

# TMRS 2014 Summary Annual Financial Report

For the Year Ended December 31, 2014



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 2014

- The System continued to diversify its investment portfolio by funding the absolute return and non-core fixed income asset classes, as well as expanding the real estate asset class and further diversifying within other asset classes. As of December 31, 2014, TMRS had committed \$1.4 billion and £50 million (British pounds) to private real estate funds, of which \$870.3 million was funded as of year-end. In addition, in late 2014 TMRS funded four non-core fixed income managers totaling \$900 million and a hedge fund-of-funds manager in the amount of \$1.1 billion.
- The overall one-year rate of return on the investment portfolio was 6.0%, with real estate and domestic equities the best performing asset classes, earning 20.4% and 12.6%, respectively.
- In preparation for the new GASB Statements Numbers 67 and 68, TMRS engaged KPMG LLP to perform a SOC 1 Type 2 audit, with the report issued in May 2015. Throughout 2014, TMRS continued its communications to cities about the upcoming changes under the new governmental accounting standards.
- By law, member accounts were credited 5% to their accounts as of January 1, 2014. Member municipalities received an approximate 5.7% interest credit on their January 1, 2014 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 7.5%.
- TMRS made significant progress in 2014 toward developing **TMRSDirect™**, its “straight-through processing” initiative for member and city self-service.
- As of December 31, 2014, TMRS as a whole was 85.8% funded. This funded ratio increased from 84.1% in 2013.
- TMRS staff answered over 101,000 member requests for assistance and processed 3,675 new retirements in 2014.
- Ten new cities joined the System in 2014. At year-end 2014, TMRS administered plans for 860 member cities that included:
  - 149,073 employee accounts
  - 53,455 retirement accounts

### Contact Us

800.924.8677

[phonecenter@tmrs.com](mailto:phonecenter@tmrs.com)

[www.tmrs.com](http://www.tmrs.com)

## TMRS Board of Trustees (as of December 31, 2014)

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, 2014 Chair**  
City Manager, McAllen

**David Landis**  
City Manager, Perryton

**Julie Oakley, CPA, 2014 Vice Chair**  
Director of Finance, Lakeway

**Jim Parrish**  
Deputy City Manager – Administrative Services, Plano

**James “Jim” Paul Jeffers**  
City Manager, Nacogdoches

**Bill Philibert**  
Human Resources Director, Deer Park

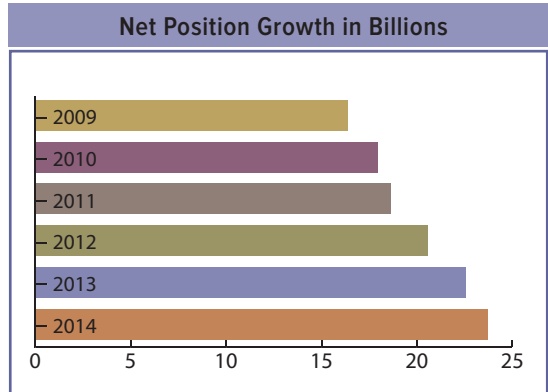
# Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2014, 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 2014. 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, 2014, 2013, and 2012, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$2.6 million, \$4.3 million, and \$6.1 million, respectively, is reflected in the Statements of Fiduciary Net Position.

Summary Comparative Statements of Fiduciary Net Position As of December 31, 2014, 2013, and 2012			
	2014	2013	2012
<b>ASSETS</b>			
Investments, at fair value	\$ 23,896,100,903	\$ 23,868,363,416	\$ 20,627,559,696
Cash, receivables and other	1,602,558,921	1,241,750,049	1,808,700,141
Invested securities lending collateral	1,030,835,345	1,886,115,119	147,077,460
Capital assets, net	<u>7,889,360</u>	<u>8,449,172</u>	<u>9,049,918</u>
<b>TOTAL ASSETS</b>	<b>26,537,384,529</b>	<b>27,004,677,756</b>	<b>22,592,387,215</b>
<b>LIABILITIES</b>			
Payables and accrued liabilities	1,754,249,820	2,622,251,033	1,923,350,813
Funds held for Supplemental Death Benefits Fund	22,176,214	23,421,789	25,249,880
Securities lending collateral	<u>1,033,480,569</u>	<u>1,890,371,310</u>	<u>153,187,500</u>
<b>TOTAL LIABILITIES</b>	<b>2,809,906,603</b>	<b>4,536,044,132</b>	<b>2,101,788,193</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 23,727,477,926</b>	<b>\$ 22,468,633,624</b>	<b>\$ 20,490,599,022</b>

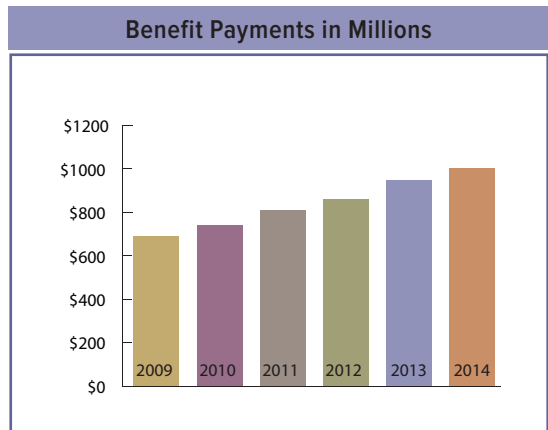


The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been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

Net investment income in 2014, 2013, and 2012 was most significantly affected by the unrealized gains/(losses) recognized in the domestic and international equities asset classes. The total return on TMRS' investment portfolio was 6.0%, 9.9%, and 10.1% in 2014, 2013 and 2012, respectively. Investment earnings in 2014 enabled the Board to credit approximately 5.7% to municipality accounts

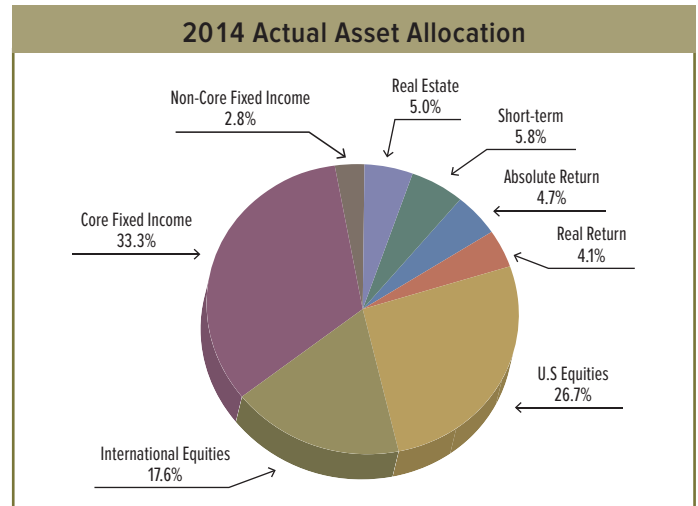
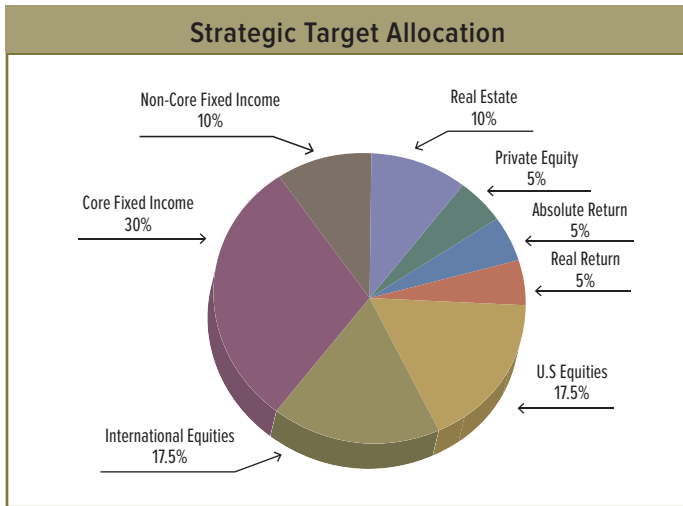
while maintaining a reserve of \$100 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retirement accounts (from 46,902 in 2012 to 53,455 in 2014).

Summary Comparative Statements of Changes in Fiduciary Net Position For the Years Ended December 31, 2014, 2013, and 2012			
	2014	2013	2012
<b>ADDITIONS</b>			
Contributions and other	\$ 1,075,347,736	\$ 1,021,394,107	\$ 992,229,434
Net investment income	<u>1,285,344,179</u>	<u>1,974,888,477</u>	<u>1,863,280,541</u>
<b>TOTAL ADDITIONS</b>	<b>2,360,691,915</b>	<b>2,996,282,584</b>	<b>2,855,509,975</b>
<b>DEDUCTIONS</b>			
Benefit payments	1,028,572,120	946,496,522	864,937,039
Refunds of contributions	58,723,123	57,727,674	57,842,723
Allocation to Supplemental Death Benefits Fund	1,132,803	1,202,065	1,310,740
Administrative expenses	<u>13,419,567</u>	<u>12,821,721</u>	<u>12,114,375</u>
<b>TOTAL DEDUCTIONS</b>	<b>1,101,847,613</b>	<b>1,018,247,982</b>	<b>936,204,877</b>
<b>CHANGE IN NET POSITION</b>	<b>1,258,844,302</b>	<b>1,978,034,602</b>	<b>1,919,305,098</b>
<b>NET POSITION</b>			
<b>BEGINNING OF YEAR</b>	<u>22,468,633,624</u>	<u>20,490,599,022</u>	<u>18,571,293,924</u>
<b>END OF YEAR</b>	<b>\$ 23,727,477,926</b>	<b>\$ 22,468,633,624</b>	<b>\$ 20,490,599,022</b>



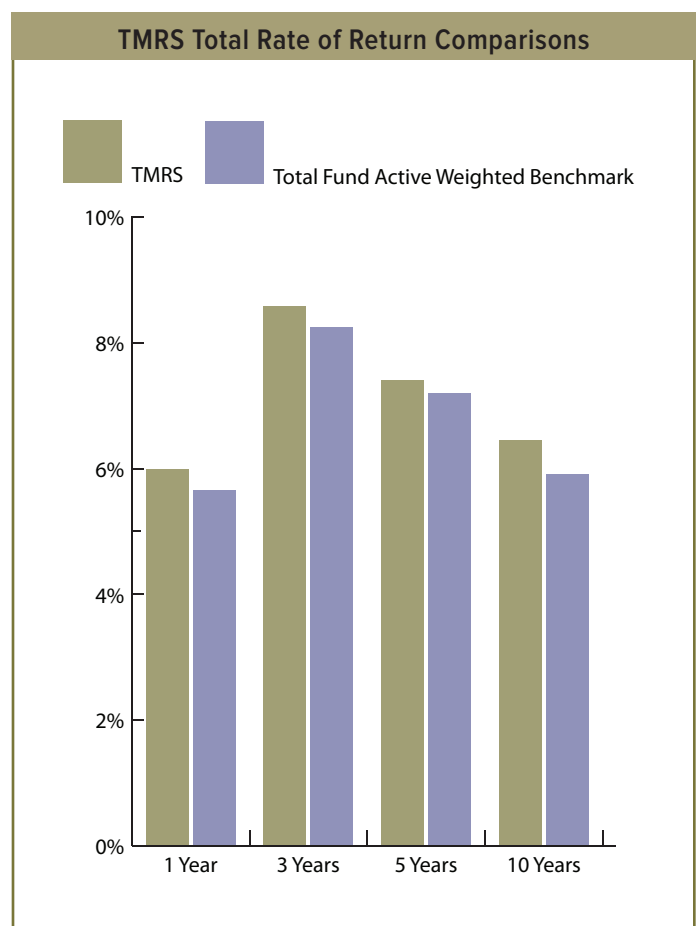
# Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Fourteen 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 2014 toward this strategic target allocation included funding of non-core investments and absolute return assets (hedge funds), as well as continued investment in the real estate asset class.

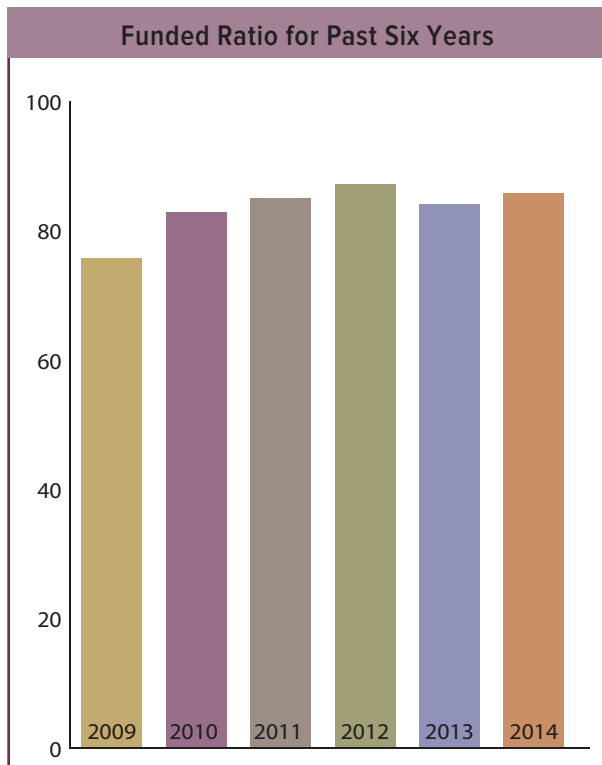
The total return on TMRS' investment portfolio was 6.0% in 2014. The table (right) compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.



## Reporting Standards

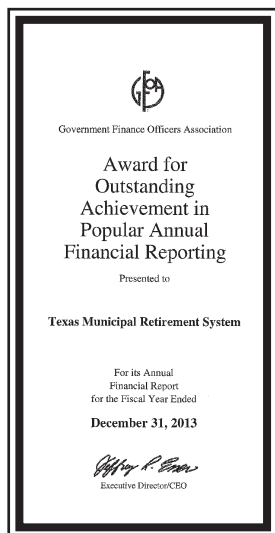
This Summary Annual Financial Report is derived from the *TMRS 2014 Comprehensive Annual Financial Report for the Years Ended December 31, 2014 and 2013 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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.tmrs.com](http://www.tmrs.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, 2014, TMRS as a whole was 85.8% funded; this funded ratio increased from 84.1% in 2013.
- 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 7% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques."

## Awards



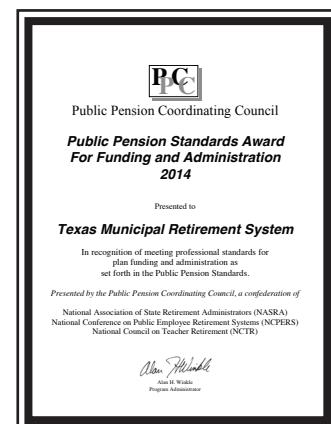
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2013.

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 2014 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.