

TMRS 2018 Summary Annual Financial Report

For the Year Ended December 31, 2018



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 also describes the accomplishments TMRS made in 2018 to serve members, cities, and retirees.

TMRS in 2018

- In accordance with the TMRS Act, member accounts were credited 5% as of December 31, 2018. At their March 2019 meeting, the Board of Trustees allocated approximately -3.08% to member municipalities based on January 1, 2018 Benefit Accumulation Fund balances.
- TMRS continued to promote TMRSDirect®, its straight-through processing program for members and cities, which includes increased use of MyTMRS® and the City Portal applications. As of December 31, 2018, approximately 112,000 TMRS members and retirees had registered for MyTMRS® accounts, and 776 cities were using the City Portal for plan administration.
- As of December 31, 2018, TMRS as a whole was 87.1% funded, which represents a slight decrease to the funded ratio from 87.4% at December 31, 2017.
- TMRS engaged CliftonLarsonAllen LLP (CLA) to perform TMRS’ annual SOC-1 Type 2 audit for the 12-month period ending April 30, 2019. The SOC audit supports city financial reporting under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the primary objective of which is to improve accounting and financial reporting for pensions by state and local governments.
- TMRS staff answered more than 93,000 member requests for assistance and processed 3,669 new retirements in 2018.
- Five new cities joined the System in 2018. At year-end 2018, TMRS administered plans for 887 member cities.

| | 2018 | 2017 | 2016 |
|------------------|---------|---------|---------|
| Active Members | 111,851 | 110,208 | 108,891 |
| Inactive Members | 62,465 | 57,369 | 53,721 |
| Retired Members | 66,051 | 62,776 | 59,611 |

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TMRS Board of Trustees (as of December 31, 2018)

The Governor appoints the six members of TMRS’ Board of Trustees 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.

- Jim Parrish, 2018 Chair**
Deputy City Manager – Administrative Services, Plano
- Bill Philibert, 2018 Vice Chair**
Director of Human Resources and Risk Management, Deer Park
- Jesús A. Garza**
City Manager, Victoria

- Jim Jeffers**
City Manager, Nacogdoches
- David Landis**
City Manager, Perryton
- Julie Oakley, CPA**
Assistant City Manager, Lakeway

Financial Information

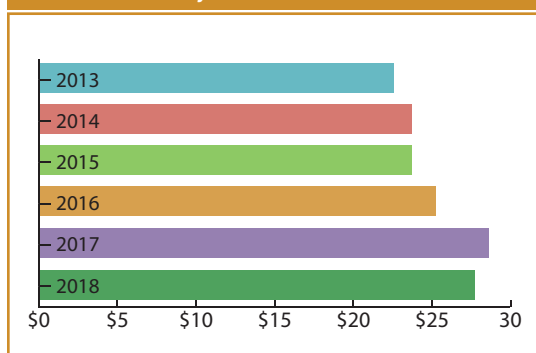
The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2018, 2017, and 2016. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair value, make up the largest portion of the net position restricted for pensions. The decrease in investments from 2017 to 2018 is due to the market downturn experienced at the end of 2018, resulting in a -2.11% gross return for the year (gross return in 2017 was 14.27%).

Summary Comparative Statements of Fiduciary Net Position As of December 31, 2018, 2017, and 2016

| | 2018 | 2017 | 2016 |
|---|--------------------------|--------------------------|--------------------------|
| ASSETS | | | |
| Investments, at fair value | \$ 27,973,620,811 | \$ 28,921,028,586 | \$ 25,830,231,450 |
| Cash, receivables, and other | 778,641,233 | 1,054,363,313 | 1,330,966,531 |
| Capital assets, net | <u>9,141,099</u> | <u>9,732,194</u> | <u>9,766,674</u> |
| TOTAL ASSETS | 28,761,403,143 | 29,985,124,093 | 27,170,964,655 |
| LIABILITIES | | | |
| Payables and accrued liabilities | 1,061,134,027 | 1,317,499,340 | 1,917,805,578 |
| Funds held for Supplemental Death Benefits Fund | <u>16,639,677</u> | <u>18,250,136</u> | <u>19,953,304</u> |
| TOTAL LIABILITIES | 1,077,773,704 | 1,335,749,476 | 1,937,758,882 |
| NET POSITION RESTRICTED FOR PENSIONS | \$ 27,683,629,439 | \$ 28,649,374,617 | \$ 25,233,205,773 |

Fiduciary Net Position in Billions



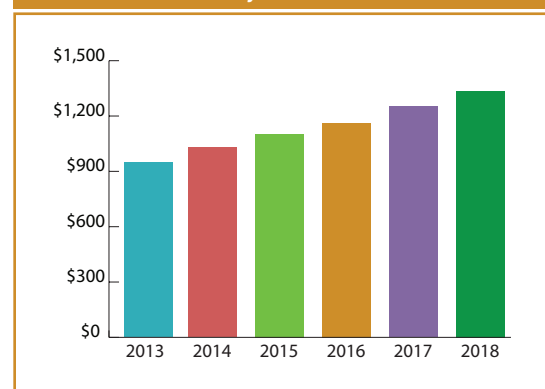
The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Member and employer contributions were impacted by the increase in active participants over the three-year period (108,891, 110,208, and 111,851 in 2016, 2017, and 2018, respectively). 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, and net unrealized appreciation (depreciation) in the fair value of investment securities (or mark-to-market changes).

Net investment income over these three years was most significantly affected by the unrealized gains and losses recognized in the domestic and international equities asset classes. The total gross return on TMRS' investment portfolio was -2.11%, 14.27%, and 7.42% in 2018, 2017, and 2016, respectively. Because of the investment losses experienced in 2018, the Board allocated approximately -3.08% to municipality accounts while maintaining a reserve of \$290 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 reflects a steady rise in the number of retirement accounts (59,611, 62,776, and 66,051 in 2016, 2017 and 2018, respectively).

Summary Comparative Statements of Changes in Fiduciary Net Position For the Years Ended December 31, 2018, 2017, and 2016

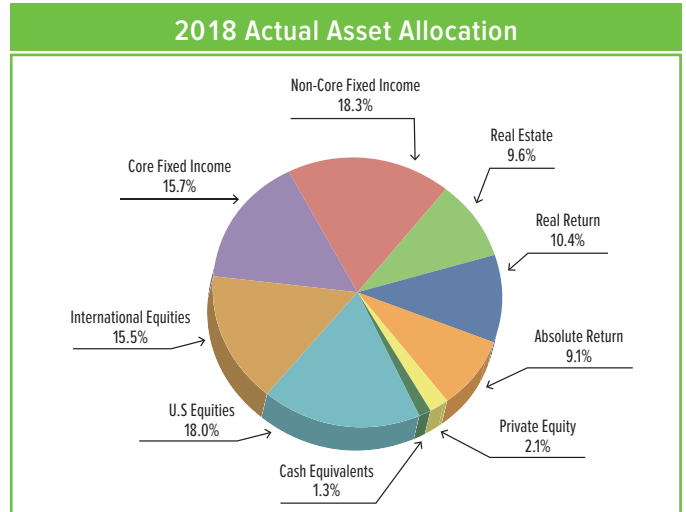
| | 2018 | 2017 | 2016 |
|--|--------------------------|--------------------------|--------------------------|
| ADDITIONS | | | |
| Contributions and other | \$ 1,309,358,274 | \$ 1,248,937,991 | \$ 1,158,197,685 |
| Net investment income/(loss) | <u>(858,122,961)</u> | <u>3,497,133,077</u> | <u>1,602,187,418</u> |
| TOTAL ADDITIONS | 451,235,313 | 4,746,071,068 | 2,760,385,103 |
| DEDUCTIONS | | | |
| Benefit payments | 1,335,253,721 | 1,251,406,534 | 1,162,064,108 |
| Refunds of contributions | 64,255,860 | 59,405,912 | 54,181,595 |
| Allocation to Supplemental Death Benefits Fund | 885,044 | 965,614 | 1,000,892 |
| Administrative expenses | <u>16,585,866</u> | <u>18,124,164</u> | <u>18,095,315</u> |
| TOTAL DEDUCTIONS | 1,416,980,491 | 1,329,902,224 | 1,235,341,910 |
| CHANGE IN NET POSITION | (965,745,178) | 3,416,168,844 | 1,525,043,193 |
| NET POSITION | | | |
| BEGINNING OF YEAR | <u>28,649,374,617</u> | <u>25,233,205,773</u> | <u>23,708,162,580</u> |
| END OF YEAR | \$ 27,683,629,439 | \$ 28,649,374,617 | \$ 25,233,205,773 |

Benefit Payments in Millions

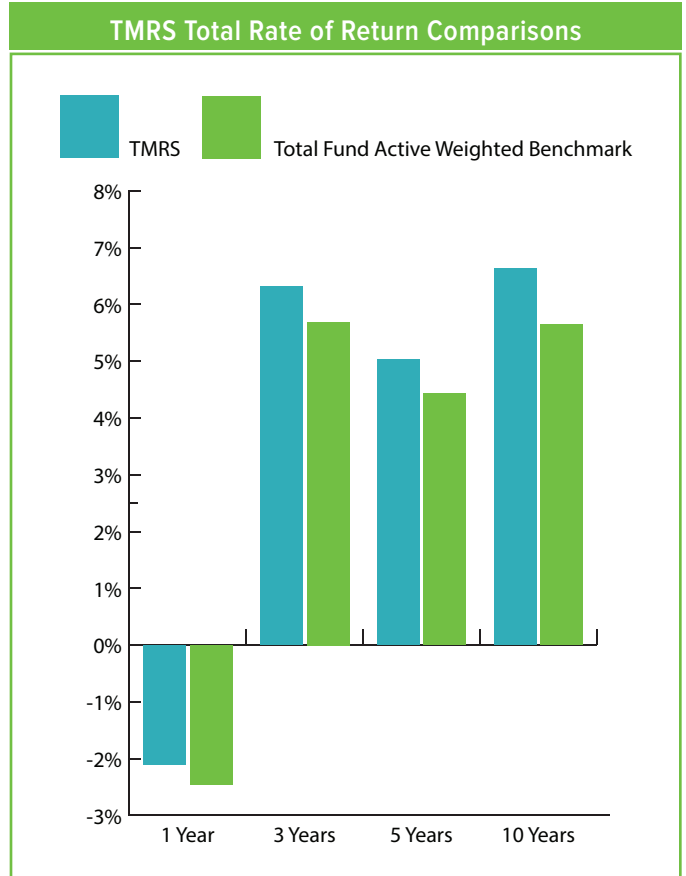


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Twenty-two 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. At the end of 2018, all asset classes were within their target ranges (i.e., within the minimum and maximum target percentages).



The total gross return on TMRS' investment portfolio was -2.11% in 2018. The table below compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.

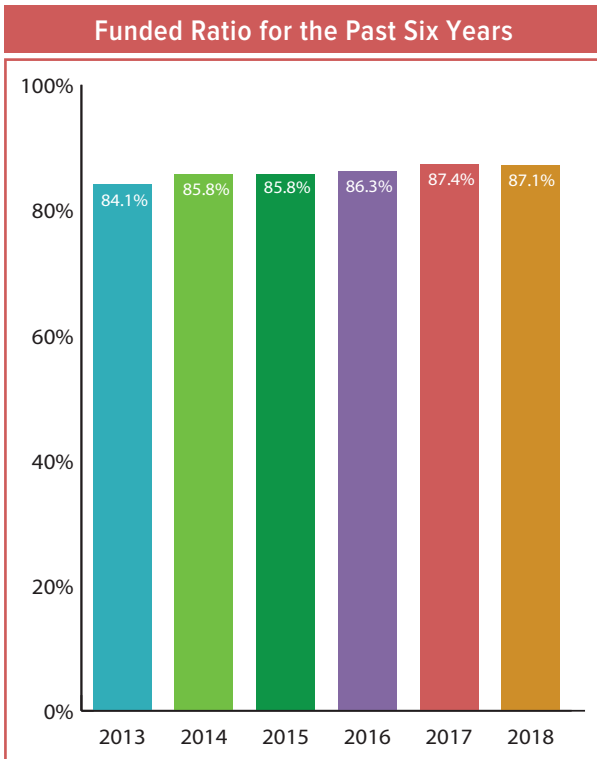


Reporting Standards

This Summary Annual Financial Report is derived from the *TMRS 2018 Comprehensive Annual Financial Report for the Year Ended December 31, 2018* (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 download a PDF file of the CAFR, go to [www.tmr.com / City Publications / Financial Publications](http://www.tmr.com/CityPublications/FinancialPublications).

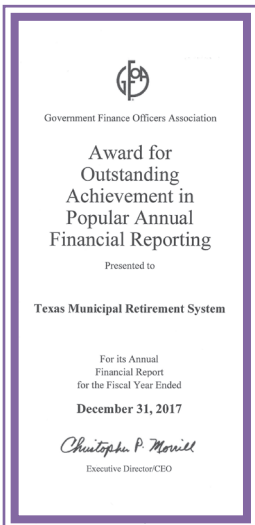
The Total Fund Active Weighted Benchmark is weighted by the average balance of all funds and comprises asset class composite benchmarks associated with each fund.

TMRS' Funded Status



- The most important factor that affects the soundness of a retirement program is the employer funding policy. In accordance with the TMRS Act, all cities pay the actuarially determined employer contribution needed to fully fund benefits. The complete TMRS funding policy can be found 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, GRS Retirement Consulting, as of December 31, 2018, TMRS as a whole was 87.1% funded, a slight decrease from 87.4% as of December 31, 2017.
- 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. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques." A complete description of the asset smoothing method can be found in the TMRS funding policy. The System's asset smoothing policy and partial recognition of investment losses resulted in an actuarial return of 6.06% for the year ended December 31, 2018.

Awards



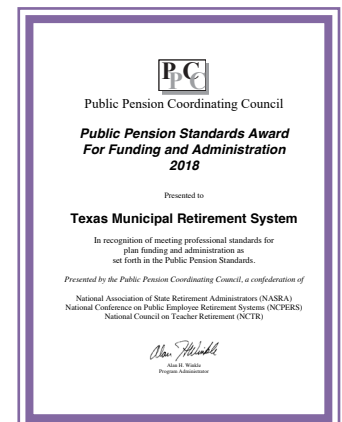
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2017.

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 2018 Public Pension Standards Award for Funding and Administration 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.



Mission Statement • Providing secure, reliable retirement benefits
Vision Statement • To be the model for empowering retirement
Core Values • Accountability, Excellence, Integrity, Respect, Teamwork