A stylized illustration of a tree with a brown trunk and branches, and green leaves. The tree is positioned on the left side of the page, extending from the bottom to the top. The background is a light yellow-green gradient. The bottom of the page features a green textured area.

Texas Municipal Retirement System

TMRS 2011

Comprehensive Annual Financial Report

For the Year Ended
December 31, 2011

Prepared by:
The Finance Department of the
Texas Municipal Retirement System

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Introductory

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Texas Municipal
Retirement System**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2010

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.



Linda C. Davidson

President

Jeffrey R. Enos

Executive Director



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2011***

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

Alan H. Winkle
Program Administrator



May 31, 2012

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, 2011. We hope you will find this report informative.

The CAFR is prepared by 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 2011 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 a hybrid, defined benefit plan, TMRS members contribute at a designated rate toward their own retirement benefit. At retirement, the member's account balance plus employer matching contributions is used to calculate the member's retirement benefit. As of December 31, 2011, TMRS had 847 member cities, 141,532 employee accounts, and 40,534 retired members.

Major Statutory Change – Fund Restructuring

On June 17, 2011, Governor Rick Perry signed into law SB 350 by Senator Tommy Williams (House sponsor Representative Vicki Truitt), which effectively restructured TMRS funds, combining 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 Board's statutory proposal for restructuring was made with the advice of the System's actuary, Gabriel, Roeder, Smith & Company (GRS) and the recommendation of the TMRS Advisory Committee on Retirement Matters.

Restructuring does not adversely affect the benefits of any TMRS member, active or retired. 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 funded ratios for most cities

TMRS wishes to extend deep thanks to the bill sponsors, Senator Williams and Representative Truitt, the members of the Advisory Committee, and all of the other individuals who contributed to TMRS' legislative success.

Activity in 2011

Member accounts received an annual interest credit of 5% on December 31, 2011. In February 2012, the TMRS Board approved the distribution of the unallocated net investment income to the Benefit Accumulation Fund, with an approximate 2.37% interest credit to city accounts. In addition, the Board approved retaining the \$100 million interest reserve balance that was established by the Board at the end of 2010.

The demand for member and retirement services continued to grow. Five new cities joined the System in 2011, and we facilitated numerous plan changes for cities during the year. Some cities that realized significant reductions in contribution requirements as a result of fund restructuring chose to make benefit improvements, while a few other cities reduced benefits. Staff answered over 91,000 member requests for assistance and processed over 2,900 new retirements in 2011, an 8% 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.

TMRS continued to enhance customer service by providing online training for the City Portal (a tool to allow secure city access to member data via the internet). As of December 31, 2011, 133 cities representing nearly 40% of our active membership had signed up to use the Portal.

The retirement estimate feature in MyTMRS (which provides members with secure online access to their personal data) continued to produce an increase in the number of retirement estimates requested online (over 84,000) versus those requested from a member services representative (over 19,000) or run from the City Portal (approximately 2,300). Due to an upgrade of the NextGen member benefits system, we can now generate estimates with Qualified Domestic Relations Orders automatically; in the past, this type of estimate required manual calculation.

Communications between the System and its members and cities included twice yearly newsletters sent to members and retirees; one summary newsletter to cities and regular (approximately monthly) e-mail bulletins to city financial and administrative staff; an Annual Training Seminar; rate letter mailings to cities; and additional website features. The System's Director of Actuarial Services and Regional Managers provided a high level of support to cities in examining contribution rate issues. In addition, the Travel Team made approximately 300 visits to cities and presented ten Regional Pre-Retirement Seminars and two City Correspondent Certification courses. In addition, to help cities understand their contribution rate changes for 2012, we offered six Regional Funding Workshops.

The IT department (IT) upgraded TMRS’ web tools, providing more functionality for MyTMRS and the City Portal. In addition, IT finalized the upgrade of the System’s document management program and began implementation of an information management solution for the Investments department.

During fiscal year 2011, TMRS’ internal auditor presented an audit report entitled “Fiduciary Due Diligence: The Selection and Monitoring of Investment Managers and Consultants” to the Board of Trustees, conducted research in preparation for introduction of the ISO 9000 quality management framework to TMRS during the next strategic planning cycle, and began an audit of the payroll and contributions processes managed by the Member Services department.

Other Legislative Actions

In addition to TMRS’ restructuring legislation, the 82nd session of the Texas Legislature saw an unprecedented level of proposed legislation that would potentially affect TMRS and other Texas public retirement systems. Most of these proposals did not achieve passage; however, TMRS’ benefit provisions were slightly affected by a change in the return-to-work provisions in 2011. HB 159/SB 812 modified the retirement benefits of certain retirees who resume employment with the city from which they retired, if they return after more than eight years.

Investments

Continuing with its November 2007 decision to diversify the System’s assets from a predominantly fixed income focus with an initial allocation to domestic and international equities, the Board adopted the following strategic target allocations in June 2009, with implementation to occur over a multi-year period:

U.S. Equities	20%	Real Return	5%
International Equities	20%	Absolute Return	5%
Fixed Income	35%	Private Equity	5%
Real Estate	10%		

There were several initiatives during 2011 continuing the progress toward this target allocation, including monthly commitments to U.S. and international equity index funds. By 2011 year end, the equity target allocations were met with 40% of the fund invested in passively managed equity index funds: 20% in the domestic Russell 3000 index fund and 20% in the international ACWI ex US IMI index fund. In addition, in 2011, TMRS funded its 5% target allocation to the real return asset class through investment in global inflation-linked bonds. And during 2011, TMRS committed \$200 million to real estate limited partnerships, and funded \$97 million. With the assistance of TMRS’ Real Estate Consultant, ORG, over the next few years TMRS will continue to seek out and fund additional real estate investments up to the 10% target allocation.

As described in the Investment Section of this CAFR, the overall one-year rate of return on the \$18.5 billion investment portfolio was 2.41% with fixed income the best performing asset class, earning 7.99%, while the return on equities was 1.03% domestic and -13.35% international. The Investment Section of this CAFR contains a detailed summary of investment operations during 2011.

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 fourth actuarial valuation for the System for the fiscal year ended December 31, 2011.

As certified by 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, 2011, TMRS as a whole was 85.1% funded; this funded ratio increased from 82.9% in 2010. 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.

A Summary of Actuarial Assumptions in effect for the December 31, 2011, 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, 2010. This was the 24th 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.

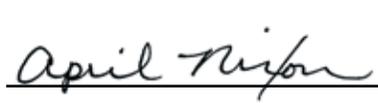
A Certificate of Achievement is valid for a period of one year only. TMRS believes that our current *Comprehensive Annual Financial Report* continues to meet the Certificate of Achievement Program's requirements, and is submitting it to the GFOA to determine its eligibility for another certificate.

TMRS also received the Public Pension Standards 2011 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,



April Nixon
Chair, Board of Trustees



David Gavia
Executive Director

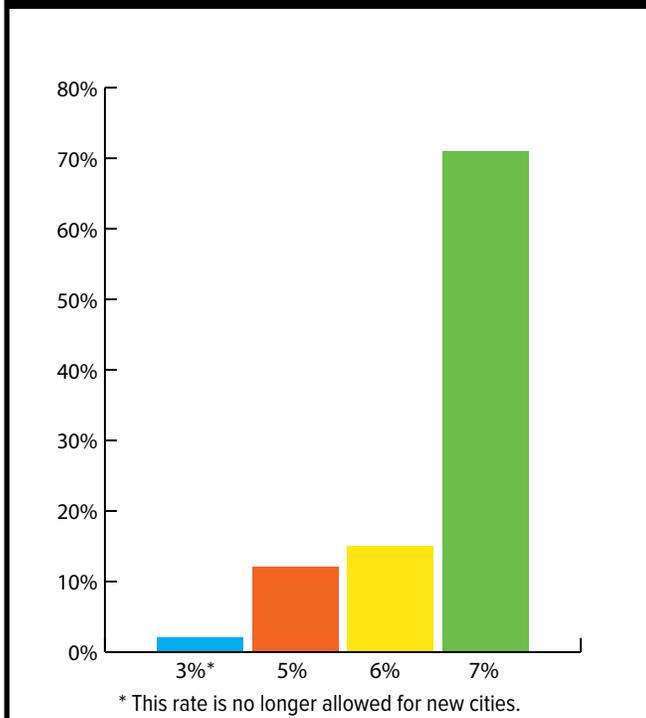


Rhonda H. Covarrubias
Director of Finance

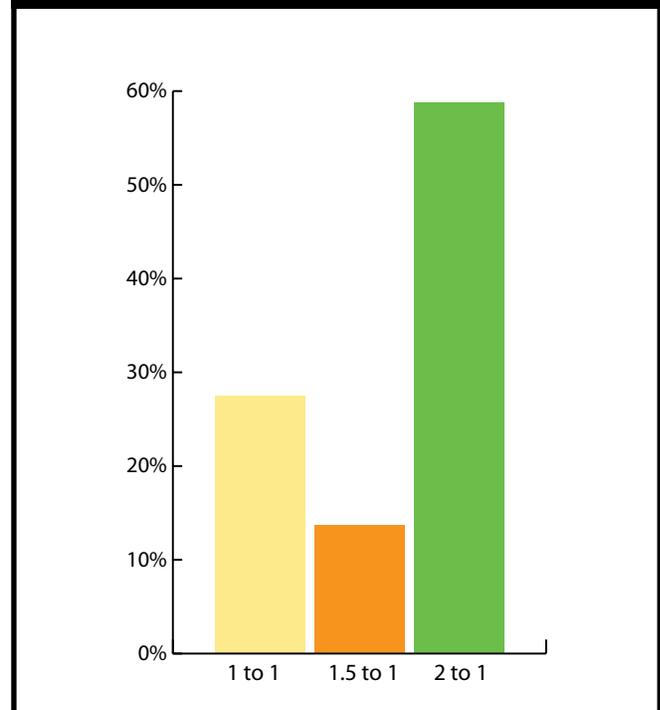
TMRS Highlights

	2009	2010	2011
Employee Accounts	141,983	141,372	141,532
Retired Members	36,098	38,260	40,534
New Employee Members	12,158	10,303	11,619
Terminated Employee Members	6,884	7,417	7,550
Amount Paid to Terminated Members	\$45.3 mil	\$49.0 mil	\$55.7 mil
New Retirements	2,384	2,754	2,874
Total Amount Paid to Retirees	\$685.7 mil	\$743.5 mil	\$810.3 mil
Interest Rate on Employee Deposits	5.0%	5.0%	5.0%
Interest Rate on Municipality Deposits	7.50%	7.50%	2.37%
Member Cities	837	842	847
Cities Beginning Participation	4	5	5
Cities that:			
Adopted Updated Service Credit (USC)	589	587	587
Reduced percentage or rescinded USC	5	4	2
Adopted Annuity Increases to Retirees (AI)	475	474	474
Reduced or rescinded AI	14	14	10
Increased Employee Contribution Rate	11	7	20
Increased City Matching Ratio	14	6	15
Reduced City Matching Ratio	4	3	1
Adopted Supplemental Death Benefits	3	-	3
Rescinded Supplemental Death Benefits	1	2	2
Adopted 5-Year Vesting	-	1	1
Adopted 20-Year, Any Age Retirement	7	5	6

**2011 Distribution of Membership
by Contribution Rate (Employee Deposit Rate)**



**2011 Distribution of Membership
by City Matching Rate**



TMRS Board of Trustees



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



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



H. Frank Simpson, Vice Chair
Assistant City Manager
College Station
Term expires: February 1, 2015



Jim Parrish*
Human Resources Director
Plano
Term expires: February 1, 2017



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



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

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 financial officer, or other officer, executive, or department head of a participating municipality. Three Trustees are "Employee Trustees" (Nixon, Oakley, and Parrish) who are employees of a participating municipality. Per the Texas Constitution, Trustees continue to perform the duties of their office until a successor has been duly qualified.

*Jim Parrish was appointed in 2011 to replace retiring Board Member Patricia Hernandez, Municipal Court Judge, Plainview. Ms. Hernandez was appointed to the TMRS Board of Trustees in 1999 and served as Board Chair in 2001 and 2007. TMRS thanks Ms. Hernandez for her years of dedicated service.

TMRS Executive Director



David Gavia
Executive Director

TMRS Advisory Committee

The **TMRS Advisory Committee on Retirement Matters** is appointed by the TMRS Board of Trustees and serves at the pleasure of 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 is a 19-member body composed of nine “Individual Representatives” 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 2011, the Advisory Committee was chaired by TMRS Trustee April Nixon, with Trustee Roy Rodriguez serving as vice chair. The members listed served on the committee as of December 31, 2011.

Individual Representatives

- Allen Bogard, City Manager, Sugar Land
- Ronald E. Cox, TMRS Retiree
- Michael Dane, Finance Director, San Angelo
- Dean Frigo, Assistant City Manager for Financial Services, Amarillo
- Victor Hernandez, City Councilmember, Lubbock
- Michelle R. Leftwich, Assistant City Manager/Planning Director, Mercedes
- Randle Meadows, President, Arlington Police Association
- Garry B. Watts, Mayor, Shenandoah
- Charles Windwehen, TMRS Retiree

Group Representatives

- Don Byrne, Texas Municipal Human Resources Association
- David Crow, Arlington Professional Fire Fighters
- Jerry Gonzalez, Service Employees International Union, San Antonio
- Scott Kerr, Texas State Association of Fire Fighters
- Kevin Lawrence, Texas Municipal Police Association
- Mike Perez, Texas City Management Association
- Nikki Ramos, City of San Antonio
- Bob Scott, Government Finance Officers Association of Texas
- Mike Staff, Combined Law Enforcement Associations of Texas
- Monty Wynn, Texas Municipal League

The following members of the Advisory Committee served during calendar year 2011, but their terms ended or they left their positions before the end of the year: Keith Brainard, City Councilmember, Georgetown; John Lewis, City Councilmember, North Richland Hills; Jim Moore, Assistant Fire Chief / Operations, Mesquite; Steven Segal, Mayor, West University Place; and Suzanne Levan, group class representative for the City of San Antonio.

Actuary

Gabriel, Roeder, Smith & Company

Custodian/Securities Lending Agent

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 Consultants

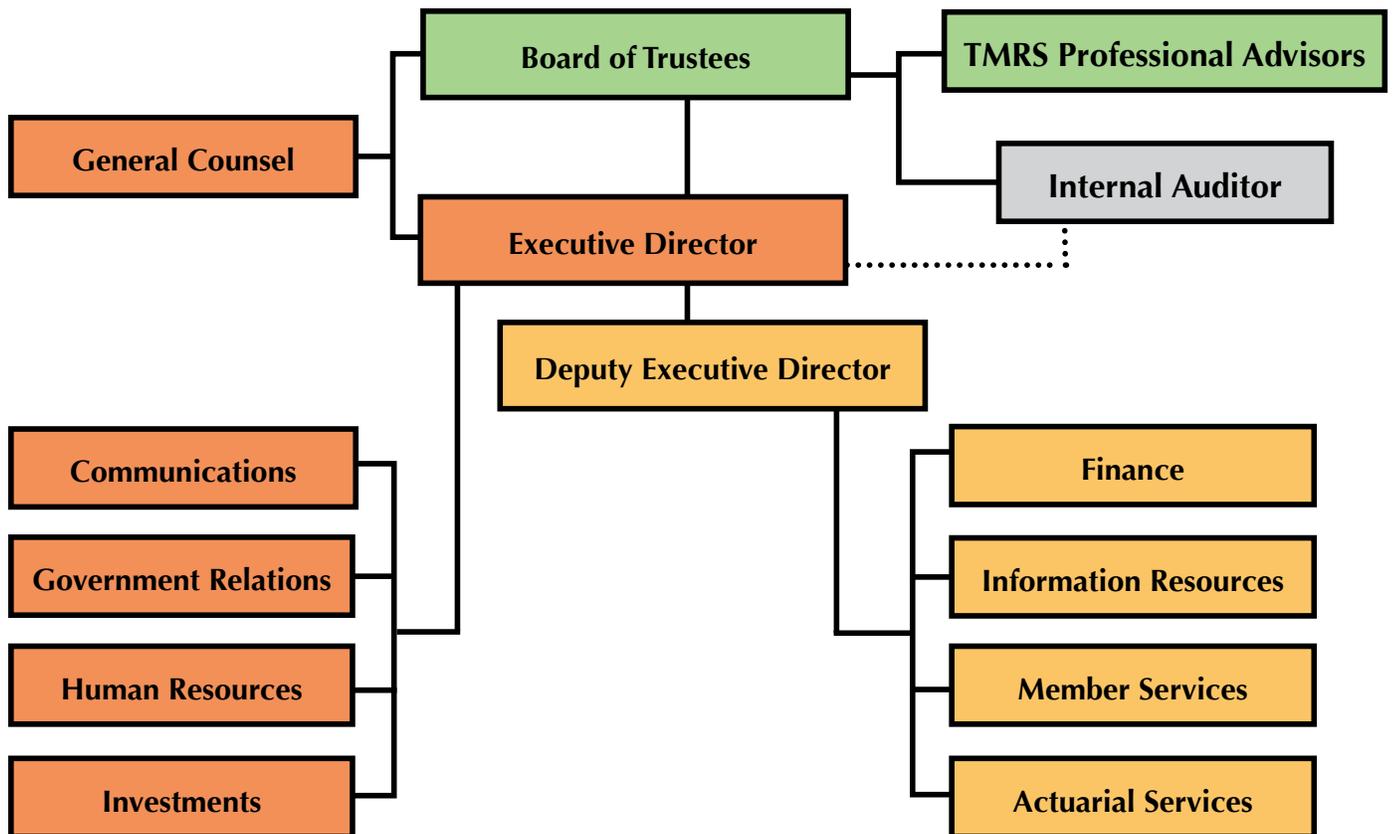
R.V. Kuhns & Associates, Inc.
ORG Portfolio Management, LLC

Medical Board

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

Note: A schedule of investment management fees, by external manager, is provided in the Investment Section of this report.

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 of Actuarial Services
Dan Wattles, Director of Governmental Relations
Bruce Boatright, General Services
LaShelle Ruiz, Administrative Assistant
Stacy White, Executive 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
Nadia Bhandari, Accounting Specialist – Receivables
Sherry Chapman, Investment Accountant
Gloria Figueroa, Accounting Specialist – Payables

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
Ming Cheung, Senior Software Developer
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
Steven Lohmeyer, Senior Systems Analyst

Charles Matthes, Network/Systems Administrator
Gretchen Meyer, Senior Systems Analyst
Tin-Sze Poon, Senior Software Developer
Anna Silva, Records Technician
Andy Solomon, Systems Analyst
Kevin Wang, Senior Software Architect

Investments

Nancy Goerdel, Chief Investment Officer
Holly Macki, Director of Real Estate
Dimitry Shishkoff, Director of Risk Management
Kristin Qualls, Director of Equities
Debbie Farahmandi, Investment Operations Specialist
Cindy Morse, Investment Support Analyst
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 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, Member Services Analyst I
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, pursuant to Sections 401(a) and 414 (h) (2). 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, apply for and 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 the 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 since January 1, 1982, 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, applied to the original monthly annuity.

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 exceeds the member's average monthly compensation for the highest 12 consecutive months during the three calendar years immediately before the year of retirement (indexed to the CPI-U). 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 this credit at a cost of \$15 per month of credit sought (purchase amount would increase the member's account balance), or may use the no-cost time-only provision. ♦