



AGENDA MEMO

9/18/2018 Agenda

TO: Honorable Mayor and City Council

FROM: Thomas W. Tvardzik, Director of Finance

SUBJECT: CONSIDER AND ACT: on adoption of USC, Transfer USC and COLA

BACKGROUND

Updating service credits and adopting a retiree COLA (Cost of Living Adjustments) are connected, yet different benefits under the Texas Municipal Retirement System. While service credits can be updated without granting a COLA, the reverse (granting a COLA without updating service credits) is not possible.

USC UPDATE

Updating service credits takes into consideration an employee's salary changes and any plan changes adopted by the city over time, and assumes those increases and changes have been in effect throughout the employee's career. The USC is designed to help maintain the value of an employee's TMRS benefits. Updated service credits "with transfer" allows those employees with prior service in other TMRS cities (or similar entities) to "catch up" with their co-workers at CUP.

COLA UPDATE

The proposed retiree COLA will increase the retirees' monthly benefit by 70% of the increase in the Consumer Price Index since the last time the COLA was adopted. The City last adopted USC and retiree COLA effective January 1, 2013. The current adoption will be effective January 1, 2019.

EFFECT ON FUTURE RATES AND FUNDING

According to projection results from TMRS, the long-term effect of adopting the USC and the retiree COLA is that the City's contribution rate will increase from 7.51% in FY18 to 10.18% in FY19. The rate will then gradually decline by about two tenths of a percent each year, to 8.96% in FY2025.

Normally, one would expect the Funded Ratio (the ratio of assets to liabilities) to decline sharply in the year benefits are updated. However, the anticipated decline will be offset by a planned infusion of \$1,000,000 from the Self-Insurance Fund. This cash transfer will actually increase the funded ratio from 93.6% in FY18 to 94.8% in FY19, even after the USC and COLA adjustments. From that point forward, the funded ratio is expected to climb steadily to 98.2% by FY2025.

RECOMMENDATION

Staff recommends approval of the ordinance adopting TMRS Updated Service Credits at 100%, Transfer USC at 100%, and Retiree COLA at 70%. This recommendation was reviewed and approved by the Employee Benefits Committee at their meeting of July 25, 2018.

ATTACHMENTS

- Minutes from the July 25, 2018 Employee Benefits Committee Meeting
- Ordinance adopting the FY2019 USC, Transfer USC and COLA (prepared by TMRS)