



TMRS 2008 Summary Annual Financial Report

For the Year Ended December 31, 2008

This Summary Annual Financial Report is prepared annually. Its purpose is to provide you with a snapshot of how the System has performed financially in the past year. This report describes how TMRS has changed and will continue to adapt in order to maintain its strong funding levels and serve its members into the future.



The Year at TMRS

Noteworthy Accomplishments of 2008

- The System continued to diversify its fixed-income portfolio into equity index funds. By the end of 2008, the interim target for diversification had been reached: 88% in fixed-income securities, 6% in domestic equities indexed to the Russell 3000, and 6% in foreign equities indexed to the MSCI EAFE.
- The income rate of return on the \$14.5 billion investment portfolio was 5.9%; total return for the year was -1.3%.
- In December 2007, the TMRS Board of Trustees adopted a change in the System’s actuarial funding method from the traditional Unit Credit method to the Projected Unit Credit method. This method provides a more level rate of funding; it also advance-funds projected future benefits such as cost-of-living adjustments. For many cities that have adopted annually repeating benefits, the change to Projected Unit Credit caused significant contribution increases, beginning with the January 2009 contribution. During 2008, TMRS conducted a major communications campaign to ensure that cities and members understand the reasons for the change and how this will improve the future funding status of the individual employers and the System as a whole.
- As of December 31, 2008, TMRS as a whole was 74.4% funded. This funded ratio increased from 73.7% in the prior year.
- We enrolled 6 new cities in 2008, facilitated numerous plan changes for cities, and added 2,574 new retirees during the year. The number of retirees continues to grow each year. At year-end 2008, TMRS administered plans for 833 member cities that include:
 - 139,488 contributing members (employee accounts)
 - 34,123 retired members
- The System’s Legislative Stakeholder Group worked with the Board to recommend important changes to the TMRS Law, effective in 2009 (see page 4).



TMRS Board of Trustees

The six members of TMRS’ Board of Trustees are appointed by the Governor with the advice and consent of the Senate. Board members serve six-year terms and are responsible for 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 members and retirees.

Roel “Roy” Rodriguez, PE, 2008 Chair

Assistant City Manager /
MPU General Manager, McAllen

Carolyn Linér, 2008 Vice Chair

Director of Human Resources /
Civil Service, San Marcos

Ben Gorzell

Director of Finance, San Antonio

Pat Hernandez

Municipal Court Judge, Plainview

April Nixon

Chief Financial Officer, Arlington

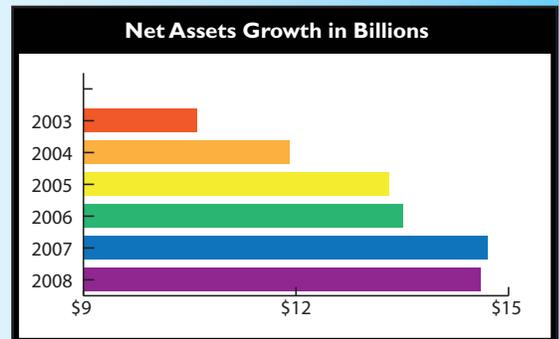
Frank Simpson

City Manager, Missouri City

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net assets) at both year-end 2008 and 2007. Net assets represent funds accumulated for the payment of future benefits. Investments, stated at fair market value, make up the largest portion of net assets held in trust for pension benefits. During 2008, TMRS modified its asset allocation from an entirely fixed-income portfolio to include equity index funds – both domestic and international. Due to volatile market conditions experienced during 2008, the value of the investment portfolio declined from 2007. Another significant asset is securities lending collateral. Because of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2008, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$44.5 million is reported for 2008. The decrease in both receivables and payables is primarily due to a reduction in the level of securities lending activity during 2008.

Because of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2008, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$44.5 million is reported for 2008. The decrease in both receivables and payables is primarily due to a reduction in the level of securities lending activity during 2008.

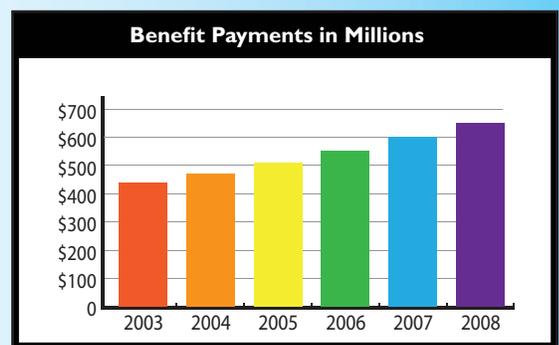
Summary Comparative Statements of Plan Net Assets As of December 31, 2008 and 2007		
	2008	2007
ASSETS		
Receivables	\$ 205,089,909	\$ 233,040,128
Investments, at fair value	14,472,176,591	14,533,416,264
Invested securities lending collateral	535,782,291	7,860,799,979
Other assets	10,625,720	12,069,482
TOTAL ASSETS	15,223,674,511	22,639,325,853
LIABILITIES		
Payables and accrued liabilities	8,041,430	38,625,683
Funds held for Supplemental Death Benefits Fund	25,381,951	24,038,810
Securities lending collateral	580,289,359	7,860,799,979
TOTAL LIABILITIES	613,712,740	7,923,464,472
NET ASSETS	\$ 14,609,961,771	\$ 14,715,861,381



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

The decrease in net investment income is due to lower market values (or prices) of our investments compared to the previous year. The Government Accounting Standards Board (GASB) requires TMRS to report its investments at market value as of year end. As a result, net investment income includes a \$1 billion decrease adjustment in 2008 compared with a \$316.4 million increase adjustment in 2007. Excluding these required mark-to-market adjustments, net realized investment income for 2008 and 2007 was comparable at \$791.3 million and \$763.2 million, respectively. In 2008, TMRS credited 5% interest to municipality and employee accounts. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses.

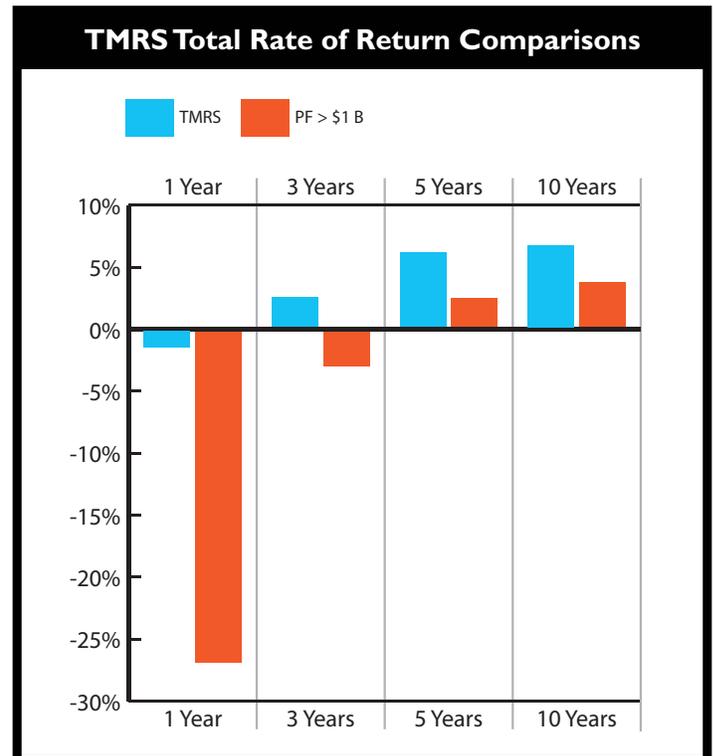
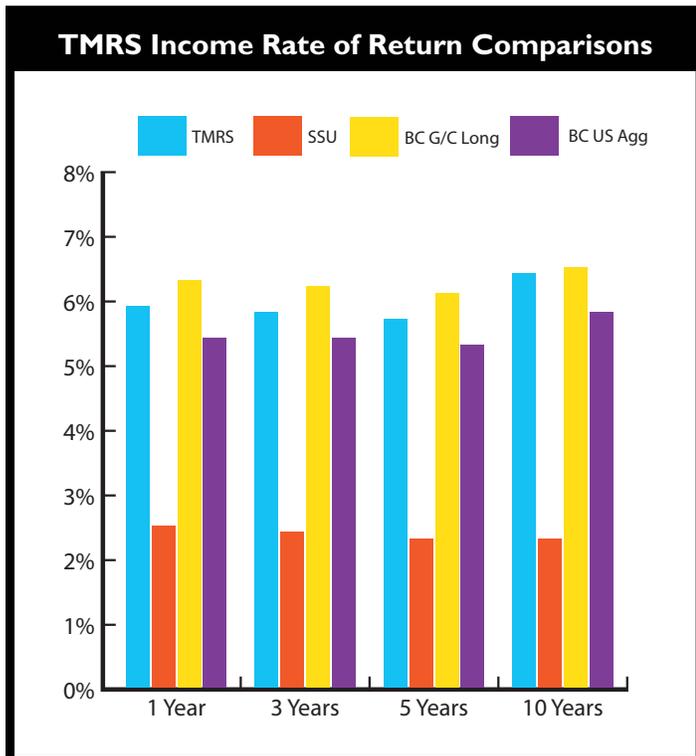
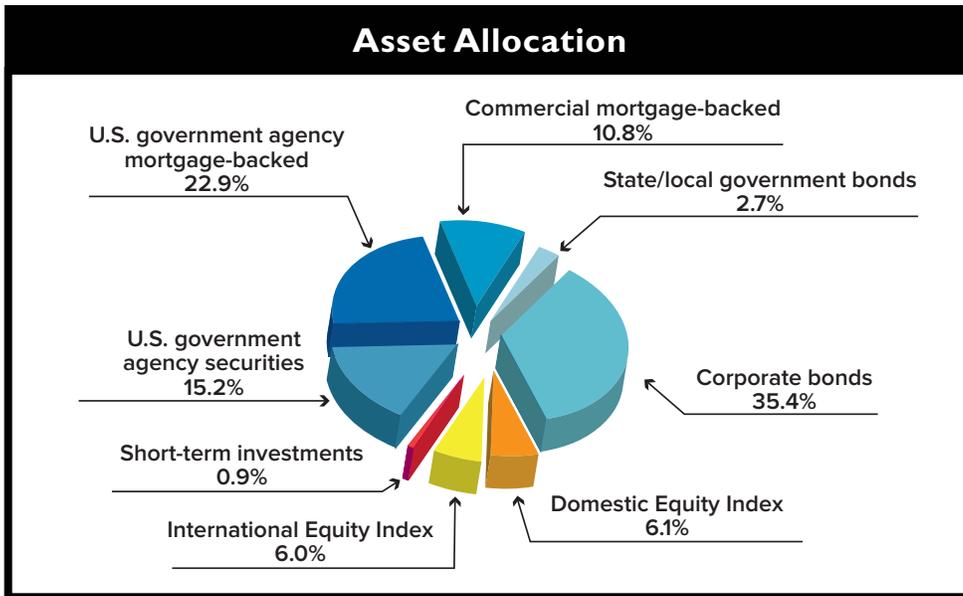
Summary Comparative Statements of Changes in Plan Net Assets For the years ended December 31, 2008 and 2007		
	2008	2007
ADDITIONS		
Contributions	\$ 865,190,222	\$ 788,929,012
Net investment income/(loss)	(261,043,208)	1,079,627,010
TOTAL ADDITIONS	604,147,014	1,868,556,022
DEDUCTIONS		
Benefit payments	648,030,389	596,172,435
Refunds of contributions	49,086,819	52,621,943
Allocation to Supplemental Death Benefits Fund	1,229,567	1,168,506
Administrative expenses and other	11,699,849	11,571,603
TOTAL DEDUCTIONS	710,046,624	661,534,487
CHANGE IN NET ASSETS	(105,899,610)	1,207,021,535
NET ASSETS		
BEGINNING OF YEAR	14,715,861,381	13,508,839,846
END OF YEAR	\$ 14,609,961,771	\$ 14,715,861,381



Reporting Standards • This Summary Annual Financial Report is derived from the *TMRS Comprehensive Annual Financial Report for the Year Ended December 31, 2008* (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 receive a copy of the CAFR, please contact TMRS or download the PDF version from www.TMRS.com.

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Five professionals on TMRS' staff oversee the system's investment portfolio and its management. For much of its history, TMRS has invested primarily in fixed-income securities (or bonds), including U.S. government, high-quality corporate, and U.S. government agency bonds. This investment strategy provided a predictable annual income stream; however, the income yield from bonds has dropped to the lowest level in many years. To improve future returns under a Total Market Return Strategy and to reduce the risks associated with potential rising interest rates, the Board acted to diversify a portion of TMRS' investment portfolio gradually into equities. As a result, the Board hired its first general investment consultant, R.V. Kuhns & Associates, to advise TMRS on its investment policy and to work with TMRS on diversification of the portfolio, beginning in 2008. In addition, during 2008, two external investment managers were retained: BlackRock Financial Management to manage the fixed-income portfolio, and Northern Trust Global Investments to manage the equity index funds.

lowest level in many years. To improve future returns under a Total Market Return Strategy and to reduce the risks associated with potential rising interest rates, the Board acted to diversify a portion of TMRS' investment portfolio gradually into equities. As a result, the Board hired its first general investment consultant, R.V. Kuhns & Associates, to advise TMRS on its investment policy and to work with TMRS on diversification of the portfolio, beginning in 2008. In addition, during 2008, two external investment managers were retained: BlackRock Financial Management to manage the fixed-income portfolio, and Northern Trust Global Investments to manage the equity index funds.



The TMRS income rate of return, which is a measure of realized income generated from our assets, remains relatively consistent and was 6.4% over the past 10 years. Due to legislation passed in 2009 (discussed on page 4), comparisons of total rates of return, which include unrealized appreciation/(depreciation) in the fair value of investments, is also presented. TMRS' performance is compared in these charts to other pension plans in the State Street Universe (SSU), a proprietary comparative universe service developed by State Street Corporation, and a peer group of 79 public fund plan sponsors with assets greater than \$1 billion (PF > \$1 B). Additional comparisons are made to relevant nationally recognized bond indices: the Barclays Capital Government/Credit Long Term Index (BC G/C Long) and the Barclays Capital US Aggregate Bond Index (BC US Agg).

Even though our investment earnings for 2008 were down, TMRS did not suffer from the deep losses that affected some retirement systems. Our total investment return for all asset categories was -1.3%. TMRS is well-funded, and the changes in investment policy and actuarial method will make the System even stronger.

Despite the fact that long-term bonds served us well in past years, the smaller returns on these investments will not support the expansion of TMRS retirements that we will experience in the future. The goal of diversification is to improve future returns over the long term, which will help cities fund their TMRS benefits and ensure that members and retirees enjoy a secure retirement program.

The 81st Texas Legislature approved legislation that will:

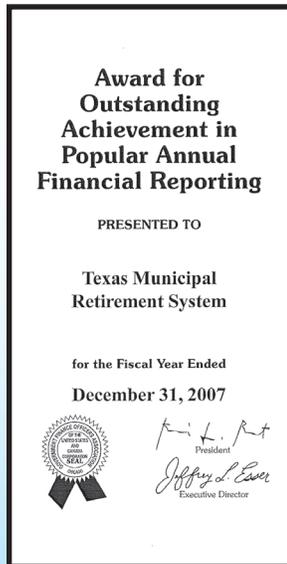
1. Guarantee an annual interest credit of at least 5% to member accounts and set the discount rate used in the annuity purchase rate for retirees at a minimum of 5%
2. Allow the crediting of unrealized income or losses to municipality accounts
3. Allow municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest

This legislation has been described as the most important in the history of TMRS. Its passage enables further diversification of the fund to provide higher returns in the future, which will mitigate rising city costs.

The actuarial changes at TMRS provide advance funding of all TMRS benefits and ensure that each city's plan remains soundly funded.

TMRS benefits remain an important part of the compensation package for Texas municipal employees. The new direction that we have taken in the past year, and the changes to the TMRS Act that occurred with the 2009 legislation, enable us to build on our strong foundation so that future city retirees are protected.

■ ■ ■ ■ ■ ■ ■ ■ **Awards**



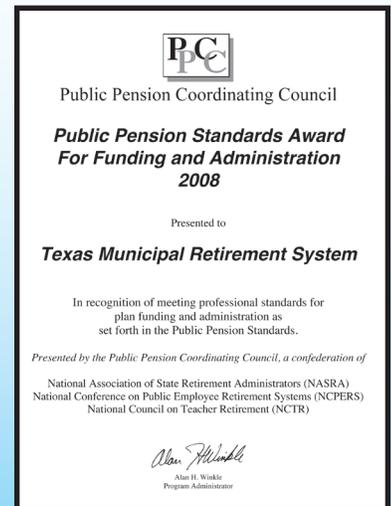
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2007.

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 2008 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.

Contact Us

800.924.8677
 phonecenter@TMRS.com
 www.TMRS.com

