

insight

The Newsletter for TMRS® Members

Public Pension Perspectives

A few short years ago, public pensions seemingly existed in their own world, off the radar of mainstream media and politicians. That all changed after the financial crisis of 2008. Since then, public pension plans have come under unprecedented scrutiny. Critics have characterized public pension plans as an unaffordable expense of government and an unnecessary drain on taxpayers. The retirement benefits earned by public employees are resented by some in the private sector who no longer have a defined benefit plan or who saw their retirement savings decline when the markets plunged.

For many public workers, a decent retirement is one of the primary reasons for accepting lower paid jobs than comparable jobs in the private sector. Many public employees balance lower salaries with the promise of a livable retirement at the end of their working years.

For your city, the TMRS program helps attract and retain talented people to serve on your police and fire forces, in your city offices, and in the other departments that provide your city services. The average monthly benefit of a TMRS retiree with 20 to 25 years of service is not excessive (\$1,438 a month in 2011). For those TMRS retirees not covered by Social Security, their TMRS retirement benefit is their main source of retirement income. For a large majority of TMRS retirees, the dollars paid in benefits flow back into the cities where those retirees worked and thus help stimulate the local economy. A secure retirement benefit also keeps seniors from becoming dependent on social services.

Unlike some plans in other states, TMRS members contribute toward their own retirement, by paying 5%, 6%, or 7% of their salary into the plan. Your deposits and the city's matching amount are conservatively invested by TMRS, and the majority of the benefit you will receive as a retiree is funded by investment earnings over time.

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From the Executive Director



Dear TMRS Members,

I hope you all have good things planned for your summer. This issue of *INSIGHT* contains your TMRS 2011 Summary Annual Financial Report. The annual report is a brief overview of TMRS finances and achievements

as of December 31, 2011. Last year, TMRS achieved an important step with the passage of SB 350 by Williams; House sponsor Truitt. That bill eliminated inefficiencies in our internal accounts, improved the System's financial health, and made benefits more affordable for many cities.

Our lead article, at left, addresses the current perception of public retirement systems and offers a few facts about why TMRS is different from some of the other retirement programs you may have read about. You contribute every month toward your own retirement and, when you retire, most of the funding of your lifetime benefit comes from investments made by TMRS over the course of your career. Of course, your city also contributes, and one of my jobs as Executive Director is to ensure that the taxpayers of your community receive good value for the dollars they contribute to the retirement portion of your compensation.

As always, if you have any questions about your retirement system, do not hesitate to contact us. If you call our 800 number during business hours, you'll get a helpful analyst who can assist with your needs.

Sincerely,

David Gavia
Executive Director

How TMRS Is Different

Not all pension plans are alike, and TMRS is very different from most plans. TMRS does not receive state or federal funding. Ours is a *hybrid plan* with both defined contribution and defined benefit features. All TMRS benefits are *fully advance-funded* over the working career of each TMRS employee, so TMRS is not “underfunded.”

As a System, TMRS is healthy and well managed, with prudent investment policies. While some plans in other states are underfunded, TMRS is not one of them. The enclosed Summary Annual Financial Report attests to the System’s soundness, and our current funded ratio (the accepted measure of a retirement system’s health) is 85.1% and growing steadily each year (see page 4 of the Summary Annual Financial Report for more information).

Remember, under TMRS, each city plan is funded independently by that city. Your employer selects the retirement options that best meet its individual needs and budget. Your final benefit is based on your contributions, investment earnings on those contributions, and the amount your city has chosen to match your retirement savings. Your employer must pay 100% of its required contribution rate each year to ensure that money is there when you are ready to retire and costs are not pushed to future generations.

The debate over public retirement systems is legitimate. And taxpayers deserve all the facts about public pension plan issues, not short sound bites of informa-

tion that contain incomplete generalizations about the issues. Taxpayers also deserve accountability for their tax dollars, but singling out public employees and public pensions as being somehow responsible for the financial downturn that has affected everyone is misplacing the blame. Public servants are hard workers and should be fairly compensated for the work they do. A secure retirement benefit is an important part of that compensation. ■

Annual Financial Report IN THIS ISSUE!

The 2011 Summary Annual Financial Report (also called the Popular Annual Financial Report, or PAFR), is produced every year and sent to all members and annuitants. ■

TMRS TERMS Funded Ratio

The “funded ratio” is a plan’s actuarial value of assets expressed as a percentage of the actuarial accrued liability. This ratio is generally viewed as a reflection of a pension plan’s health at a point in time. In TMRS, the System as a whole has a funded ratio, and each individual city has its own funded ratio. 43% of TMRS cities have a funded ratio of 90% or greater, and the System’s overall funded ratio as of 2011 year-end was 85.1%.

Investment Strategies

TMRS invests System assets to produce a return to meet its short-term and long-term funding needs. Investment earnings ensure that members, retirees, and beneficiaries are provided with the benefits they have been promised by their employers at a reasonable and predictable cost to the employers. Our investment emphasis is on total return with appropriate consideration for portfolio volatility (risk) and liquidity. Total return includes dividends, interest, and realized and unrealized capital appreciation.

In 2011, TMRS continued implementing the strategic target allocations that were adopted by the Board in June 2009 (see the enclosed Summary Annual Financial Report for the target allocations and our progress toward those allocations). A diversified portfolio and a long-term perspective can lead to higher returns without undue risk. TMRS investment actions approved by the Board are reported on the TMRS website.

Keep Your Address Up-to-Date!

It is very important for you to keep your address current with TMRS. Without a valid address, you will not receive annual statements, estimates, or mailings such as *INSIGHT*. If you need to update your address at any time, complete a TMRS-CHNG (Address or Name Change Form) and fax it to 512.476.5576 or mail it to P.O. Box 149153, Austin, TX 78714-9153. ■

TMRS 2011 Summary Annual Financial Report

For the Year Ended December 31, 2011



The Texas Municipal Retirement System (TMRS, or the System) prepares this report annually. Its purpose is 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 in its ongoing operations to serve members, cities, and retirees.

The Year at TMRS

Noteworthy Accomplishments of 2011

- Senate Bill 350, sponsored by Williams (House sponsor Truitt) was enacted into law in 2011. By consolidating the three main TMRS fund accounts, SB 350 provides a more efficient funding structure and reduces potential city contribution rate volatility. As a result of SB 350, most cities' contribution rates declined and their funded ratios improved.
- During 2011, the System continued to diversify its investment portfolio. By year-end, the 40% strategic target allocation to equities was met through investments in passively managed equity index funds: 20% in the domestic Russell 3000 and 20% in the MSCI All Country World ex-US Investable Market Index. In addition, the System met its 5% strategic target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed \$200 million to real estate limited partnerships, and funded \$97 million by year-end. With the assistance of TMRS' real estate consultant, ORG, over the next few years TMRS will continue to seek out and fund additional real estate investments up to the 10% target allocation. As the fixed income category continues to fund the other asset classes, it will gradually decline to its 35% target allocation.
- The overall one-year rate of return on the \$18.5 billion investment portfolio was 2.41%, with the best performing asset class, fixed income, earning 7.99%. The return on equities was 1.03% for domestic and -13.35% for international.
- As of December 31, 2011, TMRS as a whole was 85.1% funded. This funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.
- Five new cities joined the System in 2011. TMRS staff answered over 91,000 member requests for assistance and processed almost 2,900 new retirements in 2011.
- At year-end 2011, TMRS administered plans for 847 member cities that included:
 - 141,532 employee accounts
 - 40,534 retired members

TMRS Board of Trustees (as of December 31, 2011)

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 are responsible for 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.

April Nixon, 2011 Chair
Chief Financial Officer, Arlington

H. Frank Simpson, 2011 Vice Chair
Assistant City Manager, College Station

Ben Gorzell
Chief Financial Officer, San Antonio

Julie Oakley, CPA
Director of Finance, Lakeway

Jim Parrish
Human Resources Director, Plano

Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager, McAllen

Contact Us

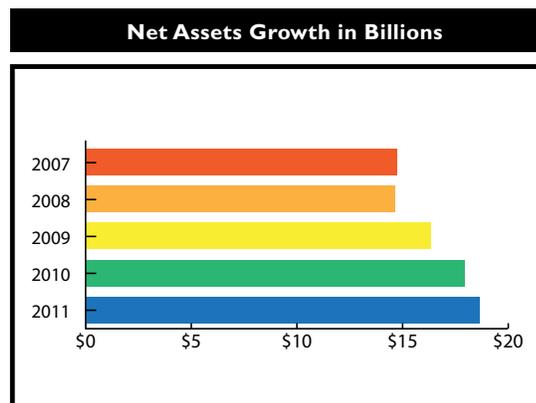
800.924.8677
phonecenter@tmrs.com
www.tmrs.com

Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net assets) at both year-end 2011 and 2010. Net assets represent funds accumulated for the payment of future benefits. Investments, stated at fair market value, make up the largest portion of net assets held in trust for pension benefits. During both 2011 and 2010, the value of TMRS' investment portfolio continued to recover from the negative market conditions of 2008.

Another significant asset is securities lending collateral. Because of our participation in a securities lending program, we report both the asset and related liability of the collateral received for securities on loan at year-end. At December 31, 2011 and 2010, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$15.4 million and \$20.4 million, respectively, is reflected in the Statements of Plan Net Assets.

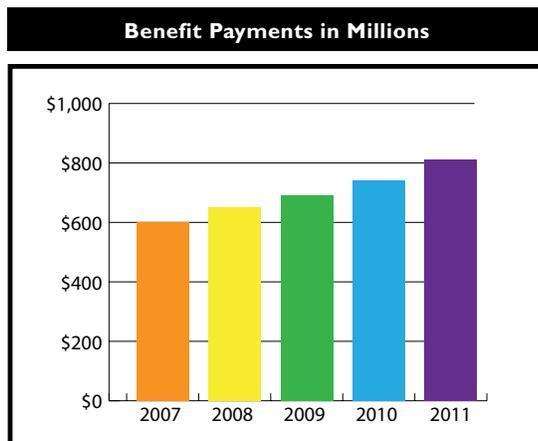
Summary Comparative Statements of Plan Net Assets		
As of December 31, 2011 and 2010		
	2011	2010
ASSETS		
Investments, at fair value	\$ 18,464,825,574	\$ 18,302,526,324
Receivables and other	1,666,432,835	1,643,712,522
Invested securities lending collateral	1,688,567,121	2,693,847,465
Capital assets, net	9,261,818	9,694,046
TOTAL ASSETS	21,829,087,348	22,649,780,357
LIABILITIES		
Payables and accrued liabilities	1,526,807,921	1,916,591,404
Funds held for Supplemental Death Benefits Fund	27,026,910	26,400,118
Securities lending collateral	1,703,958,593	2,714,294,965
TOTAL LIABILITIES	3,257,793,424	4,657,286,487
NET ASSETS	\$ 18,571,293,924	\$ 17,992,493,870



The second summary statement (below) reports activity for the year (changes in net assets). 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 earned in 2011 reflects a significant decrease from 2010, primarily affected by the lower returns in the equity markets. Deductions include

Summary Comparative Statements of Changes in Plan Net Assets		
For the years ended December 31, 2011 and 2010		
	2011	2010
ADDITIONS		
Contributions and other	\$ 1,022,789,196	\$ 994,946,183
Net investment income	434,765,653	1,496,328,020
TOTAL ADDITIONS	1,457,554,849	2,491,274,203
DEDUCTIONS		
Benefit payments	810,317,265	743,467,100
Refunds of contributions	55,666,288	49,041,627
Allocation to Supplemental Death Benefits Fund	1,331,570	1,312,293
Administrative expenses and other	11,439,672	10,634,956
TOTAL DEDUCTIONS	878,754,795	804,455,976
CHANGE IN NET ASSETS	578,800,054	1,686,818,227
NET ASSETS		
BEGINNING OF YEAR	17,992,493,870	16,305,675,643
END OF YEAR	\$ 18,571,293,924	\$ 17,992,493,870

payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady increase in the number of retired members (from 38,260 in 2010 to 40,534 in 2011).

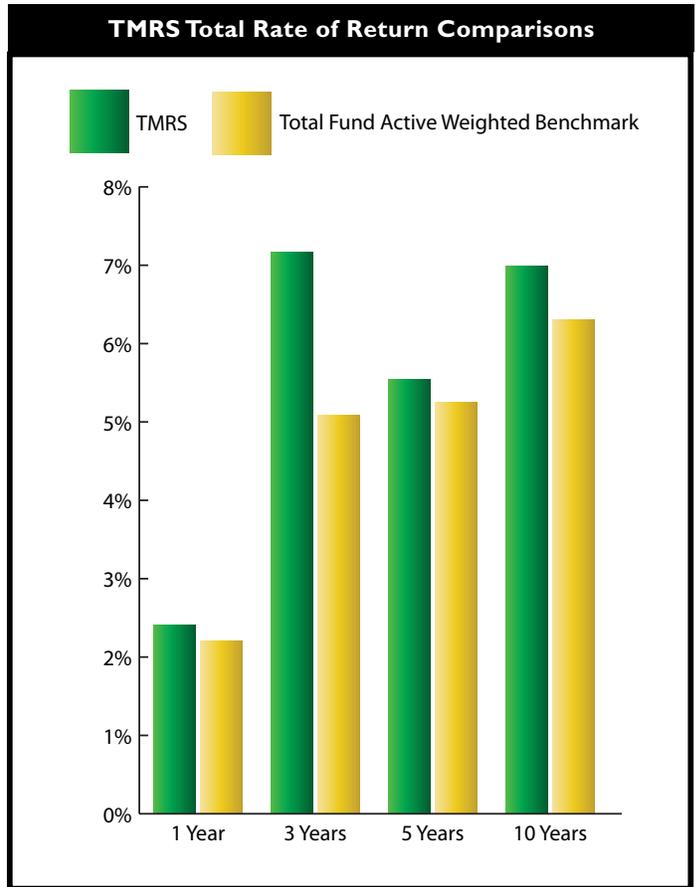
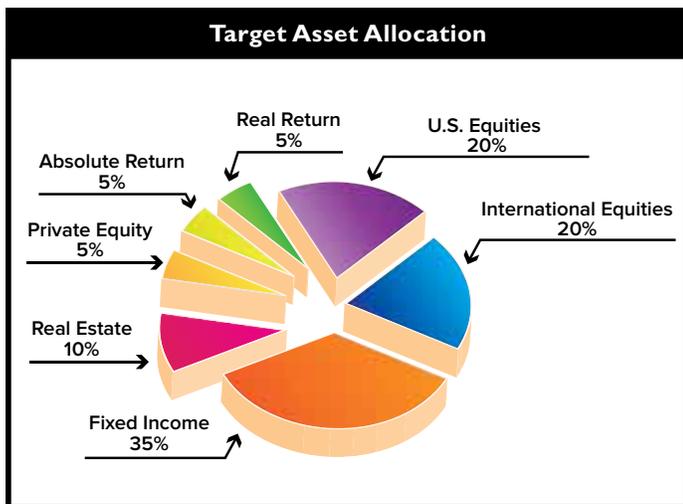
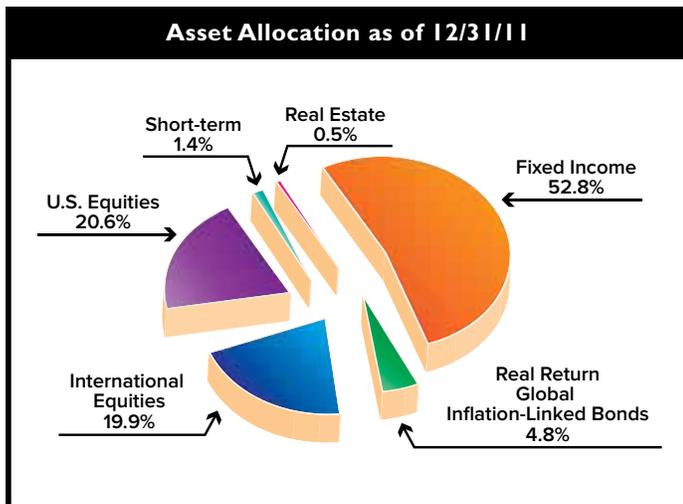


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Nine 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 to occur over a multi-year period.

Initiatives during 2011 toward this strategic target allocation included continuing monthly commitments to domestic and international equity index funds. By 2011 year-end, the target allocation to equities of 40% was met. In addition, during 2011, TMRS funded its 5% target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed \$200 million to real estate limited partnerships, and funded \$97 million by year-end.

The total return on TMRS' investment portfolio was 2.41% for 2011. The following table compares TMRS' actual returns to policy benchmark returns for the year-end target allocation.

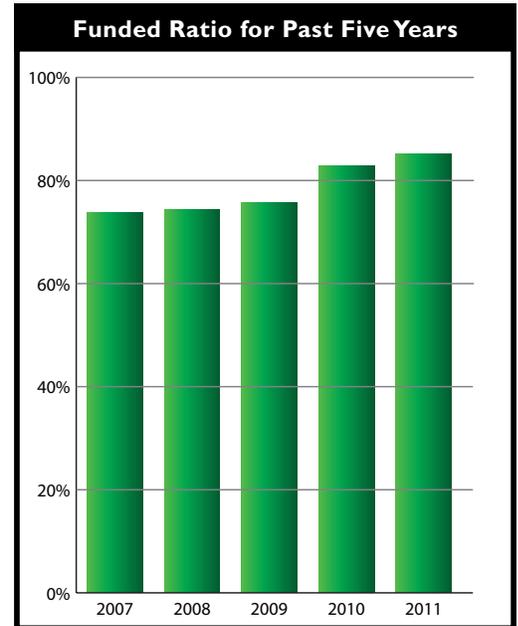


Reporting Standards

This Summary Annual Financial Report is derived from the *TMRS 2011 Comprehensive Annual Financial Report for the Year Ended December 31, 2011 (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 a copy of the CAFR, please download the PDF version from www.tmr.com.

TMRS' Funded Status Continues to Improve

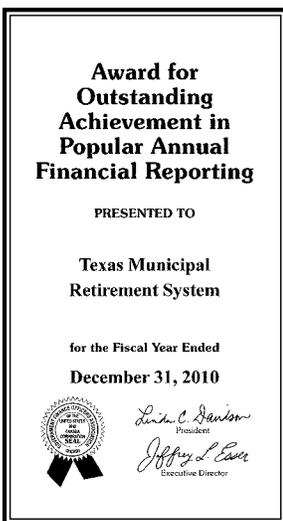
- Perhaps the most important factor that affects the soundness of a retirement program is the employer funding policy. Many of the plans around the United States that have been in the news as being inadequately funded have received contributions lower than the actuarially determined rate needed to fund the plan. 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, but an even more meaningful measure of soundness is whether the funded ratio increases from year to year. As certified by the System's actuary, Gabriel Roeder Smith & Company (GRS), as of December 31, 2011, TMRS as a whole was 85.1% funded; this funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.
- 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, one of the lowest of any major retirement system. 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. While the 2011 investment return of 2.41% fell short of the 7.0% target, smoothing the actuarial gains earned in 2010 enabled the actuaries to recognize an approximate 7.1% actuarial return for 2011.



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.

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, 2010.

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 2011 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.

Pre-Retirement Planning

Key Ages in Retirement Planning

To plan for retirement, you may want to register for MyTMRS® and use the online calculator to run retirement estimates to get an idea of your TMRS annuity. Also keep in mind that TMRS is likely to be only one piece of your retirement planning. Here are a few milestones for managing your sources of retirement income and your insurance needs.

At age:	You can do this:
50	Begin age-based catch-up to 457 plans, DC plans, IRAs.
55	After separation, qualified plan withdrawals exempt from 10% tax penalty (age 50 for qualified public safety employees).
59 ½	Begin qualified plan withdrawals (if retired) and traditional IRA without penalty.
60	Eligible to retire from TMRS; eligibility based on 5 or 10 years of service, depending on your city's plan.
62	Start Social Security, with reduced benefits.
63 ½	Research COBRA and Medigap options to ensure access to health insurance.
65-67	Begin normal Social Security; earn any amount without reducing benefits. Medicare eligibility begins at 65.
65	Enroll in Medicare; buy Medigap at standard rates.
70	Begin maximum Social Security benefits, if delayed to this age.
70 ½	Required minimum distributions for qualified plans, traditional IRAs, deferred compensation; these payments must begin April 1 of the year after you turn 70 ½.

Note: Income tax is due on all withdrawals.

Board and Advisory Committee Members

The six members of the TMRS Board of Trustees are unpaid appointees who are also members of TMRS through their city employment.

2012 TMRS Board of Trustees

H. Frank Simpson, Chair

Assistant City Manager, College Station

Julie Oakley, Vice Chair

Director of Finance, Lakeway

Ben Gorzell

Chief Financial Officer, San Antonio

April Nixon

Chief Financial Officer, Arlington

Jim Parrish

Human Resources Director, Plano

Roel "Roy" Rodriguez, PE

Assistant City Manager/MPU General Manager, McAllen

2012 Advisory Committee

The Advisory Committee on Retirement Matters, also composed of volunteers, is appointed by the 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. Current members are:

Individual Class Members

Allen Bogard, Sugar Land, City Manager

Ronald E. Cox, TMRS Retiree

Michael Dane, San Angelo, Interim City Manager

Dean Frigo, Amarillo, Assistant City Manager for Financial Services

Victor Hernandez, Lubbock, City Councilmember

Randle Meadows, Arlington Police Association President

Neil Resnik, Addison, City Councilmember

Wayne Riddle, Deer Park, Mayor

Charles Windwehen, TMRS Retiree

Group Class Representatives

David Crow, Arlington Professional Fire Fighters

Kevin Lawrence, Texas Municipal Police Association

Scott Kerr, Texas State Association of Fire Fighters

Flor Garcia, City of San Antonio

Jerry Gonzalez, Service Employees International Union, San Antonio

Don Byrne, Texas Municipal Human Resources Association

Mike Perez, Texas City Management Association

Bob Scott, Government Finance Officers Association of Texas

Mike Staff, Combined Law Enforcement Associations of Texas

Monty Wynn, Texas Municipal League ■



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2011

Summary Annual Financial Report Inside!

Calendar

2012

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|-----------------|----------------------------------------------|
| July 12 | Regional Pre-Retirement Conference • Midland |
| August 16-17 | TMRS Board of Trustees Meeting • Austin |
| September 3 | Holiday (Labor Day) |
| September 20-21 | TMRS Board of Trustees Meeting • Austin |
| October 25-26 | TMRS Board of Trustees Meeting • Austin |
| November 12 | Holiday (Veterans Day) |
| November 22-23 | Holiday (Thanksgiving) |

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INSIGHT is an informal presentation of information about TMRS and related issues. If any specific questions of fact or law should arise, the statutes will govern.

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