

TMRS E-Bulletin for Cities – Vol. 17
October 15, 2008

**THIS ISSUE: 2008 Interest Rate, Investments / FAQs from Members,
LSG Recommendations, City Notes**

2008 Interest Rate Set

At its September 26 meeting, the TMRS Board set the interest rate for member and city accounts at 5% for 2008. Interest will be credited to each member's and each city's account on December 31, 2008, based on the account balance as of January 1, 2008. In accordance with Board policy, with interest credited at 5%, there will be no extra payment to retirees in 2008. The extra payment was never a guarantee, and given the current state of the economy, it is unlikely that extra payments will be made in the near future.

It is important to note that, at the present time, the 5% interest rate is not a guaranteed rate and, if interest rates continue to fall, the rate may even go lower in future years. To help prevent this, we are working on changing the law that governs TMRS to guarantee a minimum 5% interest payment to member accounts and to credit employers with variable annual interest rates.

Investment Update

With all the financial news that has been in the headlines recently, TMRS has received many phone calls and e-mails about our investments. Here is information we have been telling members and that you may want to use to help answer questions at the city level.

In 2007, the TMRS Board approved a 12% diversification into equities (stocks) by the end of 2008. This diversification is being accomplished through indexed investments. A diversified portfolio reduces risks and helps the fund weather downturns in specific investment classes. Indexed investments are less volatile than purchasing individual company stocks because the specific index represents the broad market. Using the Russell 3000 Index for domestic equities and the MSCI-EAFE for international equities, TMRS is essentially "buying the market" rather than trying to bet on whether specific stocks will gain value.

The gradual shift in strategy that we began making in 2007 was designed to help TMRS earn more on our investments over time and better manage investment risk. Up until this change, our investments were primarily in bonds. One reason we are changing from an all-bond portfolio is that bond yields have declined significantly. By moving to a total return strategy (diversifying to include investment in equities), TMRS stands to improve returns and lower risk over the long term. This change will also support a guaranteed 5% annual interest credit to member accounts and will help to stabilize cities' rates and to offset cities' funding costs.

FAQs from Members

Q. (from a retiree) Is my TMRS benefit safe?

A. Yes. Your TMRS benefit is secure, and your monthly benefit is not at risk. Even if the investment markets stay down for a long time, the performance of TMRS' investments will not affect your monthly benefit.

Q. (from an active member) Is my TMRS benefit safe?

A. The benefit you have earned is safe. Cities always have the option of reducing future benefits, but what you have earned so far in your career is secure.

Q. Is my TMRS account insured like a bank account?

A. Your TMRS account is part of a \$14 billion trust fund, subject to state and federal law. TMRS accounts are backed by the cities that provide them and by the state law that governs the System. Your individual account is not "insured" by the federal government the same way your savings or checking account is, but it is protected by law from being diverted to other purposes.

Q. How are the recent stock market troubles affecting TMRS?

A. TMRS is a long-term investor, and short-term downturns in the market will not have a detrimental effect on the System over the long-term. TMRS is conservatively invested and has minimal exposure to stocks issued by the companies recently in the news, such as Lehman Bros.

Q. How much stock in the troubled companies does TMRS own?

A. The shares of stock from the companies that have been in the news (Lehman Bros, WaMu, and AIG) comprise only a tiny percentage of our portfolio and represent less than 1% of TMRS' total holdings. Even if a stock loses all its value, the effect on TMRS will be minimal because the fund is so broadly invested. As of September, less than 10% of the fund is invested in two stock index funds — approximately half in U.S. companies and half in foreign companies.

Q. What about bonds? Does TMRS hold risky bonds?

A. No. All of TMRS' bonds are high grade. The residential mortgage-backed bonds TMRS holds are backed by Fannie Mae and Freddie Mac, and the commercial mortgage-backed bonds are well secured. Due to recent federal action, Fannie Mae and Freddie Mac are now fully backed by the U.S. government.

Legislative Stakeholder Group (LSG) Recommendations Approved by TMRS Board

The LSG met in April, May, and July 2008 to discuss the critical issues and hear presentations from the Texas County and District Retirement System, GRS (the TMRS actuary), and TMRS staff (for LSG meeting information, see the Legislative page on the TMRS website).

Three core elements recommended by the LSG will allow TMRS to continue diversification of the investment portfolio, which will allow us to:

1. Guarantee members an annual interest credit at a minimum of 5% and annuity purchase rate at a minimum of 5%
2. Credit unrealized gains and losses to cities
3. Credit employers with variable annual interest rates, including negative rates

In addition to these three core provisions, the LSG recommended and the Board approved two items that do not require legislation:

- Establish an adequate reserve that will assist in mitigating the volatility of a diversified portfolio
- Maintain the LSG group as an advisory body to the TMRS Board

These two recommendations are already being addressed by TMRS. Staff is working with our actuary to revamp TMRS' reserve policy, and the Board approved a revision of the TMRS Advisory Committee charter to include the LSG in that committee.

For legislative issues or to request information about the TMRS Advisory Committee, please contact TMRS Director of Government Relations, Eddie Solis, esolis@tmrs.com.

City Notes

City Portal Survey

TMRS recently asked its authorized city contacts to participate in a brief survey on the development of a secure portal for administering TMRS benefits. What we found from the responses was that while about half of our contacts (47.7%) currently get their information from the TMRS call center, there is definitely a desire for a city portal. Almost everyone (94.9%) agreed that the ability to view employee information through a secure portal would help in administering TMRS benefits. Of the functionality being considered for the portal, the ability to view and update member data, enroll new employees, and request retirement estimates are the most desired features. The survey also found that most cities (84.6%) would want between two and five employees to have access to the portal.

Thanks to everyone who participated in the survey and to the 160 respondents who've volunteered to provide further help in its design. We'll be contacting you as we begin development of the portal next year.

IMPORTANT: New Member Enrollment Forms

When a new member joins TMRS, certain personal information is provided related to date of birth, gender, and monthly salary. This information is fundamentally important to the annual valuation process that determines your city's rate. Please be sure that any New Member form that is transmitted to TMRS is accurate and complete. Missing information can affect your city's contribution rate.

Additional Contributions Will Have Direct Impact

A recent statutory amendment allows TMRS cities to make additional voluntary contributions to their retirement program. Some cities have indicated a desire to contribute funds “left over” at the end of their fiscal year. Additional contributions made before 12/31/08 will create an actuarial gain for the year and will have a positive effect on the city’s contribution rate (both full and phase-in rates, if applicable) for 2010 and beyond. Any city wishing to exercise this option should use the form titled Remittance of Additional TMRS Contributions, available on the TMRS website. Any city with questions is urged to contact the TMRS actuary Leslee Hardy at lhardy@tmrs.com.

NOTE - Previously issued e-bulletins and correspondence are posted in the “E-Bulletin Archive” section under the Cities page on the TMRS Website, and there is also a link under “Publications.” The two or three most recent e-bulletins can be found under the News link.