

TMRS 2017 Summary Annual Financial Report

For the Year Ended December 31, 2017



The Texas Municipal Retirement System (TMRS, or, the System) prepares this report annually to provide you with an overview of how the System has performed financially in the past year. This report also describes the accomplishments TMRS made in 2017 to serve members, cities, and retirees.

TMRS in 2017

- By law, member accounts were credited 5% as of December 31, 2017. The overall one-year gross rate of return on the TMRS investment portfolio was 14.27%, enabling the Board to credit member municipalities with approximately 13.05% interest on their January 1, 2017 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 7.11%.
- TMRS continued to expand the capabilities of **TMRSDirect**[®], its “straight-through processing” initiative for member and city self-service, which includes the MyTMRS[®] and the City Portal programs. As of December 31, 2017, approximately 99,000 TMRS members and retirees have registered for MyTMRS[®] accounts, and 730 cities are using the City Portal for plan administration.
- As of December 31, 2017, TMRS as a whole was 87.4% funded, which represents an increase to the funded ratio from December 31, 2016.
- TMRS engaged KPMG LLP to complete TMRS’ third annual SOC-1 Type 2 audit in 2017, and a fourth is underway with an estimated completion date of June 2018. The SOC audit supports city financial reporting under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the primary objective of which is to improve accounting and financial reporting for pensions by state and local governments.
- TMRS staff answered more than 78,000 member requests for assistance and processed 3,550 new retirements in 2017.
- Eleven new cities joined the System in 2017. At year-end 2017, TMRS administered plans for 883 member cities that included:
 - 110,208 active plan member accounts
 - 57,369 inactive plan member accounts
 - 62,776 retired member accounts

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TMRS Board of Trustees (as of December 31, 2017)

The Governor appoints the six members of TMRS’ Board of Trustees with the advice and consent of the Senate. Board members serve six-year terms and have 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.

Jim Parrish, 2017 Chair

Deputy City Manager – Administrative Services, Plano

David Landis

City Manager, Perryton

Bill Philibert, 2017 Vice Chair

Director of Human Resources and Risk Management, Deer Park

Julie Oakley, CPA

Assistant City Manager, Lakeway

Jim Jeffers

City Manager, Nacogdoches

Roel “Roy” Rodriguez, PE

City Manager, McAllen

On February 8, 2018, Governor Greg Abbott appointed Jesús A. Garza, City Manager of Kingsville, to the Board of Trustees, replacing Trustee Roy Rodriguez. Mr. Rodriguez was appointed to the TMRS Board of Trustees in 2005 and served as Board Chair in 2008 and 2013. TMRS thanks Mr. Rodriguez for his years of dedicated service.

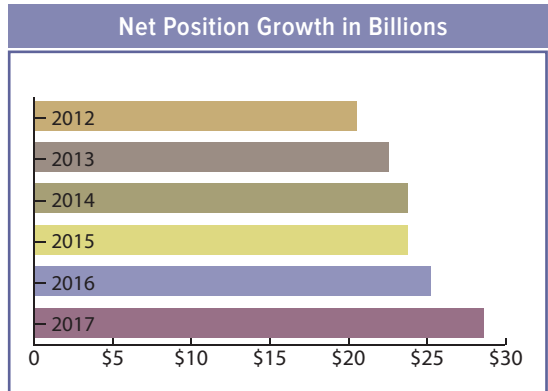
Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2017, 2016, and 2015. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair value, make up the largest portion of the net position restricted for pensions, and reflect an increase due primarily to net appreciation in value from year end 2015 to 2017, and investment cash flows over the three-year period ended December 31, 2017. As a result of prior participation in a securities lending program, TMRS was required to report both the asset

and the related liability of the collateral received for securities on loan at year end. During 2016, TMRS terminated its securities lending program with its third-party securities lending agent.

| Summary Comparative Statements of Fiduciary Net Position As of December 31, 2017, 2016, and 2015 | | | |
|---|--------------------------|--------------------------|--------------------------|
| | 2017 | 2016 | 2015 |
| ASSETS | | | |
| Investments, at fair value | \$ 28,921,028,586 | \$ 25,830,231,450 | \$ 24,289,053,366 |
| Cash, receivables, and other | 1,054,363,313 | 1,330,996,531 | 1,465,821,221 |
| Invested securities lending collateral | - | - | 864,114,464 |
| Capital assets, net | 9,732,194 | 9,766,674 | 9,909,170 |
| TOTAL ASSETS | 29,985,124,093 | 27,170,964,655 | 26,628,898,221 |
| LIABILITIES | | | |
| Payables and accrued liabilities | 1,317,499,340 | 1,917,805,578 | 2,033,395,221 |
| Funds held for Supplemental Death Benefits Fund | 18,250,136 | 19,953,304 | 20,490,711 |
| Securities lending collateral | - | - | 866,849,709 |
| TOTAL LIABILITIES | 1,335,749,476 | 1,937,758,882 | 2,920,735,641 |
| NET POSITION RESTRICTED FOR PENSIONS | \$ 28,649,374,617 | \$ 25,233,205,773 | \$ 23,708,162,580 |

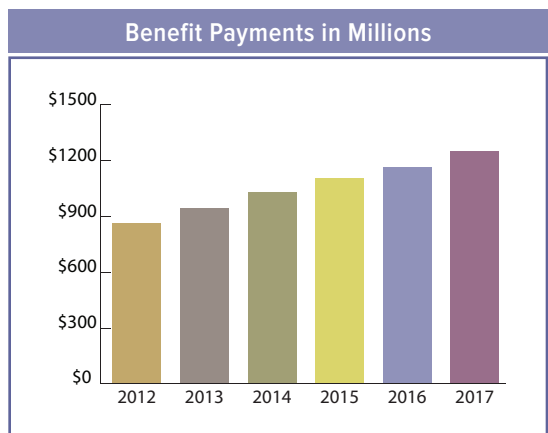


The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is composed of interest, realized gains from the sale of securities, securities lending income (in 2015), and net unrealized appreciation (depreciation) in the fair value of investment securities (or mark-to-market changes).

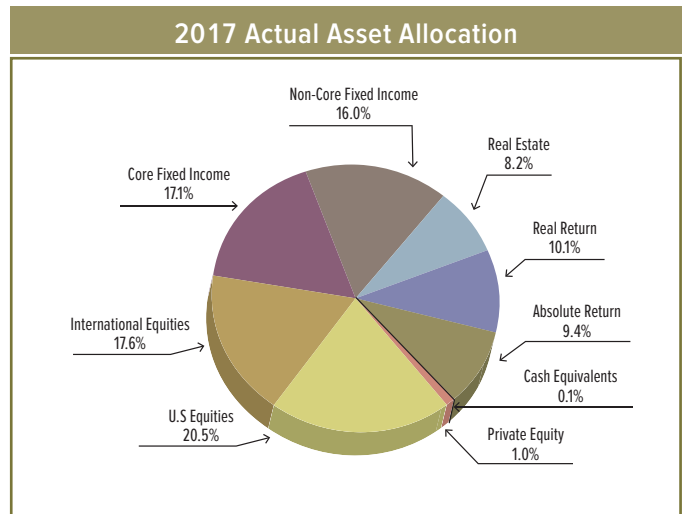
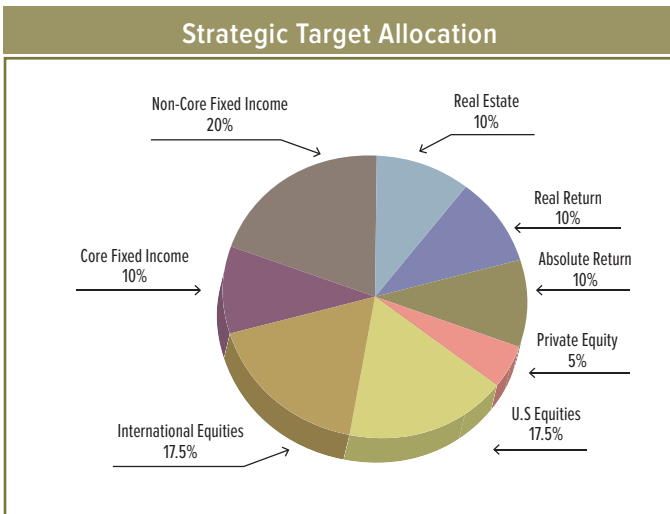
Net investment income in 2017, 2016, and 2015 was most significantly affected by the unrealized gains recognized in the domestic and international equities asset classes. The total gross return on TMRS' investment portfolio was 14.27%, 7.42%, and 0.34% in 2017, 2016, and 2015, respectively. Investment earnings in 2017 enabled the Board to credit approximately 13.05% to municipality accounts

while maintaining a reserve of \$280 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments reflects a steady rise in the number of retirement accounts (from 56,481 in 2015 to 62,776 in 2017).

| Summary Comparative Statements of Changes in Fiduciary Net Position For the Years Ended December 31, 2017, 2016, and 2015 | | | |
|--|--------------------------|--------------------------|--------------------------|
| | 2017 | 2016 | 2015 |
| ADDITIONS | | | |
| Contributions and other | \$ 1,248,937,991 | \$ 1,158,197,685 | \$ 1,127,816,123 |
| Net investment income | 3,497,133,077 | 1,602,187,418 | 35,011,429 |
| TOTAL ADDITIONS | 4,746,071,068 | 2,760,385,103 | 1,162,827,552 |
| DEDUCTIONS | | | |
| Benefit payments | 1,251,406,534 | 1,162,064,108 | 1,102,785,029 |
| Refunds of contributions | 59,405,912 | 54,181,595 | 56,975,269 |
| Allocation to Supplemental Death Benefits Fund | 965,614 | 1,000,892 | 1,057,178 |
| Administrative expenses | 18,124,164 | 18,095,315 | 21,325,422 |
| TOTAL DEDUCTIONS | 1,329,902,224 | 1,235,341,910 | 1,182,142,898 |
| CHANGE IN NET POSITION | 3,416,168,844 | 1,525,043,193 | (19,315,346) |
| NET POSITION | | | |
| BEGINNING OF YEAR | 25,233,205,773 | 23,708,162,580 | 23,727,477,926 |
| END OF YEAR | \$ 28,649,374,617 | \$ 25,233,205,773 | \$ 23,708,162,580 |

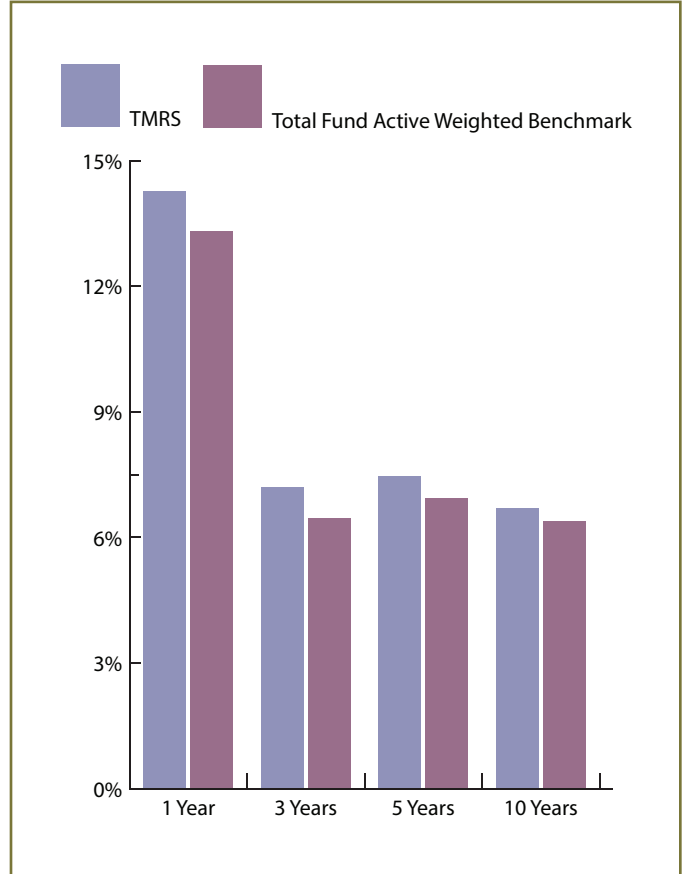


The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Twenty professionals on TMRS' staff oversee the System's investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS and, as presented below, establishes target asset allocations with implementation over a multi-year period. Initiatives during 2017 toward this strategic target allocation included continued investment into the non-core fixed income, real return, and private equity asset classes.



The total gross return on TMRS' investment portfolio was 14.27% in 2017. The table at right compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.

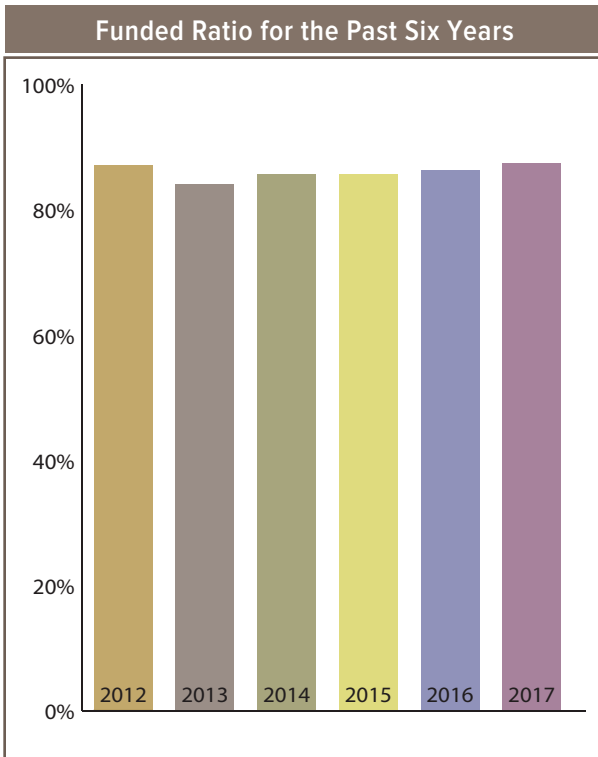
TMRS Total Rate of Return Comparisons



Reporting Standards

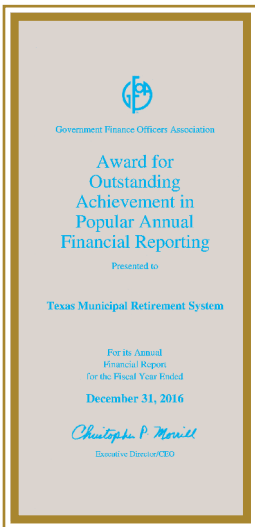
This Summary Annual Financial Report is derived from the *TMRS 2017 Comprehensive Annual Financial Report for the Years Ended December 31, 2017 and 2016* (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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 download a PDF file of the CAFR, go to [www.tMrs.com / Cities / Actuarial & Accounting / Financial Reports](http://www.tMrs.com/Cities/Actuarial&Accounting/FinancialReports).

TMRS' Funded Status



- The most important factor that affects the soundness of a retirement program is the employer funding policy. Under TMRS law, all cities pay the actuarially determined employer contribution needed to fully fund benefits. The complete TMRS funding policy can be found on the TMRS website.
- One common measure of the soundness of a retirement plan is the plan's funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive. As certified by the System's actuary, Gabriel Roeder Smith & Company, as of December 31, 2017, TMRS as a whole was 87.4% funded, an increase from 86.3% as of December 31, 2016.
- A key assumption that affects the long-term stability of a retirement plan is the future long-term annual rate of investment earnings. TMRS uses a 6.75% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques." A complete description of the asset smoothing method can be found in the TMRS funding policy. The System's smoothing policy and deferred gains resulted in an actuarial return of 7.11% for the year ended December 31, 2017.

Awards



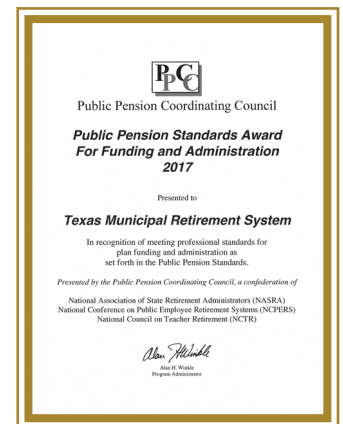
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2016.

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 2017 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.



Mission Statement • Providing secure, reliable, retirement benefits
Vision Statement • To be the model for empowering retirement
Core Values • Accountability, Excellence, Integrity, Respect, Teamwork