

MEMORANDUM

TO: Claire Powell, City Manager

FROM: Tadd Phillips, Human Resources Director

DATE: August 30, 2025

SUBJECT: **Consideration of an Ordinance of the Lewisville City Council Adopting Non-Retroactive Repeating Cost-Of-Living-Adjustments for Retirees and Their Beneficiaries Under the Texas Municipal Retirement System Act §853.404(f) and (f-1) and Authorizing Annually Accruing Updated Service Credits and Transfer Undated Service Credits; and Providing for Severability and an Effective Date.**

BACKGROUND

The Texas Municipal Retirement System (TMRS) was created by the Texas State Legislature in 1947 and is administered in accordance with the Texas Municipal Retirement System Act, Subtitle G, Title 8, Government Code. TMRS offers Cost of Living Adjustments (COLA) as an optional benefit that participating cities can choose to provide to their retirees. These COLAs aim to help protect retirement benefits from the effects of inflation.

Currently, full-time City of Lewisville employees are required to participate in the Texas Municipal Retirement System, contributing 7% of their gross earnings. Additionally, the City provides a match based on a contribution rate established by TMRS through an annual actuarial study. Our current contribution rate for TMRS is 18.05%, but it will decrease to 17.80% as of January 1, 2026. The decrease in contribution rate for 2026 is due to the most recent actuarial study and maintains current benefits. Additionally, Lewisville has adopted the highest COLA benefit level for our retirees, 70%.

As was discussed at the June 16, 2025, City Council Workshop on compensation and benefits, the TMRS Act was recently amended to permit cities to choose either to maintain or increase the COLA percentage with a non-retroactive calculation. If the non-retroactive COLA ordinance is adopted, the City of Lewisville's contribution rate will drop to 16.98% on January 1, 2026.

ANALYSIS

Lewisville's current adopted TMRS benefits include a traditional retroactive COLA at a rate of 70%. This means the COLA is calculated by:

1. Determining the cumulative change in the CPI-U (Consumer Price Index for All Urban Consumers) since the retiree's original retirement date.
2. Multiplying this cumulative CPI-U change by the adopted COLA percentage of 70%, the highest COLA benefit level.
3. Applying this calculated percentage increase to the original benefit.

Due to this retroactive calculation method, each retiree experiences a different percentage increase in their benefit, largely depending on their year of retirement. Generally, retirees who have been retired longer see a greater percentage increase because the cumulative change in the CPI-U since their retirement date is larger.

TMRS has introduced a new non-retroactive COLA option, which operates more intuitively. Here's how this new method works:

1. Determining the change in the CPI-U (Consumer Price Index for All Urban Consumers) for a single one-year period. This one-year period ends 12 months before the COLAs effective date.
2. Multiplying this CPI-U change by the adopted COLA percentage of 70%, the highest COLA benefit level.
3. Applying this calculated percentage increase to the current benefit.

With this new method, all eligible retirees will receive the same percentage increase to their monthly benefit, as the calculation is based on a recent one-year inflation figure rather than a cumulative one from their individual retirement dates. A change from the retroactive COLA to the non-retroactive COLA will not decrease any retiree's monthly benefit; however, retirees will see their future COLA percentage align with all other retirees going forward.

The new non-retroactive COLA option is less expensive and more equitable than the traditional retroactive COLA. For 2026, all retirees would receive a benefit increase of 2.02%. The option to pass this ordinance will no longer be available under the TMRS Act after December 31, 2025.

The TMRS ordinance to adopt the non-retroactive COLA includes language regarding Updated Service Credits (USCs). Per the TMRS statute, anytime a repeating ordinance (COLA) or plan improvement is adopted, any other repeating ordinance must be re-adopted. The ordinance contains no changes to the level of USCs that Lewisville currently offers, 75% with transfers.

USCs are designed to ensure that an employee's retirement account adequately reflects their salary growth over their career. TMRS runs a calculation every January (must have at least 48 months of deposits from Lewisville) that will find the employee's average salary and then calculate an account as if the employee had made that salary their whole career (contributing 7% and getting matched 2:1). TMRS then compares the hypothetical account to the real account and if the hypothetical account balance is higher, the employee gets a monetary credit that is 75% of the

difference. In essence, USC acts as a mechanism to "update" an employee's service credit, ensuring their retirement benefit reflects their true earning potential and the city's commitment to their retirement security, especially for those with significant salary growth over their career.

Staff recommends the adoption of this ordinance that maintains a repeating COLA of 70% and USCs of 75% while changing the COLA methodology from traditional retroactive to non-retroactive for the following reasons:

1. The new non-retroactive COLA is more equitable and understandable; everyone gets the same percentage going forward.
2. Lewisville offers the highest level of TMRS COLA percentage of 70%. Moving to the new non-retroactive COLA calculation makes maintaining this benefit more financially sustainable in the future.
3. Lewisville increased its financial commitment to retiree medical premiums in May of 2025. In FY26, annual funding for retiree medical increased by \$752,854 from the prior year. Moving to the new non-retroactive COLA will enhance financial sustainability while maintaining an excellent TMRS benefit.
4. The savings derived from this change are incorporated into the proposed FY26 budget.
5. This is a one-time opportunity, sunseting at the end of this year under current law.

CITY STAFF'S RECOMMENDATION

That the City Council approve the ordinance for adopting the non-retroactive COLA rate calculation for the City of Lewisville's contribution to the Texas Municipal Retirement System.