HOUSE
RESEARCH
ORGANIZATION bill analysis | 5/20/2011 | SB 350 Williams (Truitt)

SUBJECT: Restructuring three internal TMRS benefit funds into a single benefit fund

COMMITTEE: Pensions, Investments, and Financial Services — favorable, without amendment

VOTE: 7 ayes — Truitt, Anchia, C. Anderson, Creighton, Legler, Nash, Orr

0 nays

2 absent — Hernandez Luna, Veasey

SENATE VOTE: On final passage, March 17 — 31-0

WITNESSES: (*On House companion bill, HB 997*):
For — Robert Scott, Government Finance Officers Association of Texas; (*Registered, but did not testify:* Snapper Carr, City of Denton; Carlos Contreras, City of San Antonio; Lon Craft, Texas Municipal Police Association; David Crow, Arlington Professional Firefighters Local 1329; Glenn Deshields, Mike Higgins, Texas State Association of Fire Fighters; Bill Elkin, Houston Police Retired Officers Association; Chris Jones, Combined Law Enforcement Associations of Texas; George Kauffman, Brian Sledge, City of Garland; Randle Meadows, Arlington Police Association; Dale Rudick, City of Sugar Land; Frank Sturzl, City of Abilene, City of Irving, City of North Richland Hills; Barbara Waldon, City of Waco; Monty Wynn, Texas Municipal League)

Against — None

On — David Gavia, Texas Municipal Retirement System; April Nixon, Texas Municipal Retirement System Board of Trustees

BACKGROUND: Government Code, Title 8, subtitle G establishes and regulates the Texas Municipal Retirement System (TMRS). Ch. 854 regulates TMRS benefits, including their types, composition, eligibility requirements, certain distributions, conditions for provision when optional, and other features. Ch. 855 addresses the administration of TMRS, including the management of assets (subch. D) and the collection of contributions (subch. E).

TMRS benefits are funded by a combination of member employee contributions, participating municipality contributions, and investment income. A member employee’s contributions are credited to the member’s individual account in the employees saving fund (ESF), while a participating municipality’s contributions are credited to its account in the municipality accumulation fund (MAF). When a member employee retires, the member’s contributions, the municipality’s contributions for that employee, and accrued interest are transferred in full to the current service annuity reserve fund (CSARF). The member’s current service annuities then are paid from the CSARF.

DIGEST:

SB 350 would restructure the internal funds and accounting of TMRS by consolidating the ESF, MAF, and CSARF into a single fund, the benefit accumulation fund (BAF). A member employee’s individual account would be established within the employing municipality’s account within the BAF. Municipality contributions would be credited to corresponding municipality accounts within the BAF, and member employee contributions would be credited to corresponding individual accounts within those municipality accounts. A retiree’s annuities would be paid from the municipality’s account in the BAF, which would contain contributions from both the municipality and the member by that point. Under SB 350, a retiree’s annuities would be the municipality’s liabilities.

SB 350 would make changes to certain calculations of interest within TMRS. Under the bill, the annual interest rate a municipality would have to pay on past-due contributions would be the TMRS investment return assumption for the previous calendar year, plus 2 percent, rather than the rate of interest credited to MAF accounts in the previous calendar year, plus 2 percent. Under the bill, the interest accrued on member employee contributions would be based on and credited to individual accounts, rather than based on and spread across the entire ESF.

SB 350 would direct TMRS to transfer the assets and liabilities of members’ individual accounts from the ESF to the employing municipalities’ accounts in the BAF and dissolve the ESF. The bill also would direct TMRS to transfer the assets and liabilities of the CSARF to the BAF and an interest reserve account and dissolve the CSARF. TMRS would have to execute these transfers and rename the MAF as the BAF on the effective date of the act. For computations needed to implement the bill, TMRS would have to use an adjusted accounting record that reflected these transfers as having occurred on December 31, 2010.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2011.

SUPPORTERS SAY:

The restructuring of the TMRS funds proposed by SB 350 would simplify and modernize the municipal pension system, strengthening and stabilizing its financial operations without reducing member or retiree benefits. The changes would reduce the year-to-year volatility of city contribution rates and would lower the contribution rates and improve the actuarial funded ratios of most cities. The Legislative Budget Board's actuarial impact statement concluded that the TMRS restructuring proposed in SB 350 would stabilize city contribution rates, eliminate leveraging, minimize certain expected city contribution rate increases, and have no impact on member, retiree, or beneficiary benefits.

System-wide, the restructuring would reduce unfunded actuarial accrued liability by about $1.4 billion and cumulatively save cities about $135 million in contributions in 2012. Due to the reduced and stabilized contribution rates, cities could be more capable of adopting cost-of-living adjustments (COLAs), potentially increasing benefits. The restructuring also would allow TMRS to reduce the target reserve guideline from 20 percent of assets to as low as 7 percent.

The TMRS board of trustees recommended SB 350's restructuring plan, which earlier was recommended by the TMRS Advisory Committee on Retirement Matters. This 19-member advisory committee consists of stakeholders representing TMRS cities, law enforcement and firefighter associations, and pension experts. During the interim, the advisory committee reviewed many proposals for restructuring the TMRS funds. The stakeholder groups wanted to protect their contributions and were wary of risk, but the restructuring plan embodied in SB 350 satisfied their concerns and was unanimously embraced.

OPPONENTS SAY:

No apparent opposition.

NOTES:

The companion bill, HB 997 by Truitt, was considered in a public hearing on March 8 by the House Pensions, Investments, and Financial Services Committee and left pending.