



# Tucson Supplemental Retirement System Executive Summary of Major Board Activity Calendar Year 2013

## Background

On December 19, 2013, the Tucson Supplemental Retirement System (TSRS) Board voted to issue an annual executive report summarizing the Boards' major activities for the calendar year. This action was recommended by an education committee seeking to keep all TSRS members informed on the retirement system. Due to the complexities of the pension plan, readers are encouraged to not only read this summary but also to refer to the TSRS website (<http://www.tucsonaz.gov/retirement>) for more detailed information, including Board Minutes, Comprehensive Annual Financial Reports (CAFR), Plan Summary, and FAQ (Frequently Asked Questions) Sheet. In addition, questions can be directed to the TSRS Office, located at 255 W. Alameda, 5<sup>th</sup> Floor, 85701, (520)791-4598.

## March 2014

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## Executive Summary

During calendar year 2013, the Board focused on five (5) major issues: 1) Stabilization of contribution rates; 2) Modification of the funding policy to improve TSRS funded ratio; 3) Request for Proposal for the TSRS investment consultant; 4) Analysis of Proposition 201 and potential impacts and 5) TSRS member education. This summary will provide an overview of actions taken on each of these major issues as well as financial highlights for the year.



## Stabilization of Contribution Rates:

The TSRS Board seeks to have stable contribution rates for both the employer and employee, while maintaining long-term sustainability for the pension system. Due to significant investment losses amounting to more than \$205 million during the plan years 2008 and 2009, unfunded liabilities rose from \$128 million in 2007 to \$348 million in 2013. Consequently, employee contribution rates increased from 7.50% of pay in 2008 to 13.976% during FY13; employer contribution rates increased from 14.37% in 2008 to 30.03% in FY13. In considering the actuarial studies received, the Board recommended two significant changes affecting member and employer contribution rates for the fiscal year (FY14) beginning July 1, 2013. The first change lengthened the plan's amortization of unfunded accrued liabilities from fifteen (15) years to twenty (20) years, matching the retirees' historical average career span. The second change addressed the structure of how member and employer contributions were determined for all employees hired after June 30, 2006. The new hires were previously subject to a member contribution rate that could change annually, and was determined to be 40% of the Actuarially Required Contribution rate. The new structure would require members hired after June 30, 2006 to pay contributions based upon 50% of their tiers' normal cost. This formula is more in line with other pension plans that calculate variable rates for employee contributions. As a result, the new contribution rates were set at 6.715% for Tier I members hired after June 30, 2006 and before July 1, 2011, and at 5.06% for the Tier II members hired after June 30, 2011. The two changes solved the immediate problem associated with contribution rates, but deferred important decisions related to paying off the Plan's unfunded liabilities until further studies could be developed and analyzed, including the annual valuation report.

## Modification of the Funding Policy to Improve the Plan's Funded Ratio

The Board spent a considerable amount of time during the year reviewing options to make steady progress towards paying off the Plan's unfunded liabilities within a reasonable timeframe. The annual valuation report revealed modest changes to the FY15 contribution rates and a slight decline in the funded ratio, from 63.5% in 2012 to 63.3% for 2013. The Board was not content with projected contribution rate policies indicating the Plan's funded ratio at less than 100% in 20 years. Further study of alternative approaches prompted the Board to recommend a funding policy approach that increases the current contribution rates slightly above the Annual Required Contribution and assumes that funding rates will remain essentially constant until significant improvement of the Plan's funded ratio occurs.

As a result, the Board recommended setting Fiscal Year 2015 employer contribution rates at 27.5% for all TSRS membership Tiers and employee contribution rates as follows:

| Employees hired before<br>July 1, 2006 | Employees hired after June 30,<br>2006 and prior to July 1, 2009 | Employees hired after<br>June 30, 2011 |
|--|--|--|
| 5.00%                                  | 6.75%  | 5.25%                                  |

## New Investment Consultant Hired

In May 2013, the Board evaluated twelve (12) proposals from vendors competing to serve as the Board's investment consultant. Following an interview of the finalists, the Board selected Callan Associates, beginning July 1, 2013. The Board thanked the former consultant, Hewitt Ennis & Knupp, who had served the Board since 1999.

## Analyzed Potential Impact of Proposition 201

On May 29, 2013, the *Tucson Committee for Sustainable Retirement Benefits* partnered with Virginia-based *Liberty Initiative Fund* to file a petition to replace the Tucson Supplemental Retirement System Pension Plan with a "401k-like" retirement plan. The petition alleged that retirement benefits for City employees were too costly for taxpayers and that the City had been underfunding the Plan, pledging to correct this problem by asking Tucson voters to approve changing to a less costly plan. The petition drive for Proposition 201 was successful in obtaining the required number of signatures by July 5<sup>th</sup> so that the measure could be placed on the November 2013 ballot.

After the City Clerk validated petition signatures, the TSRS Board engaged its actuary and legal counsel to evaluate the potential outcomes that might arise from voter approval of the initiative. Considerable time was spent by the Board reviewing and discussing the analysis provided. The Board understood that if the initiative passed, there would be significant changes in the funding policies. Employer contributions were estimated to increase approximately \$24 million in the first year, with no projected decline for about 12 more years.

Concurrently, the City's CWA-TACE and AFSCME unions had independently engaged legal representation and determined that many of the petition signatures had been illegally obtained. The valid signatures remaining would not be sufficient to place the measure on the November 2013 ballot. Legal battles ensued in the Pima County Superior and Appellate Courts which resulted in a decision that barred the ballot initiative from appearing in 2013. These legal actions remained unresolved, since the motion filed in the Arizona Supreme Court requesting a Petition for Review of the case is still pending.

## Member Education

In June of 2013, an education committee was formed to address plan member concerns surrounding Proposition 201. This committee posted a FAQ (Frequently Asked Questions) sheet on the website, held two (2) employee/retiree townhalls and recommended to the Board that this executive summary be compiled and disseminated each calendar year to serve as ongoing education to all TSRS members.



**Mission Statement:** To assist Tucson Supplemental Retirement System (TSRS) members with planning for a secure retirement; and provide a monthly retirement benefit that supplements social security benefits and personal investment savings of our members and their beneficiaries.

**Finance Department**

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## TSRS Financial Highlights as of June 30, 2013

|   |               |                                   |               |
|---|---------------|-----------------------------------|---------------|
| Active Employees                          | 2,750         | Avg. Annual Compensation          | \$45,767      |
| Retired Members                           | 2,719         | Average Annual Retirement Benefit | \$23,004      |
| Total Assets                              | \$669,708,584 |                                   |               |
| Total Liabilities                         | \$28,662,394  | Actuarial Valuation – Assets      | \$600,330,066 |
| Net Position Held in Trust                | \$641,046,190 | Actuarial Valuation – Liabilities | \$948,562,453 |
| Portfolio Investment Return for 6/30/2013 | 14.84%        | Funded Ratio                      | 63.3%         |

Source: 2013 Comprehensive Annual Financial Report. A full copy of this report is located on the TSRS website ([http://www.tucsonaz.gov/files/retirement/TSRS/CAFR\\_TSRS\\_2013.pdf](http://www.tucsonaz.gov/files/retirement/TSRS/CAFR_TSRS_2013.pdf)).