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THIS ISSUE: TMRS Investments, Ad Hoc COLAs, and the New TMRS Website

TMRS Investments and Wall Street

Members and cities have been calling and writing about the recent Wall Street crises. However, direct impact on TMRS' investment returns from the Lehman bankruptcy, the Merrill takeover by Bank of America, and the government action on AIG should be minimal.

TMRS has direct exposure to Lehman only through the Russell 3000 index fund, for a total investment equal to .004% of the portfolio. All securities loaned to Lehman through our securities lending program were successfully recalled. The Merrill Lynch and Bank of America merger is considered a positive event for Merrill Lynch, and TMRS' overall exposure to these two companies is about 1.1% of our total holdings, the majority of that in the bond portfolio.

Diversification of the TMRS investments across issuing companies is governed by the TMRS Investment Policy, designed to help protect the portfolio from company-specific events. TMRS is a long-term investor, and the Investment Policy is designed to mitigate negative effects of adverse market events.

In 2007, the TMRS Board approved a 12% diversification into equities by the end of 2008, and this diversification is being accomplished by indexed investments. A diversified portfolio reduces risks and helps the fund weather downturns in specific classes of investment.

Indexed investments are less volatile because investments are made passively to track the performance of a specific index. TMRS is using the Russell 3000 Index for domestic equities, which represents about 98% of the stocks in the U.S., and the MSCI-EAFE for international equities, which is a broad representation of the foreign-developed markets. TMRS is essentially "buying the market" rather than trying to bet on whether specific stocks will gain value.

According to our plan to average into the equity market, as of July 31, 2008, TMRS had invested a total of $1.086 billion in equities — half in the Russell 3000 Index Fund and the other half in the EAFE Index Fund. As of that date, we had a 7.3% allocation invested in equities; these investments move us on our way to the 12% allocation approved by the Board by year-end 2008.

In the past, the market value of the portfolio was not a priority for TMRS, since the investment strategy was focused on the income return of the portfolio; however, the transition to equities will emphasize a new focus on a total return investment strategy which will be used to provide interest credits to member and city accounts.

Although TMRS is well-positioned in the current circumstances, significant disruption of the investment markets may produce some adverse effects on our portfolio. Our advisors, investment staff, and the Board of Trustees continue to exercise due diligence in monitoring the events in the market and proactively make decisions to manage risks.

Annually Repeating and Ad Hoc Benefit Increases

As TMRS cities finalize their budgets for 2009, some cities are thinking about eliminating the annually repeating Updated Service Credits (USC) and/or Cost of Living Adjustment (COLA) features of their TMRS plan, and replacing them with ad hoc benefits that will be voted on by the city council each year.

In a city that "turns off" annually repeating benefits and adopts them ad hoc at the same rate as the former annually repeating benefits, active employees and retirees will not see any difference in the benefit they receive, but there are two important things to note if a city chooses this option.

1. TMRS does not recommend this course of action if a city intends to adopt ad hoc benefits routinely. Liabilities associated with ad hoc benefit adoptions are recognized at the time of adoption and are not advance-funded. Cities in this circumstance will likely see their contribution rates increase every year while, at the same time, the city's plan funding ratio declines. <u>To accelerate funding for ad hoc benefits and to mitigate the long-term negative effects of routine ad hoc benefit adoptions, the TMRS Board may consider shortening the amortization period for funding ad hoc benefits.</u> If the Board takes this action, the liability associated with those benefits will be paid over a shorter period of time and will increase a city's contribution rate. If this change is adopted by the Board, it will affect ad hoc benefits adopted with a January 1, 2010 or later effective date.

2. Cities that saw a contribution rate increase greater than 0.5% between 2008 and 2009, based on the actuarial changes TMRS made, were granted an 8-year "phase-in" period to reach the full contribution level. Cities that turn off annually repeating benefits and adopt ad hoc increases are likely to see their contribution rate for 2009 fall below the level that triggered the 8-year phase-in. A city that turns off annually repeating benefits and then re-adopts them in a future year will almost certainly see a significant increase in the contribution rate. <u>If a city in this circumstance wishes to re-adopt annually repeating benefits in a future year, that city will not be eligible for the phase-in and will be required to pay the full contribution rate.</u>

TMRS urges any city that is considering turning off automatic benefit increases and replacing them with ad hoc benefits to contact the TMRS actuary, Leslee Hardy, at 512-225-3760 or lhardy@tmrs.com, or contact the Travel Team at communications@tmrs.com.

New TMRS Website Is Up and Running!

The new website for cities, members, retirees, and other interested parties is ready to use. It is available at the same URL: www.tmrs.com.

The site presents all the information from the old site (MyTMRS, requests for retirement estimates, etc.), plus some extras, including the additional functionality of a Google-like search engine, and new tutorials broken into subjects relevant to Cities, Members, and Retirees. The main goals of the web redesign were ease of use, presentation of information into user-specific categories, fewer screens requiring lots of scrolling, and quicker accessibility of information.

We hope you will find the new design helpful and user-friendly. Information is organized in the menu on the left side of the page so that the most important features for members, retirees, and cities are accessible with one or two clicks. Under the top three buttons, we have provided "How Do I" dropdown menus, which allow you to review the most common tasks and questions in a tutorial format. If you have suggestions for the new website or need assistance using it, please e-mail webmaster@tmrs.com.

NOTE - Previously issued e-bulletins and correspondence are posted in the "E-Bulletin Archive" section under the Cities page on the new 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.