Same-sex Spouses and TMRS Benefits

A decision by the United States Supreme Court on June 26, 2015 accorded same-sex couples the same marriage rights afforded to opposite-sex couples at the federal and state levels. Prior to the Supreme Court decision, TMRS had been in compliance with applicable Internal Revenue Service requirements regarding same-sex spouses, and the TMRS Act allows a member to name any person, spouse or non-spouse, as a beneficiary.

Following the decision, TMRS has updated our internal processes to recognize the spousal relationship of TMRS members in same-sex marriages. TMRS members should contact TMRS Member Services at 800-924-8677 if they need assistance in completing a beneficiary designation. Remember, members can check their beneficiary selections at any time using MyTMRS®.

From the Executive Director

Dear TMRS Members,

The 2014 TMRS Summary Annual Financial Report, in the middle of this issue of INSIGHT, is a brief overview of the System’s finances and investments as of December 31, 2014. At year-end 2014, our investments totaled $23.9 billion at market value.

Our front page feature describes our TMRSdirect project. We are moving specific customer service functions to an online environment and doing so in a careful, secure manner to safeguard your personal information.

The 84th legislative session ended in June (see story, page 3), and no legislative changes occurred in the session that affected the TMRS retirement program.

We encourage you to refer to our website at www.tmrs.com when you have questions and to register for MyTMRS for benefit estimates and 24-hour information about your account. If you need to know anything else about your retirement system, you can call our phone center to speak to a Member Services analyst, or send an email to help@tmrs.com.

We hope you have an enjoyable summer and fall!

Sincerely,

David Gavia
Executive Director
Importance of Choosing a Beneficiary

Whether your city enrolled you as a new member by submitting a hard copy form or by signing you up with the City Portal, you will still need to send a form to TMRS indicating your choice of beneficiary for your TMRS account. Your beneficiary is the person (or persons) you choose to receive payments from your retirement account if you die.

You need to name a beneficiary when you first become a TMRS member, and your beneficiary designation becomes especially important when you become vested (after 5 or 10 years of service credit, depending on your city’s plan). If you are a new TMRS member (not vested), send in the TMRS-0007 beneficiary designation form. If you have enough service with TMRS cities to be vested, send in the TMRS-007V beneficiary designation form.

You should review your beneficiary designation when your work status or your family status changes. You may change your beneficiary at any time until you retire. A video explaining details about your beneficiary designation is posted on the TMRS website under Member Benefits / Video Training.

Summer Upgrades

The newest MyTMRS features will be available later in the summer. The biggest improvement for members will be the ability to update your address and other contact information using MyTMRS instead of submitting a paper form. Another improvement coming this summer is the ability to print a YTD statement of your account balance.

Your Email Address

When you sign up for MyTMRS, you are asked to provide a working email address. Please choose a viable, long-lasting email address so that we can stay in touch with you and provide future communications over the Internet. Your email address should be “persistent” – in other words, you should choose an address you plan to keep using for a long time. Keeping the same address means you will not miss out on future emails from TMRS as we expand our electronic communications with members.

How to Sign Up

If you’re not using MyTMRS to access your TMRS information, go to www.tmrs.com, click on the MyTMRS button, and get started today!

To register for MyTMRS, follow these steps:

1. Go to www.tmrs.com
2. Click on the MyTMRS button on the home page
3. Click on the Create an Account link
4. Complete the registration process to set up your account

Annual Financial Report

In this issue…. the 2014 Summary Annual Financial Report (also called the Popular Annual Financial Report), is sent to all members every year to brief you on the System’s financial status.

Importance of Choosing a Beneficiary

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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 2014**

- The System continued to diversify its investment portfolio by funding the absolute return and non-core fixed income asset classes, as well as expanding the real estate asset class and further diversifying within other asset classes. As of December 31, 2014, TMRS had committed $1.4 billion and £50 million (British pounds) to private real estate funds, of which $870.3 million was funded as of year-end. In addition, in late 2014 TMRS funded four non-core fixed income managers totaling $900 million and a hedge fund-of-funds manager in the amount of $1.1 billion.

- The overall one-year rate of return on the investment portfolio was 6.0%, with real estate and domestic equities the best performing asset classes, earning 20.4% and 12.6%, respectively.

- In preparation for the new GASB Statements Numbers 67 and 68, TMRS engaged KPMG LLP to perform a SOC 1 Type 2 audit, with the report issued in May 2015. Throughout 2014, TMRS continued its communications to cities about the upcoming changes under the new governmental accounting standards.

- By law, member accounts were credited 5% to their accounts as of January 1, 2014. Member municipalities received an approximate 5.7% interest credit on their January 1, 2014 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 7.5%.

- TMRS made significant progress in 2014 toward developing **TMRSDirect**®, its “straight-through processing” initiative for member and city self-service.

- As of December 31, 2014, TMRS as a whole was 85.8% funded. This funded ratio increased from 84.1% in 2013.

- TMRS staff answered over 101,000 member requests for assistance and processed 3,675 new retirements in 2014.

- Ten new cities joined the System in 2014. At year-end 2014, TMRS administered plans for 860 member cities that included:
  - 149,073 employee accounts
  - 53,455 retirement accounts

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**TMRS Board of Trustees** (as of December 31, 2014)

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, 2014 Chair**
City Manager, McAllen

**Julie Oakley, CPA, 2014 Vice Chair**
Director of Finance, Lakeway

**James “Jim” Paul Jeffers**
City Manager, Nacogdoches

**David Landis**
City Manager, Perryton

**Jim Parrish**
Deputy City Manager – Administrative Services, Plano

**Bill Philibert**
Human Resources Director, Deer Park
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 2014, 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 2014. 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, 2014, 2013, and 2012, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of $2.6 million, $4.3 million, and $6.1 million, respectively, is reflected in the Statements of Fiduciary Net Position.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value</td>
<td>$23,896,100,903</td>
</tr>
<tr>
<td>Cash, receivables and other</td>
<td>$1,602,558,921</td>
</tr>
<tr>
<td>Invested securities lending collateral</td>
<td>$1,030,835,345</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>$7,889,360</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$26,537,384,529</td>
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<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td>Payables and accrued liabilities</td>
<td>$1,754,249,820</td>
</tr>
<tr>
<td>Funds held for Supplemental Death Benefits Fund</td>
<td>$22,176,214</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>$1,033,480,569</td>
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<tr>
<td>TOTAL LIABILITIES</td>
<td>$2,809,906,603</td>
</tr>
<tr>
<td><strong>NET POSITION RESTRICTED FOR PENSIONS</strong></td>
<td>$23,727,477,926</td>
</tr>
</tbody>
</table>

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 composed of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation in the fair value of investment securities (or mark-to-market changes). Net investment income in 2014, 2013, and 2012 was most significantly affected by the unrealized gains/(losses) recognized in the domestic and international equities asset classes. The total return on TMRS' investment portfolio was 6.0%, 9.9%, and 10.1% in 2014, 2013 and 2012, respectively. Investment earnings in 2014 enabled the Board to credit approximately 5.7% 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.

<table>
<thead>
<tr>
<th>Summary Comparative Statements of Changes in Fiduciary Net Position</th>
<th>For the Years Ended December 31, 2014, 2013, and 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADDITIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Contributions and other</td>
<td>$1,075,347,736</td>
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<tr>
<td>Net investment income</td>
<td>$992,229,434</td>
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<tr>
<td>TOTAL ADDITIONS</td>
<td>$2,360,691,915</td>
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<tr>
<td><strong>DEDUCTIONS</strong></td>
<td></td>
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<tr>
<td>Benefit payments</td>
<td>$1,028,572,120</td>
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<tr>
<td>Refunds of contributions</td>
<td>$58,723,123</td>
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<tr>
<td>Allocation to Supplemental Death Benefits Fund</td>
<td>$1,132,803</td>
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<tr>
<td>Administrative expenses</td>
<td>$13,419,567</td>
</tr>
<tr>
<td>TOTAL DEDUCTIONS</td>
<td>$1,101,847,613</td>
</tr>
<tr>
<td><strong>CHANGE IN NET POSITION</strong></td>
<td></td>
</tr>
<tr>
<td>BEGINNING OF YEAR</td>
<td>$22,468,633,624</td>
</tr>
<tr>
<td>END OF YEAR</td>
<td>$23,727,477,926</td>
</tr>
</tbody>
</table>

The increase in benefit payments represents a steady rise in the number of retirement accounts (from 46,902 in 2012 to 53,455 in 2014).
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Fourteen 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 2014 toward this strategic target allocation included funding of non-core investments and absolute return assets (hedge funds), as well as continued investment in the real estate asset class.**

The total return on TMRS’ investment portfolio was 6.0% in 2014. The table (right) 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 2014 Comprehensive Annual Financial Report for the Years Ended December 31, 2014 and 2013 (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.tmrs.com](http://www.tmrs.com).
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, 2014, TMRS as a whole was 85.8% funded; this funded ratio increased from 84.1% in 2013.

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 7% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use “smoothing techniques.”

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, 2013.

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 2014 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.
If you’re considering retirement, here are some important steps to take:

☑ Check your estimate and consider the different retirement annuity options available to you. Estimates can be run with MyTMRS at any time.

☑ Attend a TMRS Regional Pre-Retirement Conference, held in different locations around Texas. See the calendar on the back page of this issue for the remaining conference locations in 2015. Locations for 2016 will be announced in the fall on the TMRS website.

☑ Call our phone center and speak with one of our knowledgeable Retirement Analysts, who can answer any questions you may have.

☑ In addition to your retirement benefit with TMRS, try to determine the amount of money you will need after you end your municipal career. Then factor in retirement income derived from other sources, such as your spouse’s income, Social Security, and savings accounts.

☑ Three months before retirement (but not earlier), submit your completed Service Retirement Application (TMRS-15) to TMRS.

Interest Credit on Member Accounts

Under the TMRS Act, each December 31 eligible member accounts receive a 5% interest credit. The interest amount is reflected in the account balance of all member accounts as of January 1 and is viewable on MyTMRS and on your TMRS Member Annual Statement.

Legislative Update

The 84th Texas Legislature was in session from January through June of 2015, and no special sessions have yet been called by Governor Abbott. Prior to the session, the TMRS Advisory Committee on Retirement Matters held several meetings to discuss possible recommendations to the Board of Trustees regarding potential benefit design changes. Ultimately, the Board issued a resolution encouraging the Legislature “...to continue their support of TMRS and not support any legislative proposals that would negatively impact TMRS.” TMRS tracked bills during the session; if you are interested in reviewing these bills or reading the Board resolution, go to the Legislative page / 84th Session Resources on the TMRS website.
TMRS 2014
Summary Annual Financial Report Inside!

Calendar

July 30        Regional Pre-Retirement Conference — Pasadena
July 30-31     TMRS Board of Trustees Meeting — Austin
August 6       Regional Pre-Retirement Conference — Wichita Falls
August 20-21   Board of Trustees Strategic Planning Session — San Antonio
September 7    Labor Day — Holiday
September 16   Regional Pre-Retirement Conference — San Marcos *(rescheduled)*
September 23   TMRS Board of Trustees Meeting — San Antonio
October 21     Regional Pre-Retirement Conference — Midland
October 22-23  TMRS Board of Trustees Meeting — Austin
November 11    Veterans Day — Holiday

How to Contact TMRS

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Fax
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Website
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E-mail
help@tmrs.com

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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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