Overview of the

TMRS

2016 CAFR

by

Rhonda Covarrubias

Director of Finance
Today’s review / walk-thru of the CAFR

- 5 main sections
- Distribution
2016
Comprehensive Annual Financial Report

5 sections in the CAFR

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

Letter of Transmittal

Activity in 2016

- 2016 presented significant challenges to all public retirement systems
  - (sustainability for several high-profile plans in the U.S.)
  - Focus for TMRS staff was to “tell the good story of TMRS”

- TMRS Advisory Committee on Benefit Design considered potential legislative issues
  - (return-to-work provisions and cost-of-living adjustment options); no legislation was pursued in 2017 session

- 5% interest to employee accounts; approximately 6.73% to city accounts

- Significant progress in TMRSDirect project
  - communications preferences for newsletters
  - withholding changes for benefit payments

- 6 new cities joined the System
Letter of Transmittal (continued)

**Brief investments overview**
- Continued diversification, through deliberate multi-year process
- One-year gross rate of return = 7.42%
- Refer reader to Investment Section for more details

**Funding and Actuarial overview**
- 2016 was 9th valuation completed by GRS
- TMRS as a whole – 86.3% funded at 12/31/16 (up from 85.8% in 2015)
- 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

Statement of Fiduciary Net Position (“Balance Sheet”)

- Investments (fair value) – Increase of $1.5 billion or 6.3% from 2015 ($24.3 billion) to 2016 ($25.8 billion)

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

- Net increase in net position (additions less deductions) - $1.5 billion net increase for 2016 compared to $19 million net decrease in 2015
  - Due to net appreciation in FV of investments ($1.3 billion for 2016), compared to net depreciation of $285 million in 2015)
### Statements of Changes in Fiduciary Net Position

**For the Years Ended December 31, 2016 and 2015**

<table>
<thead>
<tr>
<th></th>
<th>Pension Trust Fund</th>
<th>Supplemental Death Benefits Fund</th>
<th>Total</th>
<th>Pension Trust Fund</th>
<th>Supplemental Death Benefits Fund</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contributions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>$768,252,338</td>
<td>$6,983,501</td>
<td>$775,235,839</td>
<td>$751,708,718</td>
<td>$6,507,371</td>
<td>$758,216,089</td>
</tr>
<tr>
<td>Plan member</td>
<td>389,919,391</td>
<td>-</td>
<td>389,919,391</td>
<td>376,103,505</td>
<td>-</td>
<td>376,103,505</td>
</tr>
<tr>
<td><strong>Total contributions</strong></td>
<td>1,158,171,729</td>
<td>6,983,501</td>
<td>1,165,155,230</td>
<td>1,127,812,223</td>
<td>6,507,371</td>
<td>1,134,319,594</td>
</tr>
<tr>
<td><strong>Net investment income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>From investing activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net appreciation/(depreciation) in fair value of investments</td>
<td>1,317,283,876</td>
<td>-</td>
<td>1,317,283,876</td>
<td>(284,634,170)</td>
<td>-</td>
<td>(284,634,170)</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>349,544,758</td>
<td>-</td>
<td>349,544,758</td>
<td>354,568,887</td>
<td>-</td>
<td>354,568,887</td>
</tr>
<tr>
<td><strong>Total investing activities income</strong></td>
<td>1,666,828,634</td>
<td>-</td>
<td>1,666,828,634</td>
<td>69,934,717</td>
<td>-</td>
<td>69,934,717</td>
</tr>
<tr>
<td>Less investment activities expense</td>
<td>(61,177,837)</td>
<td>-</td>
<td>(61,177,837)</td>
<td>(36,782,602)</td>
<td>-</td>
<td>(36,782,602)</td>
</tr>
<tr>
<td><strong>Net income from investing activities</strong></td>
<td>1,605,650,797</td>
<td>-</td>
<td>1,605,650,797</td>
<td>33,152,115</td>
<td>-</td>
<td>33,152,115</td>
</tr>
<tr>
<td>From securities lending activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities lending income</td>
<td>563,268</td>
<td>-</td>
<td>563,268</td>
<td>2,225,559</td>
<td>-</td>
<td>2,225,559</td>
</tr>
<tr>
<td>Securities lending expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrower rebates</td>
<td>(184,211)</td>
<td>-</td>
<td>(184,211)</td>
<td>39,406</td>
<td>-</td>
<td>39,406</td>
</tr>
<tr>
<td>Agent fees</td>
<td>43,091</td>
<td>-</td>
<td>43,091</td>
<td>(315,630)</td>
<td>-</td>
<td>(315,630)</td>
</tr>
<tr>
<td>Net depreciation in fair value of collateral pool</td>
<td>(3,799,345)</td>
<td>-</td>
<td>(3,799,345)</td>
<td>(90,021)</td>
<td>-</td>
<td>(90,021)</td>
</tr>
<tr>
<td><strong>Net income from securities lending activities</strong></td>
<td>(3,463,379)</td>
<td>-</td>
<td>(3,463,379)</td>
<td>1,859,314</td>
<td>-</td>
<td>1,859,314</td>
</tr>
<tr>
<td>Other miscellaneous</td>
<td>25,956</td>
<td>-</td>
<td>25,956</td>
<td>3,900</td>
<td>-</td>
<td>3,900</td>
</tr>
<tr>
<td>Income allocation from Pension Trust Fund</td>
<td>-</td>
<td>1,000,892</td>
<td>1,000,892</td>
<td>-</td>
<td>1,057,178</td>
<td>1,057,178</td>
</tr>
<tr>
<td><strong>TOTAL ADDITIONS</strong></td>
<td>2,760,385,103</td>
<td>7,984,393</td>
<td>2,768,369,496</td>
<td>1,162,827,552</td>
<td>7,564,549</td>
<td>1,170,392,101</td>
</tr>
</tbody>
</table>
# Statements of Changes in Fiduciary Net Position

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service retirement</td>
<td>1,005,485,139</td>
<td>1,005,485,139</td>
</tr>
<tr>
<td>Disability retirement</td>
<td>17,019,188</td>
<td>17,019,188</td>
</tr>
<tr>
<td>Partial lump sum distributions</td>
<td>139,559,781</td>
<td>139,559,781</td>
</tr>
<tr>
<td>Supplemental death benefits</td>
<td>-</td>
<td>8,486,173</td>
</tr>
<tr>
<td>Total benefit payments</td>
<td>1,162,064,108</td>
<td>1,170,550,281</td>
</tr>
<tr>
<td>Refunds of contributions</td>
<td>54,181,595</td>
<td>54,181,595</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>18,095,315</td>
<td>18,095,315</td>
</tr>
<tr>
<td>Income allocation to Supplemental Death Benefits Fund</td>
<td>1,000,892</td>
<td>1,000,892</td>
</tr>
<tr>
<td><strong>TOTAL DEDUCTIONS</strong></td>
<td>1,235,341,910</td>
<td>1,243,628,083</td>
</tr>
<tr>
<td><strong>NET INCREASE/(DECREASE) IN NET POSITION</strong></td>
<td>1,525,043,193</td>
<td>(501,780)</td>
</tr>
<tr>
<td><strong>FIDUCIARY NET POSITION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net position restricted for pensions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>23,708,162,580</td>
<td>23,708,162,580</td>
</tr>
<tr>
<td>End of year</td>
<td>25,233,205,773</td>
<td>25,233,205,773</td>
</tr>
<tr>
<td>Fiduciary net position held in trust for other benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>-</td>
<td>21,129,830</td>
</tr>
<tr>
<td>End of year</td>
<td>-</td>
<td>20,628,050</td>
</tr>
<tr>
<td><strong>TOTAL FIDUCIARY NET POSITION</strong></td>
<td>25,233,205,773</td>
<td>20,628,050</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Financial Section (continued)

- Notes to Financial Statements (p. 30 - 54)
  - Note 2 – Plan Description
    - Implementation of GASB pension standards (last year) provides for information about the Plan (benefits; contributions; investment policy). Funding or funding progress for TMRS as a whole is no longer provided in the notes.
  - Note 3-B – Fair Value
    - New GASB Statement No. 72 “Fair Value Measurement and Application”
    - Requires disclosure of investments into levels (1-3), based on “source” utilized to determine the value
    - Increased narrative to describe strategy and fair value determination for investments measured at net asset value (NAV)
Financial Section (continued)

Required Supplementary Information (RSI):

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

Supplemental Schedule:

- 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

- Report on Investment Activity (from RVK)
  - 2016 – U.S. economy largely delivered positive performance
  - Fed increased policy rates by 25 bp; target range at year-end at .50-.75%
  - Provides overall market segment returns:

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Measured by:</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity markets</td>
<td>Russell 3000 Index</td>
<td>12.74%</td>
<td>0.48%</td>
</tr>
<tr>
<td>International equity markets</td>
<td>MSCI ACW ex U.S.</td>
<td>4.41%</td>
<td>(4.60%)</td>
</tr>
<tr>
<td>Fixed income</td>
<td>Barclays U.S. Ag Bond index</td>
<td>2.65%</td>
<td>0.55%</td>
</tr>
</tbody>
</table>

- TMRS: 7.42% return for the year (.34% in 2015)
  - 3-yr annualized = 4.54%
  - 5-yr annualized = 6.65%
  - 10-yr annualized = 6.09%
Investment Section (continued)

Report on Investment Activity (from RVK) – continued

- Diversification continued, moving closer to long-term Strategic Target Allocation; funded a number of real return, real estate, absolute return and private equity managers.

Outline of Investment Policies (pages 64 - 66)

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

Investment Results (page 71)

- 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; assumptions used for the 12/31/2016 valuation (no changes); actuarial definitions

- Pension Trust (begins on page 76)
  - GFOA checklist permits the Actuarial Section in the CAFR, to provide funding information for the System as a whole
    - 10-year schedules

Note: the actuarial valuations by city (for funding purposes) are not provided in the CAFR; these were approved by the Board as part of the actuarial valuation process and are on the TMRS website.
Statistical Section

(Begins on page 106)

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

Additions, by source (10-yr period: 2007 – 2016)

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

Deductions, by type  (10-yr period: 2007 – 2016)

- Retirements
- Partial lump sum distributions
- Refunds
Statistical Section (continued)

Schedule of Average Benefit Payments (page 109)

- 10-year history (2007 – 2016); average monthly benefit, based on years of credited service (in 5-yr increments)
- Prior to 2014, highest number of retirees each year were historically in the 20-25 years-of-service category.
- For 2014 to current, highest number of retirees are in the 30+ years category.

Schedule of Retired Members by Type of Benefit (page 110)

- Provides a range of the monthly benefit, based on the annuity payment option chosen
- 97% are service-related retirements
- Approximately 1/3 have chosen the 100% survivor lifetime option
Statistical Section (continued)

Schedule of Principal Participating Employers (page 111)

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

Plan Provisions for Participating Municipalities (pages 112 -155)
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) on TMRS website
- Announce in next E-bulletin
Questions and Discussion