

TMRS 2009 Summary Annual Financial Report

For the Year Ended December 31, 2009

The Texas Municipal Retirement System (TMRS) prepares this report annually. Its purpose is to provide you with an overview of how the System has performed financially in the past year. This report describes the accomplishments TMRS made this year in its ongoing operations to serve members, cities, and retirees.

The Year at TMRS

Noteworthy Accomplishments of 2009

- David Gavia, former Legal Counsel at TMRS, served as Acting Executive Director after Eric Henry's departure in August 2009. On March 12, 2010, the Board selected Mr. Gavia as Executive Director of the Retirement System.
- Working with the System's Advisory Committee, the TMRS Board made recommendations to the State Legislature that were enacted into law (see page 4).
- The System continued to diversify its fixed income portfolio into equity index funds. By 2009 year end, 23.5% of the fund was invested in passively managed equity index funds: 11.8% in the domestic Russell 3000 and 11.7% in the international MSCI-EAFE; 76.5% of the fund remained invested in fixed income securities and short-term investments.
- Most markets produced positive performance in 2009, with equities, in general, outperforming fixed income. TMRS benefited from the new equity allocation, which contributed to an overall 12-month rate of return on the \$16 billion investment portfolio of 10.2% (return on equities was 28.4% domestic and 32.1% international, while 6.7% was earned from the fixed income portfolio).
- As of December 31, 2009, TMRS as a whole was 75.8% funded. This funded ratio increased from 74.4% in 2008 and from 73.7% in 2007. For member cities, the actuarial changes made in previous years provide advance funding of all TMRS benefits and ensure that each city's plan remains soundly funded.
- Four new cities joined the System in 2009. TMRS staff answered over 93,600 member requests for assistance and processed 2,384 new retirements in 2009.
- At year-end 2009, TMRS administered plans for 837 member cities that include:
 - 141,983 employee accounts
 - 36,098 retired members

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.

Carolyn Linér, 2009 Chair

Director of Human Resources /
Civil Service, San Marcos

Ben Gorzell, 2009 Vice Chair

Chief Financial Officer, San Antonio

Patricia Hernandez

Municipal Court Judge, Plainview

April Nixon

Chief Financial Officer, Arlington

Roel "Roy" Rodriguez, PE

Assistant City Manager /
MPU General Manager, McAllen

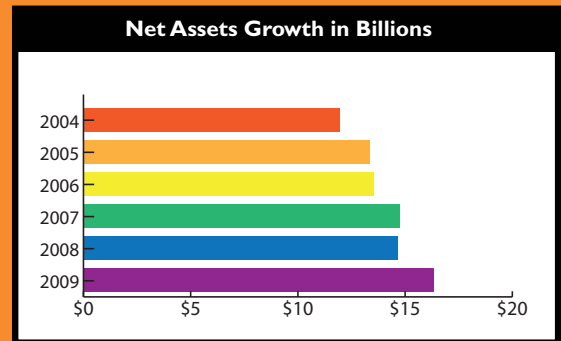
H. Frank Simpson

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 2009 and 2008. 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 2009, the value of TMRS' investment portfolio substantially recovered from the negative market conditions of 2008. 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, 2009 and 2008, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$9.8 million and \$44.5 million is reported for 2009 and 2008, respectively. The increase in both receivables and payables is primarily due to an increase in trade activity in 2009 resulting in trade receivables/payables balances at December 31, 2009.

Summary Comparative Statements of Plan Net Assets		
As of December 31, 2009 and 2008		
	2009	2008
ASSETS		
Investments, at fair value	\$ 15,961,843,739	\$ 14,472,176,591
Receivables	719,901,342	205,089,909
Invested securities lending collateral	3,357,731,657	535,782,291
Other assets	<u>10,261,982</u>	<u>10,625,720</u>
TOTAL ASSETS	20,049,738,720	15,223,674,511
LIABILITIES		
Payables and accrued liabilities	305,547,677	8,041,430
Funds held for Supplemental Death Benefits Fund	26,446,295	25,381,951
Securities lending collateral	<u>3,412,069,105</u>	<u>580,289,359</u>
TOTAL LIABILITIES	3,744,063,077	613,712,740
NET ASSETS	\$ 16,305,675,643	\$ 14,609,961,771

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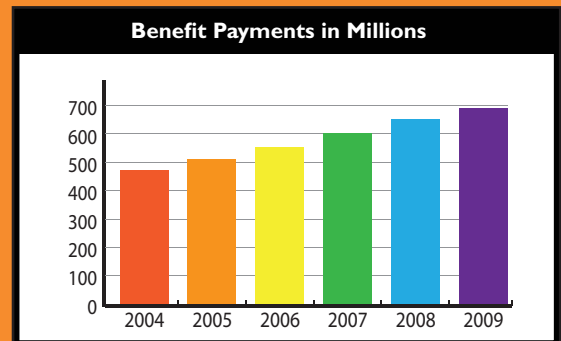


The second summary statement (below) reports activity for the year (changes in net assets). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income/(loss), which is presented net of investment expenses (i.e., after investment expenses have 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 increase in net investment income is due to higher 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 \$1.1 billion increase adjustment compared with a \$1.0 billion decrease adjustment in 2008.

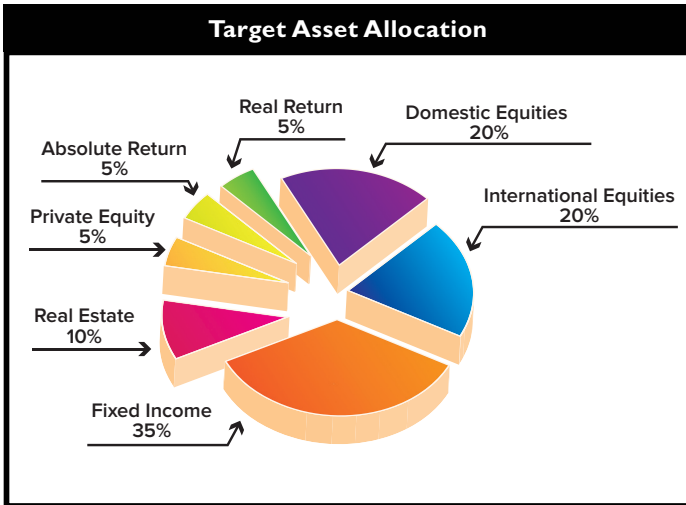
Summary Comparative Statements of Changes in Plan Net Assets		
For the years ended December 31, 2009 and 2008		
	2009	2008
ADDITIONS		
Contributions	\$ 955,223,051	\$ 865,190,222
Net investment income/(loss)	<u>1,483,308,952</u>	<u>(261,043,208)</u>
TOTAL ADDITIONS	2,438,532,003	604,147,014
DEDUCTIONS		
Benefit payments	685,691,673	648,030,389
Refunds of contributions	45,307,488	49,086,819
Allocation to Supplemental Death Benefits Fund	1,304,784	1,229,567
Administrative expenses and other	<u>10,514,186</u>	<u>11,699,849</u>
TOTAL DEDUCTIONS	742,818,131	710,046,624
CHANGE IN NET ASSETS	1,695,713,872	(105,899,610)
NET ASSETS		
BEGINNING OF YEAR	<u>14,609,961,771</u>	<u>14,715,861,381</u>
END OF YEAR	\$ 16,305,675,643	\$ 14,609,961,771

Excluding these required mark-to-market adjustments, net realized investment income for 2009 and 2008 was \$337.7 million and \$746.8 million, respectively. The decrease from 2008 is due to the continued diversification of the portfolio into equities and out of interest-bearing fixed income securities. In 2009, TMRS credited 5% interest to employee accounts and 7.5% to municipality accounts. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses.

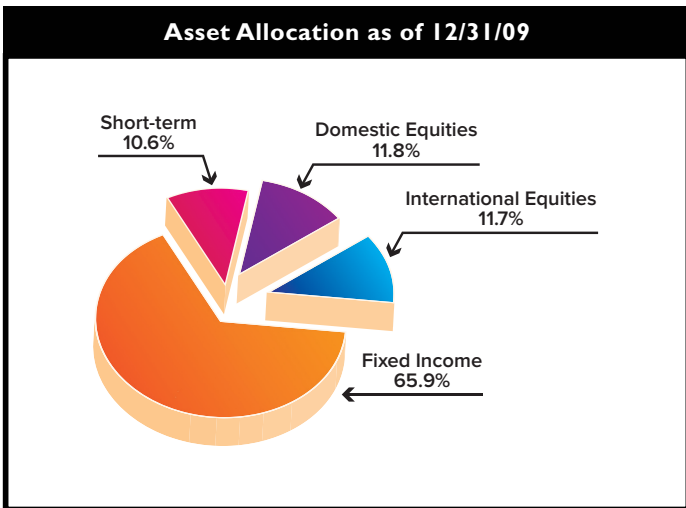


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Six professionals on TMRS' staff oversee the System's investment portfolio and its management. With the passage of HB 360 in 2009, the Board adopted a new Investment Policy Statement and established the following target asset allocations, with implementation to occur over a multi-year period:

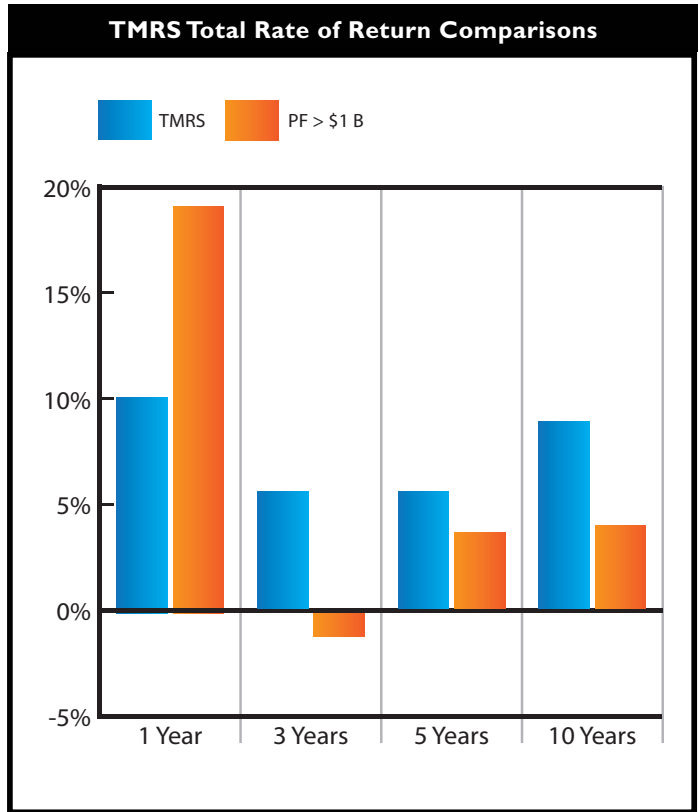


Initiatives during 2009 toward this target allocation included resuming monthly commitments to domestic and international equity index funds. By 2009 year end, the portfolio allocation to equities was 23.5%.



Also during 2009, the Board hired another external manager, Pacific Investment Management Company (PIMCO), to facilitate diversification of the fixed income portfolio by managing a core-plus fixed income portfolio.

The total return on TMRS' investment portfolio was 10.2% for 2009. In the following table, TMRS' performance is compared to a peer group of 81 public funds with total assets of greater than \$1 billion (PF > \$1 B).



Reporting Standards • This Summary Annual Financial Report is derived from the TMRS *Comprehensive Annual Financial Report* for the Year Ended December 31, 2009 (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.

HB 360 Amends TMRS Act

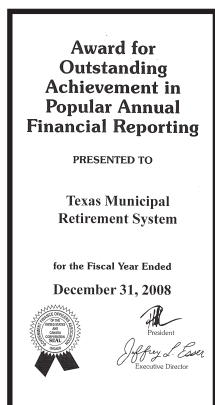
Passage of House Bill 360 by Representative Edmund Kuempel (Senate sponsor Tommy Williams) in the 81st Session of the Texas Legislature amended state law to change the way TMRS credits investment earnings to member and city accounts. HB 360, “relating to the crediting and charging of investment gains and losses on the assets held in trust by the Texas Municipal Retirement System and providing a guaranteed minimum credit to employee accounts,” passed both the Texas House and Senate unanimously and was signed into law by Governor Rick Perry on May 26, 2009, effective immediately upon signing. HB 360:

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

The changes the System made in the past three years, coupled with the passage of HB 360, will help ensure the ongoing soundness of the retirement program, the security of members’ benefits, and the continued availability of affordable benefit packages for Texas cities.

The TMRS Board worked closely with its expanded Advisory Committee to craft the recommendations for legislation. The System wishes to extend gratitude to the Advisory Committee, legislators, and legislative staff members who helped in the passage of the bill.

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, 2008.

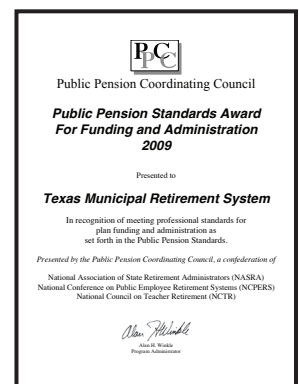
The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

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 2009 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.

The System was designated “Plan Sponsor of the Year” by *PLANSPONSOR* magazine for the Public Sector / Defined Benefit category for 2009. The feature story about TMRS appeared in the March 2010 issue of *PLANSPONSOR* and is reprinted in the 2009 CAFR.



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

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