

Introductory

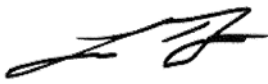
**Certificate of
Achievement
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Presented to

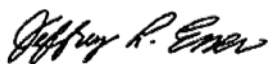
**Texas Municipal Retirement
System**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President



Executive Director



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2010**

Presented to

Texas Municipal Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

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



July 8, 2011

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, 2010. 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 2010 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

TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 to provide retirement, disability, and death benefits to employees of participating cities. As of December 31, 2010, TMRS had 842 member cities, 141,372 employee accounts, and 38,260 retired members. While the structure of TMRS' funds has changed with the passage of SB 350 in 2011 (see discussion below), there were no changes to the TMRS governing statute, or to TMRS' benefit provisions, in 2010.

Statutory Changes after Fiscal Year End

Beginning in 2009, the TMRS Board and Advisory Committee began considering a potential restructuring of TMRS funds, a proposal to combine the Municipality Accumulation Fund (MAF), the Employees Saving Fund (ESF), and the Current Service Annuity Reserve Fund (CSARF), into one fund for internal accounting purposes, called the Benefit Accumulation Fund, or BAF. The issue was studied throughout 2010 and, after approval by the Board, the proposal for statutory amendment was presented to potential legislative sponsors. The recommendation for restructuring was made with the advice of the System's actuary, Gabriel, Roeder, Smith & Company (GRS). To help craft the legislation, the Board relied on input from the TMRS Advisory Committee, whose members are listed on page 14 of this section.

The proposal for fund restructuring was authored by Texas Senator Tommy Williams as Senate Bill 350 (SB 350) and by Texas Representative Vicki Truitt as House Bill 997 (HB 997). Working with key legislators, and with the support of the groups that participated in the Advisory Committee, TMRS provided assistance to enable Senator Williams and Representative Truitt to pass this important legislation. SB 350 achieved final passage on May 23, 2011, and was signed by Governor Rick Perry on June 17, 2011. TMRS wishes to express the utmost gratitude to Senator Williams, Representative Truitt, and all the other members of both legislative bodies who helped the bill become law, as well as to the groups and individuals who provided valuable support during a challenging session.

Restructuring TMRS accounts produces a more efficient funding structure that:

- Reduces year-to-year volatility in city contribution rates
- Eliminates the leverage that existed in the former three-fund structure
- Reduces the downside risk of adverse investment returns on city accounts
- Removes the need to maintain a substantial percentage of assets as a reserve
- Results in lower contribution rates for most cities
- Improves actuarial funding ratios for most cities

Member accounts received an annual interest credit of 5% on December 31, 2010. In February 2011, the TMRS Board approved a 7.5% interest credit to city accounts, which equals the actuarially assumed rate. The remaining unallocated net investment income was credited to the TMRS interest reserve account. The TMRS Board had previously set a guideline for a System reserve of approximately 20% of total assets; however, the need to retain a significant reserve was eliminated by passage of SB 350 in 2011.

At a meeting on May 20, 2011, contingent on passage of SB 350, the TMRS Board of Trustees voted to distribute the assets held in the CSARF to the city accounts within the new BAF and to reduce the reserve fund to \$100 million. As allowed by the provisions of SB 350, the Actuarial Valuation as of December 31, 2010 reflected the combination of the ESF, MAF, CSARF and reserve distribution (smoothed over 10 years) into the new BAF balances.

Activity in 2010

Although the Texas economy continued to be more robust than the national economy, many Texas cities faced significant budget shortfalls. Each member city in TMRS decides the level of benefits to offer its employees. TMRS continued to give cities all the information they need to make decisions on their retirement benefits, including rate projections for potential plan changes. During a stressful economic year, a few cities decreased their plan's menu of options by reducing retiree annuity increase percentages and changing from annually repeating to ad hoc increases. Other cities, however, increased their benefit offerings by offering higher city matching ratios, annuity increases for retirees, and the Supplemental Death Benefit.

The *TMRS 2010 Comprehensive Annual Financial Report* is respectfully dedicated to Texas Representative Edmund Kuempel of Seguin, an active legislator of 26 years and a long-time advocate of TMRS who passed away in Austin on November 4, 2010. See the inside front cover for the dedication to Rep. Kuempel.

Important staff changes were made in 2010. The Board selected David Gavia as TMRS' Executive Director in March 2010. Mr. Gavia had served as Interim Executive Director since August 2009. In addition, Nancy Goerdel was chosen as Chief Investment Officer in June 2010 after having served as Interim Chief Investment Officer since August 2009.

Other Achievements

TMRS enhanced its customer service by implementing the new City Portal for secure city access to member data. The City Portal allows authorized users in TMRS cities to run reports and access member data. As of May 18, 2011, 82 cities representing 30% of our active membership had signed up to use the Portal.

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 2010. The Internal Audit Department continued to implement and update the Enterprise Risk Management framework and performed audit fieldwork for due diligence processes involved in the selection of investment managers and consultants at TMRS; the audit found no significant weaknesses or deficiencies in our due diligence processes. The Board adopted the 2011 risk-based audit plan and annual audit risk assessment at its December meeting.

The demand for member and retirement services continues to grow. Five new cities joined the System in 2010, and we facilitated numerous plan changes for cities during the year. Staff answered over 92,000 member requests for assistance and processed over 2,700 new retirements in 2010, a 15% increase from the previous year. We executed numerous projects to improve our data: invalid address corrections, missing employee information (dates of birth and salaries), and “inactive” member solicitation to refund account balances. The estimate feature in MyTMRS (which provides members secure online access to their personal data) continued to result in a huge increase in the number of retirement estimates requested online (over 74,000) versus those requested from a member services representative (over 23,000) or run from the City Portal (approximately 260).

Communications between the System and its members and cities included twice yearly newsletters to members and retirees; one summary newsletter to cities and regular (almost monthly) e-mail bulletins; an Annual Training Seminar and a Funding, Investments, and Legislative Seminar; rate projection mailings to cities; and increased functionality of the System’s website. The System’s Decision Support Actuary and Regional Managers provided a high level of support to cities in examining contribution rate issues. In addition, the Travel Team made over 300 visits to cities and staffed eight Regional Pre-retirement Seminars and two City Correspondent Certification courses.

The changes the System made in the past four years, including the change in actuarial cost method, the passage of legislation to allow diversification of investments and guarantee member interest credits (HB 360 in 2009) and to allow the system’s funds to be accounted for more efficiently (the fund restructuring bill, SB 350, in 2011), all work toward guaranteeing the future strength of the retirement program, the security of members’ benefits, and ability of cities to continue to offer affordable benefit packages to their employees.

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 to domestic and international equities. The Board then adopted the following target allocations in June 2009, with implementation to occur over a multi-year period:

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

Initiatives during 2010 toward this target allocation included continuing monthly commitments to domestic and international equity index funds such that by 2010 year end, approximately 33% of the fund was

invested in passively managed equity index funds: 17% in the domestic Russell 3000 index fund and a combined 16% in the international MSCI-EAFE and ACWI ex US IMI Index funds; 62% of the fund remained invested in fixed income securities. In addition, during 2010 TMRS appointed ORG Portfolio Management LLC (ORG) as its real estate consultant. ORG assisted TMRS with the development of investment policy regarding the real estate asset class and will assist with the selection and monitoring of external real estate investment managers.

As described in the Investment Section of this CAFR, most markets produced positive performance in 2010, with risk-oriented asset classes performing best. TMRS benefited from its increased equity allocation, which contributed to an overall 12-month rate of return on the \$18 billion investment portfolio of 9% (return on equities was 16.9% domestic and 8.4% international, while 6.5% 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.

The restructuring legislation passed in 2011 does not affect the way TMRS invests money and has no impact on TMRS' current investment strategy or the continuing diversification of the investment portfolio.

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 third actuarial valuation for the System for the fiscal year ended December 31, 2010.

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 presented in the Actuarial Section of this CAFR. Following the completion of the annual actuarial 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, 2010, TMRS as a whole was 82.9% funded under the new fund structure established by SB 350. This funded ratio increased from 75.8% in 2009. 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 past four years, GRS has made several actuarial recommendations that were adopted by the Board. Such changes help ensure that the System as a whole and the individual city plans are financed on an actuarially sound basis. Initiatives over the last few years are summarized as follows:

- 2008: Changed Actuarial Cost Method to advance-fund all repeating benefits and closed the 25- or 30-year period for amortizing each city's unfunded actuarial accrued liability

- 2009: HB 360 by Kuempel guaranteed that member accounts receive a 5% interest credit, and city accounts receive an annual interest credit at a rate different from the member rate, including a negative rate; the actuarially assumed city crediting rate was 7.5%
- 2011: SB 350 by Williams passed; the four-year actuarial experience study schedule was accelerated to coincide with the passage of SB 350, and new actuarial assumptions were adopted in conjunction with the more efficient fund structure (“Restructuring”), resulting in lower contribution rates and increased funded ratios for nearly every TMRS city while providing for reduced volatility of future contribution rates.

A Summary of Actuarial Assumptions in effect for the December 31, 2010 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 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 Year Ended December 31, 2009*. This was the 23rd 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 2010 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 made available 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,



Ben Gorzell
Chair, Board of Trustees



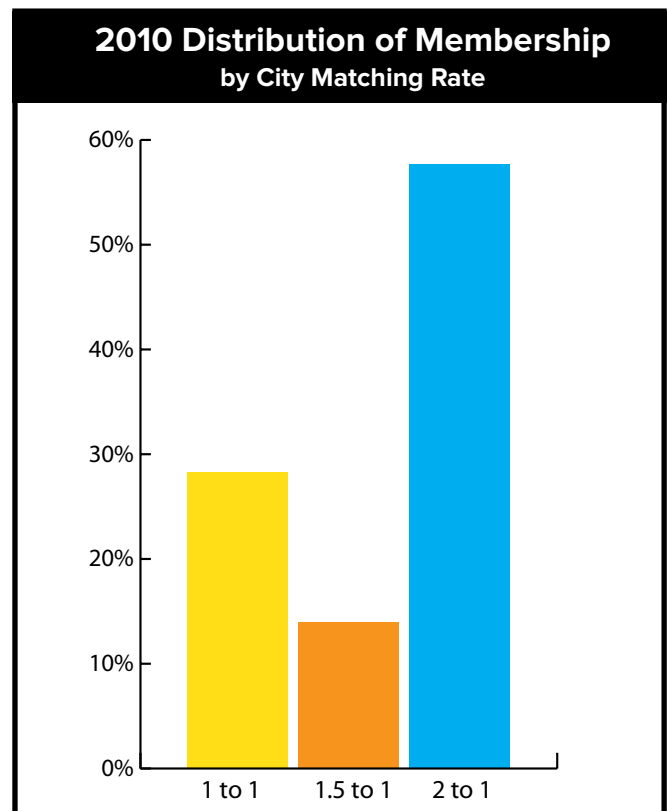
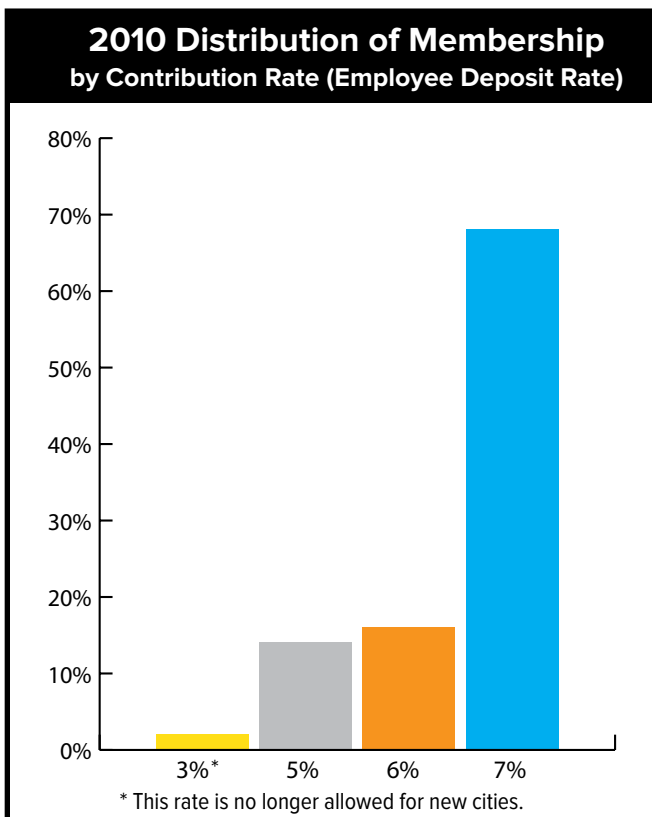
David Gavia
Executive Director



Rhonda H. Covarrubias
Director of Finance

TMRS Highlights

	2008	2009	2010
Employee Accounts	139,488	141,983	141,372
Retired Members	34,123	36,098	38,260
New Employee Members	15,942	12,158	10,303
Terminated Employee Members	7,955	6,884	7,417
Amount Paid to Terminated Members	\$49.1 mil	\$45.3 mil	\$49.0 mil
New Retirements	2,574	2,384	2,754
Total Amount Paid to Retirees	\$648.0 mil	\$685.7 mil	\$743.5 mil
Interest Rate on Employee Deposits	5.0%	5.0%	5.0%
Interest Rate on Municipality Deposits	5.0%	7.5%	7.5%
Member Cities	833	837	842
Cities Beginning Participation	6	4	5
Cities that:			
Adopted Updated Service Credit (USC)	597	589	587
Reduced percentage or rescinded USC	2	5	4
Adopted Annuity Increases to Retirees (AI)	491	475	474
Reduced or rescinded AI	3	14	14
Increased Employee Contribution Rate	13	11	7
Increased City Matching Ratio	14	14	6
Reduced City Matching Ratio	1	4	3
Adopted Supplemental Death Benefits	3	3	-
Rescinded Supplemental Death Benefits	5	1	2
Adopted 5-Year Vesting	2	-	1
Adopted 20-Year, Any Age Retirement	9	7	5



TMRS Board of Trustees



Ben Gorzell, 2010 Chair
Chief Financial Officer
San Antonio
Term expires: February 1, 2013



Julie Oakley, CPA*
Director of Finance
Lakeway
Term expires: February 1, 2013



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



Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager
McAllen
Term expires: February 1, 2017



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



H. Frank Simpson
Assistant City Manager
College Station
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, Nixon, and Oakley) 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.

*Julie Oakley was appointed in August 2010 to replace retiring Board Member Carolyn Linér, Director of Human Resources / Civil Service, San Marcos. Ms. Linér was first appointed to the TMRS Board of Trustees in 2000 and served as Board Chair in 2002 and 2009. TMRS thanks Ms. Linér for her years of dedicated service.

TMRS Executive Director



David Gavia
Executive Director

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 2010, the Advisory Committee was chaired by TMRS Trustee April Nixon. The members listed below served during 2010.

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

Actuary
Gabriel, Roeder, Smith & Company

Independent Auditor
KPMG LLP

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

Custodian
State Street Bank and Trust Company

Investment Consultants
R.V. Kuhns & Associates, Inc.
ORG Portfolio Management, LLC

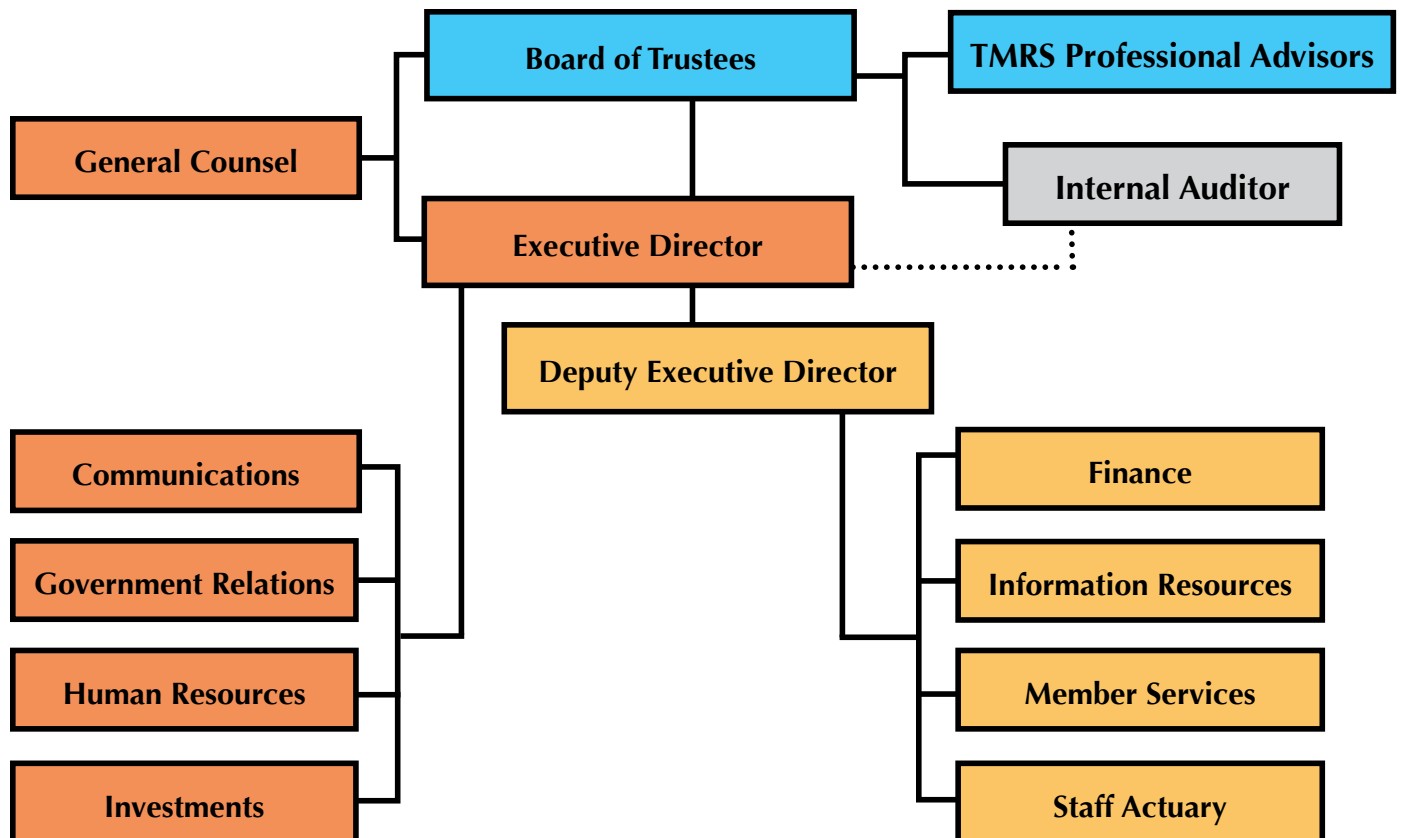
Depository Bank
JPMorgan Chase Bank

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

Economic Advisor
A. Gary Shilling & Co.

Fiduciary Counsel
Robert D. Klausner

TMRS Administrative Organization



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

Dan Wattles, 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
Chyrlynne Crockett, Records Technician
Blanca DaCosta-Cruz, Quality Assurance Analyst
Charles Fuller, Network/Systems Administrator
David Himawan, Database Administrator/Developer
Monica Kache, Systems Analyst - Financial

Steve Li, Senior Software Developer
Charles Matthes, Network/Systems Administrator
Gretchen Meyer, Senior Systems Analyst
Anna Silva, Records Technician
Andy Solomon, Systems Analyst
Kevin Wang, Senior Software Developer

Investments

Nancy Goerdel, Chief Investment Officer
Holly Macki, Director of Real Estate
Dev Outlaw, Director of Fixed Income
Dimitry Shishkoff, Director of Risk Management
Kristin Qualls, Assistant Director of Equities
Debbie Farahmandi, Investment Operations Specialist
Kate Reed, Investment Risk Analyst
Katie Reissman, Investment Analyst - Fixed Income

Legal

Christine Sweeney, General Counsel
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 Bhandari, Member Services Analyst II
Debbie Davila, Member Services Analyst II
David Eastwood, Member Services Analyst I
Chris Gillis, 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
Corinne Moreno, Member Services Analyst I
Pamela Morgan, Support Services Analyst
Richard Ramos, Member Services Analyst II
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 II
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

Summary of Plan Provisions

CONTINUED

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.

Summary of Plan Provisions

CONTINUED

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 with this provision pays the benefit.

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of his or her 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. ♦