1. Consideration with Possible Action of the Annually Determined Contribution Rate to the Texas County and District Retirement System

SUBJECT: **CONSIDERATION WITH POSSIBLE ACTION OF THE ANNUALLY DETERMINED CONTRIBUTION RATE TO THE TEXAS COUNTY AND DISTRICT RETIREMENT SYSTEM**

COMMISSIONERS COURT ACTION REQUESTED

It is requested that the Commissioners Court consider Tarrant County's annually determined contribution rate to the Texas County and District Retirement System (TCDRS), effective January 1, 2025.

BACKGROUND

Each year, the Commissioners Court approves the County's contribution (funding rate) to the Variable-Rate Plan for TCDRS. The employer-required contribution rate represents the percentage (%) of payroll that the County needs to contribute to fund future benefits for current employees, former employees, and retirees.

The retirement system has determined that an employer rate of 11.54% is required to fund retirement benefits for Plan Year 2025. The employer-required rate is structured to do two things: 1) invest for current employees' future benefits and 2) pay down unfunded liabilities over twenty (20) years. In recent years, the Court has authorized the election of a higher monthly rate.

Retiree Cost-of-Living Adjustment (COLA)

Employers can choose to adopt either a flat-rate COLA or one that is based on the Consumer Price Index (CPI). Each type of COLA helps restore a payee's lost buying power in different ways. A flat-rate COLA is only based on the payee's current benefit amount and provides the same percentage increase to all payees. In contrast, a CPI-based COLA takes into account how much inflation has occurred since each payee's benefit began, as measured by the Consumer Price Index. (Example: the CPI increased by 7% during 2021). CPI-based COLAs restore payee benefits in proportion to their lost buying power.

When adopted, the COLA is funded over 15 years. The regular adoption of COLAs causes the employer-required rate to creep upward. Historically, Tarrant County adopted COLAs at the rate of 80% of the CPI. That trend ended in 2011. By increasing the employer-required rate, the County has made extra retirement contributions throughout the years. These extra contributions have been used to pay-down unfunded liability and/or advance fund the actuarial determined value for a retiree COLA. The "advance funding" approach eliminated any further "rate creep" associated with the previously adopted COLAs.

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Funded Ratio

In addition to advance funding retiree COLAs, the Court has expressed interest in reaching a 90% funded ratio for the Retirement Unfunded Actuarial Liability. This goal was reached as Tarrant County's funded ratio is 91.5% as of December 31, 2023. That number is slightly higher than the system-wide average of other entities participating in the TCDRS program. The system-wide TCDRS funded ratio is 89% without general reserve funds and 100% with reserves.

Options for the Court's Consideration (Reference: Plan Summary for Plan Year 2025)

Option 1: 1% Flat Rate: Employer-elected rate of 19.5% with 1% Flat-rate retiree COLA
(Resulting in unfunded liability contributions up to $20,403,742 after funding the cost of the COLA estimated at $12,496,258)

Option 2: 1% Flat Rate: Employer-elected rate of 18.5% with 1% Flat-rate retiree COLA
(Resulting in unfunded liability contributions up to $16,303,742 after funding the cost of the COLA estimated at $12,496,258)

Option 3: 1% Flat Rate: Employer-elected rate of 17.5% with 1% Flat-rate retiree COLA
(Resulting in unfunded liability contributions up to $12,203,742 after funding the cost of the COLA estimated at $12,496,258)

The "cost of COLA" estimates are based on actuarial assumptions, including mortality rates and TCDRS investment returns. These assumptions are long-term, and actual experience is expected to vary from year to year.

Notes:

Option 1 is based on the budgeted elected rate of 19.5%. With the employer-required rate at 11.54% of payroll, the additional election of 7.96% is expected to generate approximately $32,900,000 from all funds.

Option 2 is based on the budgeted elected rate of 18.5%. With the employer-required rate at 11.54% of payroll, the additional election of 6.96% is expected to generate approximately $28,800,000 from all funds.

Option 3 is based on the budgeted elected rate of 17.5%. With the employer-required rate at 11.54% of payroll, the additional election of 5.96% is expected to generate approximately $24,700,000 from all funds.

Option 1 provides retirees a 1% Flat-rate COLA benefit increase and generates approximately $20,403,742 to pay down unfunded liability. This option is representative of the Court's election for Plan Years 2019, 2020, 2021, 2022, 2023 and 2024. COLA adoptions become effective Jan. 1 and only impact retirees who have been retired for at least one calendar year. For example, if you were retired on Dec. 31, 2023, you would be eligible for a COLA on Jan. 1, 2025.

Option 2 provides retirees a 1% Flat-rate COLA benefit increase and generates approximately $16,303,742 to pay down unfunded liability. COLA adoptions become effective Jan. 1 and only impact retirees who have been retired for at least one calendar year. For example, if you were retired on Dec. 31, 2023, you would be eligible for a COLA on Jan. 1, 2025.

Option 3 provides retirees a 1% Flat-rate COLA benefit increase and generates approximately $12,203,742 to pay down unfunded liability. COLA adoptions become effective Jan. 1 and only impact retirees who have been retired for at least one calendar year. For example, if you were retired on Dec. 31, 2023, you would be eligible for a COLA on Jan. 1, 2025.

Financial Reporting – GASB 68 Standards

For financial reporting purposes, regularly adopting COLAs results in an employer being designated as a "Repeating COLA" entity. The Repeating COLA designation increases the net pension liability on balance sheets. It has NO impact on the plan's funded ratio or the required contribution rate, which is calculated for purposes of funding the County's retirement plan.
Due to the adoption of a COLA for FY2019, FY2020, FY2021, FY2022, FY2023, and FY2024, Tarrant County received the Repeating COLA designation. For our plan to be designated as "No COLA," the Court would have to discontinue the adoption of a COLA for the next two years (Plan Years 2025 and 2026).

FISCAL IMPACT

Funds for the 19.5% Employer-Elected Rate have been allocated in the FY 2025 budget.