

insight

The Newsletter for TMRS® Members

TMRS — A Retirement Program That Works for You

Many municipal employees, particularly new ones, may not be fully aware of the value of a retirement plan with TMRS. Your city has chosen this retirement system for its employees, and has customized its choices of plan features to give its employees a lifetime retirement income. Because your city has chosen TMRS, you must participate in the plan if you are in a position that normally works more than 1,000 hours per year. Here are a few key facts about the value of your TMRS benefits:

TMRS has been the system of choice for Texas cities since 1948

- 850 cities participate in TMRS.
- TMRS has 102,870 contributing members and 45,580 annuitants.
- Offering a retirement with TMRS helps give your city a competitive edge in hiring.
- If you move between TMRS cities, your member account stays intact.

TMRS plan features are good for both you and your employer

- TMRS is a “hybrid” cash-balance defined benefit retirement plan.
- Your retirement benefit is based on your account balance at retirement. Your lifetime benefit is funded through your deposits, city contributions, and investment income.
- TMRS is a good deal for your city’s taxpayers. Although you and your city contribute toward your retirement, investment income provides the majority of an employee’s benefit.
- Neither you nor your city pays any administrative costs for TMRS. The System’s expenses are paid completely from the fund’s investment income.
- Most TMRS retirement benefits are spent in the state and many are returned — as retiree expenditures — directly to the communities where they were earned.

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From the Executive Director



Dear TMRS Members,

The TMRS 2013 Summary Annual Financial Report, included in the middle of this issue of *INSIGHT*, is a brief overview of the System’s finances and investments as of December 31, 2013. In 2013, our total net pension position grew to \$22.5 billion, continuing a trend of steady growth in assets, due in part to our continuing investment diversification.

Our front page story explains why being a member of TMRS is a win/win for employees and member cities. Many of our positive initiatives in the past few years have come as a result of changes to the law that governs TMRS. But we are now in a period of relative calm, and as we mentioned in previous issues of *INSIGHT*, no major legislative change occurred in the past session (2013) that affected TMRS. See the story on page 2 for information about planning for the next legislative session.

We hope you’ll refer to our website, www.tmr.com, when you have questions. One of the web tools whose functionality is steadily growing is MyTMRS®, the online connection to your account where you can see your service credits and beneficiaries and run retirement estimates. MyTMRS will be expanding to allow you to make changes to your TMRS account information online (see story on page 3).

Sincerely,

David Gavia
Executive Director

The System's investment performance and funded status are healthy

- TMRS' funded status was 84.1% as of 12/31/13.
 - TMRS administers \$23.9 billion in assets, as of 12/31/2013 (investments, at fair value).
 - The overall one-year rate of return on TMRS' investments was 9.86% at the end of 2013. (For a full description of investment activity in 2013, see the TMRS 2013 Summary Annual Financial Report, in the middle of this issue, and the Investments page on the TMRS website.)
- All data as of 12/31/13, as issued in the *TMRS 2013 Comprehensive Annual Financial Report*. ■

Annual Financial Report

In this issue.... The TMRS 2013 Summary Annual Financial Report (also called the Popular Annual Financial Report, or PAFR), is sent to all members every year to brief you on the System's financial status. ■

TMRS Board of Trustees Update

The TMRS Board gained three new Trustees in 2013, pictured at right. In March, the Texas Senate approved the Governor's appointment of Bill Philibert of Deer Park, who took up the term of exiting Trustee Ben Gorzell of San Antonio. In October, Governor Perry appointed David Landis of Perryton to replace the late H. Frank Simpson of College Station. Then, in December, Jim Jeffers of Nacogdoches was appointed to take up the remaining term of retiring Board member April Nixon. TMRS thanks former Board members Mr. Gorzell and Ms. Nixon for their years of dedication and service.



Bill Philibert

Human Resources Director, Deer Park



David Landis

City Manager, Perryton



James "Jim" Paul Jeffers

City Manager, Nacogdoches

2014 TMRS Board

At its December 2013 meeting, the Board elected Roel "Roy" Rodriguez of McAllen as Chair for 2014 and Julie Oakley of Lakeway as Vice Chair. The current Board, as of July 2014, is comprised of Mr. Rodriguez, Ms. Oakley, Jim Parrish of Plano, and new Trustees Philibert, Landis, and Jeffers. ■

Legislative & Advisory Committee Summary

As mentioned in previous issues of *INSIGHT*, no bills passed in the 83rd Legislature (2013) that affected TMRS. We are currently in the interim period between legislative sessions. The 84th Session of the Texas Legislature will begin in January 2015, and in the meantime, the TMRS Advisory Committee on Retirement Matters is meeting to discuss possible recommendations to the Board of Trustees regarding potential benefit design changes. Results of these meetings are posted on the TMRS website along with their schedules and a list of current Advisory Committee members.

During the interim, the House Pensions Committee and the Senate State Affairs Committee will be studying public pension-related issues, none that directly affect TMRS. A listing of all House and Senate interim committee charges is available on the TMRS website's Legislative page. If you have any comments or suggestions, you may direct them to Dan Wattles, TMRS Governmental Relations Director, at dwtattles@tmrs.com. ■

TMRS 2013 Summary Annual Financial Report

For the Year Ended December 31, 2013



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 2013

- 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, 2013, TMRS had committed \$1.15 billion to private real estate funds, of which \$537.4 million was funded as of year-end. In addition, in late 2013 TMRS implemented additional active strategies in the domestic equities asset class, hiring two new external equity managers to manage investment portfolios of \$200 million each.
- The overall one-year rate of return on the investment portfolio was 9.86%, with domestic and international equities the best performing asset classes, earning 33.20% and 16.33%, respectively, while the return on fixed income was -1.94%.
- Member municipalities received an approximate 9.70% interest credit on their January 1, 2013 Benefit Accumulation Fund balances.
- As of December 31, 2013, TMRS as a whole was 84.1% funded. This funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.
- TMRS staff answered over 101,000 member requests for assistance and processed 3,317 new retirements in 2013.
- Two new cities joined the System in 2013. At year-end 2013, TMRS administered plans for 850 member cities that included:
 - 145,448 employee accounts
 - 45,580 retired members

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TMRS Board of Trustees (as of December 31, 2013)

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.

Roel "Roy" Rodriguez, PE, 2013 Chair
City Manager, McAllen

April Nixon¹
Chief Financial Officer, Arlington

Jim Parrish, 2013 Vice Chair
Deputy City Manager — Administrative Services, Plano

Julie Oakley, CPA
Director of Finance, Lakeway

David Landis
City Manager, Perryton

Bill Philibert
Human Resources Director, Deer Park

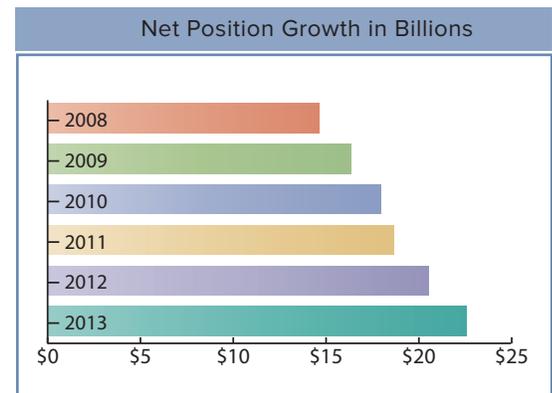
¹ On December 26, 2013, Governor Rick Perry appointed James "Jim" Paul Jeffers of Nacogdoches to replace Board Member April Nixon of Arlington, who retired in late 2013.

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 2013 and 2012. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair market value, make up the largest portion of the net position held in trust for pension benefits, and reflect an increase due to net appreciation in value from year end 2012 to 2013. As a result of our participation in a securities lending program, we are required to report both the asset and the related liability of the collateral received for securities on loan at year end. At December 31, 2013 and 2012, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$4.2 million and \$6.1 million, respectively, is reflected in the Statements of Plan Net Position. The significant increase in the securities lending collateral asset and liability from 2012 to 2013 was due to the winding down of lending activity at year end 2012 in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013, at which time lending activity resumed.

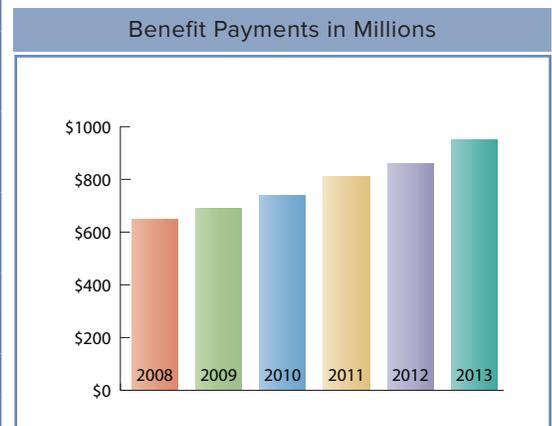
Summary Comparative Statements of Plan Net Position As of December 31, 2013 and 2012		
	2013	2012
ASSETS		
Investments, at fair value	\$ 23,868,363,416	\$ 20,627,559,696
Cash, receivables and other	1,241,750,049	1,808,700,141
Invested securities lending collateral	1,886,115,119	147,077,460
Capital assets, net	<u>8,449,172</u>	<u>9,049,918</u>
TOTAL ASSETS	27,004,677,756	22,592,387,215
LIABILITIES		
Payables and accrued liabilities	2,622,251,033	1,923,350,813
Funds held for Supplemental Death Benefits Fund	23,421,789	25,249,880
Securities lending collateral	<u>1,890,371,310</u>	<u>153,187,500</u>
TOTAL LIABILITIES	4,536,044,132	2,101,788,193
NET POSITION	\$ 22,468,633,624	\$ 20,490,599,022



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.

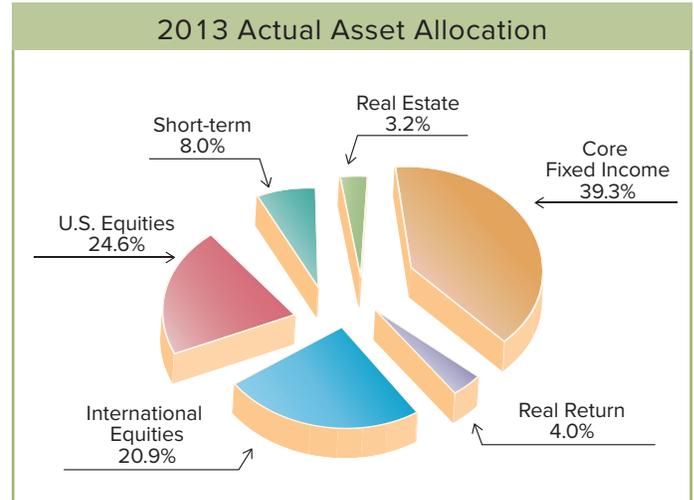
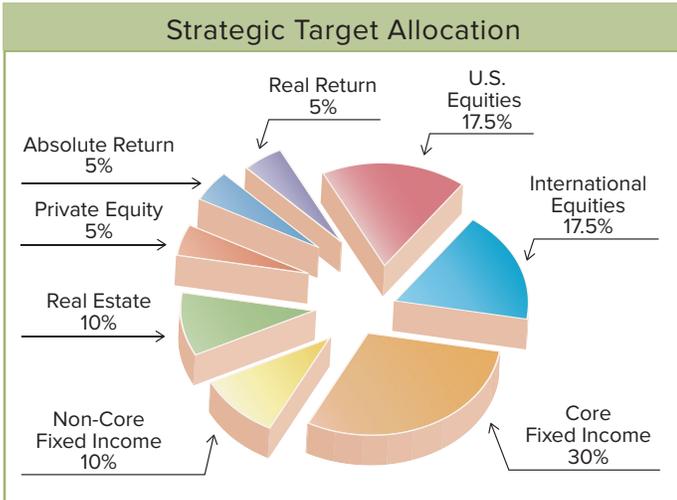
Net investment income in 2013 and 2012 was significantly affected by the unrealized gains recognized in the equities asset classes. The total return on TMRS' investment portfolio was 9.86% and 10.11% in 2013 and 2012, respectively. Investment earnings in 2013 enabled the Board to credit 9.70% to municipality accounts while maintaining a reserve of \$100 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retired members (from 42,931 in 2012 to 45,580 in 2013).

Summary Comparative Statements of Changes in Plan Net Position For the Years Ended December 31, 2013 and 2012		
	2013	2012
ADDITIONS		
Contributions and other	\$ 1,021,394,107	\$ 992,229,434
Net investment income	<u>1,974,888,477</u>	<u>1,863,280,541</u>
TOTAL ADDITIONS	2,996,282,584	2,855,509,975
DEDUCTIONS		
Benefit payments	946,496,522	864,937,039
Refunds of contributions	57,727,674	57,842,723
Allocation to Supplemental Death Benefits Fund	1,202,065	1,310,740
Administrative expenses and other	<u>12,821,721</u>	<u>12,114,375</u>
TOTAL DEDUCTIONS	1,018,247,982	936,204,877
CHANGE IN NET POSITION	1,978,034,602	1,919,305,098
NET POSITION		
BEGINNING OF YEAR	<u>20,490,599,022</u>	<u>18,571,293,924</u>
END OF YEAR	\$ 22,468,633,624	\$ 20,490,599,022



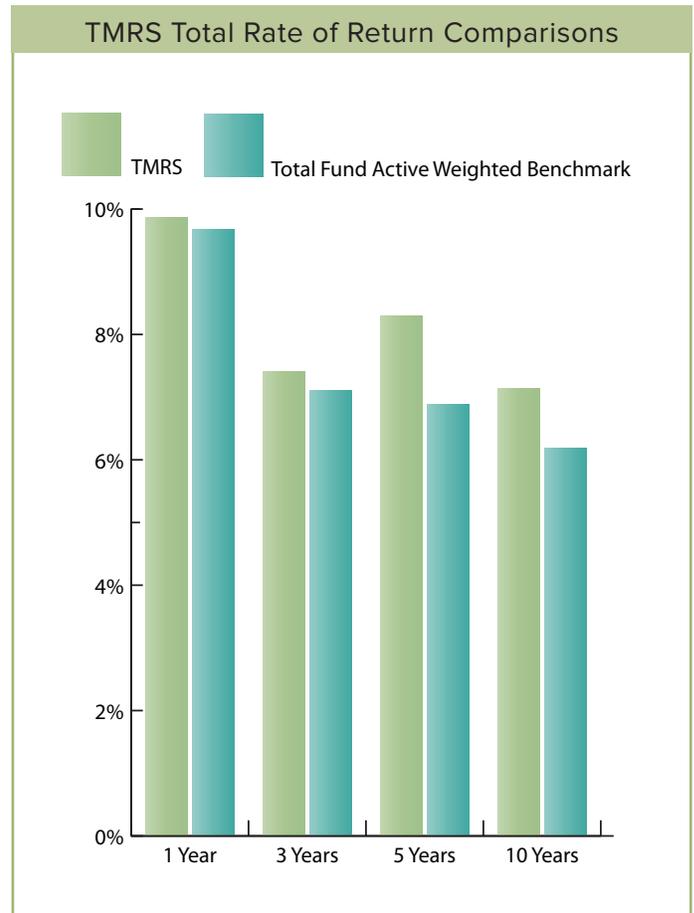
Investments

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 2013 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

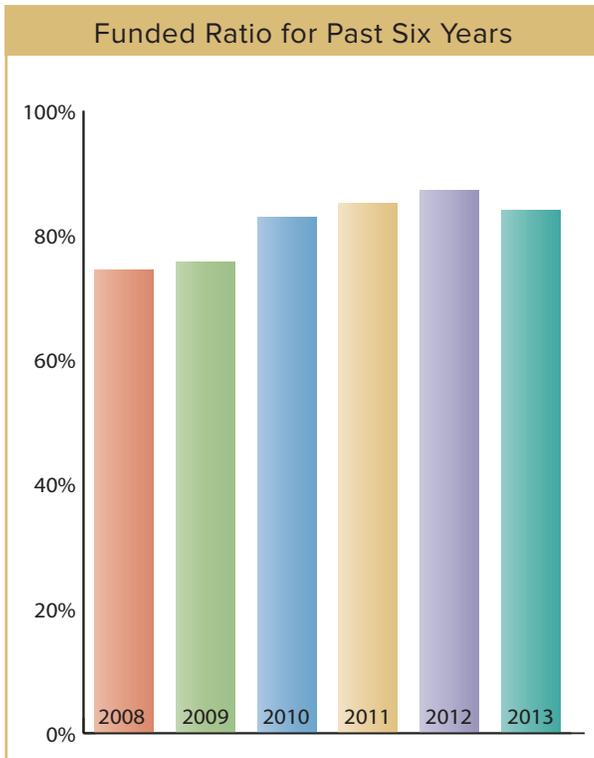
The total return on TMRS' investment portfolio was 9.86% in 2013. The table at right compares TMRS' actual returns to policy benchmark returns.



Reporting Standards

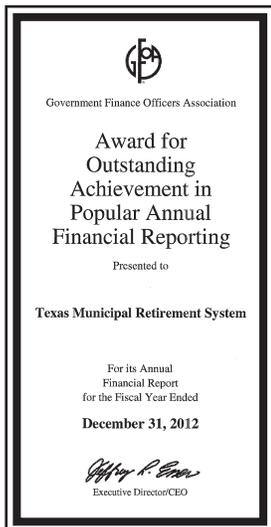
This Summary Annual Financial Report is derived from the *TMRS 2013 Comprehensive Annual Financial Report for the Years Ended December 31, 2013 and 2012 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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.

TMRS' Funded Status



- The most important factor that affects the soundness of a retirement program is the employer funding policy. Under TMRS law, all cities pay the actuarially determined contribution needed to fully fund benefits.
- One common measure of the soundness of a retirement plan is the plan's funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive. As certified by the System's actuary, Gabriel Roeder Smith & Company, as of December 31, 2013, TMRS as a whole was 84.1% funded; this funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.
- 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, 2012.

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 2013 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.

Thinking about Retiring?

Here are some tips!

Any time you begin to wonder about your retirement and are curious about what your benefit will look like, run some estimates to see what to expect in the future. It is a good idea to familiarize yourself with the available retirement options (see the web video, “Retirement Options” for an overview).

Five years before retirement, or any time you are planning for the future, attend a TMRS Regional Pre-Retirement Conference. These conferences are held in different locations around Texas, and we schedule several of them annually. Two are still to come in 2014: July 23 in Katy and November 5 in Denton. Dates for 2015 will be announced in the fall. When you sign up for one of these free half-day seminars, we’ll prepare an estimate packet ahead of time for you.

If you prefer one-on-one help, call our phone center and speak with one of our retirement analysts, who can answer any questions you may have. In addition, you may come to our office in Austin to have a personalized session with an analyst — no appointment necessary! Members of our Travel Team often attend city-sponsored events such as benefit fairs, so let your TMRS City Correspondent (a trained TMRS contact in your city) know if you would like to speak to a TMRS representative or let us know directly by phone or e-mail at communications@tmrs.com.

One to three months before retirement, submit your completed Service Retirement Application (TMRS-15) to TMRS to “lock in” your retirement date. At this point, you’ll also want to arrange for direct deposit of your annuity. All new TMRS retirement payments must be electronically deposited. ■

Keep Up-to-Date with MyTMRS!

A message that bears repeating is how important it is to keep TMRS updated with all your current personal information. **Whenever there is a major change in your life** (such as moving, marrying, or changing your name), in addition to letting your city know, you need to let TMRS know separately. This is because your secure and confidential TMRS account is maintained independently — the information there is under your control alone.

Check the information TMRS has about your account and your beneficiaries by registering for MyTMRS to view your information regularly. If you have not registered, you may do so through the website, and an e-mail confirmation will be sent to you. In MyTMRS, you can review:

- 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) and your vested status and retirement eligibility
- Your retirement annuity estimates for your first eligibility or on whatever other dates you’d like to view

And, coming in phases over the next couple of years, you will be able to actually make certain changes to your account rather than filing a paper form with TMRS. We are calling this initiative “TMRS Direct” and will notify you as soon as it’s available! ■

About Estimate Calculations

If you have run estimates between January 1 and June 1, 2014 for a retirement date after December 31, 2014, you may want to run new estimates to see more accurate amounts. As discussed in the last issue of *INSIGHT*, TMRS updated its mortality (life expectancy) tables in January of this year. In May, we modified the implementation of those mortality tables to provide a smoother monthly benefit accrual pattern. The new implementation results in slightly higher monthly benefit amounts in many cases.

Your life expectancy is an important part of your **lifetime annuity** calculation. (See the full story about the life expectancy factors in the Winter 2013-2014 issue of *INSIGHT*.) Because your life expectancy decreases at every birthday, in any year you wish to retire, we suggest you run estimates before, during, and after your birth month to see the adjusted amounts. Estimates in your birth month or later tend to be slightly higher than estimates run the month before your birth month. ■

The Importance of E-mail Addresses

When you sign up for MyTMRS, you are asked to provide a valid e-mail address. As we begin to offer more functionality through MyTMRS, keeping your e-mail up-to-date is very important so that we can provide future communications over the Internet. We highly recommend you choose a viable, long-lasting e-mail address when you sign up for MyTMRS or when you use the Change of Address form to change your TMRS contact information. Some people find that using an e-mail address from a provider like Gmail or Yahoo provides a longer term solution than one from an Internet service provider. ■



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TMRS 2013 Summary Annual Financial Report Inside!

Calendar

July 23	Regional Pre-Retirement Conference – <i>Katy</i>
August 21-22	Joint Meeting of the TMRS Board of Trustees and the TMRS Advisory Committee – <i>Austin</i>
September 1	Holiday (<i>Labor Day</i>)
September 18-19	TMRS Board of Trustees Meeting – <i>Austin</i>
October 23-24	TMRS Board of Trustees Meeting – <i>Austin</i>
November 5	Regional Pre-Retirement Conference – <i>Denton</i>
November 11	Holiday (<i>Veteran's Day</i>)
November 28-29	Holiday (<i>Thanksgiving</i>)
December 4-5	TMRS Board of Trustees Meeting – <i>Austin</i>
December 24-25	Holiday (<i>Christmas</i>)

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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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