

TMRS 2016 Summary Annual Financial Report

For the Year Ended December 31, 2016



The Texas Municipal Retirement System (TMRS, or, the System) prepares this report annually to provide you with an overview of how the System has performed financially in the past year. This report also describes the accomplishments TMRS made in 2016 to serve members, cities, and retirees.

TMRS in 2016

- By law, member accounts were credited 5% to their accounts as of December 31, 2016. The overall one-year gross rate of return on the TMRS investment portfolio was 7.42%, enabling the Board of Trustees to credit member municipalities with approximately 6.73% interest on their January 1, 2016 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 6.44%.
- TMRS continued to develop **TMRSDirect**[®], its “straight-through processing” initiative for member and city self-service, which includes the MyTMRS[®] and the City Portal programs. During 2016, almost 20,000 new users registered for MyTMRS[®], and cities enrolled almost 3,200 new members through the City Portal.
- As of December 31, 2016, TMRS as a whole was 86.3% funded, which represents an increase to the funded ratio from December 31, 2015.
- TMRS engaged KPMG LLP to complete TMRS’ second annual SOC 1 Type 2 audit in 2016, and a third is underway with an estimated completion date of June 2017. The SOC audit supports city financial reporting under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, the primary objective of which is to improve accounting and financial reporting for pensions by state and local governments.
- TMRS staff answered more than 90,000 member requests for assistance and processed 3,456 new retirements in 2016.
- Six new cities joined the System in 2016. At year-end 2016, TMRS administered plans for 872 member cities that included:
 - 108,891 active plan member accounts
 - 53,721 inactive plan member accounts
 - 59,611 retired member accounts

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TMRS Board of Trustees (as of December 31, 2016)

The Governor appoints the six members of TMRS’ Board of Trustees with the advice and consent of the Senate. Board members serve six-year terms and have fiduciary oversight of the System. The Board adopts investment and other policies; appoints the Executive Director; and selects financial, medical, legal, and other experts to perform important services for TMRS.

Jim Parrish, 2016 Chair

Deputy City Manager – Administrative Services, Plano

David Landis

City Manager, Perryton

Bill Philibert, 2016 Vice Chair

Director of Human Resources and Risk Management, Deer Park

Julie Oakley, CPA

Assistant City Manager, Lakeway

James “Jim” Paul Jeffers

City Manager, Nacogdoches

Roel “Roy” Rodriguez, PE

City Manager, McAllen

Financial Information

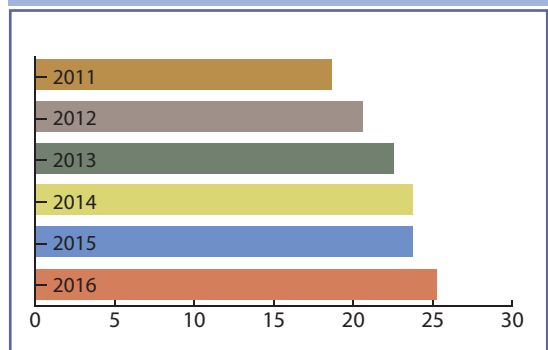
The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2016, 2015, and 2014. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair value, make up the largest portion of the net position held in trust for pension benefits, and reflect an increase due primarily to net appreciation in value from year end 2015 to 2016, and investment cash flows over the three-year period ended December 31, 2016. As a result of prior participation in a securities lending program, we were required to report both the asset and the related liability of the collateral received for securities on loan at year end. At December 31, 2015 and 2014,

the cost basis of the collateral exceeded its market value, resulting in an unrealized loss on the collateral pool of \$2.7 million and \$2.6 million as of December 31, 2015 and 2014, respectively. During 2016, TMRS terminated its securities lending program with its third-party securities lending agent.

Summary Comparative Statements of Fiduciary Net Position As of December 31, 2016, 2015, and 2014			
	2016	2015	2014
ASSETS			
Investments, at fair value	\$ 25,830,231,450	\$ 24,289,053,366	\$ 23,896,100,903
Cash, receivables, and other	1,330,966,531	1,465,821,221	1,602,558,921
Invested securities lending collateral	-	864,114,464	1,030,835,345
Capital assets, net	9,766,674	9,909,170	7,889,360
TOTAL ASSETS	27,170,964,655	26,628,898,221	26,537,384,529
LIABILITIES			
Payables and accrued liabilities	1,917,805,578	2,033,395,221	1,754,249,820
Funds held for Supplemental Death Benefits Fund	19,953,304	20,490,711	22,176,214
Securities lending collateral	-	866,849,709	1,033,480,569
TOTAL LIABILITIES	1,937,758,882	2,920,735,641	2,809,906,603
NET POSITION RESTRICTED FOR PENSIONS	\$ 25,233,205,773	\$ 23,708,162,580	\$ 23,727,477,926

Fiduciary Net Position Growth (in Billions)



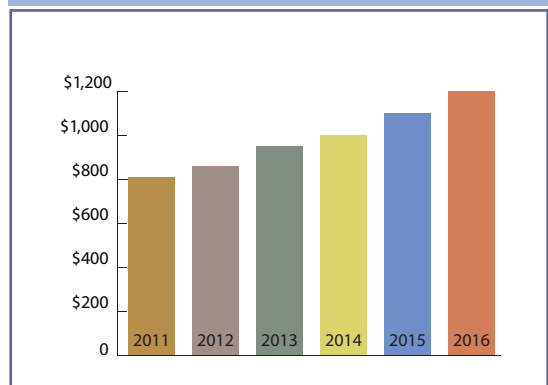
The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is composed of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation (depreciation) in the fair value of investment securities (or mark-to-market changes).

Net investment income in 2016, 2015, and 2014 was most significantly affected by the unrealized gains (losses) recognized in the domestic and international equities asset classes. The total gross return on TMRS' investment portfolio was 7.42%, 0.34%, and 5.99% in 2016, 2015, and 2014, respectively. Investment earnings in 2016 enabled the Board to credit approximately 6.73% to municipality

accounts while maintaining a reserve of \$100 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments reflects a steady rise in the number of retirement accounts (from 53,455 in 2014 to 59,611 in 2016).

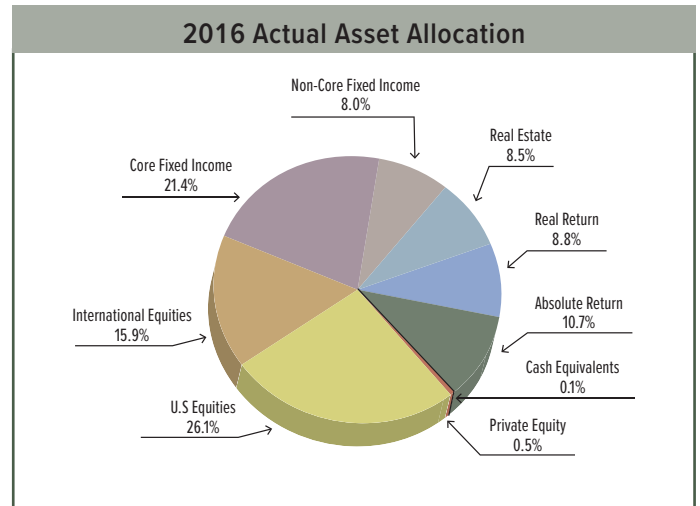
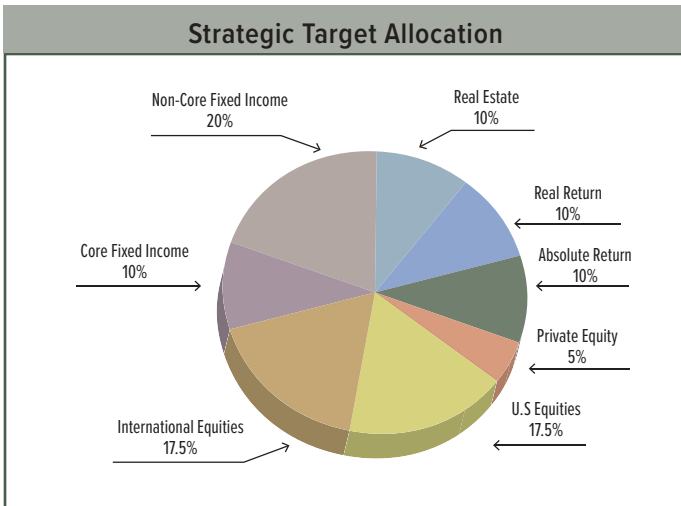
Summary Comparative Statements of Changes in Fiduciary Net Position For the Years Ended December 31, 2016, 2015, and 2014			
	2016	2015	2014
ADDITIONS			
Contributions and other	\$ 1,158,197,685	\$ 1,127,816,123	\$ 1,075,347,736
Net investment income	1,602,187,418	35,011,429	1,285,344,179
TOTAL ADDITIONS	2,760,385,103	1,162,827,552	2,360,691,915
DEDUCTIONS			
Benefit payments	1,162,064,108	1,102,785,029	1,028,572,120
Refunds of contributions	54,181,595	56,975,269	58,723,123
Allocation to Supplemental Death Benefits Fund	1,000,892	1,057,178	1,132,803
Administrative expenses	18,095,315	21,325,422	13,419,567
TOTAL DEDUCTIONS	1,235,341,910	1,182,142,898	1,101,847,613
CHANGE IN NET POSITION	1,525,043,193	(19,315,346)	1,258,844,302
NET POSITION			
BEGINNING OF YEAR	23,708,162,580	23,727,477,926	22,468,633,624
END OF YEAR	\$ 25,233,205,773	\$ 23,708,162,580	\$ 23,727,477,926

Benefit Payments in Millions

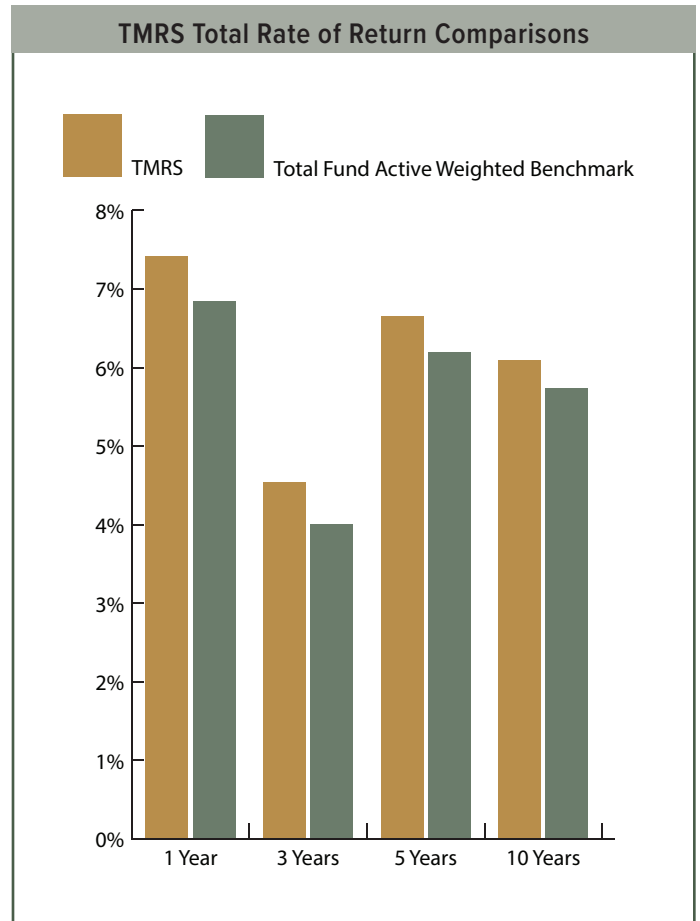


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Nineteen professionals on TMRS' staff oversee the System's investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS and, as presented below, establishes target asset allocations with implementation over a multi-year period. Initiatives during 2016 toward this strategic target allocation included continued investment into the private equity, non-core fixed income, real estate, real return, and absolute return (hedge funds) asset classes.



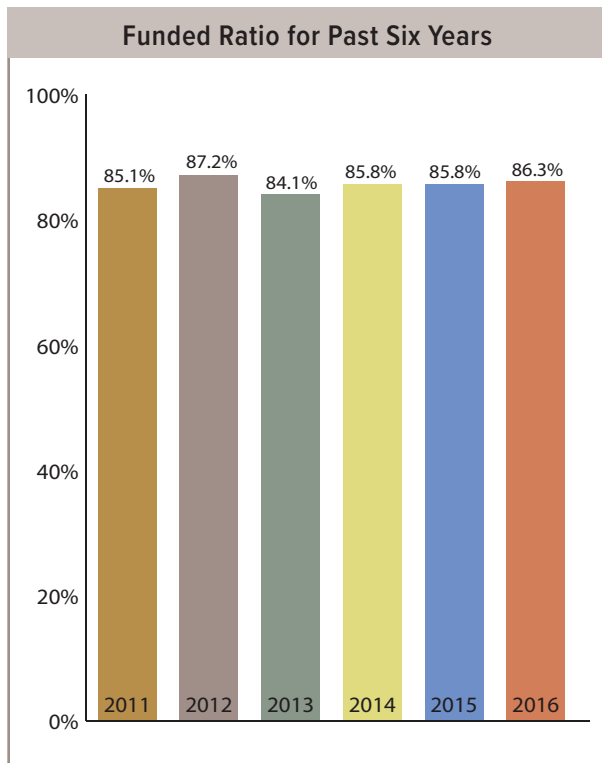
The total gross return on TMRS' investment portfolio was 7.42% in 2016. The table at right compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.



Reporting Standards

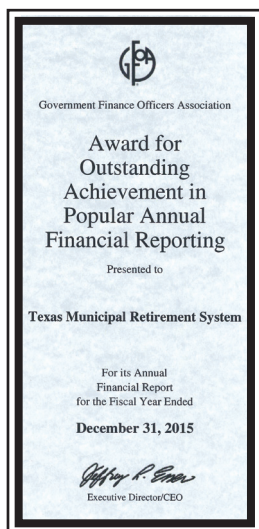
This Summary Annual Financial Report is derived from the *TMRS 2016 Comprehensive Annual Financial Report for the Years Ended December 31, 2016 and 2015 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared in accordance with GAAP and is subject to external audit. In contrast, this summary report provides information only for the TMRS Pension Trust Fund and is presented at a more condensed level. If you would like to download a PDF file of the CAFR, go to [www.tmr.com / City Publications / Financial Publications](http://www.tmr.com/CityPublications/FinancialPublications).

TMRS' Funded Status



- The most important factor that affects the soundness of a retirement program is the employer funding policy. Under TMRS law, all cities pay the actuarially determined contribution needed to fully fund benefits. The complete TMRS funding policy can be found on the TMRS website.
- One common measure of the soundness of a retirement plan is the plan's funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive. As certified by the System's actuary, Gabriel Roeder Smith & Company, as of December 31, 2016, TMRS as a whole was 86.3% funded, an increase from 85.8% as of December 31, 2015.
- A key assumption that affects the long-term stability of a retirement plan is the future long-term annual rate of investment earnings. TMRS uses a 6.75% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques." A complete description of the asset smoothing method can be found in the TMRS funding policy.

Awards



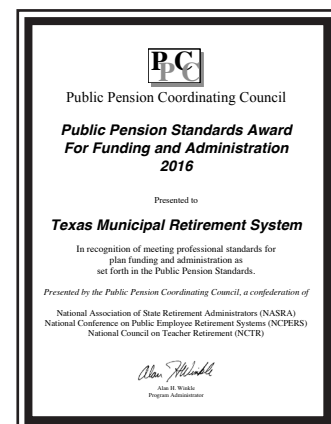
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2015.

The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

TMRS also received the Public Pension Standards 2016 Award from the Public Pension Coordinating Council (PPCC) in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.



TMRS Mission Statement

To deliver secure and competitive retirement plans through a professionally managed organization that anticipates diverse needs; provides quality services; and openly and effectively communicates with members, retirees, and cities.