Calendar

2008
December
24-25  Holiday (Christmas Eve & Christmas Day)
30  Annuity checks mailed
31  Direct deposit of annuity payments

2009
January
1  Holiday (New Year's Day)
13  81st Session of the Texas Legislature convenes
19  Holiday (Martin Luther King, Jr. Day)
29  Annuity checks mailed
30  Direct deposit of annuity payments

February
16  Holiday (Presidents Day)
19-20  Special TMRS Board of Trustees Meeting, Austin
26  Annuity checks mailed
27  Direct deposit of annuity payments

March
26-27  TMRS Board of Trustees Meeting, Austin
30  Annuity checks mailed
31  Direct deposit of annuity payments

April
10  Holiday (Good Friday)
24  Joint Meeting of the TMRS Board of Trustees and Advisory Committee, Austin
29  Annuity checks mailed
30  Direct deposit of annuity payments

May
25  Holiday (Memorial Day)
28  Annuity checks mailed
29  Direct deposit of annuity payments

June
18-19  TMRS Board of Trustees Meeting, Austin
29  Annuity checks mailed
30  Direct deposit of annuity payments

Texas Municipal Retirement System Board of Trustees

Roel “Roy” Rodriguez, PE, Chair
General Manager, Public Utility
McAllen

Carolyn Linér, Vice Chair
Director of Human Resources/Civil Service
San Marcos

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Municipal Court Judge
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Missouri City

The TMRS Act provides that the administration of TMRS is entrusted to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. If you wish to contact the Board, forward comments to ExecOffice@TMRS.com.
Dear TMRS Retiree,

The hottest news in the past month besides the presidential election is the plight of the economy. The Wall Street problems, company bankruptcies, bailouts, and troubles in global economies are understandably causing Americans tremendous concern.

We at TMRS want you to know that our fund is safe. As the article on Investments on page 4 explains, TMRS has not been severely affected by the issues we have seen in the news. The value of some of our securities has declined, as you might expect, but the changes we are making this year are designed to help mitigate market downturns by diversifying our portfolio.

Economic downturns like the one the nation is going through underline why retirement systems such as TMRS were created — in the decades following the Great 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.

We wish you and yours a wonderful holiday season, and we welcome the New Year knowing TMRS remains on strong footing and will be here for you.

Sincerely,

Eric Henry
Executive Director and Chief Investment Officer
INVESTMENTS —
Charting a Course for the Future

With the U.S. and global economy in a state of turmoil, retirees are no doubt concerned about the safety of their annuity payments. The most important thing to know is that your TMRS benefit is secure. The current issues on Wall Street have no direct effect on retirees’ TMRS annuities because we are not experiencing severe stock-market-related problems.

Here are some important things to know about our System:

- Unlike a retirement savings program, such as a 457 or 401(k) plan, your TMRS account does not lose value when stock prices go down.
- TMRS is approximately 90% invested in bonds at this time. The market value of our portfolio has gone down, but the income stream that pays 5% interest to member accounts each year is secure.
- TMRS is in the process of diversifying our portfolio, but the transition is being done gradually to reduce our exposure to market fluctuations.
- TMRS is a long-term investor (for both stocks and bonds), and downturns in the market are anticipated in our strategy.

Performance information for the quarter ended 9/30/08 is posted on the Investments page of the TMRS website. We will keep the website updated if there is any significant change in circumstances.

Although TMRS is well positioned, long-term disruption of the investment markets could produce some adverse effects on our portfolio. Our advisors, investment staff, and the Board of Trustees continue to exercise due diligence in monitoring the events in the market.

Diversification of Investments

In 2007, the TMRS Board approved limited diversification (maximum 12%) into equities by the end of 2008, focusing on indexed investments. Diversification protects against the risk of being 100% invested in one type of security; if one investment class is adversely affected, the rest of the fund mitigates the losses. Our careful investment of part of the fund in equities supports a “total return” investment strategy, which will be used to provide interest credits to member and city accounts.

Being primarily in the bond market has served TMRS well, but future income from bonds will not be as high as in past years, and the transition to a diversified portfolio will help protect our members and cities. Updated investment information is available on the TMRS website, www.TMRS.com.

Remember, any changes in TMRS investments do not affect your benefit.
In the coming months, we will be telling you more about TMRS’ investment strategy. Here are some key terms relating to investments and finance:

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Diversification</strong></td>
<td>Involves spreading investments over a wider selection of different asset classes in order to manage risk. At TMRS, diversification refers to the addition of other asset classes to its traditional “bonds only” investment program to reduce market risk — the opposite of “putting all your eggs in one basket.”</td>
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<tr>
<td><strong>Total return investment strategy</strong></td>
<td>Considers both the income that the investments generate as well as the changes in market value, giving the opportunity for higher returns on the investments.</td>
</tr>
<tr>
<td><strong>Equities securities</strong></td>
<td>Are shares of stock in a company - i.e., they represent shares of ownership in a company.</td>
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<tr>
<td><strong>Indexed investments</strong></td>
<td>Refers to an investment strategy that is designed to replicate or closely track an index, such as the S&amp;P 500. “Active” decisions about what to buy or sell do not occur, and so this is generally also called a “passive” investment strategy, and performance should track the index very closely.</td>
</tr>
<tr>
<td><strong>Long-term investing</strong></td>
<td>Generally refers to the time horizon that the investor has for the investments to perform, and so short-term swings in market value are acceptable. By accepting these short-term market swings, the investor is in a position to invest in securities that potentially will provide a higher return in the long run.</td>
</tr>
<tr>
<td><strong>Reserve fund</strong></td>
<td>Is a TMRS accumulation fund. Following passage of proposed legislation, in years when the total return on the portfolio exceeds expectations, excess earnings can be transferred to the reserve fund to offset the impact on employer contribution rates during years when the total return on the portfolio is less than expected.</td>
</tr>
<tr>
<td><strong>City retirement contribution rate</strong></td>
<td>Is the amount each city contributes to TMRS (required to be made for a given year), expressed as a percentage of the city payroll under the Projected Unit Credit (PUC) actuarial cost method. City contribution rates are determined annually by the System’s actuary. Under the PUC actuarial cost method, the present value of projected future benefits of each member is allocated (accrued) to each year of service.</td>
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Tax Planning for Next Year

Every year at this time we issue reminders about the tax issues associated with your annuity. This year, in addition to thinking about your withholding, some retirees have an additional consideration – changes to HELPS payments and reporting those deductions.

1099-Rs and W-4Ps
TMRS will mail 1099-R forms for 2008 before January 31, 2009. Please be sure we have your correct address on file so that you don’t miss this important form, which you’ll need to file your income taxes.

Your TMRS monthly benefit is subject to federal income tax. After you receive your 1099-R form, please review it to be sure you have the withholding election that works best for your tax planning. If you do not have enough withheld from your annuity, you may owe additional taxes.

To make a withholding election or to change your current election, mail or fax TMRS a completed IRS Form W-4P. This form is available from the IRS at www.irs.gov or from TMRS at www.tmrs.com.

IMPORTANT: If you do not provide TMRS with specific withholding instructions, the IRS requires us to withhold as if you were married and claiming three exemptions. This may or may not cover your tax liability, so be sure you file a W-4P with us. You may change your withholding at any time; withholding elections are not limited to certain times of the year. You may elect out of withholding too.

HELPs Adjustments / Claiming the Deduction
TMRS began implementing the provision for retired public safety officers, known as HELPS, in January 2008. Under this federal law, retirees who left service as public safety officers may use a portion of their retirement payment to pay a health care or long-term care provider.

Direct Deposit Dates for 2009

Direct deposit is the safest, quickest way to get your money from TMRS. With direct deposit, your payments are credited to your account on the last business day of every month.

If you haven’t yet signed up for direct deposit, call us at 800.924.8677 and we’ll send you a Direct Deposit Authorization form. The form is also available from our website. We need this form for any changes — no outside form or letter is accepted.

Let Us Know if Your Address Changes
Please notify TMRS if you have a change in your address. Your address is our communication line to you! If your address changes, please let us know by sending us a new form (TMRS-CHNG), available by calling our offices or from our website.

An important milestone is almost here – the first year anniversary of the HELPS provision. This milestone is an important time to review your insurance deductions.

Any dollar amount changes for insurance premium deductions will require your signature on a new TMRS-HELPs form (available from the website or by calling TMRS). If your insurance premiums are changing, it is important that you re-file the TMRS-HELPs form with the premium change at least one month before the effective date. For example, if you want the changed insurance deduction to be effective for the January 31, 2009 annuity payment, the form must be in our office by December 31, 2008. If you have previously applied for the deduction, we will not need the city certification at the bottom of the form.

After the New Year, if you paid your insurance premiums through HELP in 2008, you will receive a letter stating exactly how much TMRS deducted and sent to your insurance carrier in 2008. The letter will instruct you how to claim the deduction on your tax return.
Flu & Pneumonia

Flu shots are highly recommended for those over 50, those who have chronic medical conditions, and those who live in long-term care facilities. Also increasingly recommended are pneumonia shots, particularly for those over 50 or those living with any kind of lung ailment.

The Centers for Disease Control (CDC) recommends a yearly flu vaccine as the first and most important step in protecting against this serious disease. The vaccine is designed to protect against the three main flu strains that research indicates will cause the most illness during the flu season. A flu shot can protect you from getting sick from these three viruses or it can make your illness milder if you get a different flu virus.

Flu activity typically does not reach its peak in the U.S. until January or February. Getting the flu vaccine soon after it becomes available each year is always a good idea, and the protection you get from vaccination will last throughout the flu season.

The pneumonia vaccine is particularly important for those over 65, those with a suppressed immune system, with kidney failure, diabetes, or with any lung-related disease.

Pneumonia is the leading cause of vaccine-preventable death in the United States. In combination, pneumonia and flu are the fifth-leading cause of death in the U.S.

The pneumonia vaccine for adults (PPV) protects against 23 types of pneumonia. Although antibiotics such as penicillin were once very effective in treating pneumonia, the disease has become more and more resistant to modern antibiotics. That is why it is so important to be vaccinated annually against this very serious disease. ▲

With 5% Interest, No Extra Payments

At its September 26 meeting, the TMRS Board set the interest rate for member and city accounts at 5% for 2008. In accordance with Board policy, with interest credited at 5%, there will be no extra payment (distributive benefit) to retirees in 2008. Nor does it look likely they will come back anytime soon.

Last year we sent letters informing you that you would not receive an extra payment for 2007. The same situation holds true for 2008 and the foreseeable future. In the current low-interest environment, TMRS investment income continues to support the statutory interest rate of 5%, which is already included in your monthly annuity payment.

As we have mentioned in our publications and on the website, the extra payment was never a guaranteed benefit. In the event our investment income rises at some point in the future, allowing this benefit to be reinstated, we will notify you by letter.

The loss of this additional payment is disappointing to many retirees, but unfortunately, our investment income simply doesn’t support it. The good news is that your retirement benefit is safe. Your monthly benefit is not endangered by any of the current economic problems (see more details in the investment story, page 4). Even if the investment markets stay down for a long time, TMRS’ investment performance will not affect your monthly benefit. ▲
Retired San Angelo Police Chief Russell Smith realized several lifelong dreams after hanging up his badge. First, he found a second calling as a nature photographer. Then his writing started to blossom, fulfilling a prophecy: As a child, Russell told family and friends that he “would be a writer someday.”


Russell grew up in Uvalde, where he spent many days hunting, fishing, and exploring the wilderness around the Leona, Nueces, and Frio rivers. He started out his working life as a mechanic, then switched to law enforcement after rescuing an unconscious driver from a car that had driven into the water at Lake Nasworthy. It turned out the driver had shot his wife and was eluding police. From 1978 to 1999 Russell served the City of San Angelo in law enforcement. Since he is a trained investigator, it is only natural that his writing is filled with investigational details and research accumulated during his police career.

He began drawing his TMRS retirement annuity after he retired as San Angelo’s police chief in 1999. Russell has been married to his wife Linda of Rocksprings for 35 years. They have two married children, Ryan and Shannon, 32 and 30, and four grandchildren.

Although Russell’s book-publishing career was launched only recently, he had been writing for many years before, even while working as a police officer. His writing and wildlife photography have been published in the *San Angelo Standard Times*.
Texas Fish and Game, Fishing and Hunting News, Ranch and Rural Living magazine, Texas Parks and Wildlife Outdoor Annual, and many other magazines and newspapers.

During a police recruiting trip in 1989, Russell heard the story about the Caveman bandit from the mouth of a person involved in the chase — former Terrell County Sheriff Bill Cooksey. Cooksey had been shot by the bandit, but he survived to work with Texas Ranger Alfred Allee, Jr., to capture the outlaw at Dryden in 1966. Intrigued by the tale, Russell interviewed Cooksey and his wife. He developed the nonfiction book and published it some years after.

His newest book revolves around a murder that some say robbed San Angelo of its innocence. Twenty-year-old Sheila Elrod was killed during a jewelry store robbery in 1980. The case remained “cold” until DNA technology helped a Texas Ranger place the murder suspect behind bars in 2001.

As for why he feels compelled to write, Russell says, “I believe that part of our history dies each time we lose a loved one.” To ensure that we keep these stories for future generations, he has “decided to write nonfiction books for the rest of my life or for as long as I am capable.”

He sells his books in small West Texas markets, and they are also available on Amazon.com. More information about Russell, his photography, and his books is available at www.russellsmith.com. ▲

Photos courtesy of Russell Smith.
Check out your favorite stores for their senior discount policy. Some stores offer a 5–10% discount on all purchases made by seniors every day of the week. Others have a specific day of the week when seniors get a 20% discount. Find out the policy of each store so that you can arrange your shopping trips to take advantage of any savings.

Buy large economy sizes of products. Large packages of things like spaghetti may be divided into smaller containers and frozen.

Pick up gift items for birthdays and Christmas throughout the year. You can often find gifts for a fraction of their original cost at different times of the year. Store them in a “gift closet” somewhere so that they will be ready at a moment’s notice. Cards and wrapping paper are also great items to stock up on, in the off-season.

Eat out less often. Home-cooked meals are usually healthier and less expensive than restaurant meals. When you do dine out, watch for coupons offering senior discounts or special prices. Those who eat out for special occasions often enjoy it more because it’s a special treat!

Don’t overlook online shopping if you are a computer user. Do your homework and you will often find brand-name products at huge discounts. Watch for special times when online stores are offering free shipping. Many department stores now have online outlets where you can choose home delivery or pick up the item at your local store.

Research the best prices. You can do this by calling first, shopping at places that offer guaranteed low prices, or looking for assistance online. The old Yellow Pages motto “Let Your Fingers Do the Walking” also applies to the Internet. Lots of stores say they will beat all competitor prices, so hold them to it!

Money-Saving and Information Resources on the Web

www.gasbuddy.com – A great resource for finding the best prices for gas in your corner of the world. Searchable by city, zip code, etc., the list turns up the lowest gas retailers AND the highest in your area.

www.valueyourmoney.org – Sponsored by 360 Degrees of Financial Literacy (Texas Society of Certified Public Accountants) and commended by the State of Texas Governor’s office, this site provides lots of useful information in the form of articles and web newsletter subscriptions.

www.simpleliving.net – This site is dedicated to getting people to thinking differently about money and offers sales of Your Money or Your Life books and products. Has many free advice columns and transformational articles.

www.bankrate.com – Information about credit in the current economy – financial expertise in an objective format that offers plenty of retirement information.

www.seniordiscount.com – Bills itself as the largest senior discount database anywhere, with more than 150,000 businesses listed. This site requires registration/membership. Includes a database of discounts, searchable by address or zip code.

www.allthingsfrugal.com – Home of the Pennypincher and the Tightwads Tidbits e-zines. Requires you to sign up to get these frugal-minded bulletins.

www.stretcher.com – Loaded with articles on all kinds of money saving, from keeping utility bills low to finding inexpensive digital music. Has a section of calculators and advice from a financial expert.
he month of January 2009 ushers in the 81st Regular Session of the Texas Legislature. TMRS will be seeking legislative passage of three changes to our program that are related to the allocation of investment income. As mentioned in the story about investments, we have a 12% goal of diversification into equities by the end of this year. But if we do not make some changes to the law that governs TMRS, we will not be able to further diversify our investment structure or credit unrealized investment gains to city accounts. The Legislation will have no direct effect on retirees.

To help fine-tune our legislative proposal, we called on the advice of a “Legislative Stakeholder Group,” which met several times this past year and brought the concerns of employees, cities, and retirees to the table. This group helped craft the 2009 TMRS legislative package, which includes three key provisions regarding how earnings are credited to accounts. These core provisions are necessary if we are to continue diversifying our investments:

1. Guarantee an annual interest credit of at least 5% to contributing member accounts and set the annuity purchase rate for future retirees at a minimum of 5% (5% is the annual percentage rate that retirees have received in recent years)
2. Allow the crediting of realized and unrealized income or loss to city accounts
3. Allow city accounts to receive annual interest at a rate different from the member rate, including negative interest

Why is this Legislation needed?

- To allow continued diversification of the TMRS fund and improve investment returns
- To guarantee that member interest rates and annuity purchase rates will remain at or above 5% in the future (applicable to future retirees, not current ones)
- To provide a more robust income stream within acceptable risk parameters
- To enable TMRS, over time, to build a strong reserve fund for the future

The proposals contained in the TMRS Bill do not include any changes to the administration of TMRS or the options available for cities. There is nothing in the proposals that will make any changes to your retirement with TMRS or your retirement annuity. The proposals are strictly limited to the crediting of income to city and contributing member accounts, but as in any legislative session, it is possible that some other entities may want to seek their own legislation affecting TMRS.

Please note that the proposal to allow retirees to return to work for the TMRS city from which they retired is not included in this year’s proposal. That amendment has been controversial in past legislative sessions and will not be part of the TMRS Board’s request this year.

More information about the 2009 TMRS legislative package is available at www.tmrss.com. We will continue to keep our members and retirees updated with any changes affecting the legislation. TMRS’ contact for legislative issues is Eddie Solis, Government Relations Director (phone 512.225-3713; e-mail esolis@tmrs.com). ▲
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