

HUMAN RESOURCES DEPARTMENT  
FORT BEND COUNTY, TEXAS

Nicole Ledet, SHRM-CP, PHR  
Director of Human Resources

## **Interoffice Memorandum**

**Date:** July 20, 2022

**To:** County Judge K.P. George  
Commissioners Morales, Prestage, Meyers, DeMerchant

**From:** Nicole Ledet, Director of Human Resources

**cc:** Pamela Gubbels, Ed Sturdivant, Beatrice Galan, Lorraine Niemeyer

**Subject:** HR Agenda Item for July 26, 2022 Commissioners Court –  
TCDRS Plan Authorization for 2023 Plan Year

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Each year, the Court must take the following actions for the upcoming TCDRS Plan Year:

1. Determine if any changes will be made to the County's TCDRS Plan provisions
2. Determine if the County will adopt a cost-of-living adjustment (COLA) with respect to benefit payments being paid to retirees or their beneficiaries, and
3. Determine if the County will elect to pay a contribution rate greater than the total required rate as reported by TCDRS.

Attached is a copy of the Retirement Plan Assessment for Plan Year 2023, which contains all the details of our Plan's benefits and our projected costs for next year. In addition, you are being furnished information about the potential cost of implementing various retiree COLA options.

**Regarding the above items, it is the recommendation of Human Resources that for the 2023 plan year, Commissioners' Court:**

1. **makes no changes in the plan provisions for non-retirees**
2. **adopts no cost-of-living adjustment (COLA) to be paid to retirees or their beneficiaries, and**
3. **elects to pay the total required employer contribution rate of 13.07%**

Further, the Court must authorize the County Judge to sign the TCDRS Plan Authorization of the 2023 Plan Year.



**Plan Assessment for Plan Year 2023**  
**Fort Bend County – 178**  
**Participation Date – 1/1/1972**

It's that time of year again — time to look at your TCDRS retirement plan and decide whether or not your benefits are adequate and affordable. This plan assessment will give you an overview of the benefits you provide as well as how much it will cost to provide these benefits in the upcoming plan year.

|  | <b>2023 Plan</b>             |
|--|------------------------------|
| <b>Basic Plan Options</b>                |                              |
| Employee Deposit Rate                    | 7%                           |
| Employer Matching                        | 200%                         |
| Prior Service Credit                     | No Employees Eligible(1)     |
| <b>Retirement Eligibility</b>            |                              |
| Age 60 (Vesting)                         | 8 years of service           |
| Rule of                                  | 75 years total age + service |
| At Any Age                               | 30 years of service          |
| <b>Optional Benefits</b>                 |                              |
| Partial Lump Sum                         | No                           |
| Group Term Life                          | None                         |
| <b>Retirement Plan Funding</b>           |                              |
| Total Normal Cost Rate                   | 15.00%                       |
| Employee Deposit Rate                    | <u>-7.00%</u>                |
| Employer-Paid Normal Cost Rate           | 8.00%                        |
| UAAL / (OAAL) Rate                       | <u>5.07%</u>                 |
| Required Rate                            | 13.07%                       |
| Elected Rate                             | N/A                          |
| <b>Total Contribution Rate</b>           |                              |
| Retirement Plan Rate                     | 13.07%                       |
| (greater of required and elected rate)   |                              |
| Group Term Life Rate                     | <u>N/A</u>                   |
| Total Contribution Rate                  | 13.07%                       |
| <b>Valuation Results (Dec. 31, 2021)</b> |                              |
| Actuarial Accrued Liability              | \$927,457,507                |
| Actuarial Value of Assets                | <u>\$801,750,955</u>         |
| Unfunded / (Overfunded) AAL              | \$125,706,552                |
| Funded Ratio                             | 86.4%                        |

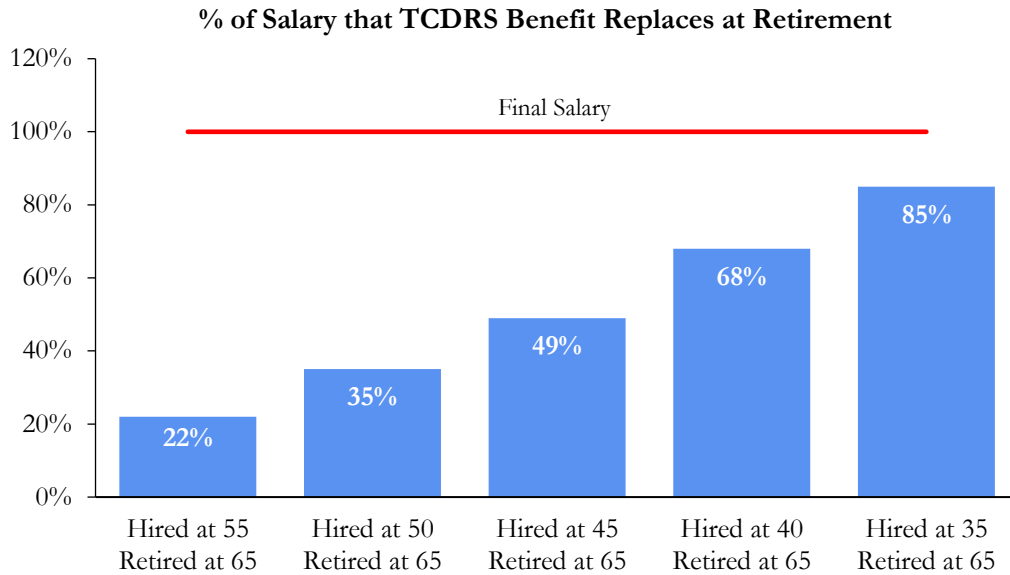
**Notes:**

- Buyback adopted: 2000
- Last COLA: 2014

*1. No members were hired before the employer began participation in TCDRS, so prior service does not apply.*

## What You Are Providing

The TCDRS benefit is based on employee deposits, which earn 7% compound interest each year, and employer matching at retirement. The following chart shows the estimated TCDRS benefit as a percentage of final salary prior to retirement for a new hire:

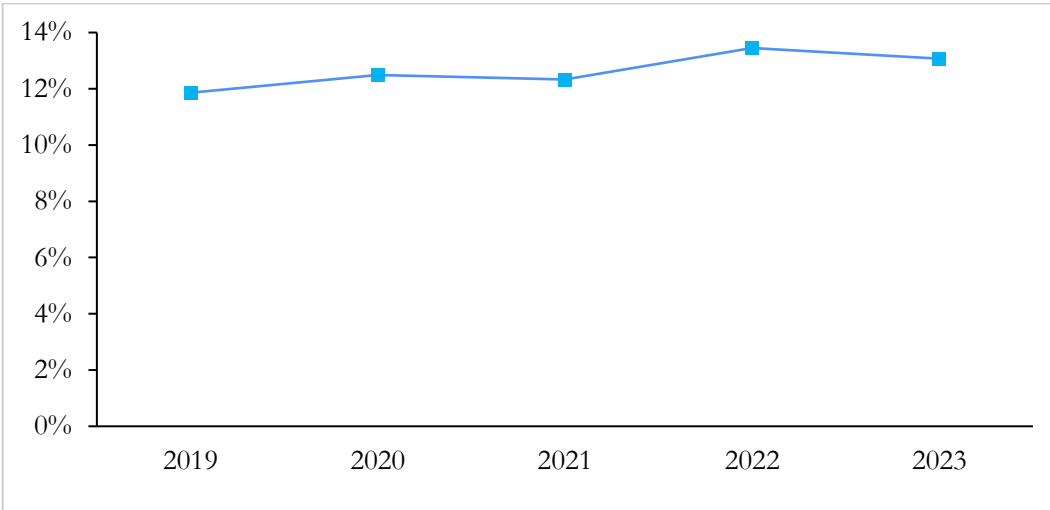


### Assumptions

- Employees are new hires and will work for you until retirement.
- Your current plan provisions will remain in effect through an employee's retirement.
- Current laws governing TCDRS will continue as they are.
- Graded salary scales give bigger raises early in careers, with smaller raises later in careers (see Summary Valuation Report at [TCDRS.org/Employer](https://www.tcdrs.org/Employer)).
- Based on Single Life benefit.

## Reasons for Rate Change

Below is a record of your required rate history for your retirement plan over the last five years.



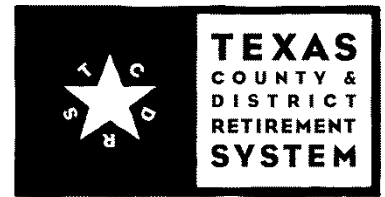
| Reasons for Rate Change            | 2019-2020    | 2020-2021    | 2021-2022    | 2022-2023     |
|------------------------------------|--------------|--------------|--------------|---------------|
| Beginning Rate                     | 11.86%       | 12.49%       | 12.33%       | 13.45%        |
| Plan Changes Adopted               | 0.00%        | 0.00%        | 0.00%        | N/A           |
| Investment Return                  | 0.57%        | -0.01%       | -0.01%       | -0.17%        |
| Elected Rate/Lump Sum              | 0.00%        | 0.00%        | 0.00%        | 0.00%         |
| Demographic/Other Changes          | 0.06%        | -0.15%       | -0.16%       | 0.09%         |
| Assumptions/Methods <sup>(1)</sup> | <u>0.00%</u> | <u>0.00%</u> | <u>1.29%</u> | <u>-0.30%</u> |
| Ending Rate                        | 12.49%       | 12.33%       | 13.45%       | 13.07%        |
| <b>Valuation Year</b>              | 2018         | 2019         | 2020         | 2021          |
| <b>Funded Ratio</b>                | 86.9%        | 87.8%        | 85.4%        | 86.4%         |

1. 2022-2023: Reflects changes to the demographic assumptions (mortality, termination, service retirement, etc.)

A complete Summary Valuation Report for the Dec. 31, 2021 valuation will be available mid-May at [TCDRS.org/Employer](https://TCDRS.org/Employer).

## Next Steps

If you are interested in making plan changes, please contact your Employer Services Representative at 800-651-3848. Your benefit selections are due by Dec. 15, 2022.



May 2, 2022

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Ms. Beatrice Galan  
 Human Resources Generalist  
 Fort Bend County  
 301 Jackson St, Suite 243  
 Richmond, TX 77469

Dear Ms. Galan,

Thank you for contacting Texas County & District Retirement System (TCDRS) to ask about cost-of-living adjustments (COLAs) for your retirement plan. We are happy to provide you the information you requested. Attached is information regarding the potential COLAs effective January 1, 2023. Please note that payees whose initial payments commence after December 2021 will not be eligible to receive a January 1, 2023 COLA. We have reviewed the information in aggregate for reasonableness; however, it has not been audited and may be subject to correction.

We have enclosed an exhibit comparing the estimated effect on current payees' monthly benefits for 10%, 20%, and 30% CPI-based COLAs. For comparative purposes, we have also included a 100% CPI-based COLA to show what a full restoration of payee buying power would look like.

A CPI-based COLA restores payee benefits in proportion to their lost buying power. It takes into account how much inflation has occurred since each payee's benefit began, as measured by the Consumer Price Index. TCDRS also offers a flat-rate COLA, which helps restore lost buying power in a different way. A flat-rate COLA is only based on the payee's current benefit amount and provides the same percentage increase to all payees.

**Summary of Estimated Results for COLAs Effective January 1, 2023**

| COLA:                                 | <u>10% CPI-</u><br><u>Based</u> | <u>20% CPI-</u><br><u>Based</u> | <u>30% CPI-</u><br><u>Based</u> | <u>100% CPI-</u><br><u>Based</u> |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|----------------------------------|
| Average Benefit Increase %:           | 1.38%                           | 3.11%                           | 5.13%                           | 19.93%                           |
| 15-Year Cost as a Percent of Payroll: | 0.25%                           | 0.56%                           | 0.90%                           | 3.37%                            |
| Dollar Cost to Advance Fund COLA:     | \$ 5,276,134                    | \$ 11,715,342                   | \$ 18,928,567                   | \$ 70,455,993                    |

The cost estimates are based on actuarial assumptions, including mortality rates and investment returns. These assumptions are long-term, and we expect that actual experience will vary from year-to-year. If in aggregate your retirees live and die exactly according to the mortality rates, and your plan's investment return is exactly that which is assumed, the dollar cost amounts listed above will be what is needed to fund the COLAs. However, if your retirees live shorter or longer than assumed, or investment returns are greater or less than assumed, then the dollar cost amounts listed above will end up being more or less than what is needed to make the actual COLA payments to your retirees.

Ms. Beatrice Galan

Page 2

May 2, 2022

We are providing you with the enclosed information pursuant to your request and to assist you in performing your official duties. Please note that the data TCDRS is providing you is confidential information.

This data should be used only for the purposes intended (as stated above) and should not be disclosed to any third party. Please employ all methods necessary to ensure the confidentiality of this data. If you have any questions about TCDRS confidentiality, please let us know.

Please contact me at 800-651-3848 if you have any questions. I would be happy to assist you.

Sincerely,

A handwritten signature in black ink that reads "Tim Krause". The signature is written in a cursive style with a small dot above the 'i' in "Tim".

Tim Krause

Employer Services Representative

**TCDRS 2023 Plan Year**

**Required Rate**

2022 TCDRS Required Contribution Rate: 13.45%      Approximate Cost: \$26,900,000  
 2023 TCDRS Required Contribution Rate: 13.07%,      Approximate Cost: \$26,140,000

(ABOVE RATES ASSUME NO COLA)

COLA OPTIONS

Granting a retiree COLA would increase the required rate for approximately the next 15 years.

COLAs can be granted as a straight percent (for example, give all retirees a 3% increase in monthly pension)

OR

Granted as some % of CPI, meaning retirees would recover some percentage of the buying power they have lost since retiring.

See below for Cost/Benefit Analysis of various COLAs

| COLA Option | Benefit to Retiree             |   |                       |                      | Cost to County            |                           |                                   |
|-------------|--------------------------------|---|-----------------------|----------------------|---------------------------|---------------------------|-----------------------------------|
|             | Average % Increase per Retiree | Average \$ Increase per Month per Retiree | High Monthly Increase | Low Monthly Increase | Increase in Required Rate | Cost per Year (COLA Only) | Total Cost (15 Years) (COLA Only) |
| Straight 3% | 3%                             | \$ 53.00                                  | \$ 105.00             | \$ 4.00              | 0.18%                     | \$ 1,080,000              | \$ 16,200,000                     |
| 10% of CPI  | 1.38%                          | \$ 16.00                                  | \$ 54.00              | \$ -                 | 0.25%                     | \$ 500,000                | \$ 7,500,000                      |
| 20% of CPI  | 3.11%                          | \$ 44.00                                  | \$ 121.00             | \$ -                 | 0.56%                     | \$ 1,120,000              | \$ 16,800,000                     |
| 30% of CPI  | 5.13%                          | \$ 91.00                                  | \$ 192.00             | \$ -                 | 0.90%                     | \$ 1,800,000              | \$ 27,000,000                     |
| 100% of CPI | 19.93%                         | \$ 664.00                                 | \$ 2,501.00           | \$ 113.00            | 3.37%                     | \$ 6,740,000              | \$ 101,100,000                    |

All above calculations assume a \$200 million annual payroll, and are based on actuarial assumptions.