2016 Comprehensive Annual Financial Report
For the Years Ended December 31, 2016 and 2015

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

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2016

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. Winkle
Program Administrator
June 15, 2017

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, 2016. 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 on 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 2016 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 after 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, 2016, TMRS had 872 member cities, 108,891 employee accounts, and 59,611 retirement accounts. TMRS paid $1.16 billion in benefits in 2016, up from $1.10 billion in 2015.

Activity in 2016

The year 2016 presented significant challenges to all public retirement systems, in part due to concern over the sustainability of several high-profile plans in the United States. TMRS developed a variety of approaches to ensure that the strength and security of our benefit program is recognized by members, cities, elected officials, and the public. Telling the good story of TMRS’ success in addressing funding, investment, and plan design issues continues to be a focus for TMRS staff.
In March 2017, the TMRS Board approved an approximate 6.73% interest credit to city accounts as of December 31, 2016, based on account balances as of January 1, 2016; member accounts were credited with 5%. The System’s smoothing policy and deferred losses resulted in an actuarial return of 6.44%.

TMRS continues to develop **TMRSDirect**, which provides online self-service for members through MyTMRS, and allows cities to perform administrative functions through the City Portal. In 2016, almost 20,000 new users registered for MyTMRS and, following implementation of online enrollment in 2015, cities enrolled almost 3,200 new members during the year. New features available to members and retirees on MyTMRS in 2016 included communications preferences for newsletters and withholding changes for benefit payments. Beginning in 2017, members will be able to make beneficiary changes online. The number of cities using the City Portal and the number of members using MyTMRS continued to expand during 2016. This led to increased online retirement estimates, which grew to over 207,800, and those requested through the City Portal totaled approximately 6,570. By comparison, estimates requested from member services representatives totaled only 14,500 as compared to 22,500 in 2015. In addition to **TMRSDirect**, TMRS expanded the use of email newsletters for direct communication to members and retirees and enabled online registration for TMRS training and education events.

During 2016, the TMRS Advisory Committee on Benefit Design met to consider potential legislative issues for the 2017 Regular Session of the Texas Legislature. The Committee examined potential plan design changes to the current provisions governing return-to-work at the same city from which a member retired as well as possible changes to the cost-of-living adjustment options available to cities. Following the Committee’s work, the Board of Trustees chose in December not to pursue legislation in the 2017 session.

Procedures and resources developed in 2015 to assist cities with their reporting requirements under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB 68), continued to be successfully used in 2016. TMRS completed its second annual SOC-1 Type 2 audit, covering the period of April 16, 2015 through April 30, 2016, and anticipates issuance of the third annual SOC audit report by June 2017. Use of the City Portal to provide cities with access to confidential information needed to meet the reporting requirements again proved an expeditious and secure method of distributing the data.

A strong demand for member and retirement services continues. Six new cities joined the System in 2016. Staff answered over 82,000 phone calls requesting assistance and over 8,000 emails. Staff processed 3,456 new retirements in 2016, representing a 4.7% increase over the previous year.

Staff provided a high level of support to cities in examining contribution rates and plan change requests. In support of this function and member education, the Travel Team made 312 trips to cities and visited with approximately 23,000 members in the field. In group training sessions, the Communications department prepared and presented 14 Regional Pre-Retirement Seminars, three City Correspondent Certification Courses, and an Annual Training Seminar in 2016. TMRS also inaugurated regional Executive Workshops, held in six cities around the state to provide more detailed education on funding and investment issues.

**Investments**

TMRS administered $25.8 billion in assets as of December 31, 2016. The Investments Department at TMRS follows these Total Portfolio Performance Objectives:

- Achieve a 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 6.75%)
- Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e., Policy Index)
Diversification has been, and continues to be, implemented through a deliberate multi-year process. The current asset allocation strategy is expected to meet the long-term total return objective of 6.75%, consistent with the actuarial interest rate assumption for the plan.

As described in the Investment Section of this CAFR, the overall one-year gross rate of return for 2016 on the investment portfolio was 7.42%. The Investment Section of this CAFR contains a detailed summary of investment operations during 2016, including performance of different asset classes and diversification progress.

**Funding and Actuarial Overview**

As required by statute, TMRS obtains an annual actuarial valuation for each participating municipality. The actuarial results for the System as a whole are presented in the Actuarial Section of this CAFR. After 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.

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 ninth actuarial valuation for the System for the fiscal year ended December 31, 2016. 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 Cost of Living Adjustments (COLAs) — as well as future increases in salary.

Conservative features of TMRS' plan include the 6.75% investment return assumption, and that each city's unfunded liability is amortized over a closed period of 25 or 30 years. As of December 31, 2016, TMRS as a whole was 86.3% funded; this funded ratio increased from 2015. Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress included in the Actuarial Section of this CAFR. TMRS has adopted an Actuarial Funding Policy, which is posted on the TMRS website.

**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**

Financial Report for the Year Ended December 31, 2015. This was the 29th 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 2016 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,

Jim Parrish  
Chair, Board of Trustees

David Gavia  
Executive Director

Rhonda H. Covarrubias  
Director of Finance
2016 Distribution of Membership by Contribution Rate (Employee Deposit Rate)

- **0%**
- **10%**
- **20%**
- **30%**
- **40%**
- **50%**
- **60%**
- **70%**
- **80%**

* This rate is no longer allowed for new cities

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2016 Distribution of Membership by City Matching Rate

- **0%**
- **20%**
- **40%**
- **60%**
- **80%**
- **100%**

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<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<td>Employer</td>
<td>$719.9 mil</td>
<td>$751.7 mil</td>
<td>$768.3 mil</td>
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<td>Contributions</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Retirement</td>
<td>$1.0 bil</td>
<td>$1.1 bil</td>
<td>$1.2 bil</td>
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<tr>
<td>Benefits</td>
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<tr>
<td>Terminated</td>
<td>$58.7 mil</td>
<td>$57.0 mil</td>
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<td>Member Refunds</td>
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<td>Administrative</td>
<td>$13.4 mil</td>
<td>$21.3 mil</td>
<td>$18.1 mil</td>
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<td>Expenses</td>
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<td>Investment</td>
<td>$21.2 mil</td>
<td>$36.8 mil</td>
<td>$61.2 mil</td>
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<td>Expenses*</td>
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<td>Member Municipalities</td>
<td>860</td>
<td>866</td>
<td>872</td>
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<td>New Member</td>
<td>10</td>
<td>7</td>
<td>6</td>
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<td>Municipalities</td>
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<td></td>
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<tr>
<td>Retired Member</td>
<td>53,455</td>
<td>56,481</td>
<td>59,611</td>
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<td>Accounts</td>
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<td>Active Plan</td>
<td>104,019</td>
<td>106,894</td>
<td>108,891</td>
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<td>Member Accounts</td>
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<td>50,707</td>
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<td>New Retirement</td>
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<td>3,302</td>
<td>3,456</td>
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<td>New Members</td>
<td>14,457</td>
<td>15,476</td>
<td>15,094</td>
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<td>Refunded Members</td>
<td>7,735</td>
<td>7,145</td>
<td>6,971</td>
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<td>Investments, at Fair Value</td>
<td>$23.9 bil</td>
<td>$24.3 bil</td>
<td>$25.8 bil</td>
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<td>Annual Total</td>
<td>$719.9 mil</td>
<td>$751.7 mil</td>
<td>$768.3 mil</td>
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<td>Return, Gross</td>
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<td>Interest Rate on Employee Deposits</td>
<td>5.0%</td>
<td>5.0%</td>
<td>5.0%</td>
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<td>Interest Rate on Municipality Deposits</td>
<td>5.68%</td>
<td>0.06%</td>
<td>6.73%</td>
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<td>Cities that:</td>
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<td>Updated Service</td>
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<td>Credit (USC)</td>
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<td>Reduced</td>
<td>-</td>
<td>2</td>
<td>1</td>
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<tr>
<td>percentage or</td>
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<tr>
<td>rescinded USC</td>
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<td>Annuity Increases</td>
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<td>to Retirees (Al)</td>
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<td>Reduced or</td>
<td>2</td>
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<tr>
<td>Rescinded Al</td>
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<td>Contribution Rate</td>
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<tr>
<td>Reduced</td>
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<td>Ratio</td>
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<td>5-Year Vesting</td>
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<tr>
<td>Adopted</td>
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<td>20-Year, Any Age</td>
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<td>Retirement</td>
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* Investment expenses do not include management and incentive fees that are paid directly out of the operations of the private investment funds.
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” (Landis, Philibert, and Rodriguez) who are the chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three Trustees are “Employee Trustees” (Jeffers, 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.
The TMRS Advisory Committee on Benefit Design ("Advisory Committee") 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 9 “Individual Representatives” representing TMRS members, retirees, and elected officials; and 10 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. The following members were on the Committee as of December 31, 2016.

**Individual Representatives**

- Michael Dane, Assistant City Manager/Chief Financial Officer, San Angelo
- Bryan Langley, Assistant City Manager/Chief Financial Officer, Denton
- Julie Masters, Mayor, Dickinson
- Charles Windwehen, TMRS Retiree

Note: Five individual representative positions were vacant as of December 31, 2016.

**Group Representatives**

- Alex Cramer, Arlington Professional Fire Fighters
- Vacant, Service Employees International Union, San Antonio
- David Riggs, Texas State Association of Fire Fighters
- Bonita Hall, Texas Municipal Human Resources Association
- Kevin Lawrence, Texas Municipal Police Association
- Keith Dagen, Government Finance Officers Association of Texas
- Greg Shipley, Combined Law Enforcement Associations of Texas
- Lori Steward, City of San Antonio
- Greg Vick, Texas City Management Association
- J.J. Rocha, Texas Municipal League

The following members of the Advisory Committee served during calendar year 2016 but were not members at year-end: Victor Hernandez – City Councilmember, Lubbock; Tadd Phillips – Texas Municipal Human Resources Association; and David Russell – Texas Municipal Police Association.
Actuary
Gabriel, Roeder, Smith & Company

Custodian
State Street Bank and Trust Company

Depository Bank
JPMorgan Chase Bank

Economic Advisor
A. Gary Shilling & Co.

Fiduciary Counsel
Robert D. Klausner

Independent Auditor
KPMG LLP

Investment Consultants
RVK
Courtland Partners, Ltd.
Albourne America LLC
StepStone Group LP

Medical Board
Ace H. Alsup III, MD
John A. Genung, MD
William P. Taylor, MD

Note:
A schedule of investment management fees, by asset class, is provided in the Investment Section of this report.
Executive/Administrative

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Leslie Hardy, Director of Actuarial Services
Leslie Ritter, Director of Human Resources
Sandra Vice, Director of Internal Audit
Dan Wattles, Director of Governmental Relations
Ariel Chou, Actuarial Analyst
Michael Dominkowitz, Facilities Technician
Andrea Focht-Williams, Senior Internal Auditor
Karen Jackson, Executive Assistant
Jesse Pittman, Senior Project Manager
LaShelle Ruiz, Administrative Assistant
Adrienne Strong, Human Resources Generalist
Stacy White, Executive Assistant

Communications

Bill Wallace, Director of Communications
Angela Deats, Communications Analyst
Donna Neal, Communications Technology Design Specialist
Melanie Thomas, Process & Content Management Specialist

Travel Team/City Services

Colin Davidson, Regional Manager II, City Services
Shannon Lucero, Regional Manager II, City Services
Anthony Mills, Senior Regional Manager, City Services
Lorraine Moreno, Regional Manager II, City Services
David Rodriguez, Senior Regional Manager, City Services
Sean Thompson, Regional Manager II, City Services

Finance

Rhonda Covarrubias, Director of Finance
Josette Madry, Accounting Operations Supervisor
Candace Noite, Controller
Nadia Ali, Accounting Specialist
Sherry Chapman, Investment Accountant
Paula Nguyen, Investment Accountant
Danielle Whitaker, Accountant

Information Resources

Scott Willrich, Director of Information Resources

Software Development

Pete Knaven, Information Systems Manager
Martin Burke, Business Process Analyst
Ming Cheung, Senior Software Developer
Blanca DaCosta-Cruz, Quality Assurance Analyst
David Himawan, Database Administrator/Developer
Monica Kache, Systems Analyst
Steve Li, Database Administrator/Developer
Steven Lohmeyer, Senior Systems Analyst
Gretchen Meyer, Senior Systems Analyst
Tin-Sze Poon, Senior Software Developer
Kevin Wang, Senior Software Architect

Network Operations

Brian Farrar, Network Operations Manager
Chris Gillis, Computer Support Specialist
Bryan Meche, Network/Systems Administrator
Nick Pappada, Network/Systems Administrator
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Records

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Tom Masthay, Director of Real Assets
Kristin Qualls, Director of Equities
Chris Schelling, Director of Private Equity
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Jason Weiner, Director of Fixed Income
Sally Case, Investment Operations Manager
Rachel Cleak, Investment Analyst
Ryan Connor, Data Analyst
Kurt Cressotti, Compliance Officer
Martha deLivron, Investment Analyst II
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Melissa Jenkins, Quantitative Analyst
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Cindy Morse, Investment Support Analyst
Eddie Schultz, Investment Analyst II
Chris Tindell, Investment Analyst

Legal

Christine Sweeney, General Counsel
Madison Jechow, Assistant General Counsel II
Michelle Mellon-Werch, Assistant General Counsel II
Nicholas O’Keefe, Assistant General Counsel III
Michael Schaff, Assistant General Counsel III
Tish Root, Legal Assistant

Member Services

Debbie Muñoz, Director of Member Services
Jennifer Andrews, Member Services Manager
Chad Nichols, Member Services Manager
Vikki Vasquez, Member Services Manager
Jay Adams, Member Services Analyst II
Yolanda Alarcon, Member Services Analyst I
Debbie Davila, Member Services Analyst II
Vanessa De La Cruz, Member Services Analyst I
David Eastwood, Member Services Analyst II
Veronica Escobedo, Member Services Analyst I
Natalie Garza, Member Services Analyst Lead
Ida Gomez, Member Services Analyst II
Rhonda Green, Member Services Analyst II
April Hernandez, Member Services Analyst II
Karin Hicks, Member Services Analyst II
Peter Jeske, Business Process Analyst
Patricia King, Administrative Aide
Maryann Malave-Jaini, Member Services Analyst Lead
Pamela Morgan, Support Services Analyst
Richard Ramos, Member Services Analyst II
Jade Rangel, Member Services Analyst II
Shelley Ransom, Member Services Analyst Lead
Cris Rodriguez-Horn, Support Services Analyst
Anna Silva, Member Services Analyst II
Wade Slaton, Member Services Analyst II
Leslie Smith, Support Services Analyst
Tricia Solis, Support Services Analyst
Caroline Touchet, Member Services Analyst II

Note:
A schedule of investment management fees, by asset class, is provided in the Investment Section of this report.
Summary of Plan Provisions

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
■ Employees Retirement System of Texas
■ Texas County and District Retirement System
■ Judicial Retirement System of Texas
■ City of Austin Employees Retirement System

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  ■ Age 60 with 10 years of service
■ Any age with 20 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 balance, 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 a retiree. 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 cost-of-living adjustment, or 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, 2000, 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 an individual has multiple retirements, 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.