Texas Municipal Retirement System

2015

Comprehensive Annual Financial Report
For the Years Ended December 31, 2015 and 2014

Presented by: Rhonda Covarrubias, Director of Finance
Today’s review / walk-thru of the CAFR

- 5 sections
- Distribution
- Questions
5 sections in the CAFR

- Introductory
- Financial
- Investment
- Actuarial
- Statistical
Introductory Section

- Letter of Transmittal (pages 7-10)

Activity in 2015

- Second SOC-1 Type 2 audit (completed in May, 2016)
- Successful implementation of GASB pension disclosures and relevant audit information for cities through “Eye on GASB” section of our website and City Portal
- 5% interest to employee accounts; approximately .06% to city accounts
- Significant progress in TMRSDirect project: online enrollment, address changes

Brief investments overview

- Asset Allocation review; continued diversification
- One-year gross rate of return – 0.34%
- Refer reader to Investment Section for more details
Introductory Section

- Letter of Transmittal (pages 7-10), continued

Funding and Actuarial overview

- 2015 was 8th valuation completed by GRS

- Actuarial Experience Investigation study (four-year period 2011-2014)
  - Reduced inflation assumption from 3.0% to 2.5%
  - Reduced investment return assumption from 7.00% to 6.75%

- Actuarial audit completed; no major findings

- TMRS as a whole – 85.8% funded at 12/31/15 (no change from 12/31/14)

- Refer reader to Actuarial Section for valuation assumptions
Introductory Section (continued)

Other Items:

- Board and Executive Director listing & photos (p. 12)
- Advisory Committee (p. 13)
- Professional advisors (p. 14)
- Summary of Plan Provisions (p. 16 – 20; no changes)
Financial Section

- Independent Auditors’ Report (page 22-23)
  - Unmodified (clean) opinion

- Management’s Discussion & Analysis (MD&A)
  - Narrative overview of financial condition
  - Prepares reader for content in Financial Section

  ✓ Financial statements / Notes / Required Supplementary Information / Other Supplemental Schedules
Financial Section (continued)

- Financial statements (p. 28-29)

Statement of Fiduciary Net Position (“Balance Sheet”)

- Investments (fair value) – Slight increase ($393 million or 1.6%) from 2014 to 2015 ($24.3 billion)

Statement of Changes in Fiduciary Net Position (“Income Statement”)

- Net decrease in net position (additions less deductions) - $1.2 billion increase for 2014 compared to $19 million decrease in 2015
  - Due to net depreciation in FV of investments ($285 million for 2015), compared to net appreciation of $981 million in 2014)
Financial Section (continued)

- Notes to Financial Statements (p. 30 - 50)
  - Note 2 – Plan Description
    - Implementation of GASB pension standards provides for information about the Plan (benefits; contributions; investment policy). Funding or funding progress for TMRS as a whole is no longer provided.
    - Continue with same reporting for the Supplemental Death Benefits Fund (until implementation of new OPEB standard in 2017)
  - Other required notes remain the same as in prior year
Financial Section (continued)

Required Supplementary Information (RSI):
(pages 51 – 52)

- New requirement for Pension Trust Fund (in second year):
  - Annual money-weighted rate of return (will eventually be a 10-year schedule).
  - Agent plans no longer show Schedule of Funding Progress

Supplemental Schedules:

- Changes in Fiduciary Net Position – by Fund
  - This shows the funds of the TMRS Pension Trust, which agrees to a separate document required by TMRS employer’s for GASB pension disclosures - Schedule of Changes in Fiduciary Net Position – by Employer (with separate audit opinion)
Investment Section
(begins on page 58)

- Report on Investment Activity (from RVK)
  - December 2015 - Fed’s first rate hike since June 2006 (Fed funds rate raised from .25% to .50%).
  - Provides overall market segment returns:

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Index/Return 2015</th>
<th>Index/Return 2014</th>
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<tbody>
<tr>
<td>U.S. equity markets</td>
<td>Russell 3000</td>
<td>0.48%</td>
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<tr>
<td>International equity markets</td>
<td>MSCI ACW ex U.S.</td>
<td>(4.6%)</td>
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<td>Fixed income</td>
<td>Barclays</td>
<td>0.55%</td>
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- TMRS: 0.34% return for the year (6% in 2014)
  - 3-yr annualized = 5.3%
  - 5-yr annualized = 5.6%
  - 10-yr annualized = 5.4%
Investment Section (continued)

Report on Investment Activity (from RVK) – continued

- Diversification continued, moving closer to long-term Strategic Target Allocation. Hiring of additional consultants and numerous managers.

Outline of Investment Policies (page 60)

- Investment Policy Statement (IPS)
- Asset allocation (strategic targets)
- Policy benchmarks and policy index by asset class

Investment Results (pages 66-67)

- 1, 3, 5 and 10-yr. results, compared to benchmarks
Actuarial Section

- Separate sections for Pension Trust and Supplemental Death
  - Both sections include GRS’ certification letter; NEW assumptions used for the 12/31/2015 valuation; actuarial definitions

- Pension Trust (begins on page 72)
  - GFOA checklist still permits the Actuarial Section to provide funding information for the System as a whole
    - New requirement to provide 10-year schedules (rather than 6-year)
  - As was done for the first time last year, the actuarial valuations by city (for funding purposes) are no longer provided in the CAFR; these were approved by the Board as part of the actuarial valuation process and are on the TMRS website.
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Statistical Section

(Begins on page 102)

- GASB Stmt 44 (Economic Condition Reporting)
  - To provide users with additional historical perspective
Schedule of Changes in Fiduciary Net Position

Additions, by source  (10-yr period: 2006 – 2015)

- Member contributions
- Employer contributions
- Net investment income/(loss)
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- Schedule of Changes in Fiduciary Net Position (continued)

Deductions, by type (10-yr period: 2006 – 2015)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retirements</th>
<th>Distributive benefits</th>
<th>Partial lump sum distributions</th>
<th>Refunds</th>
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Statistical Section (continued)

Schedule of Average Benefit Payments (page 105)

- 10-year history (2006 – 2015); average monthly benefit, based on years of credited service (in 5-yr increments)
- Prior to 2014, highest number of retirees each year have historically been in the 20-25 years-of-service category; the 25 and over categories continue to grow. For 2014 and 2015, highest number of retirees are in the 30+ years category.

Schedule of Retired Members by Type of Benefit (page 106)

- Provides a range of the monthly benefit, based on the annuity payment option chosen
- 96% are service-related retirements
- 32% have chosen the 100% survivor lifetime option
Statistical Section (continued)

Schedule of Principal Participating Employers (page 107)

This shows the ranking of employers (10 largest, and then all others), based on current employee accounts

Plan Provisions for Participating Municipalities (pages 108 - 151)
Distribution of CAFR

- Electronic-format (pdf) on TMRS website
- Announce in next E-bulletin
- Submission to GFOA Certification program

Distribution of Schedule of Changes in Fiduciary Net Position – by employer

- Electronic-format (pdf) in “Eye on GASB” section of TMRS website
- Announce in next E-bulletin
Questions & Discussion

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