

TMRS 2012 Summary Annual Financial Report

For the Year Ended December 31, 2012



The Texas Municipal Retirement System (TMRS, or, the System) prepares this report annually to provide you with an overview of how the System has performed financially in the past year. This report describes the accomplishments TMRS made this year to serve members, cities, and retirees.

TMRS in 2012

- The System continued to diversify its investment portfolio by expanding the real estate asset class and further diversifying other asset classes. As of December 31, 2012, TMRS had committed \$650 million to private real estate funds, of which \$312.5 million was funded as of year-end. In addition, TMRS added active strategies in the domestic and foreign equities asset classes, hiring two new external equity fund managers.
- The overall one-year rate of return on the investment portfolio was 10.11%, with domestic and international equities the best performing asset classes, earning 16.33% and 17.23%, respectively, while the return on fixed income was 4.94%.
- Member municipalities received a 9.95% interest credit on their January 1, 2012, Benefit Accumulation Fund balances.
- As of December 31, 2012, TMRS as a whole was 87.2% funded. This funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- TMRS staff answered over 101,000 member requests for assistance and processed 2,995 new retirements in 2012.
- Two new cities joined the System in 2012. At year-end 2012, TMRS administered plans for 849 member cities that included:
 - 142,883 employee accounts
 - 42,931 retired members

Contact Us

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TMRS Board of Trustees (as of December 31, 2012)

The six members of TMRS' Board of Trustees are appointed by the Governor with the advice and consent of the Senate. Board members serve six-year terms and have fiduciary oversight of the System. The Board adopts investment and other policies; appoints the Executive Director; and selects financial, medical, legal, and other experts to perform important services for TMRS.

This Summary Annual Financial Report is dedicated to TMRS Board Member H. Frank Simpson, who passed away in April 2013.

H. Frank Simpson, 2012 Chair
City Manager, College Station

Julie Oakley, CPA, 2012 Vice Chair
Director of Finance, Lakeway

Ben Gorzell
Chief Financial Officer, San Antonio

April Nixon
Chief Financial Officer, Arlington

Jim Parrish
Human Resources Director, Plano

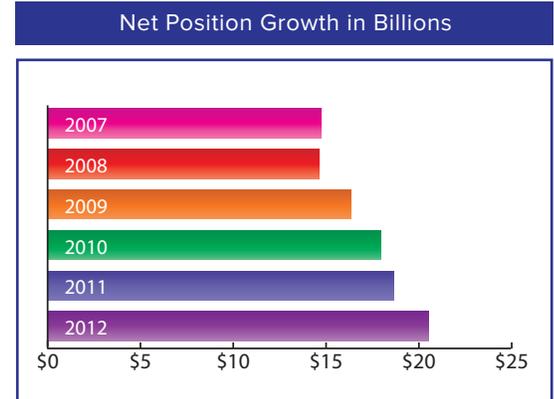
Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager, McAllen

Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at both year-end 2012 and 2011. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair market value, make up the largest portion of the net position held in trust for pension benefits, and reflect an increase in net appreciation from year-end 2011 to 2012. As a result of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2012 and 2011, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$6.1 million and \$15.4 million, respectively, is reflected in the Statements of Plan Net Position. The reduction in the securities lending collateral asset and liability from 2011 to 2012 reflects a significant decline in securities lending activity in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013.

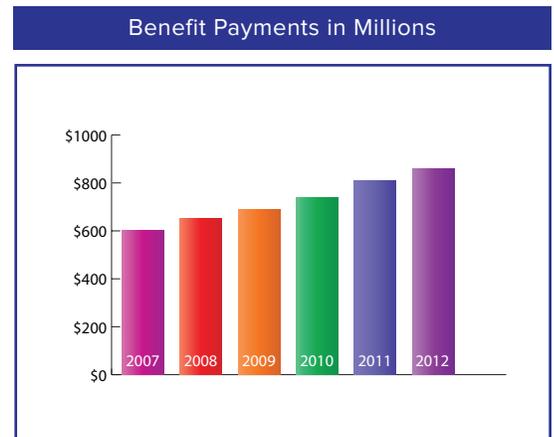
Summary Comparative Statements of Plan Net Position As of December 31, 2012 and 2011		
	2012	2011
ASSETS		
Investments, at fair value	\$ 20,627,559,696	\$ 18,464,825,574
Receivables and other	1,808,700,141	1,666,432,835
Invested securities lending collateral	147,077,460	1,688,567,121
Capital assets, net	9,049,918	9,261,818
TOTAL ASSETS	22,592,387,215	21,829,087,348
LIABILITIES		
Payables and accrued liabilities	1,923,350,813	1,526,807,921
Funds held for Supplemental Death Benefits Fund	25,249,880	27,026,910
Securities lending collateral	153,187,500	1,703,958,593
TOTAL LIABILITIES	2,101,788,193	3,257,793,424
NET POSITION	\$ 20,490,599,022	\$ 18,571,293,924



The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is comprised of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation in the fair value of investment securities.

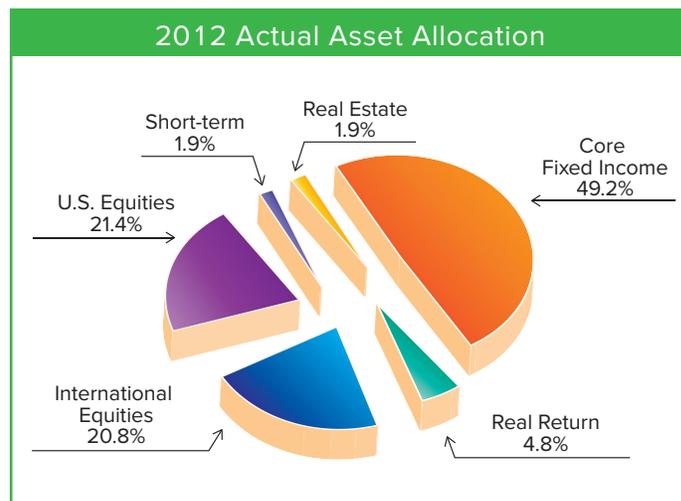
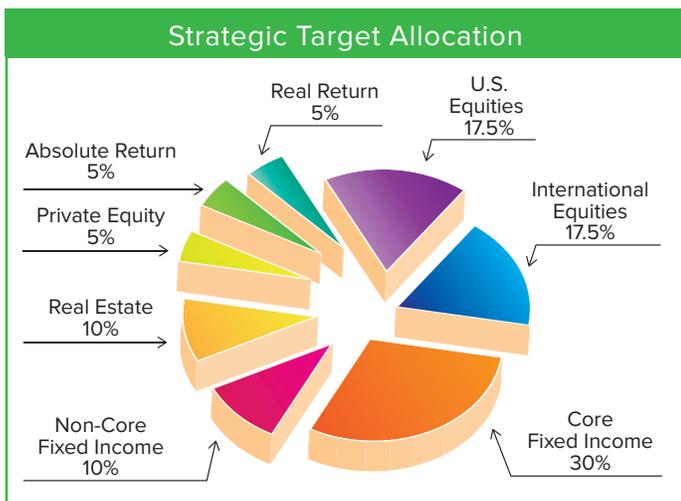
Net investment income earned in 2012 reflects a significant increase from 2011 earnings, primarily affected by the unrealized gains in the equities asset classes. The total return on TMRS' investment portfolio of 10.11% (compared with 2.41% in 2011), enabled the Board to credit 9.95% to municipality accounts while member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retired members (from 40,534 in 2011 to 42,931 in 2012).

Summary Comparative Statements of Changes in Plan Net Position For the Years Ended December 31, 2012 and 2011		
	2012	2011
ADDITIONS		
Contributions and other	\$ 992,229,434	\$ 1,022,789,196
Net investment income	1,863,280,541	434,765,653
TOTAL ADDITIONS	2,855,509,975	1,457,554,849
DEDUCTIONS		
Benefit payments	864,937,039	810,317,265
Refunds of contributions	57,842,723	55,666,288
Allocation to Supplemental Death Benefits Fund	1,310,740	1,331,570
Administrative expenses and other	12,114,375	11,439,672
TOTAL DEDUCTIONS	936,204,877	878,754,795
CHANGE IN NET POSITION	1,919,305,098	578,800,054
NET POSITION		
BEGINNING OF YEAR	18,571,293,924	17,992,493,870
END OF YEAR	\$ 20,490,599,022	\$ 18,571,293,924



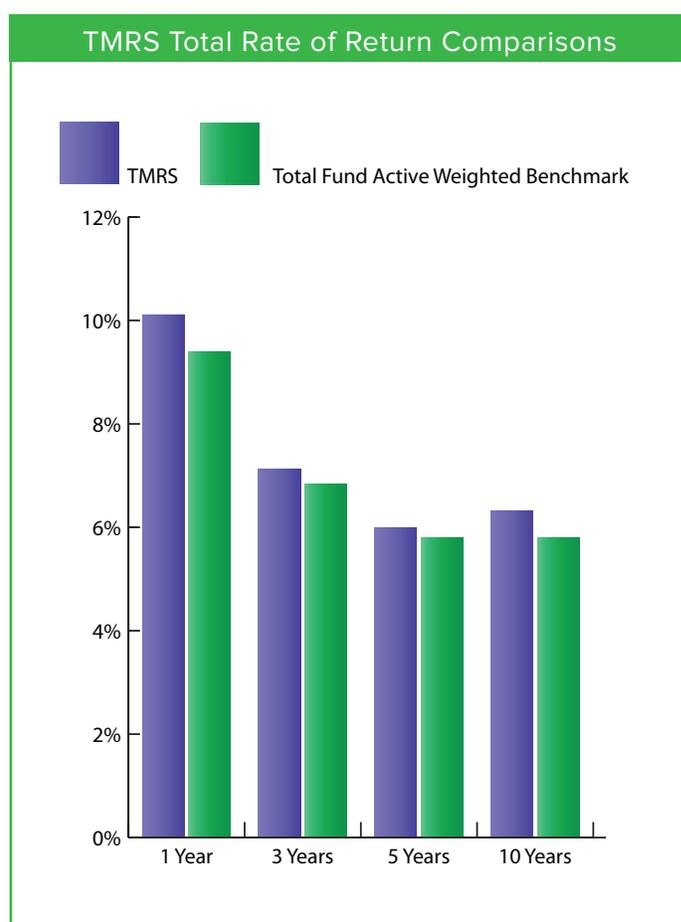
Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Eleven professionals on TMRS' staff oversee the System's investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS, and, as presented below, establishes target asset allocations, with implementation over a multi-year period.



Initiatives during 2012 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

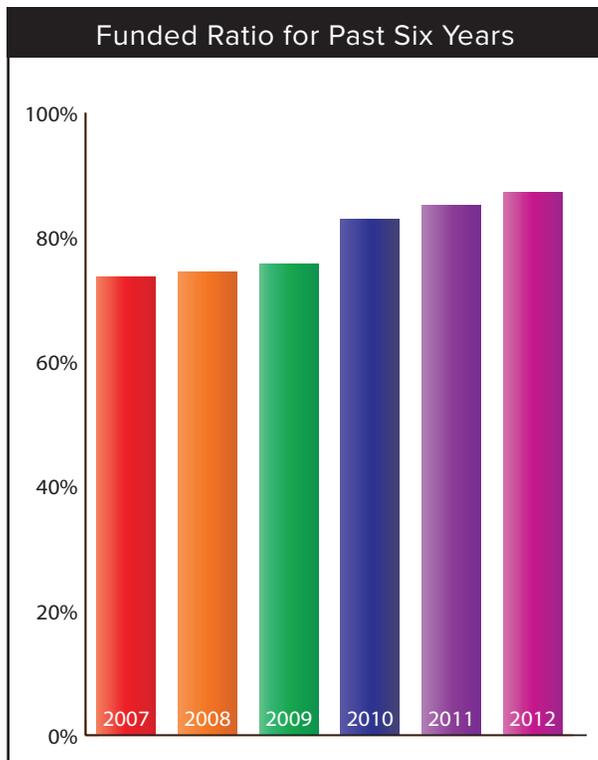
The total return on TMRS' investment portfolio was 10.11% in 2012. The following table compares TMRS' actual returns to policy benchmark returns.



Reporting Standards

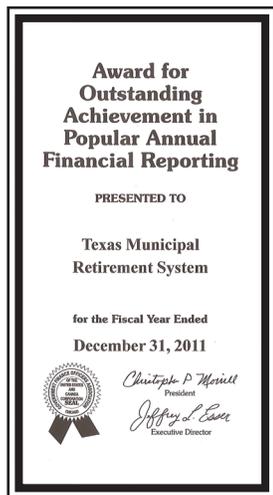
This Summary Annual Financial Report is derived from the *TMRS 2012 Comprehensive Annual Financial Report for the Year Ended December 31, 2012* (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared in accordance with GAAP and is subject to external audit. In contrast, this summary report provides information only for the TMRS Pension Trust Fund and is presented at a more condensed level. If you would like to review / print a copy of the CAFR, please download the PDF version from www.tmr.com.

TMRS' Funded Status Continues to Improve



- Perhaps the most important factor that affects the soundness of a retirement program is the employer funding policy. Under TMRS law, all cities pay the actuarially determined contribution needed to fully fund benefits.
- One common measure of the soundness of a retirement plan is the plan's funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive, but an even more meaningful measure of soundness is whether the funded ratio increases from year to year. As certified by the System's actuary, Gabriel Roeder Smith & Company, as of December 31, 2012, TMRS as a whole was 87.2% funded; this funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- A key assumption that affects the long-term stability of a retirement plan is the future long-term annual rate of investment earnings. TMRS uses a conservative 7% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques." The 7.0% long-term rate of return assumption continues to be appropriate for TMRS.

Awards



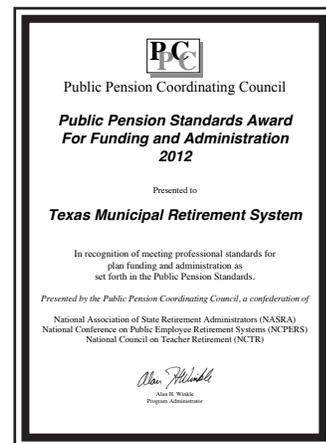
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2011.

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

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

TMRS also received the 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.



TMRS Mission Statement

To deliver secure and competitive retirement plans through a professionally managed organization that anticipates diverse needs; provides quality services; and openly and effectively communicates with members, retirees, and cities.