

TMRS® 2019 Summary Annual Financial Report

For the Year Ended December 31, 2019



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 2019 to serve members, cities, and retirees.

TMRS in 2019

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- By law, member accounts were credited 5% as of December 31, 2019. The overall one-year gross rate of return on the TMRS investment portfolio was 14.96%, and the Board of Trustees allocated approximately 15.42% to member municipalities based on their January 1, 2019 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 6.94%.
- As of December 31, 2019, TMRS as a whole was 88.0% funded, which represents an increase to the funded ratio from 87.1% at December 31, 2018.
- TMRS continued to evolve its straight-through processing, self-service options for members and cities, which includes use of MyTMRS® and the City Portal. Most retirement estimates are now created by members utilizing these self-service options. In addition, the Board approved the timeline and funding for the Pension Administration System Modernization Program (PASMod), which will upgrade online processing over the next few years.
- An actuarial experience study was completed and approved by the Board of Trustees for the four-year period ending December 31, 2018. As a result, a new set of actuarial assumptions was adopted as well as a new funding policy that reduced the maximum amortization period

from 25 years to 20 years for all new losses occurring after January 1, 2020 and benefit increases effective on or after January 1, 2021.

- SB 1337, authored by Senator Joan Huffman and sponsored by Representative Dan Flynn, passed on May 21, 2019. The legislation included nine administrative and operational changes to the TMRS Act, as recommended by the TMRS Board of Trustees. The statutory changes do not significantly affect benefits but will improve the administration and operations of TMRS.
- TMRS staff answered more than 95,000 member requests for assistance and processed 3,866 new retirements in 2019.
- At year-end 2019, TMRS administered plans for 888 member cities that included:

	2019	2018	2017
Active Members	114,384	111,851	110,208
Inactive Members	65,560	62,465	57,369
Retired Members	69,625	66,051	62,776

TMRS Board of Trustees (as of December 31, 2019)

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.

In January 2020, Governor Greg Abbott appointed Anali Alanis, Assistant City Manager of Pharr, Texas, to the Board of Trustees for a term ending February 1, 2021. She replaced Jim Jeffers, who retired from his position as City Manager of Nacogdoches. Governor Abbott also appointed Juan Diego "Johnny" Huizar, City Manager of Pleasanton, Texas, to the Board for a term ending February 1, 2023. Mr. Huizar replaced Jim Parrish, who retired as Deputy City Manager of Plano in 2019. TMRS extends deepest gratitude to Mr. Jeffers and Mr. Parrish for their service on the Board.

This Summary Annual Financial Report is dedicated to Executive Director David Gavia, who has announced his pending retirement in 2020. The Board of Trustees extends its deepest gratitude to Mr. Gavia for his dedication and leadership during his tenure from 2010 to 2020 and wishes him a happy, rewarding future.

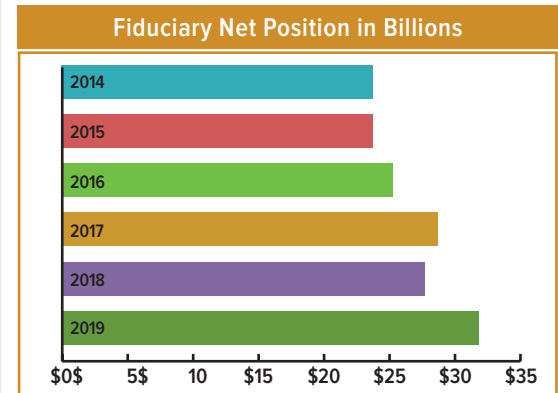
- Bill Philibert, 2019 Chair**
Director of Human Resources and Risk Management, Deer Park
- David Landis, 2019 Vice Chair**
City Manager, Perryton
- Jesús A. Garza**
City Manager, Victoria
- Jim Jeffers**
City Manager, Nacogdoches (retired)
- Julie Oakley, CPA**
City Manager, Lakeway
- Jim Parrish**
Deputy City Manager, Plano (retired)

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 2019, 2018, and 2017. 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. The increase in investments from 2018 to 2019 is due to the market gains experienced in 2019, resulting in a 14.96% gross return for the year (gross return in 2018 was -2.11%).

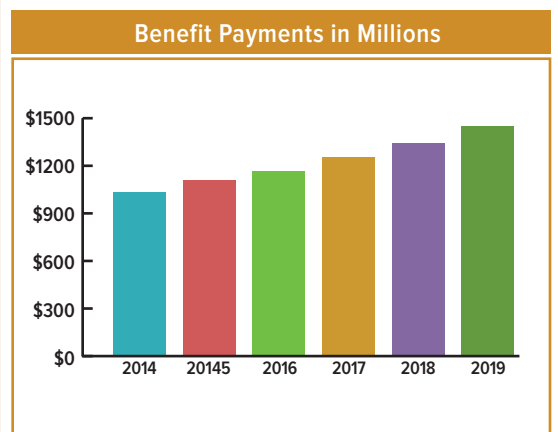
Summary Comparative Statements of Fiduciary Net Position			
As of December 31, 2019, 2018, and 2017			
	2019	2018	2017
ASSETS			
Investments, at fair value	\$ 31,871,201,335	\$ 27,973,620,811	\$ 28,921,028,586
Cash, receivables, and other	479,566,470	778,641,233	1,054,363,313
Capital assets, net	8,482,497	9,141,099	9,732,194
TOTAL ASSETS	32,359,250,302	28,761,403,143	29,985,124,093
LIABILITIES			
Payables and accrued liabilities	532,077,282	1,061,134,027	1,317,499,340
Funds held for Supplemental Death Benefits Fund	13,361,745	16,639,677	18,250,136
TOTAL LIABILITIES	545,439,027	1,077,773,704	1,335,749,476
NET POSITION RESTRICTED FOR PENSIONS	\$ 31,813,811,275	\$ 27,683,629,439	\$ 28,649,374,617



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, and net unrealized appreciation (depreciation) in the fair value of investment securities (or mark-to-market changes).

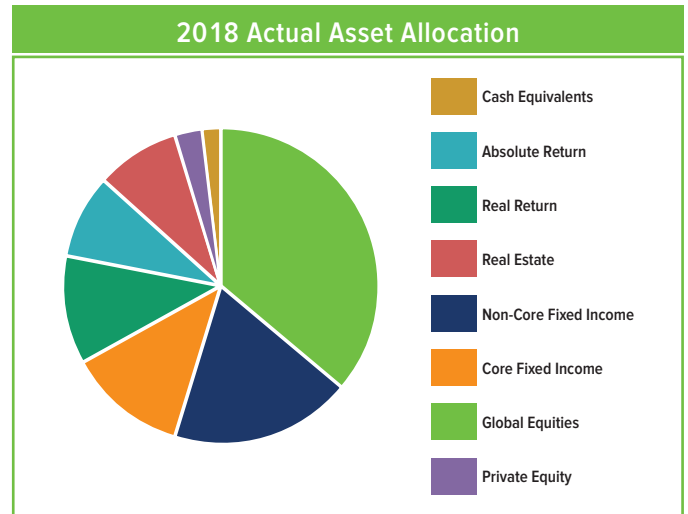
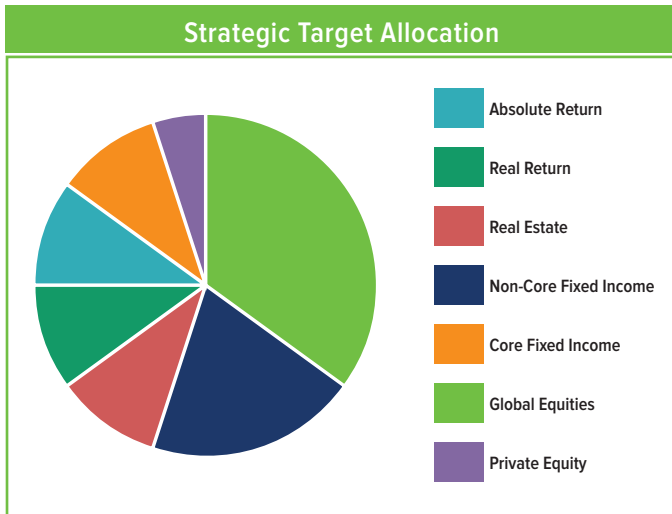
Net investment income over these three years was most significantly affected by the unrealized gains recognized in the global equities asset class. The total gross return on TMRS' investment portfolio was 14.96%, -2.11%, and 14.27% in 2019, 2018, and 2017, respectively. The Board allocated approximately 15.42% 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 62,776 in 2017 to 66,051 in 2018, and to 69,625 in 2019).

Summary Comparative Statements of Changes in Fiduciary Net Position			
For the Years Ended December 31, 2019, 2018, and 2017			
	2019	2018	2017
ADDITIONS			
Contributions and other	\$ 1,383,877,209	\$ 1,309,358,274	\$ 1,248,937,991
Net investment income/(loss)	4,279,485,297	(858,122,961)	3,497,133,077
TOTAL ADDITIONS	5,663,362,506	451,235,313	4,746,071,068
DEDUCTIONS			
Benefit payments	1,445,552,376	1,335,253,721	1,251,406,534
Refunds of contributions	62,685,490	64,255,860	59,405,912
Allocation to Supplemental Death Benefits Fund	759,316	885,044	965,614
Administrative expenses	24,183,038	16,585,866	18,124,164
TOTAL DEDUCTIONS	1,533,180,670	1,416,980,491	1,329,902,224
CHANGE IN NET POSITION	4,130,181,836	(965,745,178)	3,416,168,844
NET POSITION			
BEGINNING OF YEAR	27,638,629,439	28,649,374,617	25,233,205,773
END OF YEAR	\$ 31,813,811,275	\$ 27,683,629,439	\$ 28,649,374,617

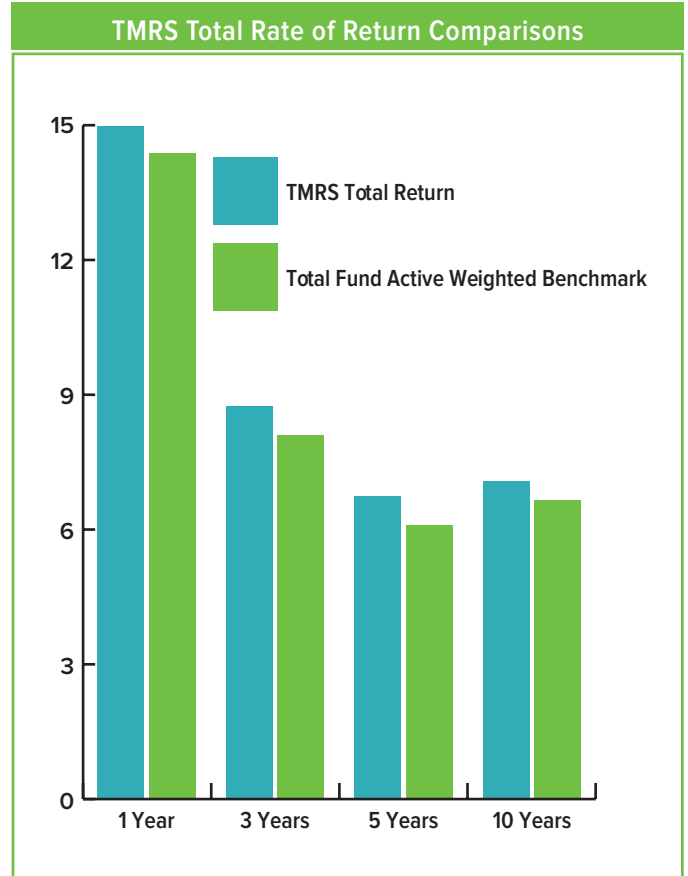


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Twenty-four 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. At the end of 2019, all asset classes were within their target ranges. The IPS is available on the TMRS website.



The total gross return on TMRS' investment portfolio was 14.96% in 2019. The table to the right compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.

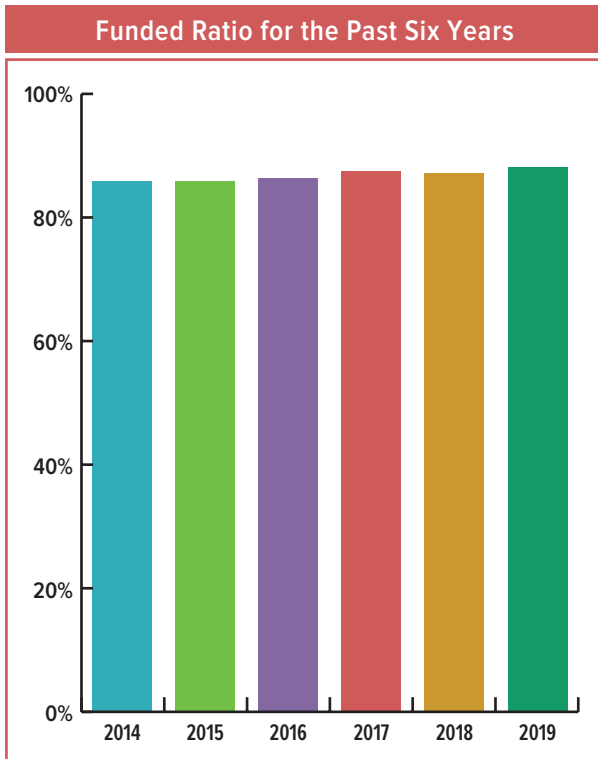


The Total Fund Active Weighted Benchmark is weighted by the average balance of all funds and comprises asset class composite benchmarks associated with each fund.

Reporting Standards

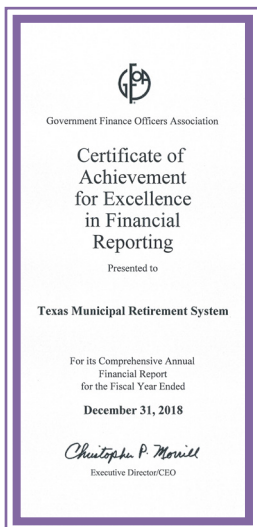
This Summary Annual Financial Report is derived from the *TMRS Comprehensive Annual Financial Report for the Year Ended December 31, 2019* (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared in 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.tmr.com / City Publications / Financial Publications](http://www.tmr.com/CityPublications/FinancialPublications).

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, GRS Retirement Consulting, as of December 31, 2019, TMRS as a whole was 88.0% funded, an increase from 87.1% as of December 31, 2018.
- 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 partial recognition of excess investment return resulted in an actuarial return of 6.94% for the year ended December 31, 2019.

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, 2018.

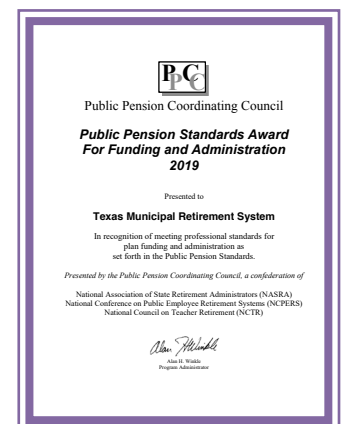
The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

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 2019 Public Pension Standards Award for Funding and Administration 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