

TMRS 2013 Summary Annual Financial Report

For the Year Ended December 31, 2013



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 2013

- 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, 2013, TMRS had committed \$1.15 billion to private real estate funds, of which \$537.4 million was funded as of year-end. In addition, in late 2013 TMRS implemented additional active strategies in the domestic equities asset class, hiring two new external equity managers to manage investment portfolios of \$200 million each.
- The overall one-year rate of return on the investment portfolio was 9.86%, with domestic and international equities the best performing asset classes, earning 33.20% and 16.33%, respectively, while the return on fixed income was -1.94%.
- Member municipalities received an approximate 9.70% interest credit on their January 1, 2013 Benefit Accumulation Fund balances.
- As of December 31, 2013, TMRS as a whole was 84.1% funded. This funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.
- TMRS staff answered over 101,000 member requests for assistance and processed 3,317 new retirements in 2013.
- Two new cities joined the System in 2013. At year-end 2013, TMRS administered plans for 850 member cities that included:
 - 145,448 employee accounts
 - 45,580 retired members

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TMRS Board of Trustees (as of December 31, 2013)

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.

Roel "Roy" Rodriguez, PE, 2013 Chair
City Manager, McAllen

April Nixon¹
Chief Financial Officer, Arlington

Jim Parrish, 2013 Vice Chair
Deputy City Manager — Administrative Services, Plano

Julie Oakley, CPA
Director of Finance, Lakeway

David Landis
City Manager, Perryton

Bill Philibert
Human Resources Director, Deer Park

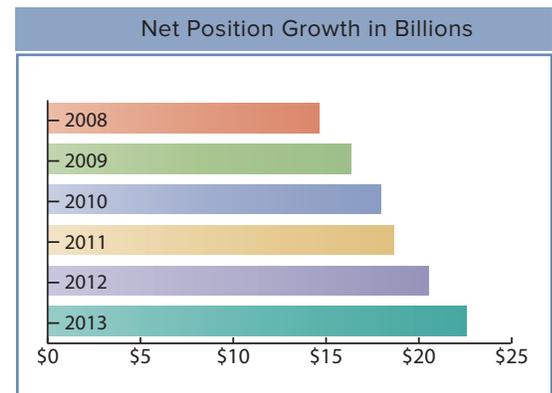
¹ On December 26, 2013, Governor Rick Perry appointed James "Jim" Paul Jeffers of Nacogdoches to replace Board Member April Nixon of Arlington, who retired in late 2013.

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 2013 and 2012. 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 due to net appreciation in value from year end 2012 to 2013. As a result of our participation in a securities lending program, we are required to report both the asset and the related liability of the collateral received for securities on loan at year end. At December 31, 2013 and 2012, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$4.2 million and \$6.1 million, respectively, is reflected in the Statements of Plan Net Position. The significant increase in the securities lending collateral asset and liability from 2012 to 2013 was due to the winding down of lending activity at year end 2012 in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013, at which time lending activity resumed.

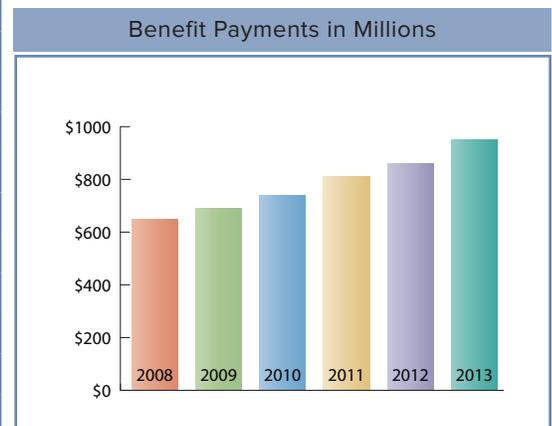
Summary Comparative Statements of Plan Net Position As of December 31, 2013 and 2012		
	2013	2012
ASSETS		
Investments, at fair value	\$ 23,868,363,416	\$ 20,627,559,696
Cash, receivables and other	1,241,750,049	1,808,700,141
Invested securities lending collateral	1,886,115,119	147,077,460
Capital assets, net	<u>8,449,172</u>	<u>9,049,918</u>
TOTAL ASSETS	27,004,677,756	22,592,387,215
LIABILITIES		
Payables and accrued liabilities	2,622,251,033	1,923,350,813
Funds held for Supplemental Death Benefits Fund	23,421,789	25,249,880
Securities lending collateral	<u>1,890,371,310</u>	<u>153,187,500</u>
TOTAL LIABILITIES	4,536,044,132	2,101,788,193
NET POSITION	\$ 22,468,633,624	\$ 20,490,599,022



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.

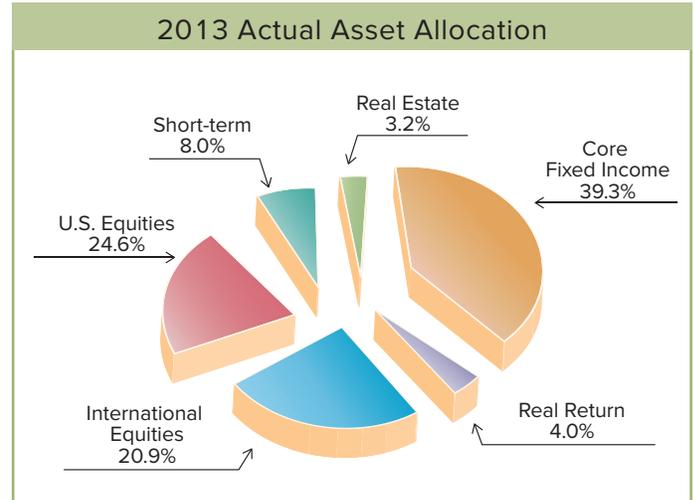
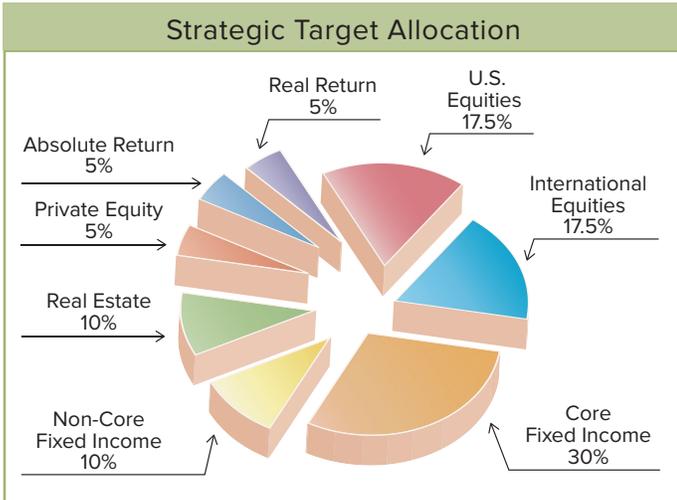
Net investment income in 2013 and 2012 was significantly affected by the unrealized gains recognized in the equities asset classes. The total return on TMRS' investment portfolio was 9.86% and 10.11% in 2013 and 2012, respectively. Investment earnings in 2013 enabled the Board to credit 9.70% to municipality accounts while maintaining a reserve of \$100 million; 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 42,931 in 2012 to 45,580 in 2013).

Summary Comparative Statements of Changes in Plan Net Position For the Years Ended December 31, 2013 and 2012		
	2013	2012
ADDITIONS		
Contributions and other	\$ 1,021,394,107	\$ 992,229,434
Net investment income	<u>1,974,888,477</u>	<u>1,863,280,541</u>
TOTAL ADDITIONS	2,996,282,584	2,855,509,975
DEDUCTIONS		
Benefit payments	946,496,522	864,937,039
Refunds of contributions	57,727,674	57,842,723
Allocation to Supplemental Death Benefits Fund	1,202,065	1,310,740
Administrative expenses and other	<u>12,821,721</u>	<u>12,114,375</u>
TOTAL DEDUCTIONS	1,018,247,982	936,204,877
CHANGE IN NET POSITION	1,978,034,602	1,919,305,098
NET POSITION		
BEGINNING OF YEAR	<u>20,490,599,022</u>	<u>18,571,293,924</u>
END OF YEAR	\$ 22,468,633,624	\$ 20,490,599,022



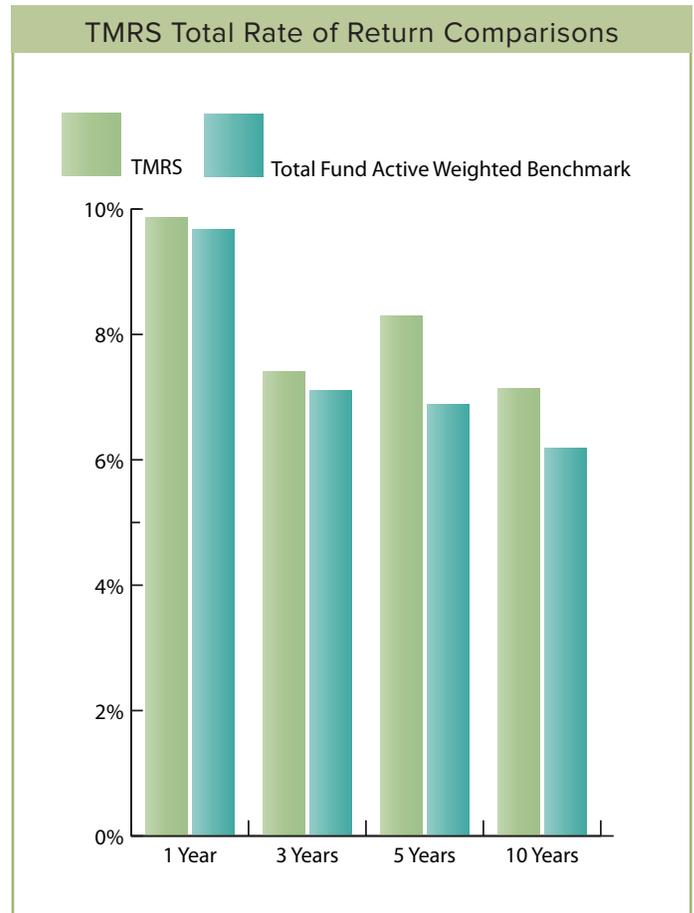
Investments

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 2013 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

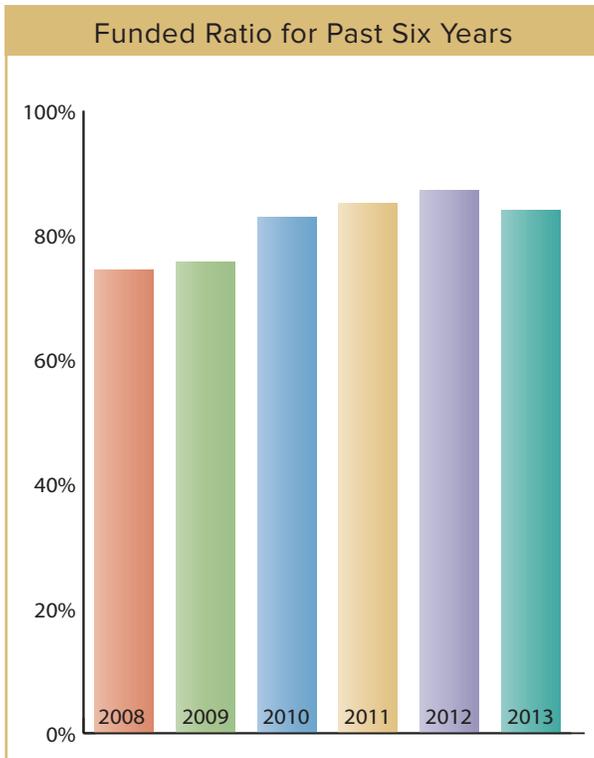
The total return on TMRS' investment portfolio was 9.86% in 2013. The table at right compares TMRS' actual returns to policy benchmark returns.



Reporting Standards

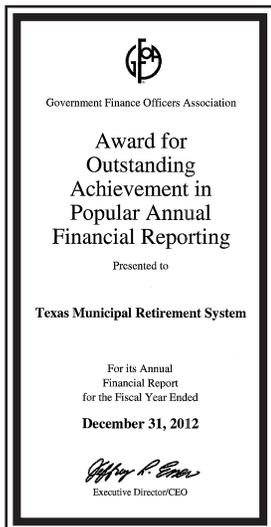
This Summary Annual Financial Report is derived from the *TMRS 2013 Comprehensive Annual Financial Report for the Years Ended December 31, 2013 and 2012 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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



- 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. As certified by the System's actuary, Gabriel Roeder Smith & Company, as of December 31, 2013, TMRS as a whole was 84.1% funded; this funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.
- 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, 2012.

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 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 2013 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.