From the Executive Director

Dear City Correspondents and Officials:

As you are probably aware, the TMRS Board of Trustees selected me to be the Executive Director of TMRS this past March. I am grateful for the confidence the Board has placed in me and am looking forward to serving TMRS to the best of my abilities.

During the time that I served as the Acting Executive Director, I learned a great deal about the challenges facing our cities and our System overall. TMRS has undergone significant changes over the past few years under the Board’s guidance. In this issue, our feature story discusses a possible restructuring of the three main accounts within the TMRS Pension Trust Fund, a proposal that is under consideration by the Board of Trustees, as reported in our e-bulletins. The Advisory Committee recently adopted a recommendation to the Board supporting restructuring, and it is likely the Board will consider including the proposal as part of its legislative agenda in 2011. This article explains the proposal and what effect it might have if it is enacted into law during the 82nd Regular Session of the Texas Legislature in 2011.

What Do We Mean by “Restructuring?”

Under TMRS’ current structure, assets are held in trust in three distinct accounts, which are called “funds.” The Municipality Accumulation Fund (MAF) holds city contributions and interest. The Employees Saving Fund (ESF) holds member contributions and interest. When a member retires, the accumulated contributions and interest in the member’s account transfer from the ESF, along with matching funds from the city’s MAF into the Current Service Annuity Reserve Fund (CSARF). The basic retirement benefit is therefore fully funded at the time of a member’s retirement and is then paid monthly to the retiree from the CSARF (the “TMRS Cash Flow” illustration on page 2 shows these three funds). At the time a member retires, the basic retirement benefit becomes a liability of the System. Updated Service Credit (USC) and Annuity Increases (or COLAs), if any, are paid monthly to the retired member from the city’s account in the MAF; the USC and COLAs remain liabilities of the city. Please note that when a city’s funded ratio is calculated, assets and liabilities transferred to the CSARF are not included in the calculation.

Since the passage of HB 360 in 2009, each year the ESF and CSARF are credited, by law, with 5% interest. This guaranteed interest credit may result in a highly leveraged (positive or negative) interest credit to the MAF. In years when the System as a whole earns more than 7%, the potential crediting rate to the MAF may be significantly higher than the assumed

continued on page 2
More Typical Pension Fund Cash Flow

TMRS Funding in 2009-2010

As required under HB 360, the ESF and CSARF were credited with 5% interest as of December 31, 2009. In February 2010, after the 2009 net investment income (approximately 10.2%) had been calculated, the Board of Trustees approved crediting the MAF with the actuarially assumed interest rate of 7.5% and allocated the remaining investment income to the TMRS reserve fund, effective December 31, 2009.

The Board has established a reserve guideline of 20% of assets, and the current reserve stands at approximately 4% of assets. Increasing the size of the reserve is necessary under the current fund structure to help stabilize city rates from year to year. Funds held in reserve are available to offset low investment returns if the System’s overall investment return falls below the assumed investment return of 7% in any year.

If the three main funds — the MAF, ESF, and CSARF — are restructured (combined), the TMRS actuary has indicated that the guideline for reserves will be much smaller — perhaps 7% of assets instead of 20% — and that the assumed 7.5% interest credit to the MAF will be reduced to 7% (the overall assumed investment return for the System). Note that due to the increased size of the combined fund, the 7% credited to the restructured fund would result in a greater interest credit overall than would the 7.5% to the MAF alone, under the current structure. ▲
New Rollover Form Will be Sent with Refunds and PLSDs

When receiving a refund or when choosing a Partial Lump Sum Distribution (PLSD) at retirement, TMRS members have the option of rolling over all or a portion of the money to an IRA or employer plan. Starting August 2, 2010, TMRS members will use a new rollover form to make this choice. This new rollover form will be posted on the website and will be included as an attachment to all forms that deal with refunding member deposits or receiving a PLSD. Portions of the new rollover form and the other updated forms are shown at right.

The new rollover form will be used with the Refund Application (TMRS-0005) and the Selection of Partial Lump Sum Distribution (TMRS-PLSD). These forms have also been revamped. The forms that have previously been used will be REPLACED by the new forms that include the new Rollover of Refund or PLSD form (TMRS-ROLL), which will be posted on the website beginning August 2, 2010. The new rollover form includes the option for members to roll funds over into a Roth IRA. If a member wishes to roll funds into more than one account, he or she will need to submit a separate TMRS-ROLL for each account.

The important thing for members and City Correspondents to be aware of is that the TMRS-ROLL form cannot be submitted alone. It must be submitted in combination with either the refund form (TMRS-0005) or the retirement packet PLSD selection form (TMRS-PLSD).

Note that the Special Tax Notice Regarding Plan Payments, included with all withdrawals and payments, has also been revised to include the updated rollover information. The revised notice contains detailed information about how members may roll over funds to a Roth IRA. The important distinction between a Roth IRA and other IRAs or employer plans (such as a traditional IRA or a governmental 457(b) plan) is that the Roth is an “after-tax” plan. The money rolled into a Roth is reported as taxable income in the year the funds are withdrawn, rather than being tax-deferred, as in other qualified plans.

TMRS will accept the old forms until the end of this year. After December 31, 2010, cities and members will need to use the new forms. ▲
Updated Payroll Form

Cities have been working with the old Summary of Monthly Payroll Report, also known as the TMRS-3 form, for a long time now. We are pleased to announce that the TMRS-0003 has been revised so that it is clearer and more interactive.

Here are some of the improvements we have made to the form, based on staff suggestions and feedback from payroll personnel in TMRS cities:

1. Added a check box at the top for submitter to indicate Regular or Supplemental Payroll
2. Added a drop-down selection field for Employee Deposit Rate of 3, 5, 6, or 7 percent
3. Added a function that automatically calculates the employee contribution amount (in dollars) based on gross earnings and employee deposit rate (as input in #2, above)
4. Added instructions in red to explain how to enter numerical values to calculate amounts correctly
5. Changed the Municipal Contributions (2a) field so that after the user inserts the percentage, the form automatically calculates and populates the Municipal Contributions field

We hope you will find this new version of the payroll form easier to use, and we welcome your comments and feedback! ▲

We Need Your Assistance!

This is just a reminder that it is very important for members to keep their addresses current with TMRS. Without a valid address, employees will not receive annual statements, estimates, or TMRS newsletters. We would appreciate your help with reminding your city employees to keep their address information updated with TMRS. If an employee needs to update their address, they need to complete a TMRS-CHNG (Address or Name Change) and fax it to 512.476.5576 or mail it to PO Box 149153, Austin, TX 78714-9153. ▲

Just Around the Corner: TMRS City Portal

TMRS is well underway on its development of the TMRS City Portal, a new web feature that will enable cities to perform several administrative functions online, including member inquiry, report generation, member estimates, and payroll submission. Between now and the end of the year, TMRS will be working with the portal Preview Team to finalize design. We hope to train the first users at the September seminar, with a widespread rollout in 2011. ▲
Please type or print all information on one form. Only one registration per form will be used on your name badge.

Texas Municipal Retirement System

Please call Angela at 800.924.8677 (ext. 1715) if you have any questions.

We look forward to seeing you in Austin!
Enclosed is my check or money order payable to TMRS for:

☐ $125 Please send in registration form with fee by 9/15/2010.
Space is limited to the first 300 registrants.

Please check events you will attend — your registration fee includes one guest for the Sunday and Monday evening events.

☐ Sunday evening reception  ☐ Guest ____________________________
☐ Guest Name

☐ Monday breakfast and lunch (registrant only)

☐ Monday dinner  ☐ Guest ____________________________
☐ Guest Name

☐ Tuesday breakfast (registrant only)

Your registration fee must accompany this form.
Make check or money order payable to TMRS. Sorry, we cannot accept credit cards.

Mail This Form and Payment To:
TMRS Annual Training Seminar
ATTN: Finance Department
P.O. Box 149153
Austin TX  78714-9153

Please call Angela at 800.924.8677 (ext. 1715) if you have any questions.
We look forward to seeing you in Austin!
5.00% -4.00% -3.00% -2.00% -1.00% 0.00%

160
140
120
100
80
60
40
20
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Distribution of Est. Rate Reductions
Nearest +/-0.25%

New Executive Director and CIO for TMRS

On March 12, the TMRS Board of Trustees picked TMRS General Counsel and Acting Executive Director David Gavia from a field of exceptional applicants to be the fifth Executive Director of the retirement system. Mr. Gavia brings experience with TMRS and expertise in pension law, accounting, and administration to the office.

Then, on June 18, Executive Director David Gavia announced that Nancy Goerdel will be the new Chief Investment Officer of the System. Nancy served as the Acting CIO of TMRS since the departure of former Executive Director / CIO Eric Henry in August 2009. She also held the position of Director of Public Investments and Asset Allocation.

Complete press releases about the backgrounds of both Mr. Gavia and Ms. Goerdel are available on the TMRS website (see the Press Releases link under Publications). The transition of TMRS Executive leadership into experienced hands will help guarantee the successful operation of the System in the future. ▲

Advisory Committee Update

The TMRS Advisory Committee on Retirement Matters met in Austin on May 6 and on July 7. In the May meeting, the System’s consulting actuary, GRS, presented a summary of the proposal to restructure TMRS funds by merging the Municipality Accumulation Fund, Current Service Annuity Reserve Fund, and Employees Saving Fund. Merging the funds will help stabilize city contribution rates over time (see story in this issue, page 1).

In the July meeting, the committee voted unanimously to recommend fund restructuring to the Board, and may present other legislative recommendations to the Board at its August 27 meeting.

The membership and charter of the Advisory Committee may be viewed on www.TMRS.com under About TMRS → Board / Governance → Committees. ▲

What’s Next?

In July, the TMRS Advisory Committee recommended restructuring to the Board, which will consider the recommendation at its September meeting. If adopted, the proposal will be presented for the consideration of the Texas Legislature when the Session convenes in January 2011. If the Board adopts the Advisory Committee’s recommendations and a “restructuring bill” is enacted by the Legislature, depending on the bill’s effective date, revised contribution rates reflecting the effect of restructuring could be implemented as early as the last quarter of 2011. TMRS will keep cities informed on this important issue. In the meantime, if you have questions, please contact your TMRS Regional Manager, the Deputy Executive Director, or the Staff Actuary. ▲
FINANCIAL PUBLICATIONS SENT

CAFR Provided on Disk
At the end of June, the TMRS 2009 Comprehensive Annual Financial Report (CAFR) was sent to cities in electronic format. Each TMRS city’s finance officer or, absent a finance officer, the city correspondent, received a CAFR CD. This year’s CAFR is also available on the TMRS website in PDF format. To access it or our previous CAFRs back to 12/31/2004, go to www.tmrs.com and click on Publications. If your city did not receive a CD, contact communications@tmrs.com and we will get one in the mail to you.

PAFR sent to Members and Retirees
The 2009 Summary Annual Financial Report, also called the Popular Annual Financial Report (PAFR), was delivered inside the retiree magazine RetirementWise and sent separately to all employee members. Members and retirees began receiving the PAFR in late June. The PAFR (along with previous years’ PAFRs) is also available on the web under the Publications page.

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Main Street is sent directly to TMRS city contacts and correspondents. If you have questions, suggestions, or ideas for stories, send a fax or an e-mail to the editor at 512.225.3781 or communications@tmrs.com.

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ISSN 1559-9760

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