Overview of the 2018 TMRS CAFR

Presented by:
Rhonda Covarrubias
Director of Finance
and
Candace Nolte
Controller
Today’s review / walk-through of the CAFR

- Five sections
- Distribution
Five sections of the CAFR

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

- **Awards**
  - Certificate of Achievement for Excellence in Financial Reporting for the 2017 CAFR – presented to TMRS from GFOA
  - Public Pension Standards Award for 2018 – presented to TMRS from the Public Pension Coordinating Council

- **Letter of Transmittal**

  **Activity in 2018**
  - 5% to employee accounts; approximately -3.08 (debit) to city accounts
  - Five new cities joined TMRS
  - **TMRSDirect®** project (straight-through-processing) – development of online direct deposit capability and retirement processing is in progress
Introductory Section, continued

- Letter of Transmittal, continued

Investments overview

- $28 billion in assets as of 12/31/18
- One-year gross time-weighted rate of return - (2.11%)
- Refer reader to Investment Section for more details

Funding and Actuarial overview

- 2018 was 11th valuation completed by GRS
- TMRS as a whole is 87.1% funded as of 12/31/18 (down from 87.4% in 2017)
- Refer reader to Actuarial Section for valuation assumptions
Introductory Section, continued

- Other Items
  - TMRS Highlights – (pp. 11 – 12)
  - Board of Trustees (p. 13)
  - TMRS Professional Advisors (p. 13)
  - TMRS Advisory Committee (p. 14)
  - TMRS Administrative Organization (p. 15)
  - Summary of Plan Provisions – no change from prior year (pp. 16 – 20)
Financial Section

- Independent Auditors’ Report (pp. 22-23)
  - Unqualified (clean) opinion

- Management’s Discussion & Analysis (MD&A)
  - Provides a narrative overview of financial condition
  - Defines content of Financial Section
  - Financial statements / Notes / Required Supplementary Information / Other Supplemental Schedules
  - Describes financial highlights
MD&A – continued

Statement of Fiduciary Net Position ("Balance Sheet")
Net Position Restricted for Pensions – Pension Trust

- Net position decreased $965 million or 3.4% from 12/31/2017 to 12/31/2018
  - Due to decrease in fair value of investments ($28.9 billion at 12/31/2017 to $28.0 billion at 12/31/2018)

Statement of Changes in Fiduciary Net Position ("Income Statement")

- Net decrease in net position (additions less deductions) - $3.4 billion increase in 2017 compared to $965.8 million decrease in 2018
  - Due to $3.5 billion net investment income in 2017 vs. $858 million net investment loss in 2018

See 10-year financial information provided in Statistical Section
Financial Section, continued

- MD&A - continued

Net Position – Supplemental Death Benefits Fund

$17.3 million net position at 12/31/18 – decrease of $1.6 million or 8% from 12/31/17 ($18.9 million), due to benefit payments exceeding contributions

See 10-year financial information provided in Statistical Section.
## Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2018

<table>
<thead>
<tr>
<th></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>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>$881,531,535</td>
<td>$7,758,059</td>
<td>$889,289,594</td>
</tr>
<tr>
<td>Plan member</td>
<td>427,808,238</td>
<td></td>
<td>427,808,238</td>
</tr>
<tr>
<td>Total contributions</td>
<td>1,309,339,773</td>
<td>7,758,059</td>
<td>1,317,097,832</td>
</tr>
<tr>
<td><strong>Net investment loss</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net depreciation in fair value of investments</td>
<td>(1,370,878,016)</td>
<td></td>
<td>(1,370,878,016)</td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>560,741,408</td>
<td></td>
<td>560,741,408</td>
</tr>
<tr>
<td>Total investment</td>
<td>(810,136,608)</td>
<td></td>
<td>(810,136,608)</td>
</tr>
<tr>
<td>Less investment expense</td>
<td>(47,986,353)</td>
<td></td>
<td>(47,986,353)</td>
</tr>
<tr>
<td>Net investment loss</td>
<td>(858,122,961)</td>
<td></td>
<td>(858,122,961)</td>
</tr>
<tr>
<td>Other miscellaneous</td>
<td>18,501</td>
<td></td>
<td>18,501</td>
</tr>
<tr>
<td>Income allocation from Pension Trust Fund</td>
<td>—</td>
<td>885,044</td>
<td>885,044</td>
</tr>
<tr>
<td><strong>TOTAL ADDITIONS</strong></td>
<td>451,235,313</td>
<td>8,643,103</td>
<td>459,878,416</td>
</tr>
<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service retirement</td>
<td>1,159,702,957</td>
<td></td>
<td>1,159,702,957</td>
</tr>
<tr>
<td>Disability retirement</td>
<td>17,060,303</td>
<td></td>
<td>17,060,303</td>
</tr>
<tr>
<td>Partial lump sum distributions</td>
<td>158,490,461</td>
<td></td>
<td>158,490,461</td>
</tr>
<tr>
<td>Supplemental death benefits</td>
<td>—</td>
<td>10,267,359</td>
<td>10,267,359</td>
</tr>
<tr>
<td>Total benefit payments</td>
<td>1,335,253,721</td>
<td>10,267,359</td>
<td>1,345,521,080</td>
</tr>
<tr>
<td>Refunds of contributions</td>
<td>64,255,860</td>
<td></td>
<td>64,255,860</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>16,585,866</td>
<td></td>
<td>16,585,866</td>
</tr>
<tr>
<td>Income allocation to Supplemental Death Benefits Fund</td>
<td>885,044</td>
<td></td>
<td>885,044</td>
</tr>
<tr>
<td><strong>TOTAL DEDUCTIONS</strong></td>
<td>1,416,980,491</td>
<td>10,267,359</td>
<td>1,427,247,850</td>
</tr>
<tr>
<td><strong>NET DECREASE IN NET POSITION</strong></td>
<td>(965,745,178)</td>
<td>(1,624,256)</td>
<td>(967,369,434)</td>
</tr>
<tr>
<td><strong>FIDUCIARY NET POSITION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiduciary net position restricted for pensions</td>
<td>28,649,374,617</td>
<td></td>
<td>28,649,374,617</td>
</tr>
<tr>
<td>End of year</td>
<td>27,683,629,439</td>
<td></td>
<td>27,683,629,439</td>
</tr>
<tr>
<td>Fiduciary net position held in trust for other benefits</td>
<td>—</td>
<td>18,930,756</td>
<td>18,930,756</td>
</tr>
<tr>
<td>End of year</td>
<td>—</td>
<td>17,306,500</td>
<td>17,306,500</td>
</tr>
<tr>
<td><strong>TOTAL FIDUCIARY NET POSITION</strong></td>
<td>$27,683,629,439</td>
<td>$17,306,500</td>
<td>$27,700,935,939</td>
</tr>
</tbody>
</table>
Financial Section, continued

- Notes to Financial Statements (pp. 30 - 51)
  No new note disclosures from prior year.

- Note 2 – Plan Description
  Informative note providing information on the Pension and Supplemental Death Benefits plans, along with TMRS’ Investment Policy. TMRS cities can find this footnote useful in making their respective pension note disclosures. Also includes information on TMRS’ benefit plans for its own employees.

- Note 3 – Deposits and Investments
  ✓ Note 3-B – Fair Value of Investments – fair value hierarchy (levels 1-3), based on “source” utilized to determine the value, as well as information on those measured at the NAV.
  ✓ Note 3-C – Addresses various investment risks (credit risk, concentrations of credit risk, interest rate risk, foreign currency risk)
Financial Section, continued

- Required Supplementary Information (RSI):
  - Pension Trust Fund:
    - Annual money-weighted rate of return, 2014 to 2018
      (will eventually be a 10-year schedule, per GASB)

- Supplemental Schedules:
  - Changes in Fiduciary Net Position – by Fund
    (Fund-level activity, including transfers between funds)
  - Schedule of Administrative Expenses
  - Schedule of Professional Services
  - Schedule of Investment Expenses
    (excluding investment fees paid directly from the investment’s NAV)
Investment Section

- Report on Investment Activity (from RVK)
  
  - Markets remained stable for most of the year; spike in market volatility late in the year as investors reacted negatively to the expected path of monetary policy and potential global trade conflicts
  
  - Federal Reserve increased policy rates four times over the year (Fed funds rate ending the year at 2.25% - 2.5%)

- At December 31, 2018, all asset classes were within target ranges

- TMRS: (2.1%) return for the year [PY = 14.27%]
  
  - 3-yr annualized = 6.3% [PY = 7.19%]
  - 5-yr annualized = 5.0% [PY = 7.46%]
  - 10-yr annualized = 6.6% [PY = 6.71%]
Investment Section, continued

- Outline of Investment Policies (pp. 60 - 62)
  - Investment Policy Statement (IPS)
  - Asset allocation (strategic targets)
  - Policy benchmarks and policy index by asset class

- Actual Asset Allocation at December 31, 2018 (p. 63)

- Summary of Investments, by type and asset class (pp. 64 – 65)

- Investment Results (p. 67)
  - 1, 3, 5 and 10-yr. results, compared to benchmarks for TMRS Total Fund and for individual asset classes

- Schedule of Investment Expenses (p. 69)
  - Fees incurred internally, as well as externally for investment management
Actuarial Section
Separate sections for Pension Trust and Supplemental Death

Both sections include GRS’ certification letter; assumptions used for the 12/31/2018 actuarial valuation (no changes); and definitions

- **Pension Trust (pp. 72 - 88)**
  - The Actuarial Section provides assumptions used for actuarial valuation as well as certain information for the System as a whole (10-year schedules)
  - 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 accessible from the TMRS website.

- **Supplemental Death Benefits Fund (pp. 90 - 93)**
  - Provides assumptions used for actuarial valuation as well as certain information for the Plan as a whole (6-year schedules)
  - GRS will again provide reporting packages for each participating employer for their OPEB reporting under GASB Stmt. No. 75 (retiree-coverage). These will be on the TMRS website.
Statistical
2018 Comprehensive Annual Financial Report

Statistical Section (begins on page 96)

- GASB Stmt. 44 (Economic Condition Reporting)
  - No changes from prior years reporting requirements
  - To provide users with additional historical perspective
    (10-year trend information)
Statistical Section, continued

- Schedule of Changes in Fiduciary Net Position

Additions, by source (10-yr period: 2009 – 2018)
Schedule of Changes in Fiduciary Net Position, continued

Deductions, by type (10-yr period: 2009 – 2018)
Statistical Section, continued

Schedule of Average Benefit Payments (page 99)

- 10-year history (2009 – 2018); average monthly benefit, based on years of credited service (in 5-yr increments)
- Over the last ten years, the highest number of retirees have been in the 20-25 and 30+ years categories.

Schedule of Retired Members by Type of Benefit (page 100)

- Provides a range of the monthly benefit, based on the annuity payment option chosen
- 97% are service-related retirements (as in prior year)
- 31% have chosen the 100% survivor lifetime option; 26% have chosen the retiree-life only option (also as in prior year)
Statistical Section, continued

Schedule of Principal Participating Employers (p. 101)

- This shows the ranking of employers (10 largest, and then all others), based on current employee accounts for 2018 compared with 2009

Plan Provisions for Participating Municipalities (pp. 102 - 147)

- Summary of benefit plan provisions for each participating municipality
2018 Comprehensive Annual Financial Report

Distribution of CAFR
- Electronic-format (pdf) on TMRS website
- Announce in next E-bulletin
- Electronic 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 and Discussion