Texas Municipal Retirement System

1947  TMRS Created by the Texas Legislature

1950  $1 Million Invested

1985  $1 Billion Invested

2003  $10 Billion Invested

2012  $20 Billion Invested

First TMRS Annuitant Retires, 1949

Participating Cities

9

100

500

1948

1953

1985

1986

2012

2012

2012

2012

Public Pension Plan of the Year, 2010

Participating Cities

9

100

500

1948

1953

1985

1986

2012

2012

2012

2012

Participating Cities

9

100

500

1948

1953

1985

1986

2012

2012

2012

2012

142,883 Employee Accounts  •  42,931 Retirees  •  65 Years of Retirement Security

Prepared by: The Finance Department of the Texas Municipal Retirement System
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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, 2011

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.

Christoph P. Welle
President

Jeffrey E. Davis
Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

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. Wrinkle
Program Administrator
May 31, 2013

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, 2012. 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 2012 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 (including credited interest) plus employer matching contributions is used to calculate the member’s retirement benefit. As of December 31, 2012, TMRS had 849 member cities, 142,883 employee accounts, and 42,931 retired members.

Activity in 2012
Member accounts received an annual interest credit of 5% on December 31, 2012. In February 2013, the TMRS Board approved the distribution of the unallocated net investment income to the Benefit Accumulation Fund, with an approximate 9.95% interest credit to city accounts. In addition, the Trustees approved retaining the $100 million interest reserve balance that they established at the end of 2010.

The fund restructuring bill (SB 350) that was enacted by the Texas Legislature in 2011 resulted in lower contribution rates for many TMRS cities. TMRS staff increased communications with cities in 2012 to help them understand these rate changes.
In the legislative interim, TMRS convened five meetings of the Advisory Committee on Retirement Matters, a 19-member body representing employees, retirees, city management, and elected officials, to discuss potential legislation for the 2013 Session of the Texas Legislature and make recommendations to the Board of Trustees. The Advisory Committee recommended, and the Board concurred, that no legislation would be pursued in 2013.

Continued focus on public retirement programs in Texas and across the United States led to a report by the Texas Comptroller of Public Accounts’ office examining the funded status and structures of Texas’ systems. TMRS was one of three plans that met all three of the Comptroller’s benchmarks for financial stability.

The demand for member and retirement services continued to grow. Two new cities joined the System in 2012. Staff answered over 101,000 member requests for assistance and processed 2,995 new retirements in 2012, a 4% increase from the previous year.

TMRS continued to enhance customer service by providing online training for city payroll management and expanding the number of users of the City Portal (a tool to allow secure city access to member data via the internet). As of December 31, 2012, cities representing over half of our active membership had signed up to use the Portal. Use of the retirement estimate feature in MyTMRS (which provides members with secure online access to their personal data) continued to increase; the number of online retirement estimates grew to over 95,000. By comparison, estimates requested from member services representatives totaled over 20,000, and those run from the City Portal were approximately 3,300.

TMRS sends its members and retirees newsletters twice each year. To city personnel, we send an annual summary newsletter and regular (approximately monthly) e-mail bulletins to financial and administrative staff. We also offer an Annual Training Seminar, send rate letters to cities, and upgrade website features and content as needed. 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 260 visits to cities and presented ten Regional Pre-Retirement Seminars and two City Correspondent Certification Courses.

In late 2012, TMRS installed a new Unified Communications System that replaced staff telephones and improved call center functionality. Efforts to increase call center reporting, overall customer satisfaction, and overall efficiency continue as we transition from our old system to our new system.

**Investments**

TMRS follows these Total Portfolio Performance Objectives:

- Total Rate of Return, over rolling five-year periods, consistent with the assumed long-term rate of return on TMRS assets established by the actuary (currently 7%)
- Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e., Policy Index)

Until 2009, the TMRS investment objective was income-focused, consistent with the plan design that statutorily relied on income returns. As such, the investment portfolio was primarily focused on high quality, long-term fixed income securities. With passage of HB 360 in 2009, TMRS adopted a fully diversified asset allocation strategy. Diversification is being implemented through a deliberate multi-year process.
The asset allocation strategy is expected to meet the long-term total return objective of 7%, consistent with the actuarial interest rate assumption for the plan. This allows for a more conservative investment allocation, reflected in a lower equity allocation than the median plan sponsor in a peer universe of large public pension plans.

As described in the Investment Section of this CAFR, the overall one-year rate of return for 2012 on the investment portfolio was 10.1%. The Investment Section of this CAFR contains a detailed summary of investment operations during 2012, including performance of different asset classes and diversification progress.

**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 fifth actuarial valuation for the System for the fiscal year ended December 31, 2012.

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) — as well as 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 makes these Rate Letters available on our website. As of December 31, 2012, TMRS as a whole was 87.2% funded; this funded ratio increased from 85.1% in 2011. 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, 2012, 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, 2011. This was the 25th 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 2012 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,

Julie Oakley
Vice Chair, Board of Trustees

David Gavia
Executive Director

Rhonda H. Covarrubias
Director of Finance

1 This Transmittal Letter is signed by the 2012 Vice Chair of the Board of Trustees instead of the 2012 Chair, who was H. Frank Simpson, now deceased.
2012 Distribution of Membership
by City Matching Rate

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<th>City Matching Rate</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.5 to 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 to 1</td>
<td></td>
<td></td>
<td></td>
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</tbody>
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* This rate is no longer allowed for new cities.

2012 Distribution of Membership
by Contribution Rate (Employee Deposit Rate)

<table>
<thead>
<tr>
<th>Contribution Rate</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7%</td>
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Employee Accounts | 141,372 | 141,532 | 142,883 |
Retired Members  | 38,260  | 40,534  | 42,931  |
New Employee Members | 10,303 | 11,619  | 13,176  |
Terminated Employee Members | 7,417  | 7,550   | 7,500   |
Amount Paid to Terminated Members | $49.0 mil | $55.7 mil | $57.8 mil |
New Retirements   | 2,754  | 2,874  | 2,995  |
Total Amount Paid to Retirees | $743.5 mil | $810.3 mil | $864.9 mil |
Interest Rate on Employee Deposits | 5.0%  | 5.0%   | 5.0%   |
Interest Rate on Municipality Deposits | 7.50% | 2.37%  | 9.95%  |
Member Cities     | 842    | 847    | 849    |
Cities Beginning Participation | 5     | 5      | 2      |
Cities that:
- Adopted Updated Service Credit (USC) | 587   | 587    | 596    |
- Reduced Percentage or Rescinded USC | 4     | 2      | 3      |
- Adopted Annuity Increases to Retirees (AI) | 474   | 474    | 476    |
- Reduced or Rescinded AI | 14    | 10     | 6      |
- Increased Employee Contribution Rate | 7     | 20     | 8      |
- Increased City Matching Ratio | 6     | 15     | 17     |
- Reduced City Matching Ratio | 3     | 1      | -      |
- Adopted Supplemental Death Benefits | -     | 3      | 3      |
- Rescinded Supplemental Death Benefits | 2     | 2      | -      |
- Adopted 5-Year Vesting | 1     | 1      | 1      |
- Adopted 20-Year, Any Age Retirement | 5     | 6      | 4      |
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” (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.

1 Frank Simpson passed away in April 2013. This CAFR is dedicated to Mr. Simpson (see inside front cover).
2 Effective in April 2013, Ms. Oakley accepted employment in a non-TMRS city but continues to serve as a Trustee until a successor is duly qualified.
3 On March 1, 2013, Governor Rick Perry appointed Bill Philibert, Director of Human Resources and Risk Management for the City of Deer Park, to replace Board Member Ben Gorzell, Chief Financial Officer for the City of San Antonio. Mr. Gorzell was appointed to the TMRS Board of Trustees in 2008 and served as Board Chair in 2010. TMRS thanks Mr. Gorzell for his years of dedicated service.

---

**TMRS Board of Trustees**

- **H. Frank Simpson, 2012 Chair**
  - City Manager
  - College Station
  - Term expires: February 1, 2015

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

- **Julie Oakley, CPA, 2012 Vice Chair**
  - Director of Finance
  - Lakeway
  - Term expires: February 1, 2019

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

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

- **Roel “Roy” Rodriguez, PE**
  - Assistant City Manager / MPU General Manager
  - McAllen
  - Term expires: February 1, 2017

---

**TMRS Executive Director**

- **David Gavia**
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 2012, the Advisory Committee was chaired by TMRS Trustee H. Frank Simpson. The members listed below served on the committee as of December 31, 2012.

**Individual Representatives**
- Allen Bogard, City Manager, Sugar Land
- Ronald E. Cox, TMRS Retiree
- Michael Dane, Assistant City Manager/Chief Financial Officer, San Angelo
- Dean Frigo, TMRS Retiree
- Victor Hernandez, City Councilmember, Lubbock
- Randle Meadows, President, Arlington Police Association
- Neil Resnik, City Councilmember, Addison
- Wayne Riddle, Mayor, Deer Park
- Charles Windwehen, TMRS Retiree

**Group Representatives**
- Joe Angelo, City of San Antonio
- 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
- Debbie Maynor, Texas Municipal Human Resources Association
- Mike Perez, Texas City Management Association
- 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 2012, but were not members at year-end: Michelle Leftwich, Assistant City Manager/Planning Director, Mercedes; Garry B. Watts, Mayor, Shenandoah; Nikki Ramos and Flor Garcia, group class representatives for the City of San Antonio; and Don Byrne, group class representative for the Texas Municipal Human Resources Association.
Note: A schedule of investment management fees, by external manager, is provided in the Investment Section of this report.

* Effective January 1, 2013, TMRS appointed Deutsche Bank AG as its securities lending agent.
Executive and Administrative
David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Ian Allan, Director of 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
Sherry Chapman, Investment Accountant
Nadia Bhandari, Accounting Specialist - Receivables
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
Martin Burke, Business Process Analyst
Ming Cheung, Senior Software Developer
Chyrlayne Crockett, Records Technician
Blanca DaCosta-Cruz, Quality Assurance Analyst
Chris Gillis, Computer Support Specialist
David Himawan, Database Administrator/Developer
Monica Kache, Systems Analyst for Financial Applications
Steven Lohmeyer, Senior Software Developer
Charles Matthes, Network/Systems Administrator
Gretchen Meyer, Senior Systems Analyst
Tin-Sze Poon, Senior Software Developer
Joseph Roberts, Network/Systems Administrator
Brittany Royal, Records Technician
Christel Tambunga, Records Technician
Kevin Wang, Senior Software Developer

Investments
Nancy Goerdel, Chief Investment Officer
Holly Macki, Director of Real Estate
Bonnie Mitra, Director of Fixed Income
Kristin Qualls, Director of Equities
Dimitry Shishkoff, Director of Risk Management
Debbie Farahmandi, Investment Operations Specialist
Howell Hollis, Investment Analyst II
Carol Leung, Investment Analyst II
Cindy Morse, Investment Support Analyst
Kate Reed, Investment Risk Analyst
Eddie Schultz, Investment Analyst II

Legal
Christine Sweeney, General Counsel
Michelle Mellon-Werch, Associate General Counsel
Nicholas O’Keefe, Senior Staff Attorney
Tish Root, Legal Assistant

Member Services
Debbie Muñoz, Director of Member Services
Chad Nichols, Member Services Manager
Vikki Vasquez, Member Services Manager
Peter Jeske, Member Services Project Specialist
Jay Adams, Member Services Analyst II
Jade Danh, Member Services Analyst I
Debbie Davila, Member Services Analyst II
David Eastwood, Member Services Analyst I
Natalie Garza, 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
Patricia King, Member Services Administrative Aide
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
Anna Silva, Member Services Analyst I
Wade Slaton, Member Services Analyst II
Leslie Smith, Member Services Analyst II
Tricia Solis, Support Services Analyst
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
Summary of Plan Provisions

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 at a 5% rate, based on the balance in the account on January 1 of that year. In the year of retirement, interest will be prorated for the months of service in that 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
- Any age with 20 years of service
- Age 60 with 10 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 to recalculate 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. If there is a difference between the recalculated amount and the actual account balances, a percentage (50%, 75%, or 100%) of this difference is granted to the employee, funded by the participating municipality, as the Updated Service Credit. 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 the 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.

Section 415(b) of the Internal Revenue Code limits the amount of an annual benefit that may be paid by a pension plan’s trust to its retirees. This provision is known as the Section 415 limit, which is set by Congress and can be periodically adjusted by the IRS. Any portion of a retiree’s annual benefit that exceeds the Section 415 limit cannot be paid from the TMRS trust fund. However, Internal Revenue Code Section 415(m) allows pension plans to create a separate fund, known as a qualified governmental excess benefit arrangement, to pay the benefits above the Section 415 limit. Accordingly, the TMRS Act established such an arrangement, which is referred to as the “Full Benefit Arrangement”. Additional details are made available to affected retirees if they will reach the Section 415 limit in any given year.

Annuity Increases (COLAs)

A member city may elect to increase the annuities of its retirees (grant a COLA), 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.
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.

This discussion is an informal presentation of the TMRS Act. If any specific questions of fact or law should arise, the statutes will govern.◆