

TMRS 2010 Summary Annual Financial Report

For the Year Ended December 31, 2010

The Texas Municipal Retirement System (TMRS, or the System) prepares this report annually. Its purpose is 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 in its ongoing operations to serve members, cities, and retirees.

The Year at TMRS

Noteworthy Accomplishments of 2010

- David Gavia, former Legal Counsel at TMRS, served as Interim Executive Director from August 2009 to March 12, 2010, when the Board selected him as Executive Director of the System. On June 18, 2010, Nancy Goerdel was selected as the Chief Investment Officer of the System.
- Working with the System's Advisory Committee, the TMRS Board made recommendations to the State Legislature that were enacted into law in 2011. SB 350 provides a more efficient funding structure and reduces contribution rate volatility. For most cities, contribution rates will decline and funding ratios will improve (see page 4).
- The System continued to diversify its investment portfolio into equity index funds. By 2010 year end, 33% of the fund was invested in passively managed equity index funds: 17% in the domestic Russell 3000 and a combined 16% in the international MSCI-EAFE and MSCI All Country World Investable Market Index – ex US IMI; 67% of the fund remained invested in fixed income securities and short-term investments.
- The TMRS Board appointed ORG Portfolio Management LLC (ORG) as its real estate consultant.
- Most markets produced positive performance in 2010, with equities, in general, outperforming fixed income. TMRS benefited from the new equity allocation, which contributed to an overall 12-month rate of return on the \$18 billion investment portfolio of 9.0% (return on equities was 16.9% domestic and 8.4% international, while 6.5% was earned from the fixed income portfolio).
- Under the new provisions of SB 350, as of December 31, 2010, TMRS as a whole was 82.9% funded. This funded ratio increased from 75.8% in 2009 and 74.4% in 2008. For member cities, the actuarial changes made in previous years provide advance funding of annually repeating TMRS benefits and ensure that each city's plan remains soundly funded.
- Five new cities joined the System in 2010. TMRS staff answered over 92,000 member requests for assistance and processed over 2,700 new retirements in 2010.
- At year-end 2010, TMRS administered plans for 842 member cities that include:
 - 141,372 employee accounts
 - 38,260 retired members

TMRS Board of Trustees (as of December 31, 2010)

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 are responsible for 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.

Ben Gorzell, 2010 Chair
Chief Financial Officer, San Antonio

April Nixon, 2010 Vice Chair
Chief Financial Officer, Arlington

Patricia Hernandez
Municipal Court Judge, Plainview

Julie Oakley, CPA
Director of Finance, Lakeway

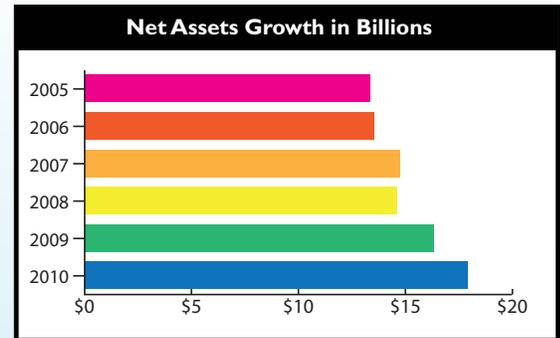
Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager, McAllen

H. Frank Simpson
Assistant City Manager, College Station

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net assets) at both year-end 2010 and 2009. Net assets represent funds accumulated for the payment of future benefits. Investments, stated at fair market value, make up the largest portion of net assets held in trust for pension benefits. During both 2010 and 2009, the value of TMRS' investment portfolio substantially recovered from the negative market conditions of 2008. Another significant asset is securities lending collateral. Because 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, 2010 and 2009, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool

of \$20.4 million and \$54.3 million, respectively, is reflected in the Statements of Plan Net Assets. The increase in both receivables and payables is primarily due to an increase in trade activity in 2010 resulting in increased trade receivables/payables balances at December 31, 2010.

Summary Comparative Statements of Plan Net Assets As of December 31, 2010 and 2009		
	2010	2009
ASSETS		
Investments, at fair value	\$ 18,302,526,324	\$ 15,961,843,739
Receivables and other	1,643,712,522	720,131,342
Invested securities lending collateral	2,693,847,465	3,357,731,657
Capital assets, net	9,694,046	10,031,982
TOTAL ASSETS	22,649,780,357	20,049,738,720
LIABILITIES		
Payables and accrued liabilities	1,916,591,404	305,547,677
Funds held for Supplemental Death Benefits Fund	26,400,118	26,446,295
Securities lending collateral	2,714,294,965	3,412,069,105
TOTAL LIABILITIES	4,657,286,487	3,744,063,077
NET ASSETS	\$ 17,992,493,870	\$ 16,305,675,643

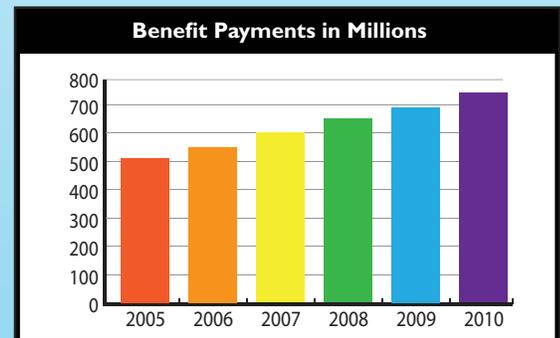


The second summary statement (below) reports activity for the year (changes in net assets). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been 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.

The increase in contributions is due primarily to the increase in employer contribution rates from 2009 to 2010. Net investment income earned in 2010 compares reasonably with 2009. The total return on TMRS' investment portfolio of 9.0% in 2010 (compared

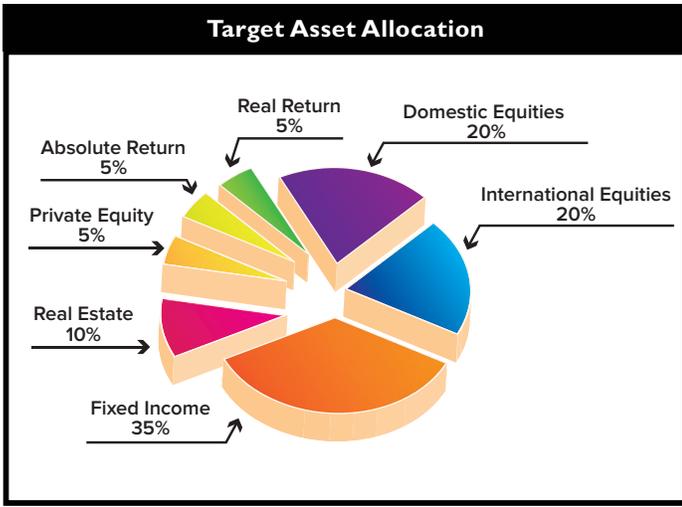
with 10.2% in 2009), enabled the Board to credit 5% interest to employee accounts and 7.5% to municipality accounts. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady increase in the number of retired members (from 36,098 in 2009 to 38,260 in 2010).

Summary Comparative Statements of Changes in Plan Net Assets For the years ended December 31, 2010 and 2009		
	2010	2009
ADDITIONS		
Contributions and other	\$ 994,946,183	\$ 955,223,051
Net investment income	1,496,328,020	1,483,308,952
TOTAL ADDITIONS	2,491,274,203	2,438,532,003
DEDUCTIONS		
Benefit payments	743,467,100	685,691,673
Refunds of contributions	49,041,627	45,307,488
Allocation to Supplemental Death Benefits Fund	1,312,293	1,304,784
Administrative expenses and other	10,634,956	10,514,186
TOTAL DEDUCTIONS	804,455,976	742,818,131
CHANGE IN NET ASSETS	1,686,818,227	1,695,713,872
NET ASSETS		
BEGINNING OF YEAR	16,305,675,643	14,609,961,771
END OF YEAR	\$ 17,992,493,870	\$ 16,305,675,643

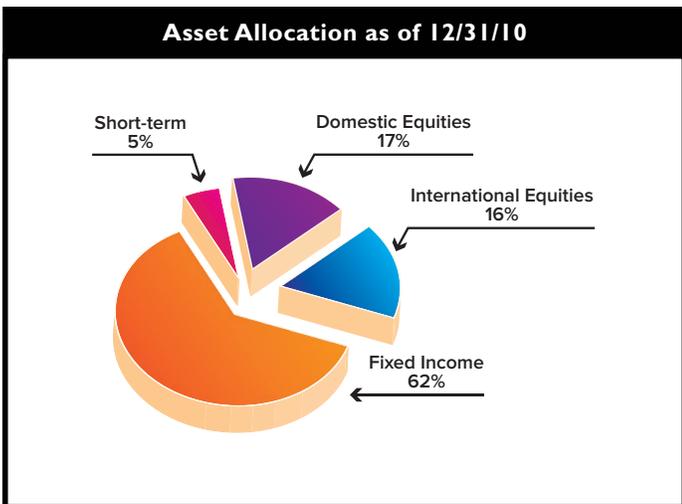


Investments

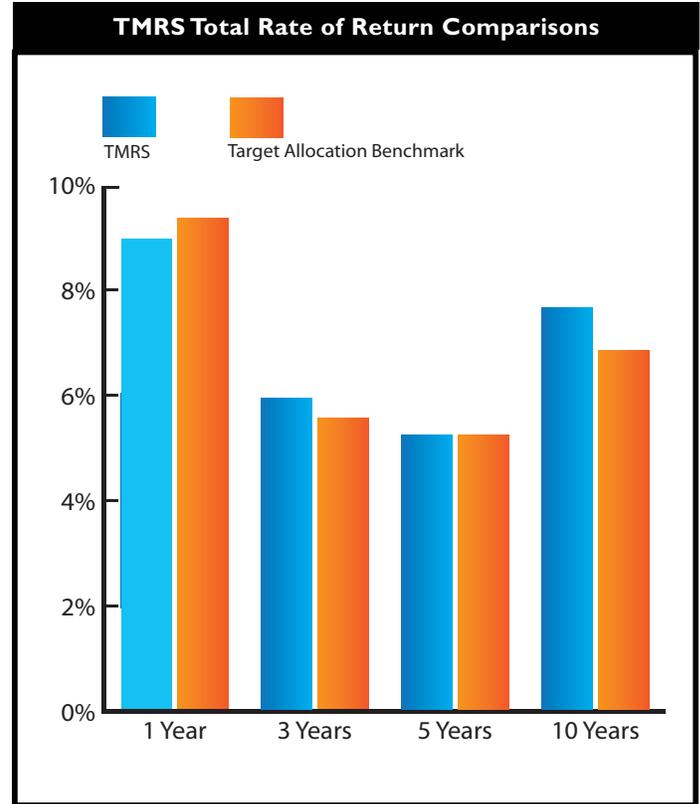
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Eight professionals on TMRS' staff oversee the System's investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS, and, as presented below, establishes target asset allocations, with implementation to occur over a multi-year period.



Initiatives during 2010 toward this target allocation included resuming monthly commitments to domestic and international equity index funds. By 2010 year end, the portfolio allocation to equities was 33%. In addition, during 2010, TMRS hired ORG Portfolio Management LLC as its real estate consultant. ORG assisted TMRS with the development of investment policy regarding the real estate asset class and will assist with the selection and monitoring of external real estate investment managers.



The total return on TMRS' investment portfolio was 9.0% for 2010. The following table compares TMRS' actual returns to market returns for the year-end target allocation.



Reporting Standards • This Summary Annual Financial Report is derived from the TMRS *Comprehensive Annual Financial Report for the Year Ended December 31, 2010* (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 a copy of the CAFR, please download the PDF version from www.tmr.com/publications.php#investments.

SB 350 Amends TMRS Act

Passage of Senate Bill 350 in the 82nd Session of the Texas Legislature effectively restructured TMRS' internal accounts.

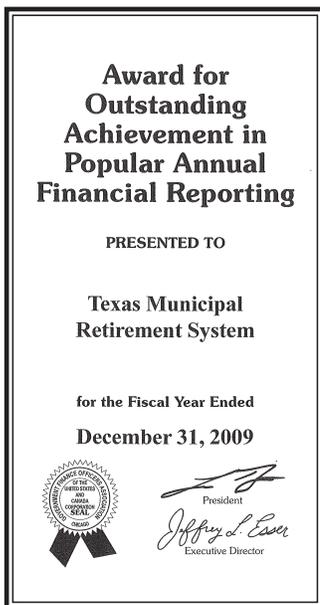
SB 350 "Relating to the restructuring of fund obligations and accounts of the Texas Municipal Retirement System and related actuarial and accounting procedures," passed both the Texas House and Senate and was signed into law by Governor Rick Perry on June 17, 2011, effective immediately upon signing.

Under the provisions of SB 350, the three internal TMRS funds — the Municipality Accumulation Fund (MAF), the Employees Saving Fund (ESF), and the Current Service Annuity Reserve Fund (CSARF) — are combined into a new Benefit Accumulation Fund in a manner typical of the vast majority of public retirement systems. The structure provides greater efficiency and, for many cities, reduces annual contribution rates.

TMRS' consulting actuary, Gabriel, Roeder, Smith & Company (GRS), recommended in 2009 that TMRS consider fund restructuring. The Board and its advisors spent much of the legislative interim analyzing the proposal. TMRS wishes to extend deep gratitude to our bill sponsors, Senator Tommy Williams and Representative Vicki Truitt, the members of the Advisory Committee, and all of the other individuals who contributed to this important legislation.

The changes the System made in the past few years, coupled with the passage of SB 350, will help ensure the ongoing soundness of the retirement program, the security of members' benefits, and the continued availability of affordable benefit packages for Texas cities.

Awards

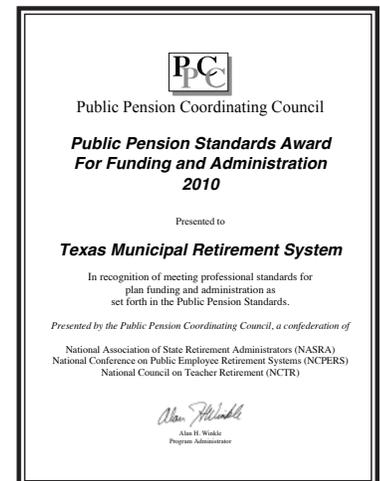


The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2009.

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 2010 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.

Contact Us

800.924.8677
phonecenter@tmrs.com
www.tmrs.com

