Valuation Report as of	
		December 31, 2012	December 31, 2011
1.	Prior year's payroll reported to TMRS	$ 47,463,682	$ 47,490,291
2.	Valuation payroll	51,196,918	50,465,754
3.	Employer normal cost rate	11.22%	10.73%
4.	Actuarial liabilities		
	a. Active members	$ 116,113,489	$ 106,770,510
	b. Inactive members	19,274,556	19,100,102
	c. Annuitants	33,845,766	30,678,844
	d. Total actuarial accrued liability	$ 169,233,811	$ 156,549,456
5.	Actuarial value of assets	134,332,842	119,057,419
6.	Unfunded actuarial accrued liability (UAAL) (4d - 5)	$ 34,900,969	$ 37,492,037
7.	Funded ratio (5 / 4d)	79.4%	76.1%
8.	GASB 25 Equivalent Single Amortization Period*	25.2 years	26.2 years
9.	Assumed payroll growth rate	3.00%	3.00%

	Contribution Rate for TMRS Plan Year:	2014	2013
10.	Full retirement rate		
	a. Normal cost	11.22%	10.73%
	b. Prior service	4.27%	4.55%
	c. Full retirement rate	15.49%	15.28%
11.	Minimum phase-in retirement rate		
	a. Full retirement rate (10c)	15.49%	15.28%
	b. Less phase-in deferral	(0.43%)	(0.65%)
	c. Minimum phase-in retirement rate	15.06%	14.63%
12.	Supplemental Death rate	0.13%	0.12%
13.	Combined contribution rates		
	a. Combined full rate (10c + 12)	15.62%	15.40%
	b. Combined phase-in rate (11c + 12)	15.19%	14.75%

* New Gains/Losses are laddered on 30-year period.

Development of Actuarial Value of Assets

		Year Ending		
		12/31/2012		12/31/2011
1. Actuarial value of assets (AVA) as of January 1	$	119,057,419	$	105,262,299
2. a. Employer Contributions*	$	6,527,181	$	6,149,567
b. Member Contributions		3,322,458		3,324,320
c. Benefit and Refund Payments*		3,413,381		3,202,728
d. Net external cash flow	$	6,436,258	$	6,271,159
3. Expected assets as of December 31 (includes earnings equal to 7.0% of 1.)	$	133,827,696	$	118,901,819
4. Actual BAF balance as of December 31	$	138,879,154	$	120,457,816
5. Deferred earnings/(shortfall) (4. – 3.)	$	5,051,458	$	1,555,997
6. Deferred earnings/(shortfall) recognized (10% x 5.)	$	505,146	$	155,600
7. Preliminary actuarial value of assets as of December 31 (3. + 6.)	$	134,332,842	$	119,057,419
8. a. 85% of market value of assets (85% x 4.)	$	118,047,281	$	102,389,144
b. 115% of market value of assets (115% x 4.)		159,711,027		138,526,488
9. Actuarial value of assets (AVA) as of December 31 (7. perhaps partially limited by 8.)	$	134,332,842	$	119,057,419

* Excludes contributions to/benefit payments from the IRC §415(m) Full Benefit Arrangement fund

<u>Note:</u>

To help mitigate the natural year-to-year fluctuations (positive and negative) in the investment markets, the TMRS actuary has recommended “asset smoothing”. Nearly all public sector retirement systems employ some form of smoothing. Smoothing does not impact long-term plan costs or funded positions, but does impact timing of investment gain and loss recognition. The TMRS Board of Trustees has adopted a 10-year smoothing method with a 15% corridor to determine the System’s actuarial value of assets (AVA). This “smoothing method” is intended to help reduce the volatility of the contribution rates from one year to the next. The corridors detailed above on line 8 keep the AVA within a certain range of the market value of assets. The AVA is a component that must be disclosed by the City in its Schedule of Funding Progress (see GASB Compliance Data section).

Expected and actual BAF balances as of December 31 may be off a dollar due to rounding.

Historical and Projected Accumulation of the BAF Balance

Year Ending December 31, (1)	Payroll for the Year (2)	Effective Retirement Contribution Rate [a] (3)	Employer Contributions for the Year [c] (4)	Member Contributions for the Year (5)	Benefit Payments [c] (6)	External Cash Flow for the Year (7)	Interest Credit (8)	BAF Balance [b] (9)
		(4) / (2)				(4) + (5) + (6)		
2011	$ 47,490,291	12.95%	$ 6,149,567	$ 3,324,320	$ (3,202,728)	$ 6,271,159	$ 2,641,061	$ 120,457,816
2012	$ 47,463,682	13.75%	$ 6,527,181	$ 3,322,458	$ (3,413,381)	$ 6,436,258	$ 11,985,079	$ 138,879,154
2013	$ 51,196,918	14.63%	$ 7,490,109	$ 3,583,784	$ (4,371,719)	$ 6,702,174	$ 9,721,541	$ 155,302,868
2014	$ 52,732,826	15.06%	$ 7,941,564	$ 3,691,298	$ (4,988,297)	$ 6,644,565	$ 10,871,201	$ 172,818,634

a. Effective retirement contribution rate is the actual rate determined by dividing the employer contribution received by the payroll paid.
b. BAF Balance may be off a dollar due to rounding.
c. Excludes contributions to/benefit payments from the IRC §415(m) Full Benefit Arrangement fund

Reconciliation of Full Retirement Rate from Prior Actuarial Valuation Report

Actuarial valuations are based on long term assumptions, and actual results in a specific year can, and almost certainly will, differ as actual experience deviates from the assumptions. The following table provides a detailed breakdown of changes in the retirement portion of your city's contribution rate. This analysis reconciles the change in the retirement portion of your city's contribution rate from 2013 to 2014, but will not reflect any change in the cost of the Supplemental Death Benefit (SDB), if your city currently has this provision. (Any changes in the cost of the SDB are primarily due to the change in mortality assumptions and/or changes in the average age of your city's employee group and/or the number of covered retirees.) Following the table below is a brief description of the common sources for deviation from the expected.

Change in Full Retirement Rate				
Full Rate from 12/31/2011 Valuation (PY 2013 Rate)			15.28	%
Benefit changes	0.00	%		
Return on Actuarial Value of Assets	(0.06)			
Contribution lag/phase in	0.14			
Payroll growth	0.07			
Normal cost	0.49			
Liability growth	(0.43)			
Total change	0.21	%		
Full Rate from 12/31/2012 Valuation (PY 2014 Rate)			15.49	%

Benefit Changes - Shows the increase or decrease in the contribution rate associated with any modifications made to the member city's TMRS plan provisions. This will also include any changes to the amortization period adopted by ordinance.

Return on Actuarial Value of Assets (AVA) - Shows the change in the contribution rate associated with the return on the AVA being different than the assumed 7.0%. For the year ending December 31, 2012, the return on an AVA basis was 7.42%. The impact may show as 0.00% due to rounding.

Contribution Lag / Phase In - Shows the total increase or decrease in the contribution rate associated with the phase in of contributions and/or any additional contributions above the full rate. The effect of the "Contribution Lag" is also included here and refers to the time delay between the actuarial valuation date and the date the contribution rate becomes effective. For TMRS member cities, the "Contribution Lag" is one year (i.e., the Actuarial Valuation as of December 31, 2012 set the rate effective for Calendar Year 2014). **The impact of the "Contribution Lag" is expected to become immaterial once a city is contributing the Full Rate and the Full Rate stabilizes.**

If a city chooses to contribute the minimum phase-in contribution, the difference between the Full Rate and the Phase-in Rate will be reflected as an actuarial loss in the next valuation's UAAL. This will increase the Full Rate for future valuations. **As the phase-in deferral base is recognized over the next two valuations, the magnitude of the change due to the phase-in should decrease.**

Cities should carefully consider whether to pay the minimum Phase-in Rate, the Full Rate, or a rate somewhere in between. If a city begins to contribute the Full Rate immediately, the actuarial valuation anticipates that the Full Rate will stabilize for the duration of the amortization period. However, if the minimum phase-in contribution schedule is utilized, the ultimate Full Rate at the end of the phase-in period would be expected to be higher than the current Full Rate. For more information on the impact of the phase-in, please refer to the "Phase-in Rates" section.

Payroll Growth - Shows the increase or decrease in the contribution rate associated with higher or lower than expected growth in the member city's overall payroll. The amortization payments are calculated assuming payroll grows at 3.0% per year. Overall payroll growth in excess of 3.0% will typically cause a decrease in the prior service rate.

Normal Cost - Shows the increase or decrease in the contribution rate associated with changes in the average normal cost rate for the individual city's population. The normal cost rate is the allocated cost of next year's benefit accruals. Typically, the normal cost rate will increase if the average age/service combination of the covered population increases and decrease if the average age/service combination decreases.

Liability Growth - Shows the increase or decrease in the contribution rate associated with larger or lower than expected growth in the member city's overall plan liabilities. The most significant sources for variance will be individual salary increases compared to the assumption and turnover.

GASB Compliance Data

For the Employer's Applicable Accounting/Fiscal Year

City of: McKinney

The attached pages contain data specific to your city and are being provided to all participating Texas Municipal Retirement System (TMRS) employers to assist your city in complying with the reporting requirements of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)* and if applicable, Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

<u>The actual disclosures required by GASB Statements 50 and 45 must be based on the circumstances specific to each individual employer; as such, the disclosure(s) is(are) the responsibility of the city (employer) and its independent public accountant.</u>

Please note that any reference to Plan Year (PY) in the following pages refers to the TMRS Plan Year, which coincides with the Calendar Year and Valuation Year, January 1 – December 31.

Items <u>not</u> in italics are comments provided to assist you in completing your financial statement disclosures. Items ***<u>in italics</u>*** are sample language and charts that are part of the required disclosures.

PENSION PLAN

<u>GASB Statement No. 27 as amended by GASB Statement No. 50:</u>

Note that participating municipalities should comply with the **GASB Statement No. 50** provisions for an **agent multiple-employer defined benefit pension plan.** The GASB statement provides an example of the note disclosures in **Illustration 6** (Notes to the Financial Statements for an Employer Contributing to an Agent Multiple-Employer Defined Benefit Pension Plan). In addition, the participating employer can refer to the footnotes in the *TMRS Comprehensive Annual Financial Report* (CAFR) to obtain a general description of the TMRS plan, how contributions are made, and how benefits are determined.

In making its disclosures, the employer may need to consider (not intended to be an all-inclusive list):

- Its accounting year (employer fiscal year is likely different than TMRS' December 31 plan year and the valuation period)
- If additional voluntary contributions were made to TMRS during the employer's fiscal year (additional voluntary contributions were permitted effective January 1, 2008)
- The disclosure of a net pension asset or net pension obligation, as a result of paying more or less than the annual required contribution (ARC)

Notes to Financial Statements

Plan Description

The City provides pension benefits for all of its eligible employees [any exceptions such as firefighters would be inserted here by the City] through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2013
Employee deposit rate	7%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

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IMPORTANT NOTE – <u>IRC §415(m) Full Benefit Arrangement Fund:</u>

Section 415(b) of the Internal Revenue Code limits the amount of the annual benefit that may be paid by a tax-qualified pension plan (TMRS) trust to its retirees. This provision is known as the Section 415 limit, which is set by Congress and is periodically adjusted by the IRS. Any portion of a retiree's annual benefit that exceeds the Section 415 limit cannot be paid from the TMRS pension trust fund. However, Internal Revenue Code Section 415(m) allows pension plans like TMRS to create a separate fund, known as a qualified governmental excess benefit arrangement, to pay the benefits above the Section 415 limit. Accordingly, the TMRS Act established such an arrangement, which is referred to as the "Full Benefit Arrangement".

In calendar year 2012, your city had one or more retirees whose annual benefit exceeded the Section 415 limit. Your 2012 TMRS full retirement contribution rate was calculated to include contributions to both the pension trust fund as well as the Full Benefit Arrangement fund. As such, your city submitted contributions equal to these excess benefit payments, separately from your pension trust contributions. During calendar year 2012, your city remitted $46,526.65 to the Full Benefit Arrangement (FBA) fund. For financial reporting purposes with respect to the TMRS pension plan, contributions made to the TMRS pension trust should not include these FBA contributions in determining the annual pension costs and in completing the three-year trend information in the charts below.

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The annual pension cost and net pension obligation/(asset) are as follows:

[city should provide chart similar to the "sample chart" shown below, if applicable]

SAMPLE

DO NOT USE "AS IS" FOR YOUR CITY

USE VALUES APPLICABLE TO YOUR OWN CITY

1. Annual Required Contribution (ARC)	*$ 12,000*	$ of ARC[1, 3]
2. Interest on Net Pension Obligation	*1,400*	Interest[2] * (7)
3. Adjustment to the ARC	*<u>(1,230)</u>*	(7) / amortization factor
4. Annual Pension Cost (APC)	*12,170*	(1) + (2) + (3)
5. Contributions Made	*<u>(10,000)</u>*	Actual Contributions [3]
6. Increase (decrease) in net pension	*2,170*	(4) + (5)
7. Net Pension Obligation/(Asset), beginning of year	*<u>20,000</u>*	
8. Net Pension Obligation/(Asset), end of year	*$ 22,170*	(6) + (7)

1. The fiscal year $ ARC is determined by the sum of the applicable $ ARC for each month in the City's fiscal year. The $ ARC for each month is determined by multiplying the PY % ARC (Full Retirement Rate) by the applicable payroll for that month (for payroll, cities can use "gross earnings" as noted on line 1 of their TMRS-3 "Summary of Monthly Payroll Report"). From that sum, deduct the contributions made to the Full Benefit Arrangement fund (Section 415(m) contributions) for the respective fiscal year.
2. Should be the interest rate used in determining the ARC for the period. This is 7% for the 2008 and 2009 ARC; 7.5% for the 2010 and 2011 ARC; and 7% for the 2012 ARC and thereafter.
3. Should exclude FBA contributions made during the city's fiscal year.

Comment: Subject to the FBA comment below, cities that contribute at the level of the ARC (which is at the Full Retirement Rate) each year do not need to go through the above exercise for determining the Annual Pension Cost. For these cities, the Net Pension Obligation should be $0 and the Annual Pension Cost will be equal to the actual pension trust contributions made for the fiscal year. Again, the city should NOT include the Section 415(m) FBA contributions in these amounts.

Beginning in 2008, member cities were allowed to make additional contributions. In addition, beginning in 2009, certain eligible member cities could elect to contribute a minimum amount equal to their ARC less a "Phase In" of the increase from the change to the Projected Unit Credit cost method in the 2007 valuation (i.e., contribute at the Phase-in Rate). Both of these instances will cause a city to have an actual contribution different from the actuarially determined Annual Required Contribution (ARC), and therefore, accrue a net pension obligation (asset) on its balance sheet. In subsequent years, this Net Pension Obligation (Asset) will be amortized using the same amortization factor used to determine the ARC for a given year. We have included the amortization factor used to determine the prior service rate applicable to the time period indicated in the "Three-Year Trend Information" chart shown on the following page. This is a step required to determine the Adjustment to the ARC (line 3 in the sample chart above) and ultimately the Annual Pension Cost (line 4 in the sample chart above) as described in GASB Statement No. 27.

The above chart is an example of a schedule to include in your financial statements; we have provided a column to the right of the schedule, describing the calculation. Please note, all of the values should be based on <u>your</u> city's fiscal year, not the TMRS plan year.

Three-Year Trend Information

Fiscal Year Ending	*Annual Pension Cost(APC)*	*Actual Contribution Made*	*Percentage of APC Contributed*	*Net Pension Obligation/ (Asset)*	**Amortization Factor***	**Annual Required Contribution Rate***
2010	*$*	*$*	*%*	*$*	16.377	14.79%
2011	*$*	*$*	*%*	*$*	16.086	15.24%
2012	*$*	*$*	*%*	*$*	16.619	14.72%
2013	*$*	*$*	*%*	*$*	16.260	15.28%
*2014**	*$*	*$*	*%*	*$*	15.887	15.49%

The amounts reflected in the table above do not include contributions made to the Full Benefit Arrangement fund.

* **Comment:** Neither of the last two columns should be shown in the actual exhibit in the City's disclosure. This is being provided to assist the City in completing the calculation from the prior page. Also, the City is only required to show three years of information; the 2014 row is shown only to provide the City with the applicable amortization factor for determining the Annual Pension Cost.

The required contribution rates for fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	*12/31/2010*	*12/31/2011*	*12/31/2012*
Actuarial Cost Method	*Projected Unit Credit*	*Projected Unit Credit*	*Projected Unit Credit*
Amortization Method	*Level Percent of Payroll*	*Level Percent of Payroll*	*Level Percent of Payroll*
GASB 25 Equivalent Single Amortization Period	*27.2 years; closed period*	*26.2 years; closed period*	*25.2 years; closed period*
Amortization Period for new Gains/Losses	*30 years*	*30 years*	*30 years*
Asset Valuation Method	*10-year Smoothed Market*	*10-year Smoothed Market*	*10-year Smoothed Market*
Actuarial Assumptions:			
*Investment Rate of Return **	*7.0%*	*7.0%*	*7.0%*
*Projected Salary Increases **	*Varies by age and service*	*Varies by age and service*	*Varies by age and service*
** Includes Inflation at*	*3.00%*	*3.00%*	*3.00%*
Cost-of-Living Adjustments	*2.1%*	*2.1%*	*2.1%*

Comment: Cities with a fiscal year ending December 31 (i.e., the calendar year), would indicate that the required contribution for fiscal year 2013 was determined as part of the December 31, 2011 actuarial valuation; as such, the 2010 valuation information shown above would not be included in the disclosure.

Funded Status and Funding Progress –

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	*Actuarial Value of Assets*	*Actuarial Accrued Liability (AAL)*	*Funded Ratio*	*Unfunded AAL (UAAL)*	*Covered Payroll*	*UAAL as a Percentage of Covered Payroll*
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
			(1) / (2)	*(2) - (1)*		*(4) / (5)*
12/31/2012	*$134,332,842*	*$169,233,811*	*79.4%*	*$34,900,969*	*$47,463,682*	*73.5%*

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Funding Progress:

(unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2010	$105,262,299	$145,078,402	72.6 %	$39,816,103	$48,533,150	82.0 %
12/31/2011	119,057,419	156,549,456	76.1	37,492,037	47,490,291	78.9
12/31/2012	134,332,842	169,233,811	79.4	34,900,969	47,463,682	73.5

SUPPLEMENTAL DEATH BENEFITS FUND

GASB Statement No. 45:

In addition, GASB Statement No. 45 may be applicable if your city has elected to participate in the Supplemental Death Benefits Fund (SDBF) **for its retirees**. Participating municipalities should comply with the **GASB Statement No. 45** provisions for a **cost-sharing multiple-employer defined benefit healthcare plan.** The GASB statement provides information in paragraph 24 and also an example of the note disclosures in **Illustration 4** (Notes to the Financial Statements for an Employer Contributing to a Cost-Sharing Multiple-Employer Defined Benefit Healthcare Plan). In addition, the participating employer can refer to the footnotes in the TMRS CAFR to obtain a general description of the SDBF.

In making its disclosures, the employer may need to consider its accounting year if the employer's fiscal year is different than TMRS' December 31 plan year (PY) and the valuation period.

Notes to Financial Statements:

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees **[this sentence should be updated to reflect the City's actual provisions as noted in the chart below]**. *The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.*

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

Your city offers supplemental death to:	Plan Year 2012	Plan Year 2013
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

Comment: This chart can be used to complete the footnote information above regarding your city's plan provisions for SDBF.

<u>Contributions</u>

Note: Your city is only required to disclose participation in the Supplemental Death Benefits Fund for OPEB reporting purposes if you provide this coverage to your <u>retirees</u>.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2013, 2012 and 2011 were $____, $_____ and $______, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:

(RETIREE-only portion of the rate)

Plan/ Calendar Year	***Annual Required Contribution (Rate)***	***Actual Contribution Made (Rate)***	***Percentage of ARC Contributed***
2010	*0.01%*	*0.01%*	*100.0%*
2011	*0.01%*	*0.01%*	*100.0%*
2012	*0.01%*	*0.01%*	*100.0%*
2013	*0.01%*	*(city to provide)*	*(city to provide)*
2014	*0.01%*	*(city to provide)*	*(city to provide)*

Comment: Your city can disclose the ARC in dollars (as noted in sentence above) or in a chart similar to that shown above. In addition, the City is only required to show three years of information; additional years have been provided for informational purposes only.

Remember, the disclosure should state the contributions for the City's respective fiscal year. As in the pension disclosure, the City can determine the $ contributions made each month by multiplying their monthly payroll by the retiree-portion SDBF rate noted above (payroll can be obtained from line 1 of the TMRS-3 report). Cities should also note that TMRS only allowed a Phase-in Rate for the pension contributions; all contributions to the SDBF are paid at the stated % rate above and as such, the % of ARC contributed will always be 100%.

Phase-in Rates

After the change in TMRS' actuarial cost method as of the December 31, 2007 actuarial valuation, any city that experienced an increase of 0.50% or more due to actuarial assumption or method changes was given the option to phase in the higher rate over an eight-year period beginning January 1, 2009. Your city was eligible for that option.

In addition, any increase in your 2010 rate due to the change in assumptions first reflected in the December 31, 2008 valuation was combined with your original phase-in balance and phased in over the remaining seven years of the phase-in period. Similarly, the decrease in your 2012 Full Retirement Rate due to the combined impact of SB 350 and new actuarial assumptions first reflected in the December 31, 2010 "restructured" valuation was offset against your December 31, 2010 pre-restructuring phase-in balance with the remainder, if any, phased in over the remaining five years of the phase-in period. The 2014 rate reflects the sixth year of the original eight-year phase-in period.

What rate should my city pay?

Your city must contribute at least the Phase-in Rate and should consider paying more than this amount.

Can my city contribute more than the Phase-in Rate?

You may contribute at any rate you choose, but you must contribute at least the Phase-in Rate. Your city may choose to pay (1) the Full Rate, (2) a rate between the Phase-in Rate and the Full Rate, or (3) a rate above the Full Rate. The TMRS Act was amended effective January 1, 2008 allowing cities to make additional contributions to TMRS.

What is the impact of paying the Phase-in Rate or a rate below the Full Rate?

Contributing at a rate less than the Full Rate during the phase-in period will affect your city in at least the following two ways:

(1) Each year that the actual contribution rate is less than the Full Rate, the difference generates an actuarial loss in the following year's actuarial valuation, which must be amortized as part of the UAAL by an increase in the Prior Service Rate. All other things being equal, the Full Rate for each successive year of the phase-in period will reflect the cumulative increases in the Prior Service Rate from all prior years; therefore, for a city that contributes the Phase-in Rates exactly, the 2016 Full Rate will reflect the cumulative effect of seven incremental increases in the Prior Service Rate. Cities that pay the Phase-in Rate or any rate less than the Full Rate are also likely to see their funding ratio decline or increase at a slower rate each year.

(2) In accordance with GASB Statement No. 27, your city will need to disclose a Net Pension Obligation (NPO) in its financial statements to reflect the difference between the Annual Pension Cost and the actual contributions made. More information about GASB reporting requirements is discussed in the "GASB Compliance Data" attachment.

What is the impact of contributions in excess of the Full Rate?

Contributions above the Full Rate will have the exact opposite effect on your city as described above for contributions less than the Full Rate – (1) the amortization of actuarial gains created by additional contributions will decrease the Full Rate (by a decrease in the PS Rate) for the following year and (2) reduce the NPO, if any, or create or increase a Net Pension Asset (NPA) for financial statement purposes. A city that makes contributions in excess of the Full Rate should also see its funding ratio improve more rapidly.

Can my city pay the Full Rate this year and change to the Phase-in Rate in a later year?

Yes. Each year during the eight-year phase-in period, TMRS will send you a rate letter showing both the Phase-in Rate and the Full Rate. The Phase-in Rate will be the minimum rate you must pay. As mentioned earlier, a city should consider paying more than the Phase-in Rate.

If my city makes plan changes that increase the cost of our plan (benefit improvements), can we phase in those additional costs?

No. The contribution rate increase due to benefit improvements will not change the Phase-in Amount used in determining the Phase-in Rate. The Phase-in Rate will increase by the same amount as the Full Rate. The Phase-in Rate was intended to assist those cities that needed additional time to budget for the Full Rate. Any city making plan changes should consider paying the Full Rate.

If my city makes changes that decrease the cost of our plan (benefit reductions), will our Phase-in Rate be affected?

Yes. Reductions in the Full Rate because of a plan benefit reduction will change the amount being phased in and the Phase-in Rate beginning with the year the plan changes are effective. The portion of the amount being phased in and not yet recognized will be reduced by the decrease in the Full Rate to be phased in evenly over the remainder of the eight-year phase-in period. In 2014, there are three years remaining (2014-2016, inclusive) of the original eight-year phase-in period. If the decrease in the Full Rate due to reductions in plan benefits exceeds the remaining phase-in balance, your required contribution rate will be the reduced Full Rate based on the new plan provisions.

If I make a plan change in 2013, will my 2014 contribution rate be recalculated?

Yes. 2014 contribution rates will be re-determined for cities that adopt changes in plan benefits before the end of calendar year 2013.