Introductory

Public Plan Sponsor of the Year:
Texas Municipal Retirement System

By Judy Ward, *editors@plansponsor.com*
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Measured against most public funds' investment returns, the Texas Municipal Retirement System (TMRS) had a great year in tumultuous 2008. The fund lost only 1.3%, recalls David Gavia, Acting Executive Director at the Austin-based fund. "Compared to our peers," he says, "it was a phenomenal result." Many public funds dropped in the 20% to 30% range that year.

What was its secret? TMRS had long used an all-fixed-income strategy, which paid off in 2008, but fund officials knew the approach had to change for the fund to succeed in the long run. "We were the top-performing public fund in the country in 2008. We got lucky in 2008, is what happened," says Eric Henry, the TMRS Executive Director at the time, who left in August 2009. "For the long run, we still needed to diversify." While a valid investing approach, a long-duration fixed-income strategy is also an expensive strategy, he says. "With 5% expected returns, we were looking at employer contribution rates more than doubling immediately. It just was not sustainable."

So, despite results at the time that made the investing strategy look enlightened, at least in the short run, in May 2009, TMRS officials convinced the state legislature to pass HB 360. The legislation allowed it to diversify investments, because it changed the rules for crediting and charging the fund's investment gains and losses. That allowed the plan—which, at year-end 2009, had $15.9 billion in assets, with 139,488* contributing member accounts and 34,123* retired members—to move into equity at an ideal time. "We emerged in 2009 buying at bargain-basement prices," Gavia says.

In 2007, the TMRS board also had changed its actuarial method for recording the cost of benefits. "They are making a more-complete recognition of the true cost of the benefits, and allocating the cost of those benefits more evenly among taxpayers who are receiving the services," says Keith Brainard, Austin-based Research Director at the National Association of State Retirement Administrators (NASRA). "The board and the leadership recognized that the circumstances had changed, and they embraced the changes that needed to be made accordingly."

The investment strategy made sense when TMRS launched in 1948 as a pioneering public cash balance plan. "A bond portfolio fit nicely with that plan design," Brainard says. "The accrual of benefits was steady and predictable, so they could purchase a fixed-income security to match the accrual of benefits."

The plan design began to resemble a final-average-pay setup more starting in the 1970s, when the plan gave its employer-members the option to switch from determining an employee's benefits based on his or her career long average salary to an "updated service credit"

*Numbers as of December 31, 2008, not 2009.

that bases the calculation on the highest-three salary years. Over the next 20 years, many cities added this plan feature.

Still, the all-fixed-income allocation "worked for a long time," says Henry, now Ann Arbor, Michigan-based Chief Investment Officer at the UAW Retiree Medical Benefits Trust. "Long-term interest rates declined steadily from the early '80s. For a 20-year period, the wind was at their back." Returns typically ran in the high single digits, he says, and the fund had a 7% assumed rate of return. Adds Gavia, "We were able to credit double-digit returns to our members for many years."

Employer-members withhold 5%, 6%, or 7% of an employee's pay, then submit it to TMRS to manage. All employers do a match at a rate they choose, either 1:1, 1.5:1, or 2:1. Most of Texas' larger cities choose to match at 2:1.

Then, in 2006, the TMRS board hired consultant Ennis, Knupp & Associates, Inc., to do an investment review. The resulting message: "Because rates for fixed income were coming back to where they would normally be, that investment strategy would no longer deliver exceptional returns," Gavia says.

"Everyone had convinced themselves that a fixed-income strategy was risk-free," Henry says, and TMRS had "bet the farm" on long-term rates staying low. "The total duration on the fixed-income portfolio was 15 years, so, for every one percentage point move up in long-term rates, that portfolio would have lost 15% of its value."

Legislation had passed several years earlier that allowed the fund to invest in all types of securities, Gavia says, but to see the benefits of diversifying further, the TMRS law had to change more. The fund required the ability to shift from just recognizing realized gains (income return) in calculating the annual credit to employers and participants, to also recognizing unrealized gains on securities still held—known as a total return strategy.

TMRS needed to convince state legislators to permit the change at a volatile time, when it looked as if the prevailing investment approach worked very well. That meant stressing the long-term argument.

Among its benefits, going toward a diversified portfolio "allowed us a higher annual rate of return, which would translate into a little rate relief for cities," says Eddie Solis, TMRS Government Relations Director. In tough economic times, that had clear appeal. "If we stayed with fixed income, we would have to go to a 5% rate of return. If we began diversifying and maintained a steady migration, a 7% annual rate of return was very acceptable. The course we were taking was not going to fill our bucket the way it had been."

After the legislation passed, in July 2009, TMRS began using dollar-cost-averaging to shift fixed-income money into equities. "By dollar-cost-averaging, we get rid of the cyclicality risk," Henry says. To lessen interest-rate vulnerability, he adds, "We also shortened the duration on fixed income, from 15 years to just over four years."

The system had 76.7% of assets in fixed income as of December 31, 2009, with 23% in equities.

In late 2007, the TMRS board also decided to make an actuarial change from a unit credit to a projected unit credit. That means recognizing and pre-funding the future cost of the updated service credit as well as cost-of-living adjustments (COLAs) for those cities that had chosen to adopt those provisions on an annually repeating basis. "Under our old actuarial cost method, we would only recognize the updated service credit a year at a time. Future increases were not pre-funded," Gavia says.

The change increased employer contributions, which Henry acknowledges was "a controversial move" initially. "We wanted to work with stakeholders, so everybody could walk away with something," Solis says. "We placed a floor, but no ceiling, on the interest credit to members, and allowed for potential increased credited rates for cities. We went toward a 7.5% 'soft target' credited rate to the cities' accounts because, in the future, they were going to be on the hook for the down years."

Previously, the system had a "soft target" 5% floor on annual interest credits for employee participants, as well as 5% for the discount rate used in calculating the annuity-purchase rate. Those became hard-target guarantees for participants.

"If we are doing anything better, it is communication and outreach—to the board, to participants, and to employers," Gavia says. "In the past couple of years, we have done an about-face, and we are providing them with a lot of information. We like to think that we became much more transparent." ◆

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Presented to

Texas Municipal Retirement System

For its Comprehensive Annual
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for the Fiscal Year Ended
December 31, 2008

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GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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In recognition of meeting professional standards for
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National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

June 9, 2010

To: The Participants and Employers of the Texas Municipal Retirement System
and the Readers of the *Comprehensive Annual Financial Report*

We are pleased to present the *Comprehensive Annual Financial Report* (CAFR) of the Texas Municipal Retirement System (TMRS, or the System) for the year ended December 31, 2009. We hope you will find this report informative.

The CAFR is prepared by the TMRS staff under the direction of the Board of Trustees. Management of TMRS assumes full responsibility for both the accuracy of the data and the completeness and fairness of its presentation, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement. This report complies with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

The TMRS Act requires that independent auditors perform an annual audit on the financial statements contained in this report. The Board selected KPMG LLP to perform the audit for the 2009 fiscal year. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section. Management's Discussion and Analysis (MD&A) is found in the Financial Section immediately following the Independent Auditors' Report and provides an analysis of condensed financial information for the current and prior fiscal years. MD&A should be read in conjunction with this transmittal letter.

About TMRS

The 2009 fiscal year brought two major changes to TMRS — a change in the law that governs TMRS and a change in executive leadership.

Statutory Changes

The passage of House Bill 360 in the 81st Session of the Texas Legislature changed 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 bill supports TMRS' change in investment strategy to a "total return" approach; keeps city contribution rates from immediately rising further by supporting a higher investment return assumption through further diversification of the investment portfolio; establishes the basis for potential future gain sharing between cities and members after sufficient reserves have accumulated; and provides the basis for stabilization of municipality contribution rates.

To help craft the legislation, the Board relied on input during 2008 from the TMRS Legislative Stakeholder Group. In fall 2008, the TMRS Advisory Committee was expanded to include the organizations represented in the Legislative Stakeholder Group, ensuring their future role in advising the Board. The Advisory Committee provides valuable assistance to the Board in considering benefit changes and improvements to the System, and acts as a voice for member, retiree, and city issues. The Advisory Committee met with the Board twice in 2009. Its members are listed on page 16 of this section.

In 2009, the TMRS Board and Advisory Committee began consideration of a potential restructuring of TMRS funds, consolidating the Municipality Accumulation Fund (MAF), the Employees Saving Fund (ESF), and the Current Service Annuity Reserve Fund (CSARF). The issue will be studied throughout 2010 and, if approved by the Board, will require legislative action in 2011.

In past years, the Board of Trustees determined an annual interest credit rate for members and cities at its September meeting. Under HB 360, members received an annual interest credit of 5% on December 31, 2009. In February 2010, the TMRS Board approved a 7.5% interest credit to city accounts, the actuarially assumed rate. The remaining unallocated net investment income was credited to the TMRS interest reserve account. The TMRS Board has set a guideline for the reserve account of approximately 20% of total assets. The reserve will be used to help stabilize city contribution rates in future years if investment returns fall below the 7% investment return assumption.

Executive Director

The resignation of TMRS' Executive Director and Chief Investment Officer Eric Henry in August 2009 created an opening for a new Executive Director and Chief Investment Officer. During the time when the Board was performing a nationwide comprehensive search for an Executive Director for TMRS, two staff members filled these roles. TMRS General Counsel David Gavia served as Acting Executive Director, and TMRS Director of Public Investments Nancy Goerdel served as Acting Chief Investment Officer. On March 12, 2010, the Board selected David Gavia as Executive Director of the retirement system. As Executive Director, Mr. Gavia will implement the Board's policies and manage the future direction of TMRS.

Other Achievements

As a participant in TMRS, each member city decides the level of benefits to offer its employees. TMRS continued to ensure that cities had all the information needed to make decisions on their retirement benefits. Highlights of the System's communications included an Annual Training Seminar in Arlington, a Funding Seminar in Austin, increased use of e-mail bulletins to cities, rate projection mailings to cities, and increased functionality of the System's website. The System's Decision Support Actuary and Regional Managers provided an unprecedented level of support to cities in examining contribution rate issues. The Travel Team made 241 visits to cities and staffed nine Regional Pre-retirement Seminars, three Correspondent Training courses, and nine Regional Funding Workshops.

The TMRS staff and Board periodically examine the System's Strategic Plan, originally adopted in 2007, and all goals and objectives were either met or on target at year-end 2009. Regular sessions between the Board and a governance consultant focused on fiduciary duty. The Internal Audit Department continued to implement and update the Enterprise Risk Management framework and performed audit fieldwork to test the adequacy of controls in the benefits payments process; the audit found no significant internal control weaknesses in the payments process.

2009 saw a growing demand for member services and the ongoing improvement of the System's technological infrastructure. TMRS released an online benefit calculator for members in the MyTMRS area of our website. This self-service feature allows the member to see retirement estimates on various retirement dates and with the various annuity options. Four new cities joined the System in 2009, and we facilitated numerous plan changes for cities during the year. Staff answered over 93,600 member requests for assistance and processed 2,384 new retirements in 2009, as the trend of increased numbers of retirees continued. We implemented two projects to improve our data: member address corrections and city contact updates.

TMRS enhanced its information technology by implementing server virtualization, improving processing efficiency. In addition, the Information Resources Department further reduced paper recordkeeping, tested a disaster recovery plan for TMRS, and began development of a "City Portal" that will be hosted on the website, allowing TMRS cities to run reports and access member data.

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.

Investments

Beginning in November 2007, the Board approved the diversification of the System's assets from its predominantly fixed income focus with an initial allocation of 12% to equities, to be implemented systematically through monthly allocations to passively managed index funds. The initial equity target allocation was reached by 2008 year end. With the passage of HB 360 in 2009, TMRS began further diversification of the investment portfolio into other asset classes. In addition to adopting a new Investment Policy Statement, the Board adopted the following target allocations, with implementation to occur over a multi-year period:

Domestic Equities	20%
International Equities	20%
Fixed Income	35%
Real Estate	10%
Real Return	5%
Absolute Return	5%
Private Equity	5%

Initiatives during 2009 towards this target allocation included resuming monthly commitments to domestic and international equity index funds such that by 2009 year end, approximately 23% 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; 77% of the fund remained invested in fixed income securities. In October 2009, TMRS engaged Pacific Investment Management Company (PIMCO) as a core-plus fixed income manager to facilitate diversification of the fixed income component of the portfolio.

As described in the Investment Section of this CAFR, most markets produced positive performance in 2009, with equities, in general, outperforming fixed income. TMRS benefitted 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). The Investment Section of this CAFR contains a detailed summary of investment operations and allocations of investment earnings.

Funding and Actuarial Overview

The TMRS Board of Trustees has been working with the actuarial firm of Gabriel, Roeder, Smith & Company (GRS) since June 2008, and GRS completed its second actuarial valuation for the System for the fiscal year ended December 31, 2009.

As certified by our independent actuary, GRS, the calculations for funding are prepared in accordance with Actuarial Standards of Practice, GASB principles, and state law. Each city has its own retirement program within the options offered by the plan. Each city's plan objective is to accumulate sufficient assets to pay benefits when they become due and to finance its long-term benefits through a contribution rate that is annually determined by the consulting actuary.

A member city's retirement contribution rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated to the year immediately following the valuation date; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits if adopted by a city, such as Updated Service Credit (USC) and Annuity Increases (AI), and future increases in salary.

As required by statute, TMRS obtains an annual actuarial valuation for each participating municipality, the results of which are in the Actuarial Section of this CAFR. In May of each year, following the completion of the valuation, TMRS provides a Rate Letter to each participating municipality, reconciling the city's rate from the prior valuation to the current valuation and explaining the components of the reconciling items. TMRS also makes these Rate Letters available on our website. As of December 31, 2009, TMRS as a whole was 75.8% funded. This funded ratio increased from 74.4% in 2008. Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress, included as a part of the Required Supplementary Information in the Financial Section.

During the year, GRS made several actuarial recommendations that were adopted by the Board. These included:

- An amortization policy for future ad-hoc benefit enhancements
- A funding policy for closed plans (occurs when a city ceases enrolling new employees into their TMRS plan)
- An asset smoothing policy (10-year smoothing with a 25% "soft" corridor) and
- Reserving guidelines (after 7.5% interest credit target to MAF, with a reserve target of 20% of fund assets)

A Summary of Actuarial Assumptions in effect for the December 31, 2009 valuation is provided in the Actuarial Section of this CAFR.

Professional Services

The Board of Trustees appoints consultants to perform services that are essential to the effective and efficient operation of TMRS. The Supplemental Schedules of the Financial Section contain information on professional services.

Awards and Acknowledgments

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 as it appeared in *PLANSPONSOR* is reprinted on page 6 of this section.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TMRS for its *Comprehensive Annual Financial Report* for the Fiscal Year Ended December 31, 2008. This was the 22nd consecutive year that TMRS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. TMRS believes that our current *Comprehensive Annual Financial Report* continues to meet the Certificate of Achievement Program's requirements, and is submitting it to the GFOA to determine its eligibility for another certificate.

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.

This CAFR is provided to all participating TMRS cities; their combined cooperation contributes significantly to the success of TMRS.

We would like to express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report and to the continued success of the System.

Respectfully submitted,

Carolyn Linér
Chair
Board of Trustees

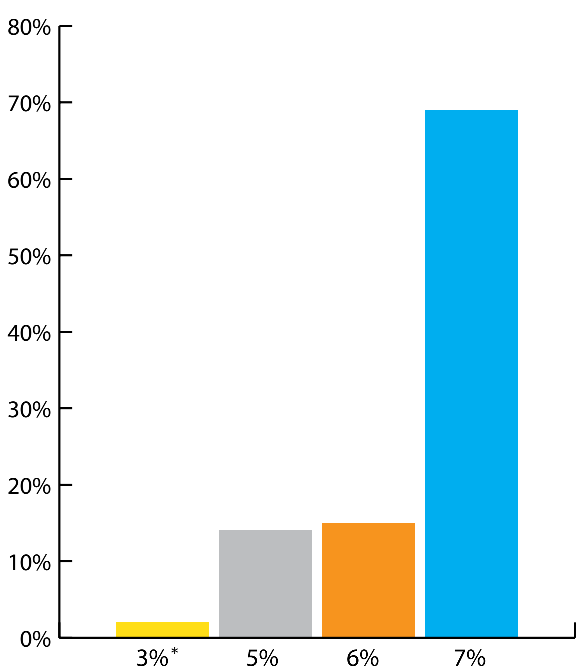
David Gavia
Executive Director

Rhonda H. Covarrubias
Director of Finance

TMRS Highlights

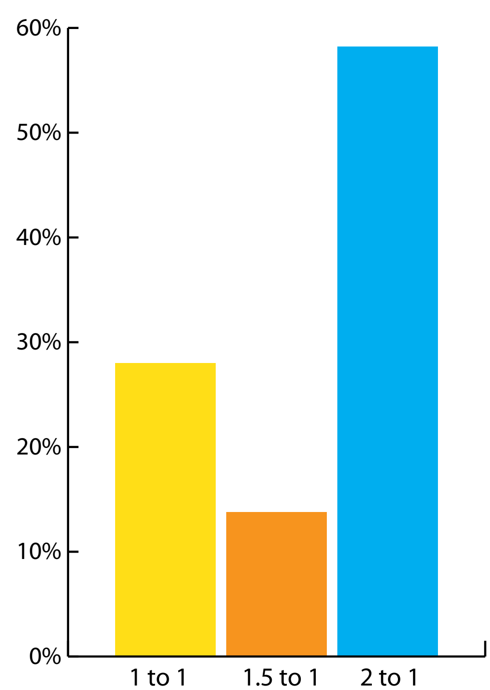
	2007	2008	2009
Employee Accounts	134,885	139,488	141,983
Retired Members	32,143	34,123	36,098
New Employee Members	16,419	15,942	12,158
Terminated Employee Members	8,299	7,955	6,884
Amount Paid to Terminated Members	$52.6 mil	$49.1 mil	$45.3 mil
New Retirements	2,534	2,574	2,384
Total Amount Paid to Retirees	$596.2 mil	$648.0 mil	$685.7 mil
Interest Rate on Employee Deposits	5.0%	5.0%	5.0%
Interest Rate on Municipality Deposits	5.0%	5.0%	7.5%
Member Cities	827	833	837
Cities Beginning Participation	7	6	4
Inactive Cities Ceasing Participation	1	-	-
Cities that:			
Adopted Updated Service Credit (USC)	600	597	589
Reduced percentage or rescinded USC	-	2	5
Adopted Annuity Increases to Retirees (AI)	495	491	475
Reduced or rescinded AI	1	3	14
Increased Employee Contribution Rate	23	13	11
Increased City Matching Ratio	20	14	14
Reduced City Matching Ratio	-	1	4
Adopted Supplemental Death Benefits	1	3	3
Rescinded Supplemental Death Benefits	-	5	1
Adopted 5-Year Vesting	3	2	-
Adopted 20-Year, Any Age Retirement	25	9	7

2009 Distribution of Membership
by Contribution Rate (Employee Deposit Rate)

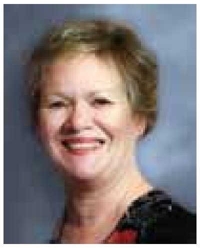


* This rate is no longer allowed for new cities.

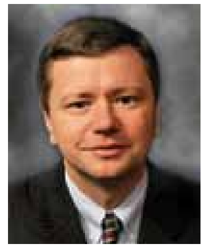
2009 Distribution of Membership
by City Matching Rate



TMRS Board of Trustees

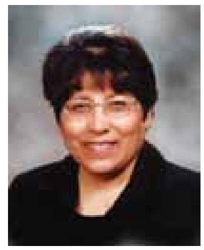


Carolyn Linér, 2009 Chair
Director of Human Resources / Civil Service
San Marcos
Term expires: February 1, 2013

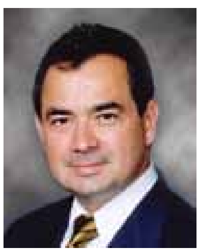


Ben Gorzell, 2009 Vice Chair
Chief Financial Officer
San Antonio
Term expires: February 1, 2013

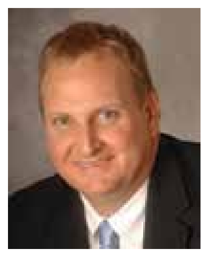
April Nixon
Chief Financial Officer
Arlington
Term expires: February 1, 2015



Patricia Hernandez
Municipal Court Judge
Plainview
Term expires: February 1, 2011



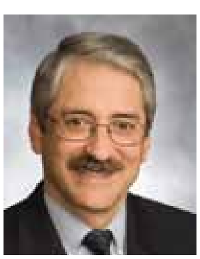
Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager
McAllen
Term expires: February 1, 2011



H. Frank Simpson
City Manager
Missouri City
Term expires: February 1, 2015

The TMRS Act provides that the administration of TMRS is entrusted to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. Three Trustees are "Executive Trustees" (Gorzell, Rodriguez, and Simpson) who are either the chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three Trustees are "Employee Trustees" (Hernandez, Linér, and Nixon) who are employees of a participating municipality. As per the Texas Constitution, Trustees continue to perform the duties of their office until a successor has been duly qualified.

TMRS Executive Director



David Gavia
Executive Director

TMRS Advisory Committee

The TMRS Advisory Committee on Retirement Matters was established by the Board of Trustees in December 1994; in 2008, the charter was revised, expanding the membership composition of the committee. This committee provides input to the Board of Trustees on various issues related to TMRS and also serves as a conduit for communication between TMRS and its members, member cities, and retirees.

The Advisory Committee is a 19-member body composed of nine "Individual Representatives" appointed by the Board, representing TMRS members, retirees, and elected officials; and ten members representing associations and groups with an interest in the TMRS program, called "Group Representatives." Group Representatives are chosen by their respective associations and approved by the Board. In 2009, the Advisory Committee was chaired by TMRS Trustee Carolyn Linér and co-chaired by Trustee April Nixon.

Individual Representatives

- Allen Bogard, City Manager, Sugar Land
- Keith Brainard, City Councilmember, Georgetown
- Ronald E. Cox, TMRS Retiree (former TMRS Trustee)
- Dean Frigo, Assistant City Manager for Financial Services, Amarillo
- Michelle R. Leftwich, Assistant City Manager/Planning Director, Mercedes
- John Lewis, City Councilmember, North Richland Hills
- Randle Meadows, President, Arlington Police Association
- Jim Moore, Assistant Fire Chief — Operations, Mesquite
- Steven Segal, City Councilmember, West University Place

Group Representatives

- David Crow, Arlington Professional Fire Fighters
- Jerry Gonzalez, Service Employees International Union, San Antonio
- Chris Heaton, Texas Municipal Police Association
- Scott Kerr, Texas State Association of Fire Fighters
- Suzanne Levan, City of San Antonio
- Jim Parrish, Texas Municipal Human Resources Association
- Mike Perez, Texas City Management Association
- Bob Scott, Government Finance Officers Association of Texas (GFOAT)
- Mike Staff, Combined Law Enforcement Associations of Texas (CLEAT)
- Monty Wynn, Texas Municipal League

TMRS Professional Advisors

Actuary
Gabriel, Roeder, Smith & Company

Compensation & Benefits Advisor
The Waters Consulting Group, Inc.

Custodian
State Street Bank and Trust Company

Depository Bank
JPMorgan Chase Bank

Economic Advisor
A. Gary Shilling & Co.

Fiduciary Counsel
Robert D. Klausner

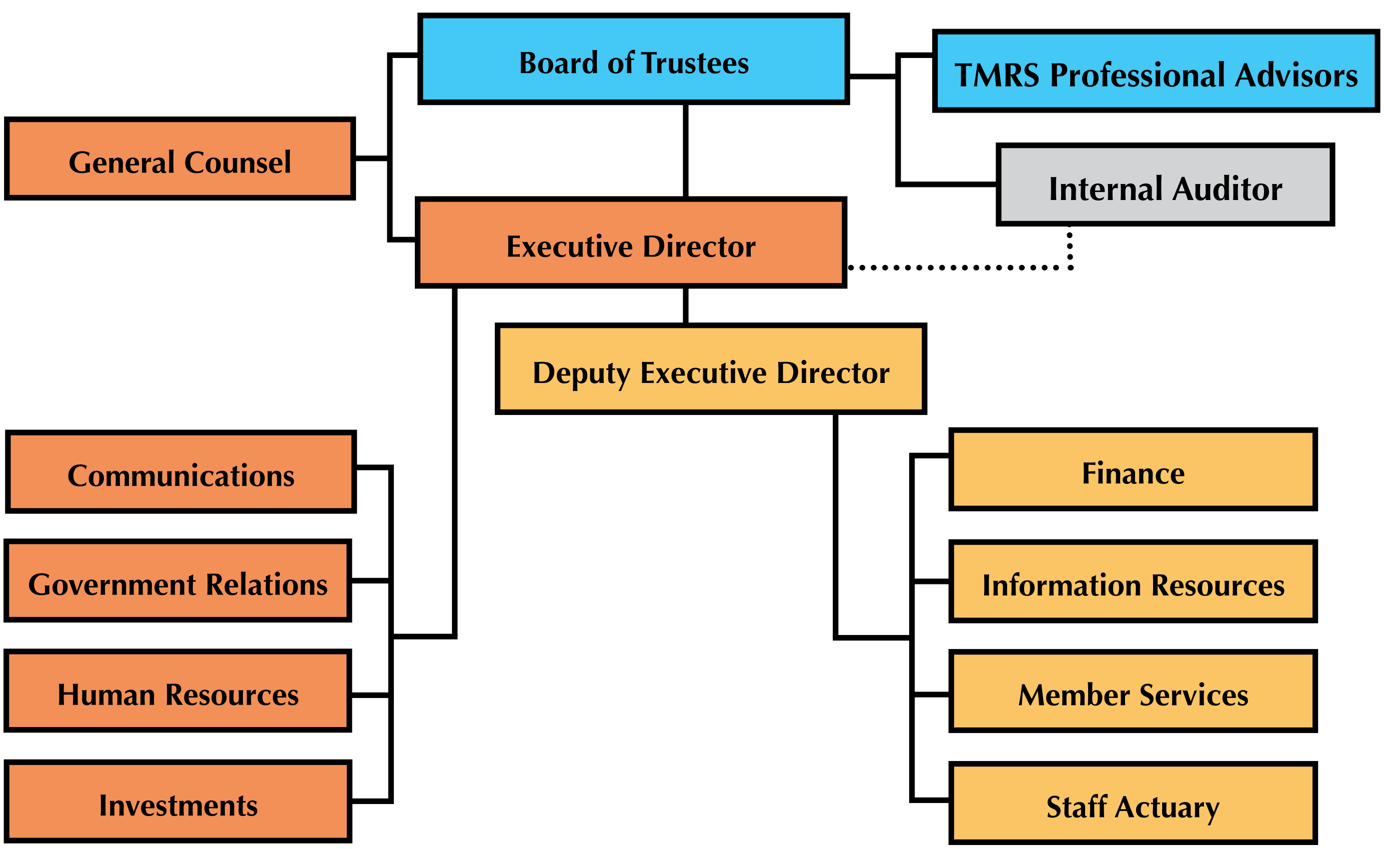
Independent Auditor
KPMG LLP

Investment Consultant
R.V. Kuhns & Associates, Inc.

Investment Managers
BlackRock Financial Management, Inc.
Northern Trust Global Investments
Pacific Investment Management Company (PIMCO)

Medical Board
Grover L. Bynum, MD
Marvin Cressman, MD
Thomas "Tim" I. Lowry, MD

TMRS Administrative Organization



TMRS Staff

Executive and Administrative

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Ian Allan, Director/Internal Audit
Bernie Eldridge, Director of Human Resources
Leslee Hardy, Director/Decision Support Actuary
Bruce Boatright, General Services
Cindy Morse, Executive Assistant
LaShelle Ruiz, Administrative Assistant

Communications

Bill Wallace, Director of Communications
Angela Deats, Communications Analyst
Donna Neal, Communications Specialist
Melanie Thomas, Editor

Travel Team

Anthony Mills, Regional Manager, City Services
Lorraine Moreno, Regional Manager, City Services
David Rodriguez, Regional Manager, City Services
Colin Davidson, Regional Representative, City Services
Shannon Lucero, Regional Representative, City Services
Sean Thompson, Regional Representative, City Services

Finance

Rhonda Covarrubias, Director of Finance
Josette Madry, Accounting Operations Supervisor
Candace Nolte, Controller
Sherry Chapman, Investment Accountant
Jody Cook-Warford, Accounting Specialist – Receivables
Gloria Figueroa, Accounting Specialist – Payables

Government Relations

Eddie Solis, Director of Government Relations

Information Resources

Scott Willrich, Director of Information Resources
John Carroll, Records and Information Manager
Brian Farrar, Network Operations Manager
Pete Krnavek, Information Systems Manager
Rick Almanza, Computer Support Specialist
Paige Brundage, Records Technician
Martin Burke, Business Process Analyst
Blanca DaCosta-Cruz, Quality Assurance Analyst
Charles Fuller, Network/Systems Administrator
Chris Gillis, Records Technician
Monica Kache, Systems Analyst - Financial
Steve Li, Senior Software Developer
Charles Matthes, Network/Systems Administrator
Patrick McShea, Database Administrator/Developer
Gretchen Meyer, Senior Systems Analyst
Anna Silva, Records Technician
Andy Solomon, Systems Analyst
Kevin Wang, Senior Software Developer

Investments

Nancy Goerdel, Acting Chief Investment Officer
Holly Macki, Director of Real Estate
Kristin Qualls, Assistant Director of Equities
Debbie Farahmandi, Investment Operations Specialist
Kate Reed, Equity Analyst
Katie Reissman, Fixed Income Analyst

Legal

Michelle Mellon-Werch, Associate General Counsel
Tish Root, Legal Assistant

Member Services

Debbie Muñoz, Director of Member Services
Chad Nichols, Member Services Manager
Vikki Vasquez, Member Services Manager
Jay Adams, Member Services Analyst I
Nadia Ali, Member Services Analyst II
Debbie Davila, Member Services Analyst II
David Eastwood, Member Services Analyst I
Ida Gomez, Member Services Analyst II
Rhonda Green, Member Services Analyst II
April Hernandez, Receptionist
Karin Hicks, Member Services Analyst II
Peter Jeske, Support Services Analyst
Maryann Malave-Jaini, Member Services Analyst II
Jenny Milburn, Member Services Analyst I
Corinne Moreno, Member Services Analyst I
Pamela Morgan, Support Services Analyst
Richard Ramos, Member Services Analyst I
Shelley Ransom, Member Services Analyst II
Cris Rodriguez-Horn, Support Services Analyst
Shavon Rossett, Member Services Analyst I
Wade Slaton, Member Services Analyst I
Leslie Smith, Member Services Analyst I
Tricia Solis, Member Services Analyst II
Caroline Touchet, Member Services Analyst II

Purpose

The Texas Municipal Retirement System (TMRS, or the System) is an entity created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code, as a retirement system for municipal employees in the State of Texas. TMRS is a public trust fund governed by a Board of Trustees with a professional staff responsible for administering the System in accordance with the TMRS Act. The System bears a fiduciary obligation to its members and their beneficiaries.

Administration

The TMRS Act entrusts the administration of TMRS to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. Three trustees are Executive Trustees, who must be a chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three trustees are Employee Trustees, who must be employees of a participating municipality.

The TMRS Act requires regular Board meetings in March, June, September, and December of each year. The Board of Trustees employs actuarial, legal, medical, and other experts for the efficient administration of the System. The Board also forms committees to serve in an advisory role as needed.

The Board appoints an Executive Director to manage TMRS under its supervision and direction.

Membership

Cities choose to participate in TMRS. When a city joins TMRS, all of its eligible employees become members of the System. An employee in a position that normally requires at least 1,000 hours of work in a year, as determined by the city, is an eligible employee and is required to be a member of TMRS.

A person who leaves employment with all TMRS cities may withdraw all member deposits and interest from TMRS and cancel service credit with the System. A member may not refund his/her TMRS account unless there is a “bona fide” separation, and the employing city must certify that the employee has terminated employment.

Service Credit

TMRS members earn a month of service credit for each month they are employed in an eligible position by a participating TMRS city and make the required contribution to the System. Members may also receive Prior Service Credit for periods of city employment before the employing city joined TMRS. Because TMRS is a statewide retirement system, service credit may be a combination of service with several member cities. Service credit may also include Military Service Credit, credit for previously refunded TMRS service that has been purchased, and other types of service credit allowed under the TMRS Act.

A participating municipality can also grant, by ordinance, Restricted Prior Service Credit to an employee for service performed as a full-time paid employee of:

- Any public authority or agency created by the United States
- Any state or territory of the U.S.
- Any political subdivision of any state in the U.S.
- Any public agency or authority created by a state or territory of the U.S.
- A Texas institution of higher education, if employment was as a commissioned law enforcement officer serving as a college campus security employee

Restricted Prior Service Credit also can be granted for credit previously forfeited under one of the following systems:

- Texas Municipal Retirement System
- Teacher Retirement System of Texas
- Employees Retirement System of Texas
- Texas County and District Retirement System
- Judicial Retirement System of Texas
- City of Austin Employees Retirement System

This restricted credit may only be used to satisfy length-of-service requirements for vesting and retirement eligibility, and has no monetary value under TMRS.

Member Contributions

TMRS member cities designate, by ordinance, the rate of member contributions for their employees. This rate is 5%, 6%, or 7% of an employee's gross compensation. Three cities have a 3% rate, no longer available to cities under the TMRS Act. Compensation for retirement contribution purposes includes overtime pay, car allowances, uniform allowances, sick leave, vacation pay, and other payments if they are taxable.

All member contributions since 1984 are tax-deferred under the Internal Revenue Code, Section 401(a). The member contribution rate may be increased by ordinance. However, the member contribution rate may only be reduced if the members in the city, by a 2/3 vote, consent to a reduction, and the city, by ordinance, provides for the reduction.

Interest is credited to member accounts annually on December 31, based on the balance in the account on January 1 of that year. In the year of retirement, interest will be prorated for that year based on the interest rate granted the preceding year.

Vesting and Retirement Eligibility

TMRS members vest after either 5 or 10 years of service, based on their city's plan. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, receive a monthly retirement payment.

A member becomes eligible for service retirement based on various combinations of age and service, depending on which provisions have been adopted by the employing municipality, including:

- Age 60 with 5 years of service
- Age 60 with 10 years of service
- Any age with 20 years of service
- Any age with 25 years of service

Before a city adopts the 20-year, any-age provision, the System must prepare an actuarial study to determine the provision's effect on the city's contribution rate, and the city must conduct a public hearing on the adoption.

Effective January 1, 2002, TMRS law was changed to give cities the option to choose 5-year vesting. Cities that did not opt out of that vesting provision before December 31, 2001, automatically changed from 10-year to 5-year vesting. Cities that chose to retain 10-year vesting may change to 5-year vesting at any time.

City Contributions

Upon an employee's retirement, the employing city matches accumulated employee contributions plus interest earned. Each city chooses a matching ratio: 1 to 1 (100%); 1.5 to 1 (150%); or 2 to 1 (200%). This match is funded with monthly contributions by the participating municipality at an annual, actuarially determined rate. A municipality may elect to increase or reduce its matching ratio effective January 1 of a calendar year.

Updated Service Credit

Member cities, at their option, may elect to adopt Updated Service Credit, either annually or on an annually repeating basis, effective January 1 of a calendar year. Updated Service Credit improves retirement benefits by using a member's average monthly salary over a recent three-year period and recalculating the member's retirement credit as if the member had always earned that salary and made deposits to the System, matched by the city, on the basis of that average monthly salary. Updated Service Credit also takes into account any changes in the city's TMRS plan provisions that have been adopted, such as an increase in the member contribution rate or the city's matching ratio. A member must have at least 36 months of service credit as of the study date in the adopting city before becoming eligible to receive this credit. Interest on Updated Service Credit is prorated in the year of retirement.

Retirement Payment Options

After applying for retirement, a TMRS member may choose one of seven optional monthly benefit payments. The member makes this choice before receipt of the first benefit payment, and the choice is irrevocable after the date the first payment becomes due. All options pay a monthly annuity for the life of the retiree. The options include:

- A benefit for the retiree's lifetime only ("Retiree Life Only" option)
- Three guaranteed-term benefits that pay a benefit for the lifetime of the member and to a beneficiary for the balance of 5, 10, or 15 years if the member dies before the term is reached ("Guaranteed Term" options)
- Three options that pay a lifetime benefit to the member and, upon the member's death, a survivor lifetime benefit equal to 50%, 75%, or 100% of the member's benefit ("Survivor Lifetime" options)

As a minimum benefit, TMRS guarantees that an amount equal to at least the member's contributions and interest will be returned, either through payment of a monthly benefit or through a lump-sum refund.

Each of the three survivor lifetime retirement options includes a "pop-up" feature. The "pop-up" feature provides that if the designated beneficiary dies before the retiree, the retiree's benefit will "pop-up" to a Retiree Life Only amount. Retirees who marry or remarry after retirement and who meet specific conditions also have a one-time option to change from a Retiree Life Only benefit to one that provides a survivor benefit.

Members who are eligible for service retirement may choose to receive a Partial Lump Sum Distribution — a portion of the member's deposits and interest in cash — at the time of retirement. The Partial Lump Sum Distribution is equal to 12, 24, or 36 times the amount of the Retiree Life Only monthly benefit, but cannot exceed 75% of the member's deposits and interest. The remaining member deposits are combined with the city's funds to pay a lifetime benefit under the selected retirement option.

The Partial Lump Sum Distribution may be chosen with any of the retirement options and is paid in a lump sum with the first retirement payment. This amount may be subject to federal income tax and an additional 10% IRS tax penalty if not rolled over into a qualified plan.

Annuity Increases

A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis, effective January 1 of a calendar year. For cities that adopted annuity increases January 1, 1982, or later, the adjustment is either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – All Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December 13 months before the effective date of the increase, minus any previously granted increases.

Survivor Benefits

If a member dies before vesting, the member's designated beneficiary is eligible to receive a lump-sum refund of the member's deposits and interest. For a vested member, a beneficiary who is the member's spouse may select a monthly benefit payable immediately; withdraw the member's deposits and interest in a lump sum; or leave the member's deposits with TMRS, where they will earn interest until the date the member would have reached age 60, and then the beneficiary may receive a lifetime benefit. A beneficiary who is not the member's spouse may select a monthly benefit payable immediately or withdraw the member's deposits and interest in a lump sum.

Disability Retirement

All active TMRS cities have adopted an Occupational Disability Retirement benefit. If a member is judged by the TMRS Medical Board to be disabled to the extent that the member cannot perform his or her occupation, and the disability is likely to be permanent, the member may retire with a lifetime benefit based on the total reserves as of the effective date of retirement. The Occupational Disability annuity will be reduced if the combined total of the Occupational Disability annuity and any wages earned (indexed to the CPI-U) exceeds the member's average monthly compensation for the highest 12 consecutive months during the three calendar years immediately before the year of retirement. As the minimum disability benefit, the member's deposits and interest are guaranteed to be returned, either through payment of the monthly benefit, or upon termination of the annuity through a lump-sum refund.

Supplemental Death Benefits

Member cities may elect, by ordinance, to provide Supplemental Death Benefits for active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is $7,500. This benefit is paid in addition to any other TMRS benefits the beneficiary might be entitled to receive. If a member retires from multiple cities, his/her beneficiary will receive only one Supplemental Death Benefit; the last employing city pays the benefit.

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of their deposits and interest, the member forfeits all service credit. If the member is reemployed by a TMRS member city, and if the employing city adopts the buyback provision by ordinance, the member may repay the amount of the refund plus a 5% per year withdrawal charge, in a lump sum, to reinstate the previously forfeited credit. A member must have 24 consecutive months of service with the reemploying city, and must be an employee of that city on the date the buyback ordinance is adopted to be eligible to buy back service credit.

Military Service Credit

Members who leave employment with a TMRS city, serve in the military, and then return to city employment may establish credit for the time they spend in the military, up to 60 months. Members who meet the requirements of the federal Uniformed Services Employment and Reemployment Rights Act (USERRA) may make member contributions to TMRS as though they had been employed by the city for the period of their military service.

In cities that have adopted Military Service Credit, members who are not eligible for USERRA credit, or who choose not to make contributions, may establish service credit for up to 60 months of military time. A member must have five years of TMRS service credit to establish non-USERRA Military Service Credit.

Members with five years of TMRS service credit who were employed on December 31, 2003, by a city that had previously adopted Military Service Credit, may choose to purchase their military time at a cost of $15 per month (purchase amount would increase the member's account balance), or may use the no-cost time-only provision. ◆