

# TMRS 2015 Summary Annual Financial Report

For the Year Ended December 31, 2015



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 2015

- TMRS' consulting actuary, GRS, conducted an actuarial experience investigation study for the period ending December 31, 2014. The Board considered recommendations on assumptions and adopted several changes, including a reduction in the inflation assumption from 3.00% to 2.50% and a reduction in the investment return assumption from 7.00% to 6.75%.
- After a detailed Asset Allocation review during 2015, TMRS adopted a new, more diversified asset allocation strategy. The updated strategy is expected to meet the new, lower, long-term total return objective of 6.75%, consistent with the actuarial investment return assumption for the plan.
- In preparation for GASB Statement No. 68, TMRS engaged KPMG LLP to complete the System's first annual SOC-1 Type 2 audit in 2015. Throughout 2015, TMRS continued its communications to cities and provided them with resources to assist with implementation of the new GASB requirements.
- The overall one-year gross rate of return on the investment portfolio was 0.34%, enabling the Board to credit member municipalities with approximately 0.06% interest on their January 1, 2015 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 6.69%. By law, member accounts were credited 5% to their accounts as of December 31, 2015.
- TMRS made significant progress in 2015 toward developing **TMRSDirect™**, its "straight-through processing" initiative for member and city self-service. MyTMRS® and the City Portal are the two online programs under the **TMRSDirect** initiative.
- As of December 31, 2015, TMRS as a whole was 85.8% funded; this funded ratio remained unchanged from 2014.
- TMRS staff answered over 101,100 member requests for assistance and processed 3,302 new retirements in 2015.
- Seven new cities joined the System in 2015. At year-end 2015, TMRS administered plans for 866 member cities that included:
  - 157,601 employee accounts
  - 56,481 retirement accounts

**Contact Us:** 800.924.8677 • [help@tmrs.com](mailto:help@tmrs.com) • [www.tmrs.com](http://www.tmrs.com)

## TMRS Board of Trustees (as of December 31, 2015)

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.

**Julie Oakley, CPA, 2015 Chair**  
Director of Finance, Lakeway

**David Landis**  
City Manager, Perryton

**Jim Parrish, 2015 Vice Chair**  
Deputy City Manager – Administrative Services, Plano

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

**James "Jim" Paul Jeffers**  
City Manager, Nacogdoches

**Roel "Roy" Rodriguez, PE**  
City Manager, McAllen

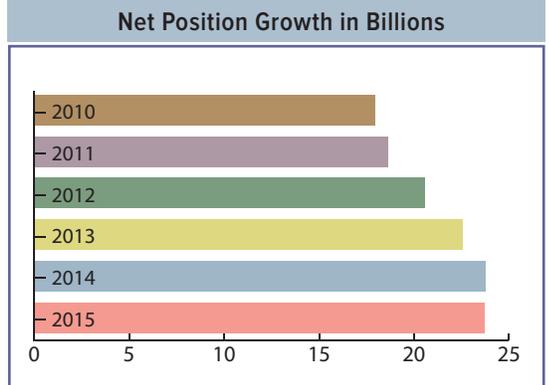
# Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2015, 2014 and 2013. 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 primarily to investment cash flows in 2015, as well as net appreciation in value from year end 2013 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, 2015, 2014, and 2013, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$2.7 million, \$2.6 million, and \$4.3 million, respectively, is reflected in the Statements of Fiduciary Net Position.

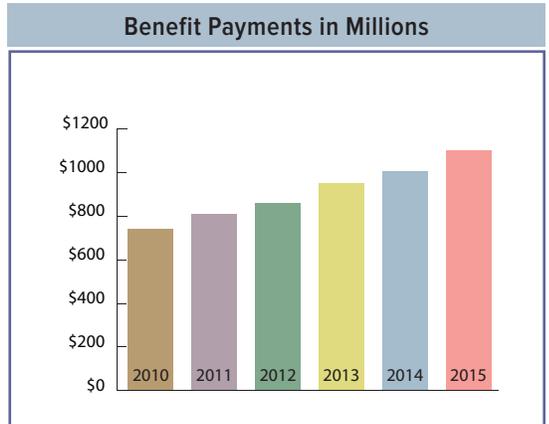
	2015	2014	2013
<b>ASSETS</b>			
Investments, at fair value	\$ 24,289,053,366	\$ 23,896,100,903	\$ 23,868,363,416
Cash, receivables, and other	1,465,821,221	1,602,558,921	1,241,750,049
Invested securities lending collateral	864,114,464	1,030,835,345	1,886,115,119
Capital assets, net	9,909,170	7,889,360	8,449,172
<b>TOTAL ASSETS</b>	<b>26,628,898,221</b>	<b>26,537,384,529</b>	<b>27,004,677,756</b>
<b>LIABILITIES</b>			
Payables and accrued liabilities	2,033,395,221	1,754,249,820	2,622,251,033
Funds held for Supplemental Death Benefits Fund	20,490,711	22,176,214	23,421,789
Securities lending collateral	866,849,709	1,033,480,569	1,890,371,310
<b>TOTAL LIABILITIES</b>	<b>2,920,735,641</b>	<b>2,809,906,603</b>	<b>4,536,044,132</b>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>	<b>\$ 23,708,162,580</b>	<b>\$ 23,727,477,926</b>	<b>\$ 22,468,633,624</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/(depreciation) in the fair value of investment securities (or mark-to-market changes).

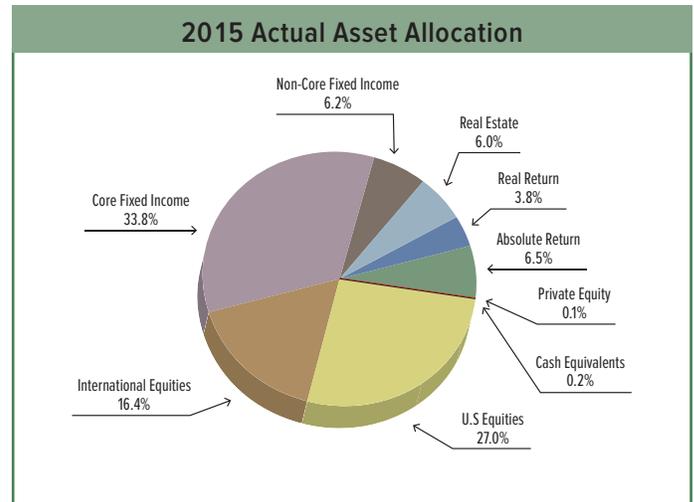
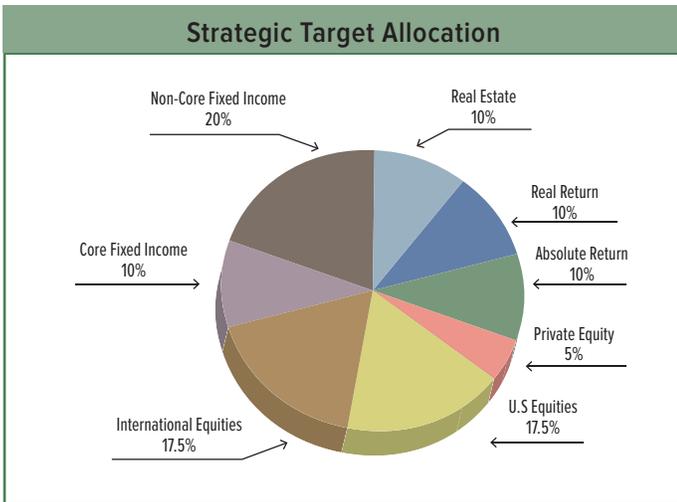
Net investment income in 2015, 2014, and 2013 was most significantly affected by the unrealized gains/(losses) recognized in the domestic and international equities asset classes. The total gross return on TMRS' investment portfolio was 0.34%, 6.0%, and 9.9% in 2015, 2014, and 2013, respectively. Investment earnings in 2015 enabled the Board to credit approximately 0.06% 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 49,969 in 2013 to 56,481 in 2015).

	2015	2014	2013
<b>ADDITIONS</b>			
Contributions and other	\$ 1,127,816,123	\$ 1,075,347,736	\$ 1,021,394,107
Net investment income	35,011,429	1,285,344,179	1,974,888,477
<b>TOTAL ADDITIONS</b>	<b>1,162,827,552</b>	<b>2,360,691,915</b>	<b>2,996,282,584</b>
<b>DEDUCTIONS</b>			
Benefit payments	1,102,785,029	1,028,572,120	946,496,522
Refunds of contributions	56,975,269	58,723,123	57,727,674
Allocation to Supplemental Death Benefits Fund	1,057,178	1,132,803	1,202,065
Administrative expenses	21,325,422	13,419,567	12,821,721
<b>TOTAL DEDUCTIONS</b>	<b>1,182,142,898</b>	<b>1,101,847,613</b>	<b>1,018,247,982</b>
<b>CHANGE IN NET POSITION</b>	<b>(19,315,346)</b>	<b>1,258,844,302</b>	<b>1,978,034,602</b>
<b>NET POSITION</b>			
<b>BEGINNING OF YEAR</b>	<b>23,727,477,926</b>	<b>22,468,633,624</b>	<b>20,490,599,022</b>
<b>END OF YEAR</b>	<b>\$ 23,708,162,580</b>	<b>\$ 23,727,477,926</b>	<b>\$ 22,468,633,624</b>

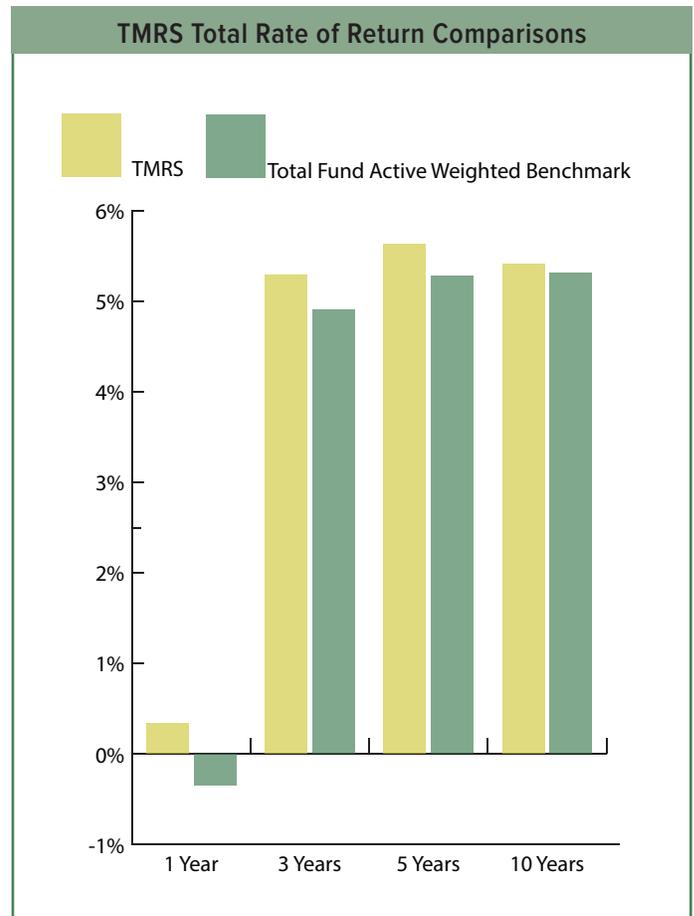


# Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Seventeen 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 2015 toward this strategic target allocation included an initial investment into private equity funds, as well as continued investment in the non-core fixed income, real estate, and absolute return (hedge funds) asset classes.



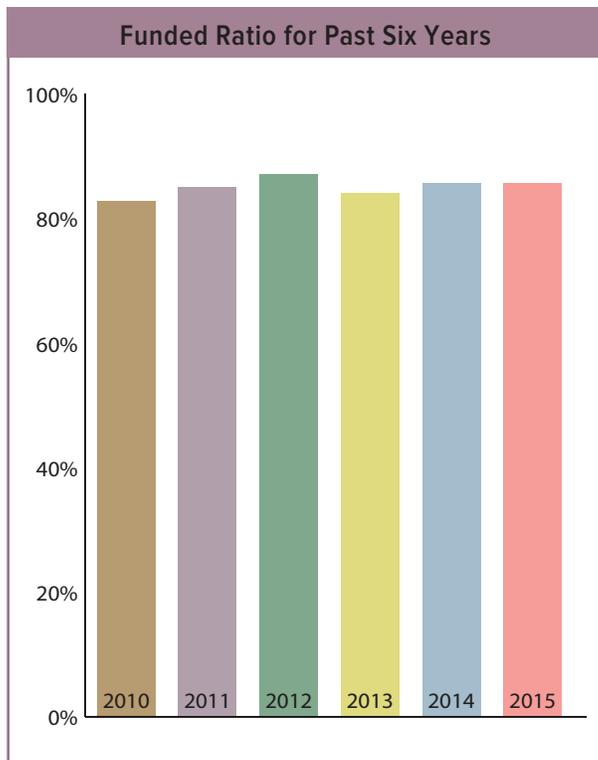
The total gross return on TMRS' investment portfolio was 0.34% in 2015. The graph (right) compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.



## Reporting Standards

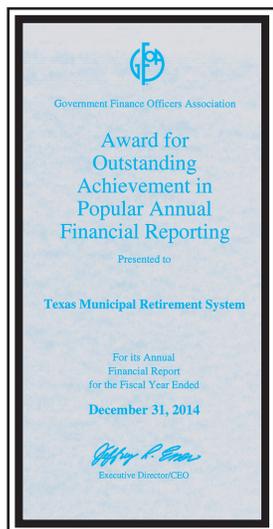
This Summary Annual Financial Report is derived from the *TMRS 2015 Comprehensive Annual Financial Report for the Years Ended December 31, 2015 and 2014 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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](http://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. The TMRS Actuarial Funding Policy is available on the TMRS website.
- 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, 2015, TMRS as a whole was 85.8% funded; this funded ratio remained unchanged from 2014.
- 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 6.75% assumption (previously 7.0%).

## Awards



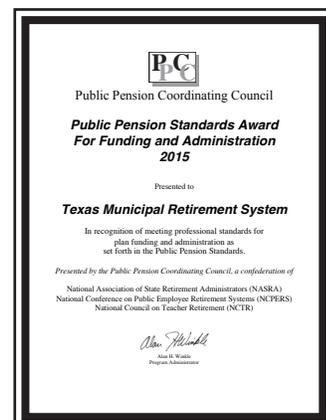
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2014.

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 2015 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.