How Your TMRS Annuity Helps Texas

Plus TMRS Changes — Questions & Answers • A Gift for Guitars
Calendar

June
25-26 TMRS Board of Trustees Meeting - Arlington
27 Annuity checks mailed
30 Direct deposit of annuity payments

July
4 Holiday (Independence Day)
30 Annuity checks mailed
31 Direct deposit of annuity payments

August
15 TMRS Board and
Advisory Committee Meeting - Austin
28 Annuity checks mailed
29 Direct deposit of annuity payments

September
1 Holiday (Labor Day)
25-26 TMRS Board of Trustees Meeting - Austin
29 Annuity checks mailed
30 Direct deposit of annuity payments

October
30 Annuity checks mailed
31 Direct deposit of annuity payments

November
11 Holiday (Veterans Day)
27-28 Holiday (Thanksgiving)
26 Annuity checks mailed
28 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

Pat Hernandez
Municipal Court Judge
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Ben Gorzell
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San Antonio

April Nixon
Management Resources Director
Arlington

Frank Simpson
City Manager
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.

How to Contact TMRS

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E-mail • phonecenter@tmrs.com

RetirementWise • Summer 2008
Dear TMRS Retiree,

In June, I celebrate my first anniversary as TMRS Executive Director, and I want to emphasize what a pleasure it has been to be here in Texas and to work on your behalf.

As you know, the changes at TMRS have been extensive, and more changes lie ahead of us. Articles in this issue discuss some of those ongoing changes and the important steps we are taking to ensure that our essential legislation passes in 2009. As always, I am pledged to keeping our cities, members, and retirees fully informed about TMRS’ investments and any issues that may affect the System.

I’ve had the pleasure of meeting with retiree groups around the state and hope to do more of that in 2008 and beyond. It is very important to me that your benefits remain soundly funded and secure. As you can see from the article on page 9, the benefits we pay to you are also an important part of the state and local economy.

Please do not hesitate to contact us if we can assist you in any way. Thank you for your support, and I hope the summer is filled with good things for all of you.

Sincerely,

Eric Henry
Executive Director and Chief Investment Officer
What Is a COLA?

The term COLA (cost of living adjustment) refers to an annual annuity increase based on a percentage of the Consumer Price Index (CPI). If a city has chosen by ordinance to provide a COLA, or Annuity Increase, for its retirees, the intention is to adjust your benefit for the effects of inflation (which is why the amount is connected to the CPI).

The maximum percentage a city may choose for the Annuity Increase is 70% of the change in the CPI. The CPI is measured from the December before your retirement through the December that is 13 months before the effective date of the increase. The percentage increase adopted is then multiplied by the change in the CPI, and then applied to your original annuity to determine your annuity increase. Annuity Increases may either be granted on an annually repeating basis or on an ad hoc (one year at a time) basis.

As we discussed last issue, the change in our actuarial funding method will result in higher contribution rates for some cities. These cities may choose to make adjustments in their benefits in order to handle these higher contributions. The elimination of annually repeating COLAs or the reduction in percentage of the CPI (cities may choose 30, 50, or 70% of the increase, if any, in the CPI) are two such adjustments that are available to a city.▲

Q. I heard the System is in trouble. Is this true, and will I lose my retirement?

A. This is absolutely not true. TMRS is not going broke. In fact, the System has approximately $14 billion in assets, and is well-funded and sound. The changes we are making in our investment policy, amortization period, and actuarial cost method will not affect your retirement benefit.

Q. Are there any specific safeguards for retirees?

A. The TMRS Act provides safeguards that protect the monthly benefits of retirees. Your monthly payment will not be affected. If your last employing city chooses to change its plan features, those changes do not affect your actual retirement annuity, but could affect COLAs, if your city chooses to make any changes to them.

Q. I heard TMRS is investing in stocks. Why are you doing that after so many years of investment in bonds? Isn't this too risky?

A. The U.S. economic environment that has been so successful for TMRS for many years has changed. For most of its 60-year history, TMRS has invested primarily in fixed-income investments (government, high-quality corporate, and agency bonds). This investment strategy worked extremely well for 60 years, providing a predictable annual income stream with minimal risk. But in the past few years, the interest on bonds has dipped below 5%; therefore, as old bonds mature and new money flows into TMRS, the opportunity for high-interest bond investment returns has disappeared. At the same time, if bond rates rise, the market value of TMRS’ bonds will go down and the demand for additional funding will increase.
Under current conditions, remaining primarily invested in bonds is riskier than diversifying.

TMRS will slowly diversify its investments over the next few years to provide higher investment returns in the future.

Q. What is all this I’m hearing about a change in amortization period? Will that affect the length of time I draw my benefit?

A. The change in amortization period does not affect the length of time that you receive a benefit. The change in amortization period affects benefit funding for employing cities, but not the actual benefits themselves. As with other changes, it will not affect retirees directly.

Q. So with cities experiencing a greater crunch, it sounds like my annually repeating COLA will be cut. Is this true?

A. TMRS’ responsibility is to ensure that cities that provide annually repeating benefits are adequately funding them. Some cities may choose to turn off their annually repeating COLAs and replace them with ad hoc COLAs that are adopted each year, but TMRS does not recommend this action. The cost of ad hoc COLAs that are adopted each year is the same as annually repeating COLAs, and a city that intends to provide COLAs each year should be advance-funding them. If a city does turn off COLAs, it will not affect the monthly benefit you receive, but you may not see annual increases in your benefit. (See sidebar, page 4, for definition of COLAs.) ▲

Investing for the Future

Throughout most of its history, TMRS has invested primarily in fixed income instruments with the intent of preserving principal and generating consistent interest credits for member accounts. Our fixed-income investment strategy has served us well, but in the current low-interest environment, we need to diversify our assets.

Future steps will be gradual and carefully considered, designed to increase the System’s investment earnings while maintaining an appropriate level of risk. In September, the Board approved the selection of R.V. Kuhns & Associates, Inc. as the first investment consultant to the Board of Trustees. Then, in November, the Board made the historic decision to change its investment policy to begin diversification of TMRS’ assets into equities (stocks).

On April 25, 2008, the Board of Trustees chose the investment firm BlackRock — a global investment management, risk management, and advisory services company — to provide fixed income advisory services for TMRS. BlackRock will initially focus on helping TMRS shorten the duration of the fund’s bond portfolio as the System moves towards diversification of its assets from an all-bond portfolio into a bond-equity mix.

Diversification will be achieved gradually to minimize the risk of short-term drops in the stock market. As of March 31, 2008, 4% of TMRS’ total portfolio, or $548 million, was invested in equities. The goal for the year is for an allocation of 12% of the portfolio to equities by the end of 2008. Any further investment moves will require changes to the TMRS Act. That is why the upcoming legislative session is the most important one TMRS has been involved in since the System was created (see story on Legislative Stakeholders, page 8). ▲
Mark Giles has deep roots in North Texas. He was born in Dallas, grew up in the Duncanville area, graduated from Ennis High School in 1971, and served on the Duncanville Fire Department for 29 years. His wife, Carla, from Duncanville, was his girlfriend in the fifth grade – and then reunited with Mark when he returned to Duncanville. After the couple retired, Mark from the City of Duncanville and Carla from her floral business, they moved to Hamilton in 1995. The empty nesters have two married daughters, Anna and Sara. They also have eight-month-old twin granddaughters, Anna’s children Laura and Emily.

Mark says he enjoyed the job of firefighter and made a lot of great friends over the years. “Like most people,” he says, “I didn’t think about retirement when I was younger.” But he’s very glad to have the TMRS annuity: “It’s amazing how that pension check shows up every month,” he says with a smile.

Now 54, he began drawing “that pension” in 2005. He opted to retire that year because, he says, laughing, “Firefighting is a young man’s game, and I’m not.” It was time to do something new with his life. Looking to a hobby he had enjoyed since 1988, he turned building guitars into his vocation. He enjoys making guitars by hand because, he says, “It’s always fun and you don’t know what each guitar is going to sound like till it’s done.”

A lifelong musician, Mark bought his first guitar at the age of seven by mowing yards for 25 cents each and saving up to order a guitar from Sears for $12. He still has that guitar. Mark plays “anything with a string on it,” he says — primarily guitar, fiddle, and pedal steel guitar. The first instrument he built was a fiddle, in 1975.

From fighting fires to crafting guitars, Mark Giles has held two high-performing careers.

Mark has always been involved with bands, and has met fellow musicians and craftsmen at trade shows around the country. His current group is a country/western swing band called the Hard Luck Band, which plays often at the multimillion-dollar Circle T Roping Arena in Hamilton, as well as at private bookings.

The most “famous” guitar Mark ever made was played by George Strait in the 1992 movie, Pure Country. It was a spruce and rosewood acoustic guitar with abalone-trim inlays. Most of his business today is in pedal steel guitars, which he began building for various companies in 1991. His own brand,
StarSteel guitars, is renowned for his decorative inlays of pearl, abalone, other woods, and plastics with a high-gloss lacquer finish. He has made at least 2,000 steel guitars over the years, selling the finely decorated bodies to such guitar makers as Fessenden, MSA, Rains, Franklin, Zum, JCH, Carter, and Pedalmaster.

One of the proudest moments in Mark’s guitar-making career is the artwork on a custom-made steel guitar for a doctor in Denver. For this commission, he created the Alamo inlaid into the body for the first in his “Texas Legend” series. The guitar also featured engraved metalwork (a recently acquired skill), and he delivered the instrument to his client at the International Steel Guitar Convention in St. Louis. An art gallery owner saw it there and wanted one too. The next work in the series will feature a Texas Longhorn and the instrument will become artwork – it will sit in an art gallery.

The works he is asked to make are sometimes challenging, as in the Texas Legend series. Anytime he is asked, “Can you do it?” his response is, “Well, I think I can. And if it doesn’t work out, I can always burn it in the fireplace.” Whenever he is asked to hand-craft an instrument, he asks the customer, “You’re not in a hurry, are you?” because his brand of guitar production is labor-intensive and time-consuming. There is a two-year waiting list for his finely honed creations.

A typical day for Mark nowadays involves driving his pickup to his shop in town, working on his projects, and stopping when the work ceases being “fun.” He says he makes enough money at his guitar company to supplement his “habit” of going to guitar shows and musical gatherings around the country.

His advice for a happy retirement is not to retire at all. “If you stay busy, you’ll never get bored. It’s important to keep active, to keep learning new things.” ▲
Bones!

Bones are the bedrock of our bodies. In addition to their structural function, they serve as the storehouse for calcium and phosphorus, must-have minerals for other body systems. The skeleton is similar to a bank where minerals are deposited and then withdrawn in times of need. However, too many withdrawals weaken bones and can lead to fractures and osteoporosis, the most common bone disease.

Genes and environment contribute to overall bone health. Diet and physical activity are critically important to bone health throughout your life. The marked decrease in estrogen at menopause is associated with rapid bone loss, and men also have increased incidence of osteoporosis in their later years.

What Keeps Bones Strong?

1. A diet high in essential vitamins and minerals, including calcium
2. Calcium supplements and Vitamin D, which aids in your body’s absorption of calcium
3. Annual checkups that include bone density scans
4. Weight-bearing exercises*
5. Smoking cessation
6. Standing and sitting straight – good posture keeps your spine strong
7. Decreased consumption of alcohol, caffeine, and sodas that contain phosphoric acid – all three interfere with your body’s ability to absorb calcium

* Weight-bearing exercises (baseball, basketball, soccer, tennis, weight-lifting, aerobics, dancing, and walking) help in three ways:
  ■ Stimulate bone formation
  ■ Strengthen muscles, which pull on bones to keep them strong
  ■ Provide physical activity – improves your strength, balance, and coordination and reduces your risk of falls and bone injuries.

“Legislative Stakeholders”

Work to Fine-Tune TMRS Legislation

The 2009 legislative session will be the most important one in TMRS’ history. Legislation is needed in order for TMRS to continue its investment diversification and determine how future investment gains and losses will be credited to city and member accounts.

To improve the success of our legislation in 2009, TMRS has brought together a group of stakeholders to discuss the importance of our legislative package for the 81st Texas Legislature, which convenes in January 2009.

The TMRS Legislative Stakeholder Group is made up of the members of the TMRS Advisory Committee on Retirement Matters, which includes retiree members. Other members of the group represent city executive staff, employee associations, and elected officials. Given the makeup of the TMRS Legislative Stakeholder Group, we are confident that this effort will bring the comprehensive perspective of retirees, employees, and municipalities to the table to better understand the impact of next year’s legislative package. The group met in April and May and will meet again in July.

The TMRS legislative package for next year will allow the system to continue in a positive direction for all current retirees and those who will eventually retire under TMRS. We will continue to communicate with you and hope that if you have any questions you will not hesitate to call on us.

Eddie Solis
Governmental Relations Director, TMRS
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This past April, Governor Rick Perry appointed a new member to the Texas Municipal Retirement System Board of Trustees and reappointed a sitting member.

Director of Finance for the City of San Antonio, Ben Gorzell, Jr. (below), was appointed to a six-year term.

In addition to the Board's new trustee, the Governor reappointed Carolyn Linér (below), director of Human Resources / Civil Service for the City of San Marcos, for another six-year term.

Both Mr. Gorzell's and Ms. Linér's terms will expire February 1, 2013.

**DID YOU KNOW?**

Spending by Retirees Helps Texas!

In 2006, TMRS provided benefits to more than 32,000 retired municipal employees. The dollar amount of these benefits was almost $555 million. Every dollar paid out in the state by TMRS becomes part of the Texas economy, providing jobs, fueling retail sales, and adding to the Gross State Product. As these dollars pass through local and state economies, they create a “ripple effect” as they are re-spent on goods and services.

Economic modeling by the Perryman Group shows that the annual impact of TMRS benefits in 2006 was approximately:

- $1.32 billion in Total Expenditures
- $0.63 billion in Gross State Product
- $0.39 billion in Personal Income
- $0.36 billion in Retail Sales, and
- 9,365 Permanent Jobs

In addition, more than 96% of the money paid out in retirement benefits went to retirees who live in Texas and spend their dollars locally. The regional impact is significant:

- Of the $1.32 billion in total annual spending in Texas, all regions were affected, with business activity greatest in the Metroplex and Gulf Coast areas.
- Of the 9,365 jobs created, all regions were affected, with the Dallas (1,594 jobs) and San Antonio (1,144 jobs) metropolitan statistical areas the highest areas affected.
- On a per-capita basis, the highest spending is in Northwest Texas, the Coastal Bend, the High Plains, and West Texas. Overall spending per capita in rural Texas is more than 10% above the state average.
- Spending and employment related to TMRS benefits are particularly important to rural counties where other activity is more limited.
- The Texas Border region received 522 permanent jobs and spent $67 million annually.
- In rural counties, 1,454 permanent jobs were created and TMRS retirees spent $189.7 million annually.
Let Us Know if Your Address Changes

Please notify TMRS if you have a change in 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.

HELPS Is Here to Help!

TMRS began implementing the provision for Retired Public Safety Officers known as HELPS in January of this year. Under this provision, retirees who left service as public safety officers may elect to have a portion of their retirement payment used to pay their health care or long-term care providers and exclude that payment from their taxable income. The amount you exclude from taxable income may not exceed $3,000 annually.

Forms for accessing the HELPS benefit are available on the TMRS Website. As with any tax matter, you may wish to consult with a tax advisor or the Internal Revenue Service to determine your eligibility for this provision. Call TMRS at 800.924.8677 if you have any questions about this program.

Planning to Marry after Retirement?

If you are hearing wedding bells in your future, be aware that it could affect your retirement annuity choices. Marrying after retirement is the only time that you are allowed to change your retirement benefit – after retiring – to provide a survivor benefit for your new spouse. To be eligible for this change, you must have chosen the Retiree Life Only option or a Guaranteed Term Option (or Joint and Survivor options if the beneficiary predeceases the retiree) at your initial retirement. The change must be made within one year of your marriage, so after you tie the knot, contact TMRS at 800.924.8677 if you want to make a change. NOTE: Changing your option does not increase the total benefit you and your survivor will receive, and the benefit may be reduced to cover the cost of the additional survivor benefit.

Direct Deposit Is the Way to Go!

Benefits of Direct Deposit

If you are not currently using direct deposit for your retirement payments, we strongly encourage you to do so. It is the safest, quickest way to get your money. With direct deposit, your payments are credited to your account on the last business day of every month. That’s lots better than waiting for postal delivery. To sign up, just fill out and send in the Direct Deposit Authorization form in this issue.
I authorize the Texas Municipal Retirement System (TMRS) to deposit my monthly retirement benefit electronically to the financial institution and the account indicated above. I also authorize TMRS to correct any credit entries made in error.

Payee’s Signature

Date

Important Information About Direct Deposit

- **ACCOUNT CHANGES** If you change your account or account number, you must file another direct deposit authorization.
- **FUND AVAILABILITY** Generally, your money will be deposited to your account and available by the last business day of the month.
How to Contact TMRS
Toll-free • 800.924.8677
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Website • www.TMRS.com
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