From the Executive Director

Dear City Correspondents and Officials:

I know many of you have been worried about recent events in the national news. The problems on Wall Street have led to many phone calls and e-mails from our members and retirees.

As discussed in the article on page 3, TMRS has not been severely affected by the failure of Lehman Brothers and other companies, although we, like all big investment funds, have seen the value of some of our securities decline. The investment changes we are making this year are designed to mitigate the effect of market downturns by diversifying our portfolio into stocks slowly and conservatively, using dollar cost averaging and index funds.

The most important thing to remember is that TMRS, and other retirement systems, are long-term investors. Inevitably there will be bad years in the markets, but a properly designed, diversified portfolio will weather the storms. Downturns like this remind us of why public retirement systems were first created in the 1940’s as a response to the Depression. Well-managed retirement programs, with pooled investments, flexible plan design, and trust-fund oversight, are the best means of ensuring retirement security for career employees.

Please do not hesitate to call TMRS any time you or your employees have concerns. We’re here to help you.

Sincerely,

Eric Henry

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TMRS Board Sets 2008 Interest Rate

At its September 26 meeting, the TMRS Board set the interest rate for member and city accounts at 5% for 2008. Interest will be credited to accounts on December 31, 2008, based on the member’s account balance as of January 1, 2008. This interest credit will appear when members access MyTMRS in early January, and also on the Annual Statement they receive in spring 2009. The rate of 5% is indicative of TMRS’ investment performance in the past year. In accordance with Board policy, with interest at 5%, there will be no extra payment to retirees this year. The extra payment was never a guaranteed benefit, and given the current environment, it is unlikely that any extra payments will be made in the near future.

It is important also to note that the 5% rate is not a guaranteed rate and, if interest rates continue to fall, the rate may even go lower in future years. To help prevent this, TMRS is working on amending the TMRS Act to guarantee a minimum 5% annual interest credit to member accounts (see Legislation story, below).

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IMPORTANT LEGISLATION IN 2009

The TMRS Board of Trustees accepted recommendations from the Legislative Stakeholder Group (see story, page 2) at its September meeting. The proposed changes to the TMRS Act are the most important in TMRS history. The proposals will allow TMRS to:

1. Guarantee members an annual interest rate and annuity purchase rate at a minimum of 5%
2. Credit unrealized gains and losses to cities
3. Credit employers with variable annual interest rates, including negative rates

Passage of these provisions will permit continued diversification of the fund, in order to:
- Protect member benefits
- Help mitigate higher city contribution rates
- Allow TMRS to build a reserve for lower-performing years

If the legislation does not pass, the System is likely to face problems with future funding because investment diversification will stop, member interest credits will fall below 5% in a few years, and city contribution rates will rise.

To keep you updated on this important legislation, we will be issuing a “Pocket Guide to TMRS in the 81st Texas Legislature” and posting progress reports on our website.
On addition to setting the 2008 interest rate, the TMRS Board of Trustees has made decisions on its primary advising body and the 2009 Legislative package.

Advisory Committee Expansion
For years the Board has relied on the Advisory Committee for Retirement Matters to provide valuable advice on benefit changes and improvements to the System. The Advisory Committee acts as a voice for members, retirees, and cities. This September, the Board voted to expand the Advisory Committee to include representatives from the Legislative Stakeholder Group (described below).

The newly constituted Advisory Committee comprises “Individual Class” and “Group Class” members. The Individual Class consists of the members of the original Advisory Committee, who represent the broad diversity of TMRS cities. These nine members are selected by the Board. Three positions in this class will be filled by the Board at their December meeting. If a TMRS member from your city is interested in serving on the Advisory Committee, please contact TMRS for an application.

The Group Class members are representatives from the organizations that made up the Legislative Stakeholder Group. Each organization will recommend its own nominee and alternate for the Advisory Committee, and the Board will act on the recommendations. The organizations are:

- Arlington Professional Firefighters Association
- City of San Antonio
- Combined Law Enforcement Associations of Texas
- Government Finance Officers Association of Texas
- Service Employees International Union – San Antonio
- Texas City Management Association
- Texas Municipal Human Resources Association
- Texas Municipal League
- Texas Municipal Police Association
- Texas State Association of Firefighters

In broadening the Advisory Committee, the Board hopes to obtain the widest range of feedback possible for future deliberations, and also to increase communication with the member organizations.

Legislative Stakeholder Group
The TMRS Board convened a Legislative Stakeholder Group (LSG) this year in preparation for the 2009 Texas Legislature — the most crucial session in TMRS’ history.

It was important for TMRS to gather broad input to increase the support and prospective passage of our legislative proposals.

TMRS Board Chair Roy Rodriguez appointed Board member Frank Simpson to chair the LSG, with Board member April Nixon serving as vice-chair. The LSG was composed of the original TMRS Advisory Committee and individuals representing groups that are “stakeholders” in TMRS and who are active in the legislative process. The LSG group met in April, May, July, August, and September 2008 to discuss the critical issues and hear presentations from the Texas County and District Retirement System, GRS (the TMRS actuary), and TMRS staff (for LSG meeting information, see the Legislative page on the TMRS website).

Besides the three essential provisions of the 2009 legislative package (see Legislation article, page 1), the LSG recommended and the Board approved two items that do not require legislation:

- Establish an adequate reserve that will assist in mitigating the volatility of our investment portfolio
- Maintain the LSG group as an advisory body to the TMRS Board

These two recommendations are already being addressed by TMRS. Staff is working with our actuary to develop a revised TMRS reserve policy for Board consideration. The Board approved a revision of the TMRS Advisory Committee charter to include the LSG.

Thanks to the hard work of the LSG, the foundation has been laid for passage of our important 2009 Legislative package.

Eddie Solis, Government Relations Director, contributed to this story. For more information, contact him at 800-924-8677 or esolis@tmrs.com.

Calendar

**2008**
- October 29 • TMRS Board of Trustees Meeting, San Antonio
- November 11 • Holiday (Veterans Day)
- November 27-28 • Holiday (Thanksgiving)
- December 5-6 • TMRS Board of Trustees Meeting, Austin
- December 24-25 • Holiday (Christmas Eve & Christmas Day)

**2009**
- January 1 • Holiday (New Year’s Day)
- January 19 • Holiday (Martin Luther King, Jr. Day)
- February 16 • Holiday (Presidents Day)
- February 19-20 • Special Meeting - TMRS Board of Trustees, Austin
- March 1-3 • Seminar on Funding and Legislation, Austin
- March 26-27 • TMRS Board of Trustees Meeting, Austin
With all the financial news that has been in the headlines recently, TMRS has received many phone calls and e-mails about our investments. To help cities understand where our investments have been and where we are heading, we are providing a summary of recent activity.

In 2007, the TMRS Board approved a 12% diversification into equities (stocks) by the end of 2008, and this diversification is being accomplished through indexed investments. A diversified portfolio reduces risks and helps the fund weather downturns in specific investment classes. Indexed investments are less volatile than purchasing individual company’s stocks because the specific index represents the broad market. Using the Russell 3000 Index for domestic equities and the MSCI-EAFE for international equities, TMRS is essentially “buying the market” rather than trying to bet on whether specific stocks will gain value.

Why Change Our Strategy?

The gradual shift in strategy that we began making in 2007 was designed to help TMRS earn more on our investments over time and better manage investment risk. Up until this change, our investments were primarily in bonds. One reason we are changing from an all-bond portfolio is that bond yields have declined significantly (see chart above). By moving to a total return strategy (diversifying to include investment in equities), TMRS stands to improve returns and lower risk over the long term. This change will also support a guaranteed 5% annual interest credit to member accounts and will help to stabilize cities’ rates and to offset cities’ funding costs.

For updates on our investments, refer to our website’s “Investments” page.

E-Bulletins Help TMRS Stay in Touch with Cities

You may have noticed that this is the only Main Street newsletter we have mailed to cities this year. We reduced the number of mailings because we increased the use of e-bulletins as a communication tool.

Since August 2007, we have sent out 17 e-bulletins, covering such late-breaking news as rate projections, HELPS, additional contributions, rate letters, and Board decisions. The archive of previously sent e-bulletins is available on the TMRS website under Publications.

It is extremely important that you receive these e-bulletins, so if you are not getting them, let us know as soon as possible by sending an email to communications@tmrs.com. Furthermore, if your e-mail address changes, please let us know!
Here are some of the questions members have been asking TMRS about our investments and the current market:

Q (from a retiree) Is my TMRS benefit safe?
A Yes. Your TMRS benefit is secure, and your monthly benefit is not at risk. Even if the investment markets stay down for a long time, the performance of TMRS’ investments will not affect your monthly benefit.

Q (from an active member) Is my TMRS benefit safe?
A The benefit you have earned is safe. Cities always have the option of reducing future benefits, but what you have earned so far in your career is secure.

Q Is my TMRS account insured like a bank account?
A Your TMRS account is part of a $14 billion trust fund, subject to state and federal law. TMRS accounts are backed by the cities that provide them and by the state law that governs the System. Your individual account is not “insured” by the federal government the same way your savings or checking accounts are, but it is protected by law from being diverted for other purposes.

Q How are the recent stock market troubles affecting TMRS?
A TMRS is a long-term investor, so any short-term downturns in the market will not have a detrimental effect on the System over the long term. TMRS is conservatively invested and has minimal exposure to stocks issued by the companies recently in the news, such as Lehman Brothers.

Q How much stock in the troubled companies does TMRS own?
A The shares of stock from the companies that have been in the news (Lehman Brothers, Washington Mutual, and AIG) comprise only a tiny percentage of our portfolio and represent less than 1% of TMRS’ total holdings. Even if a stock loses all its value, the effect on TMRS will be minimal because the fund is so broadly invested. As of September, less than 10% of the fund is invested in two stock index funds — approximately half in U.S. companies and half in foreign companies.

Q What about bonds? Does TMRS hold risky bonds?
A No. All of TMRS’ bonds are high grade. The residential mortgage-backed bonds TMRS holds are backed by Fannie Mae and Freddie Mac, and the commercial mortgage-backed bonds are well secured. Due to recent federal action, Fannie Mae and Freddie Mac are now fully backed by the U.S. government.
TMRS Annual Training Seminar in Corpus Christi

TMRS and most of the registrants for this year’s annual seminar made it to a great gathering in Corpus Christi this past September. Over 200 City Correspondents and other city personnel heard presentations from the Honorable Henry Garrett, Mayor of Corpus Christi; TMRS Executive Director Eric Henry; the TMRS Travel Team; Government Relations Director Eddie Solis; Peter Madsen of investment consultant R.V. Kuhns & Associates; and Mark Randall of actuarial firm Gabriel, Roeder, Smith & Company (GRS). The September seminar focused on basic training in TMRS benefits.

Seminar on Funding and Legislation Planned for Early 2009

On March 1-3, 2009, TMRS will host a Seminar on Funding and Legislation at the Hyatt in Austin. The programming at that event will center on TMRS’ legislative proposal, the continuing dialogue about changes in TMRS investments, and early observations on the actuarial valuation that will be performed as of December 31, 2008. The intended audience for the March Seminar will be city finance officers, city managers, and other decision-makers. We will send detailed information on that seminar in an e-bulletin as well as announce it on www.tmrs.com.

News & Notes

New TMRS Website Is Up and Running
TMRS rolled out its new website on September 22. The main goals of the web redesign were ease of use and presentation of information into user-specific categories.

If you have suggestions for the new site – www.tmrs.com – or need assistance using it, please e-mail webmaster@tmrs.com.

Hurricane Ike – A Texas-Sized Disaster

It has been almost six weeks since the hurricane that was the size of Texas made its mark on the state. As Ike made landfall on the east end of Galveston Island, many Texas coastal cities were flooded and lost power for weeks. TMRS extends our heartfelt sympathy to the victims of this disaster — in the Galveston and Houston area and in other East Texas coastal communities.

We salute the hundreds of public safety and other municipal employees who assisted our fellow Texans in their time of need. Where cities have needed additional help, TMRS has reacted as quickly as possible. Please contact TMRS if you have any residual hurricane-related issues or questions.

GO ELECTRONIC — And Get a Free TMRS Backpack!
Electronic payroll reporting AND electronic funds submission are, quite simply, the safest, quickest, and surest options for handling payroll. A new booklet, the “TMRS Electronic Payroll Guide” is available on the TMRS website under Publications.

To claim your backpack, all you have to do is get set up with Rick Almanza before the end of the year. It’s quick and easy — just call Rick at TMRS at 1.800.924.8677 and tell him you want to submit your payroll to our secure FTP site.

TMRS TERMS
“Certification”

Certification is the process of guaranteeing that information is correct according to the city’s records. In each city, TMRS has one official contact called a “City Correspondent” but may have other “authorized contacts.” These people are certified to provide information in an official capacity to TMRS. For TMRS forms that require city certification, one of these officials must sign off on the information given by the member on the form. On forms that require certification, be sure that the correct person for your city is signing the form.

These are the forms that require city certification:

- TMRS-35R (Application for Restricted Prior Service)
- TMRS-34A (Application for Military Service Credit - Time Only)
- TMRS-34 (Application for Military Service Credit Purchase)
- TMRS-92 (USERRA Military Service Credit Application)
- TMRS-5 (Refund Application)
- TMRS-15 (Application for Service Retirement)
- TMRS-15/O (Application for Occupational Disability Retirement)
- TMRS-40/OA (City Statement for Occupational Disability)
- TMRS-HLPS (Application for Insurance Premium Deductions)
- TMRS-PSE (Public Safety Employee Certification)

Updating Authorized City Contacts

Changes to Authorized Contacts must be:

- In writing (fax, letter, or e-mail)
- From the designated City Correspondent
- If no designated correspondent, written request must come from Mayor, City Manager, Finance Director, or Administrator

Correspondents or appropriate officials should send contact changes to communications@tmrs.com or e-mail Dinah Harris at dharris@tmrs.com.

IMPORTANT – in addition to phone numbers and addresses, we need e-mail addresses and fax numbers for all City Contacts.
We rely on you to remind employees to provide us with updated information when they go through life changes. It is extremely important that they notify us and fill out the proper forms. For example, at this time, we have 13,000 bad addresses in a database of approximately 135,000 active members! When employees change addresses with your office, please remind them that they also need to change their addresses with TMRS.

The following “life changes” require a form so that we can update our information:

☑ Address change (TMRS-CHNG)
☑ Name change (TMRS-CHNG)
☑ Beneficiary change (TMRS-0007 if not vested, TMRS-007V if vested). NOTE: For privacy reasons, beneficiary info is not exchanged over the phone.
☑ Updating/confirming beneficiary designation at vesting (remind employees that submission of a TMRS-007V should be filed at vesting)
☑ Any change in marital status affecting beneficiary designations

Public Safety Officer and Public Safety Employee Forms
The Pension Protection Act of 2006 (PPA) created two different provisions with different requirements. One part of the federal law provides a tax benefit for public safety employees, and the other part allows public safety officers to deduct insurance premiums from annuities (HELPS).

The PPA waived the 10% tax on early lump-sum distributions made to “qualified public safety employees” who separate from service during or after the year they reach age 50. For employees to get this provision, the city must certify their Public Safety Employee status. After the city certifies the TMRS_PSE form (Public Safety Employee Certification), TMRS will use the information to accurately complete the member’s Form 1099-R. The definition of a public safety employee is provided on the form and applies to police officers, ambulance crews, and fire safety personnel.

To qualify for the insurance-payment provision (HELPS) under the PPA, the city must certify a member/retiree’s status as a public safety officer at the time they terminate employment. The form for this is the TMRS_HLPS (Application for Insurance Premium Deductions for Public Safety Officers). The definition of a public safety officer is provided on the form and follows the Omnibus Crime Act guidelines.

If a TMRS_HLPS form comes in “uncertified,” we send it to the city for certification. TMRS generates the individual TMRS_PSE forms monthly and sends them to the city for certification. Some cities have sent in the TMRS_PSE forms ahead of time (before an employee refunds or retires), but they are invalid because they don’t reflect the last position/date held. So please don’t submit that form until after the employee separates from service. As always, thanks for your diligence.