

# insight

The Newsletter for TMRS® Members



## Dedication

This issue of *INSIGHT* is dedicated to the memory of H. Frank Simpson, who passed away on April 27, 2013. He served on the TMRS Board for 10 years, from 2003 until his untimely death, and was the Board's Chair in 2006 and 2012. As an advocate for Texas cities, an outstanding public servant, and a staunch supporter of TMRS, Mr. Simpson will be greatly missed.

Frank Simpson's employment history with Texas cities epitomized a story of hard work, talent, and service. He began his career as a utilities worker for the City of College Station in 1986, and then progressed to serve as City Manager for the Cities of Center, Webster, and Missouri City before returning to College Station, first as an Assistant City Manager, then as City Manager in 2013.

TMRS is deeply grateful for Mr. Simpson's concern for municipal employees, his analytical mind, and his leadership during a time of many changes in the System, including the passage of HB 360 in 2009 and the passage of SB 350 in 2011.

## No TMRS Bills Passed in Legislative Sessions

Before the 83rd Regular Legislative Session, the TMRS Board's Advisory Committee on Retirement Matters met five times to discuss potential legislation. The Committee studied a variety of proposed plan changes but ultimately declined to suggest any changes to the Board of Trustees. The Board adopted a resolution expressing its support for the TMRS plan design and encouraging the Legislature not to pursue any changes for the session that would negatively impact TMRS.

Even so, legislators filed a number of bills that proposed changes specific to TMRS, but none of these bills passed. Other bills were filed that addressed such topics as confidentiality and transparency for all pension systems in Texas, and some of these bills passed. The protection of member and retiree personal information was not affected. Status of bills considered by the Legislature is provided on the Legislative page of the TMRS website.

The 83rd Regular Session came to an end on May 27, 2013. That same day, the Governor called a Special Session to take up legislation concerning redistricting. During the Special Session, he

*continued on page 2*

## From the Executive Director



Dear TMRS Members,

This issue of *INSIGHT* is dedicated to one of the most steadfast and forthright people we've ever worked with — Board member H. Frank Simpson. The TMRS Board and staff mourn the loss of a man who contributed so much to the System's well-being. A large part of our recent success is due to his efforts.

Our summer issue contains the 2012 TMRS Summary Annual Financial Report. The annual report is an overview of the System's finances and achievements as of December 31, 2012. In 2012, our total net pension position grew to \$20.5 billion, continuing a trend of steady growth in position. Another significant gain was that our funded ratio increased to 87.2% for 2012, up from 85.1% for 2011.

The story at left provides an overview of the recent legislative sessions. You are probably aware that TMRS doesn't receive state funding but is governed by state law. To change how we operate or the benefits available to cities, legislation must be passed. In the 2013 sessions, no changes were made to the law that governs TMRS.

If you have any questions about your retirement system, please contact us. We are staffed with skilled analysts who can speak with you during regular business hours, and our website at [www.tmr.com](http://www.tmr.com) offers lots of information and how-to's as well, including a way to see your personal account information and run estimates through MyTMRS.

Sincerely,

David Gavia  
Executive Director



added several other topics, but nothing that would make changes to the statewide retirement systems, including TMRS. The Governor then called a second Special Session, slated to end July 30. At press time, none of the topics considered in the special sessions affected TMRS.

If you have suggestions that would enhance our plan, feel free to contact Dan Wattles, Director of Governmental Relations, at [dwattles@tmrs.com](mailto:dwattles@tmrs.com). ■

## ANNUAL FINANCIAL REPORT

**In this issue.... the 2012 Summary Annual Financial Report!** This report is sent to all members and annuitants every year to brief you on the System's financial status. This report may be removed from the middle of *INSIGHT* and retained as a separate document. ■

## TMRS Board of Trustees Update

Governor Perry appointed, and on March 27 the Texas Senate approved, TMRS' newest Board member, Bill Philibert of Deer Park, to replace outgoing Trustee Ben Gorzell of San Antonio. And, tragically, TMRS lost its Chair of the Board of Trustees, H. Frank Simpson of College Station, to a heart attack in April (see dedication on page 1). At the Board meeting after Mr. Simpson's death, the Board voted to elect the sitting Vice Chair, Roel "Roy" Rodriguez of McAllen, as the Chair for the rest of the calendar year; Jim Parrish of Plano was elected to the Vice Chair position. The current Board and Advisory Committee members are listed below.

### 2013 TMRS Board

**Roel "Roy" Rodriguez, PE, Chair**

Assistant City Manager/MPU General Manager, McAllen

**Jim Parrish, Vice Chair**

Human Resources Director, Plano

**April Nixon**

Chief Financial Officer, Arlington

**Bill Philibert**

Human Resources Director, Deer Park

**Julie Oakley**

Director of Finance, Horseshoe Bay

**Vacancy**

The TMRS Act provides that the administration of TMRS is entrusted in a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. TMRS Board members serve six-year staggered terms, and Board members are unpaid volunteers who are also members of TMRS through their city employment.

### 2013 Advisory Committee

The Advisory Committee on Retirement Matters 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. Current members are listed below.

#### Individual Class Members

Allen Bogard, Sugar Land, City Manager

Michael Dane, San Angelo, Assistant City Manager / CFO

Dean Frigo, Amarillo, TMRS Retiree

Victor Hernandez, Lubbock, City Councilmember

Randle Meadows, Arlington Police Association President

Neil Resnik, Addison, City Councilmember

Charles Windwehen, TMRS Retiree

#### Group Class Representatives

Joe Angelo, City of San Antonio

David Crow, Arlington Professional Fire Fighters

Jerry Gonzalez, Service Employees International Union, San Antonio

Scott Kerr, Texas State Association of Fire Fighters

Kevin Lawrence, Texas Municipal Police Association

Debbie Maynor, Texas Municipal Human Resources Association

Mike Perez, Texas City Management Association

Bob Scott, Government Finance Officers Association of Texas

Gregg Shipley, Combined Law Enforcement Associations of Texas

Monty Wynn, Texas Municipal League ■

# TMRS 2012 Summary Annual Financial Report

For the Year Ended December 31, 2012



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 2012

- The System continued to diversify its investment portfolio by expanding the real estate asset class and further diversifying other asset classes. As of December 31, 2012, TMRS had committed \$650 million to private real estate funds, of which \$312.5 million was funded as of year-end. In addition, TMRS added active strategies in the domestic and foreign equities asset classes, hiring two new external equity fund managers.
- The overall one-year rate of return on the investment portfolio was 10.11%, with domestic and international equities the best performing asset classes, earning 16.33% and 17.23%, respectively, while the return on fixed income was 4.94%.
- Member municipalities received a 9.95% interest credit on their January 1, 2012, Benefit Accumulation Fund balances.
- As of December 31, 2012, TMRS as a whole was 87.2% funded. This funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- TMRS staff answered over 101,000 member requests for assistance and processed 2,995 new retirements in 2012.
- Two new cities joined the System in 2012. At year-end 2012, TMRS administered plans for 849 member cities that included:
  - 142,883 employee accounts
  - 42,931 retired members

### Contact Us

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

## TMRS Board of Trustees (as of December 31, 2012)

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.

This Summary Annual Financial Report is dedicated to TMRS Board Member H. Frank Simpson, who passed away in April 2013.

### **H. Frank Simpson, 2012 Chair**

City Manager, College Station

### **Julie Oakley, CPA, 2012 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

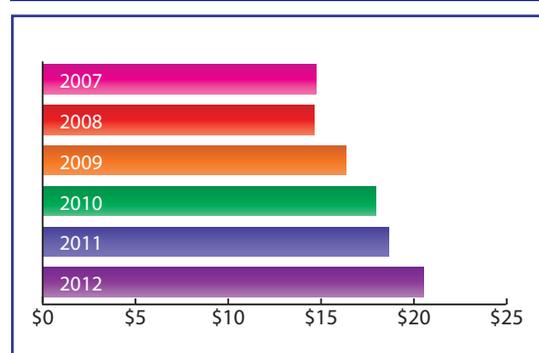
# Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at both year-end 2012 and 2011. 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 in net appreciation from year-end 2011 to 2012. As a result of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2012 and 2011, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$6.1 million and \$15.4 million, respectively, is reflected in the Statements of Plan Net Position. The reduction in the securities lending collateral asset and liability from 2011 to 2012 reflects a significant decline in securities lending activity in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013.

Summary Comparative Statements of Plan Net Position As of December 31, 2012 and 2011		
	2012	2011
<b>ASSETS</b>		
Investments, at fair value	\$ 20,627,559,696	\$ 18,464,825,574
Receivables and other	1,808,700,141	1,666,432,835
Invested securities lending collateral	147,077,460	1,688,567,121
Capital assets, net	9,049,918	9,261,818
<b>TOTAL ASSETS</b>	<b>22,592,387,215</b>	<b>21,829,087,348</b>
<b>LIABILITIES</b>		
Payables and accrued liabilities	1,923,350,813	1,526,807,921
Funds held for Supplemental Death Benefits Fund	25,249,880	27,026,910
Securities lending collateral	153,187,500	1,703,958,593
<b>TOTAL LIABILITIES</b>	<b>2,101,788,193</b>	<b>3,257,793,424</b>
<b>NET POSITION</b>	<b>\$ 20,490,599,022</b>	<b>\$ 18,571,293,924</b>

Net Position Growth in Billions

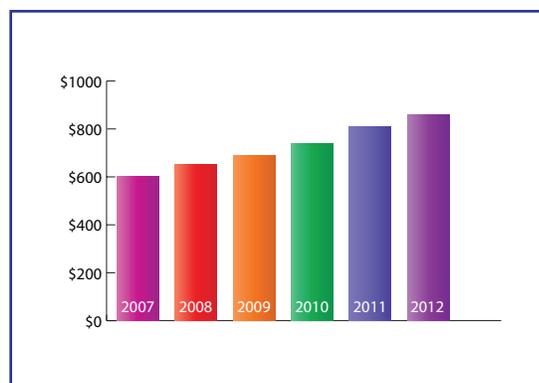


The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been 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 2012 reflects a significant increase from 2011 earnings, primarily affected by the unrealized gains in the equities asset classes. The total return on TMRS' investment portfolio of 10.11% (compared with 2.41% in 2011), enabled the Board to credit 9.95% to municipality accounts while 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 retired members (from 40,534 in 2011 to 42,931 in 2012).

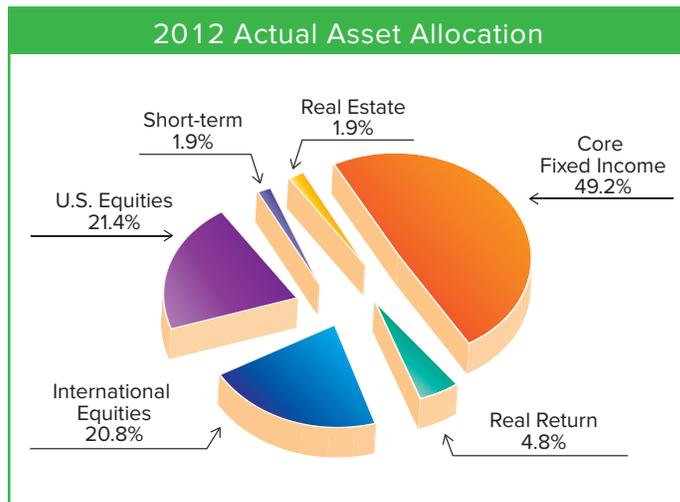
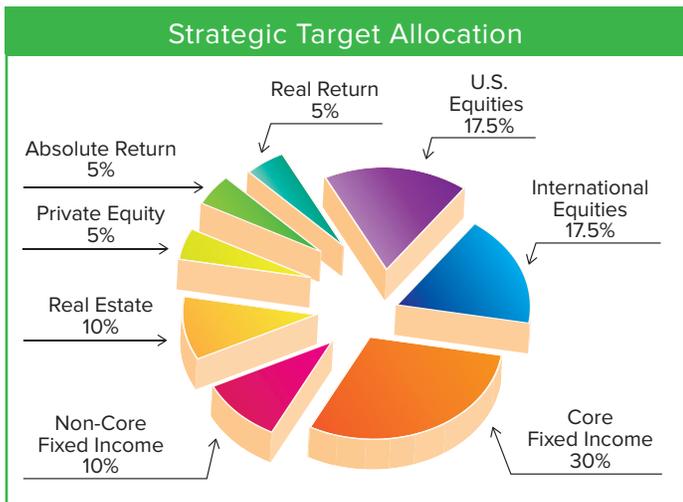
Summary Comparative Statements of Changes in Plan Net Position For the Years Ended December 31, 2012 and 2011		
	2012	2011
<b>ADDITIONS</b>		
Contributions and other	\$ 992,229,434	\$ 1,022,789,196
Net investment income	1,863,280,541	434,765,653
<b>TOTAL ADDITIONS</b>	<b>2,855,509,975</b>	<b>1,457,554,849</b>
<b>DEDUCTIONS</b>		
Benefit payments	864,937,039	810,317,265
Refunds of contributions	57,842,723	55,666,288
Allocation to Supplemental Death Benefits Fund	1,310,740	1,331,570
Administrative expenses and other	12,114,375	11,439,672
<b>TOTAL DEDUCTIONS</b>	<b>936,204,877</b>	<b>878,754,795</b>
<b>CHANGE IN NET POSITION</b>	<b>1,919,305,098</b>	<b>578,800,054</b>
<b>NET POSITION</b>		
<b>BEGINNING OF YEAR</b>	<b>18,571,293,924</b>	<b>17,992,493,870</b>
<b>END OF YEAR</b>	<b>\$ 20,490,599,022</b>	<b>\$ 18,571,293,924</b>

Benefit Payments in Millions



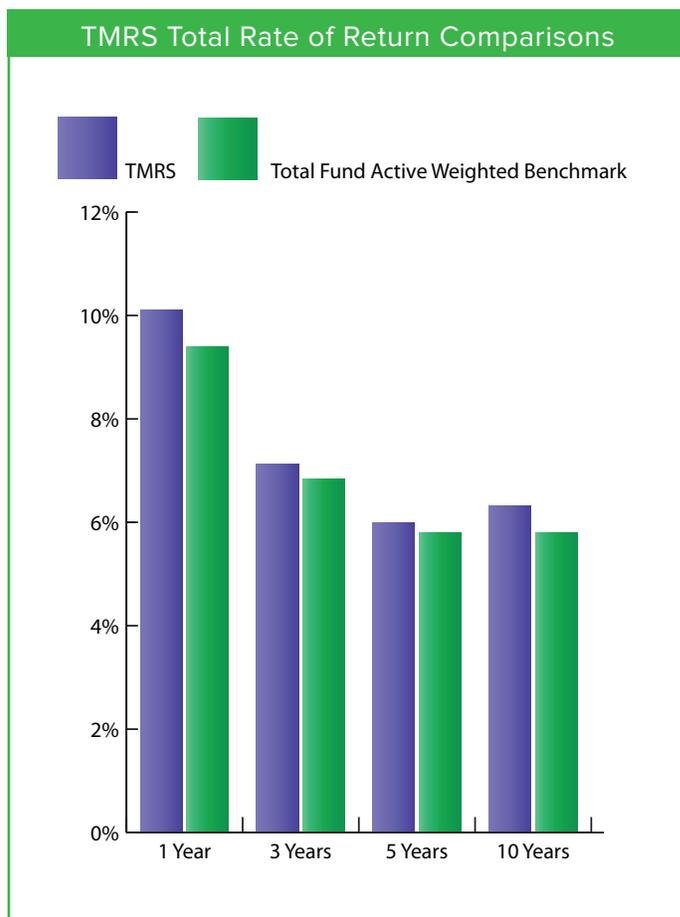
# Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Eleven 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 2012 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

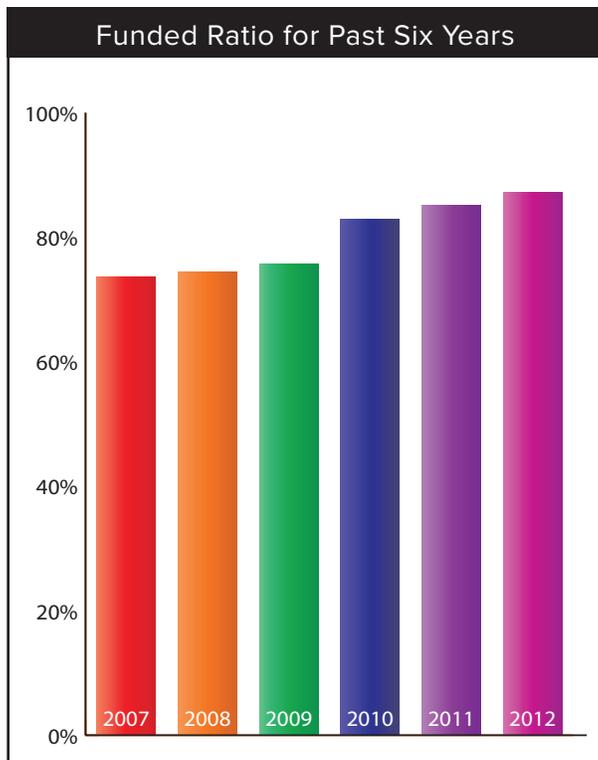
The total return on TMRS' investment portfolio was 10.11% in 2012. The following table compares TMRS' actual returns to policy benchmark returns.



## Reporting Standards

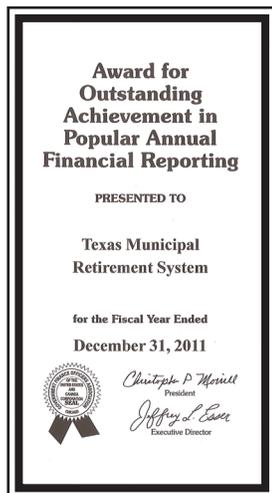
This Summary Annual Financial Report is derived from the *TMRS 2012 Comprehensive Annual Financial Report for the Year Ended December 31, 2012* (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared 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 Continues to Improve



- Perhaps 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, 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, as of December 31, 2012, TMRS as a whole was 87.2% funded; this funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- 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. 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.

## 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, 2011.

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 2012 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.

# TMRS Board Studies Mortality Tables

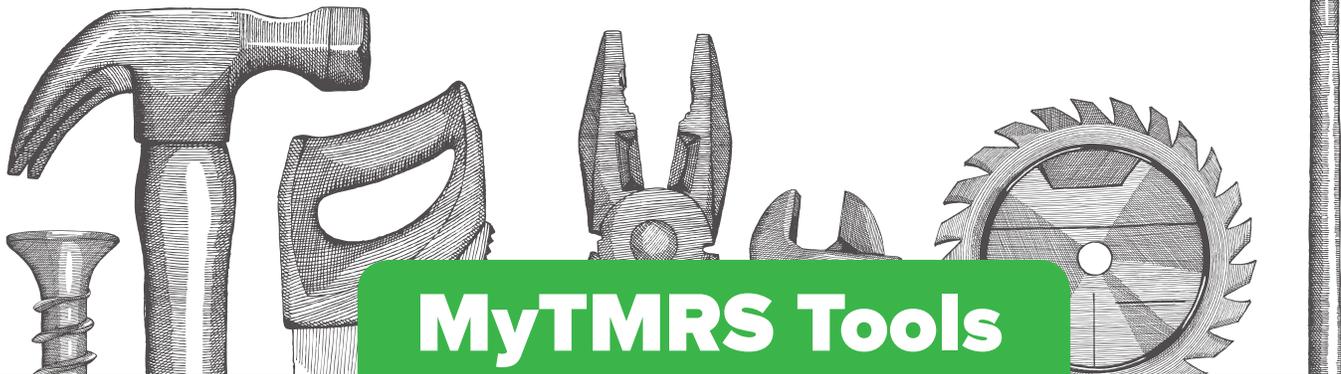
As part of its strategic plan, the TMRS Board has asked its consulting actuary to review the mortality tables used to calculate a member's retirement benefits. These tables were adopted in the early 1980's and have not been updated to reflect improvements in mortality; i.e., people living longer. An FAQ is available on the TMRS website that provides basic information about the use of mortality tables in retirement benefit calculations, discusses the initial results of the mortality table study, and considers possible alternatives to update these tables. More information will appear in the winter issue of *INSIGHT* and on the website as it becomes available. ■

## Did You Know?

### “Bona Fide” Separation and Return to Work Rules

**Bona Fide Separation.** As an employee working for a TMRS city, you are an active participant in TMRS until you retire, die, or separate from service. In general, if you leave your position with the city, you may apply for a distribution (refund or retirement), and the city is required to certify the termination, which must be “bona fide” for both state and federal tax law purposes. Applicable law does not allow a distribution if there isn't a bona fide termination. Generally, it will not be a bona fide termination if you separate from service and return to work (either as an employee or an independent contractor) in any kind of pre-arranged manner.

**Return to Work.** Assuming you have a bona fide termination and retire, but want to return to work, then the TMRS “return to work” provisions will also apply. Under the TMRS Act, the “return to work” benefit suspension provision depends on whether a retiree returns to employment with the same city from which he or she retired. If you retire from your position with the city and are later re-employed (either as an employee or, in certain cases, as an independent contractor) by any TMRS member city, in a position requiring at least 1,000 hours of duty per year, you will resume membership in TMRS and make required contributions as an active member. The facts of each case will help determine the outcome, but a general description of the rules is as follows: If the city is a different city than the one you retired from, you will continue to receive your monthly annuity. However, if you return to work (as an employee or, in some cases, as an independent contractor) for the same city you retired from, the monthly annuity will be suspended until such time as your employment with the city terminates, and you will forfeit the amount of the suspended payments. The only exception to this is if you wait eight years before going back to the same city from which you retired. In 2011, a law was passed to modify the TMRS Act to still require the suspension of annuity payments while a retiree is re-employed with the same city, but to allow persons with at least an eight-year gap to recover the amount of suspended payments when they retire again from the city. ■



An important way to stay on top of your TMRS account information is to register for MyTMRS and check your account regularly. From the TMRS website, click on the MyTMRS button and follow the prompts. If you have not registered, you may do so through the website and an email confirmation will be sent to you.

In MyTMRS, you can check the following:

- Your personal information (name, date of birth, and current address)
- Your current balance information and current statement
- Your beneficiary(ies) name, date of birth, and relationship to you
- Your eligibility for a Supplemental Death Benefit (an option that may be chosen by your city)
- Your vested status and retirement eligibility
- Your retirement annuity estimates for your first eligibility or on whatever other dates you'd like to view



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**TMRS 2012**  
Summary Annual Financial Report Inside!

## Calendar

### 2013

July 25	Regional Pre-Retirement Conference - Addison
August 22-23	TMRS Board of Trustees Meeting - Austin
September 2	Holiday (Labor Day)
September 19-20	TMRS Board of Trustees Meeting - Austin
October 9	TMRS Board of Trustees Meeting - Austin
November 11	Holiday (Veteran's Day)
November 28-29	Holiday (Thanksgiving)
December 5-6	TMRS Board of Trustees Meeting - Austin
December 24-25	Holiday (Christmas Eve and Christmas Day)

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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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