Texas Municipal Retirement System
Board of Trustees

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

Ben Gorzell, Vice Chair
Director of Finance
San Antonio

Pat Hernandez
Municipal Court Judge
Plainview

April Nixon
Chief Financial Officer
Arlington

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

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.

Calendar
July
3
Holiday (Friday before Independence Day)
30
Annuity checks mailed
31
Direct deposit of annuity payments

August
21
Joint Meeting of the TMRS Board of Trustees and Advisory Committee, Austin
28
Annuity checks mailed
31
Direct deposit of annuity payments

September
7
Holiday (Labor Day)
25
TMRS Board of Trustees Meeting
29
Annuity checks mailed
30
Direct deposit of annuity payments

October
23
TMRS Board of Trustees Meeting, Fort Worth
29
Annuity checks mailed
30
Direct deposit of annuity payments

November
11
Holiday (Veterans Day)
26-27
Holiday (Thanksgiving)
27
Annuity checks mailed
30
Direct deposit of annuity payments

December
4
TMRS Board of Trustees Meeting, Austin
24-25
Holiday (Christmas)
30
Annuity checks mailed
31
Direct deposit of annuity payments

Board Changes for 2009

In early March, Governor Rick Perry reappointed April Nixon of Arlington and H. Frank Simpson of Missouri City to the Board of Trustees of the Texas Municipal Retirement System for terms to expire February 1, 2015.

On March 31, the Texas Senate confirmed these and two earlier TMRS Board of Trustees appointments that were made by Governor Rick Perry after the last session. The Board confirmations included Carolyn M. Linér of San Marcos, Ben Gorzell of San Antonio, April Nixon of Arlington, and H. Frank Simpson of Missouri City.

Ms. Linér, who serves as the Chair of the TMRS Board of Trustees for 2009, was reappointed to the Board for a six-year term to expire February 1, 2013. Mr. Gorzell, who was appointed in 2008 to serve through 2013, is Vice Chair for 2009. ▲
Dear TMRS Retiree,

Summer is a wonderful season in Texas, and I hope all of you are enjoying your retirement in this great state.

In addition to its usual contents, this issue of RetirementWise contains the 2008 Summary Annual Financial Report for TMRS. As you can see from the report, TMRS fared better than many retirement systems in 2008. Your retirement benefit remains secure, and the system continues to take actions that will ensure that strength continues for future retirees.

The legislative package that TMRS recommended and that was just passed in the 81st Regular Session of the Texas Legislature will help ensure that (see article on page 6). Although the bill did not contain any provisions that directly affect retirees, it will help stabilize city rates in the future.

TMRS has undergone many changes in the past two years, and we have more ahead of us, but my promise to you is that the system will remain soundly funded and that we will remain dedicated to providing the best possible service to our members and retirees.

Thank you all for the support we receive from you and for the privilege of being the executive director of your retirement system.

Sincerely,

Eric Henry
Executive Director and Chief Investment Officer
Many TMRS cities offer Annuity Increases or Cost of Living Adjustments (COLAs) to retirees as part of their TMRS plan. In recent years the COLAs have been small because COLAs are based on the rate of inflation. This article explains more about how COLAs work.

There has been a lot of talk lately about Cost of Living Adjustments (COLAs), also known as Annuity Increases. A COLA is a valuable addition to any pension arrangement, and TMRS offers them as an optional choice to cities. Many TMRS cities offer a COLA as part of their benefit package. COLAs may be automatically adopted every year or may be adopted year-to-year (on an ad hoc basis).

The COLA is derived by computing the percentage increase in the Consumer Price Index (CPI) for U.S. workers. The CPI is a measure of the average change over time in the prices paid by consumers for various goods and services. The CPI for All Urban Consumers (CPI-U) is the index most often reported by the national media and is the index used by TMRS. By tracking consumer prices, this index provides a way of measuring inflation and any changes in the cost of living.

For TMRS purposes, the change in the CPI is measured from the December before your retirement through the December that is 13 months prior to the effective date of the COLA increase. For example, the next COLA can be granted January 1, 2010, so TMRS will measure the change in the CPI from the December before your retirement date through December 2008.

Why Your COLA, if You Get One for Next Year, will be Low

We are in a recession, and the inflation rate is very low. The COLA is designed to help hedge against inflation (higher prices of goods and services). In economics, inflation is a rise in the general level of prices of goods and services in an economy over a period of time. Inflation can also be described as a decline in the real value of money — a loss of purchasing power. When inflation rates rise higher, COLA calculations will also rise.

Quite the reverse is happening to current prices (see the chart on page 5). Consumer prices dipped in March 2009, leaving inflation over the past year falling at the fastest clip in more than a half-century. Some market experts are even starting to refer to a deflationary environment. It is important to note that, if we ever enter a true period of “deflation,” when the CPI changes in a negative direction, your benefit will not be decreased.

This Year’s CPI

For 2009, the change in the CPI on which COLAs are calculated is very small. The change in the CPI from December 2007 through December 2008 was only 0.1%.

You must be retired for a full calendar year before you are eligible for a COLA. Anyone who retires during 2009 will not be eligible for a COLA, if adopted by the city, until January 2011.

Note: Any COLA granted by your city is not related to the Extra Payments that were received for many years by TMRS retirees. Extra Payments are not likely to be made in the future, even though many cities continue to offer COLAs.

If you have questions about how COLAs work, or other topics, send an e-mail to communications@tmrs.com or call our toll-free number: 800.924.8677.
How COLAs Affect City Rates

By law, each city that joins TMRS must adopt the basic TMRS plan features. Cities choose the employee contribution rate and the city matching ratio, and the retirement eligibility requirement. But each city also has the choice to add optional plan features, including Updated Service (USC), Annuity Increases (COLAs), several types of service credit, and a Supplemental Death Benefit (SDB).

The options that cities may add are factored into their annual rate calculations (expressed as a percentage of payroll). Generally speaking, the more optional features a city adds, the higher its contribution rate will be.

If a city council wishes to adopt COLAs for its retirees, the provision must be adopted in conjunction with USC. USC and COLAs may be adopted either year-to-year or on an automatic annually repeating basis. COLAs and USC add to the cost of a city’s benefit program. In 2007, TMRS adopted a change in its actuarial cost method (the method used to determine the contribution rate) so that cities with automatically repeating benefits will begin to advance-fund COLAs and USC. Although this change caused a significant increase in costs for some cities, the change also ensures that TMRS benefits will be sound and secure for the future.
Important Legislation Passes!

House Bill 360, “relating to the crediting and charging of investment gains and losses on the assets held in trust by the Texas Municipal Retirement System and providing a guaranteed minimum credit to employee accounts,” passed the Texas House and Texas Senate unanimously. The bill was signed by Governor Rick Perry and became law with immediate effect on May 26, 2009.

HB 360 amends the TMRS Act by providing for the following:

1. Guarantee members an annual interest credit of at least 5.00% and a 5.00% discount rate used in setting the annuity purchase rate for retirees
2. Include unrealized gains and losses in the crediting/charging of interest to city accounts
3. Credit variable annual interest rates to cities, including negative rates

These changes enable TMRS to continue the diversification of the System’s investments, which will enhance risk management, support higher returns, and help mitigate the need for future city contribution rate increases.

TMRS thanks everyone involved in helping pass HB 360. We are particularly grateful to the primary sponsors, House Chairman Edmund Kuempel and Senate Chairman Tommy Williams and their staffs. Thanks also to the TMRS Board of Trustees for their leadership and the TMRS Legislative Stakeholder Group (now the TMRS Advisory Committee) for their role in preparing for the 81st Legislative Session.

Other Legislation

Two bills were introduced this past session that would have affected TMRS:

- SB 1358 – would have provided an additional COLA option for retirees that could have been adopted by cities
- HB 1344 – would have created a statutory basis for the TMRS Advisory Committee

Neither of these bills passed the regular Legislative Session. The TMRS Board took no position on either bill, although TMRS staff acted as resource at the Legislature’s request.

If you have any questions or comments on legislation, contact TMRS’ Director of Government Relations, Eddie Solis, at esolis@tmrs.com.

Did You Know?

Retirements do not carry a “balance”

The term “account balance” is not applicable to retirees. When you retire, your account is combined with city contributions. Using actuarial factors, including life expectancy and assumed future interest earnings, TMRS calculates a monthly annuity that will be paid over your lifetime (and to a beneficiary if you choose an option that provides a survivor benefit). After you apply for retirement and begin receiving monthly payments, you don’t really have a “balance” that you can check on.

On average, the contributions and interest made to your account while you were an active member deplete within three to five years after retirement. You are guaranteed to at least recover your individual contributions and interest earned in TMRS. Therefore, if you die (and no further benefit payments are due) before the entire amount of your individual contributions and interest at the time of retirement have been paid to you, the remainder of these funds will be returned to your designated beneficiary or your estate. It is important to remember that your benefit is guaranteed for life. Even if you live much longer than the life expectancy that was calculated at your retirement, you will continue to receive your monthly annuity.
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 members and retirees.

Roel “Roy” Rodriguez, PE, 2008 Chair
Assistant City Manager / MPU General Manager, McAllen

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Municipal Court Judge, Plainview

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Chief Financial Officer, Arlington

Frank Simpson
City Manager, Missouri City
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 2008 and 2007. 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 2008, TMRS modified its asset allocation from an entirely fixed-income portfolio to include equity index funds – both domestic and international. Due to volatile market conditions experienced during 2008, the value of the investment portfolio declined from 2007. 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, 2008, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of $44.5 million is reported for 2008. The decrease in both receivables and payables is primarily due to a reduction in the level of securities lending activity during 2008.

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/(loss), 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/(depreciation) in the fair value of investment securities.

The decrease in net investment income is due to lower market values (or prices) of our investments compared to the previous year. The Government Accounting Standards Board (GASB) requires TMRS to report its investments at market value as of year end. As a result, net investment income includes a $1 billion decrease adjustment in 2008 compared with a $316.4 million increase adjustment in 2007. Excluding these required mark-to-market adjustments, net realized investment income for 2008 and 2007 was comparable at $791.3 million and $763.2 million, respectively. In 2008, TMRS credited 5% interest to municipality and employee accounts. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses.

**Summary Comparative Statements of Changes in Plan Net Assets**

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<th>For the years ended December 31, 2008 and 2007</th>
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<td><strong>ADDITIONS</strong></td>
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<td>Contributions</td>
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<td>Net investment income/(loss)</td>
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<td><strong>TOTAL ADDITIONS</strong></td>
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| **DEDUCTIONS**                               |
| Benefit payments                            | 648,030,389 | 596,172,435 |
| Refunds of contributions                    | 49,086,819  | 52,621,943  |
| Allocation to Supplemental Death Benefits Fund | 1,229,567  | 1,168,506  |
| Administrative expenses and other           | 11,699,849  | 11,571,603  |
| **TOTAL DEDUCTIONS**                        | 710,046,624 | 661,534,487 |

| **CHANGE IN NET ASSETS**                    |
| (105,899,610)                               | 1,207,021,535 |

| **NET ASSETS**                              |
| **BEGINNING OF YEAR**                       | $14,715,861,381 |
| **END OF YEAR**                             | $14,609,961,771 |
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Five professionals on TMRS’ staff oversee the system’s investment portfolio and its management. For much of its history, TMRS has invested primarily in fixed-income securities (or bonds), including U.S. government, high-quality corporate, and U.S. government agency bonds. This investment strategy provided a predictable annual income stream; however, the income yield from bonds has dropped to the lowest level in many years. To improve future returns under a Total Market Return Strategy and to reduce the risks associated with potential rising interest rates, the Board acted to diversify a portion of TMRS’ investment portfolio gradually into equities. As a result, the Board hired its first general investment consultant, R.V. Kuhns & Associates, to advise TMRS on its investment policy and to work with TMRS on diversification of the portfolio, beginning in 2008. In addition, during 2008, two external investment managers were retained: BlackRock Financial Management to manage the fixed-income portfolio, and Northern Trust Global Investments to manage the equity index funds.

The TMRS income rate of return, which is a measure of realized income generated from our assets, remains relatively consistent and was 6.4% over the past 10 years. Due to legislation passed in 2009 (discussed on page 4), comparisons of total rates of return, which include unrealized appreciation/(depreciation) in the fair value of investments, is also presented. TMRS’ performance is compared in these charts to other pension plans in the State Street Universe (SSU), a proprietary comparative universe service developed by State Street Corporation, and a peer group of 79 public fund plan sponsors with assets greater than $1 billion (PF > $1 B). Additional comparisons are made to relevant nationally recognized bond indices: the Barclays Capital Government/Credit Long Term Index (BC G/C Long) and the Barclays Capital US Aggregate Bond Index (BC US Agg).
Even though our investment earnings for 2008 were down, TMRS did not suffer from the deep losses that affected some retirement systems. Our total investment return for all asset categories was -1.3%. TMRS is well-funded, and the changes in investment policy and actuarial method will make the System even stronger.

Despite the fact that long-term bonds served us well in past years, the smaller returns on these investments will not support the expansion of TMRS retirements that we will experience in the future. The goal of diversification is to improve future returns over the long term, which will help cities fund their TMRS benefits and ensure that members and retirees enjoy a secure retirement program.

The 81st Texas Legislature approved legislation that will:

1. Guarantee an annual interest credit of at least 5% to member accounts and set the discount rate used in the annuity purchase rate for retirees at a minimum of 5%
2. Allow the crediting of unrealized income or losses to municipality accounts
3. Allow municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest

This legislation has been described as the most important in the history of TMRS. Its passage enables further diversification of the fund to provide higher returns in the future, which will mitigate rising city costs.

The actuarial changes at TMRS provide advance funding of all TMRS benefits and ensure that each city’s plan remains soundly funded.

TMRS benefits remain an important part of the compensation package for Texas municipal employees. The new direction that we have taken in the past year, and the changes to the TMRS Act that occurred with the 2009 legislation, enable us to build on our strong foundation so that future city retirees are protected.

### 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, 2007.

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 2008 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.
To Your Health

Preventing Headaches

Americans spend more than $4 billion a year on over-the-counter pain medicines, including aspirin, acetaminophen, naproxen, and other nonsteroidal anti-inflammatory drugs (NSAIDs). Headaches are treatable with these drugs, but they are also preventable. Here are six leading causes of headaches, and ways you can avoid these pain triggers.

Stress
“Tension” headaches are often caused by too much stress, and stress is also a contributor to migraines.

SUGGESTIONS: Take 30 minutes off as a break during your day. During that time, just relax: meditate, daydream, or take a short walk.

Eyestrain
Temporary head pain can result if you stare at one thing too long, such as a television or computer screen.

SUGGESTIONS: Take eye breaks by looking off into the distance; be sure to keep up with your eye exams so vision problems don’t make this situation worse.

Allergies
Indoor and outdoor molds and pollens can cause sinus reactions. Food allergies can also contribute to headaches.

SUGGESTIONS: Allergy-proof your home and avoid known allergens. Avoid foods that cause an allergic reaction, and visit an allergist if your condition is severe.

Diet
Some foods contain substances that can trigger headaches and make them worse.

SUGGESTIONS: Keep track of how you feel after you have caffeine, red wine, processed meat, cheese, peas, lentils, chocolate, citrus fruits, and anything with MSG. If you experience a reaction, avoid that food.

Improvements to MyTMRS

Last fall, TMRS rolled out a redesigned website for cities, members, and retirees. An important part of the website, the MyTMRS feature, allows you to look at your account information (address and name information, beneficiaries, etc.). MyTMRS allows retirees to view data such as your “year to date” annuity payments online using a secure user name and password.

TMRS recently made some upgrades to the usability of MyTMRS, and more are planned. Under the new MyTMRS, you will be able to request your password through a protected server rather than waiting for your password to be mailed to you. The process will be similar to procedures you may use with your bank or other businesses and is designed to provide high security along with convenience.

As part of this new system, and to ensure the confidentiality of your records, TMRS will be asking all MyTMRS users to re-register. You may register on-line the first time you use MyTMRS after the new system is in place, and you will receive your confirmation e-mail within minutes.

If you have suggestions for MyTMRS or the website, e-mail webmaster@tmrs.com.

Sitting
Believe it or not, staying in the same position for too long, especially if you hunch over, can cause tension headaches.

SUGGESTIONS: Shift positions frequently, stretch occasionally, stand when you can, or take a walk.

Sleep
We know sleep deprivation is bad, but getting too much sleep can bring on headaches as well.

SUGGESTIONS: Be consistent. Keep your body’s “clock” running smoothly by going to bed and getting up at approximately the same time daily.

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Texas-Sized Claims to Fame

TMRS has 833 member cities. Some of our cities are identified by a product and therefore call themselves the “_____ Capital of Texas.” This quiz shows the commodity offered by a city and asks you to name the TMRS city that claims to be the best or the primary producer of that commodity. HINT: Some products have several cities with rival claims, and one city even claims two products!
Which city/ies calls itself the _______ Capital of Texas?

1. Helium  
2. Kolache  
3. Strawberry  
4. Blueberry  
5. Beef  
6. Cantaloupe  
7. Oil  
8. Alligator  
9. Natural Gas  
10. Fishing  
11. Pecan  
12. Brick  
13. Citrus Fruit  
14. Sausage  
15. Rose  
16. Texas BBQ  
17. Watermelon  
18. Wind Power

For answers, see page 10.
“Texas-Sized Claims” Quiz Answers

1. In the sixties, almost 95% of the world’s helium was produced within a 250-mile radius of the Panhandle city of Amarillo.

2. Due to their founding Czech populations, both Caldwell and Fayetteville lay claim to the Kolache Capital title.

3. Poteet hosts the annual Strawberry Festival in April.

4. Nacogdoches hosts the Texas Blueberry Festival every year in June.

5. Hereford thinks even larger than Texas, claiming the title of “Beef Capital of the World,” chiefly due to its massive export business to Mexico, Japan, and other countries.

6. Pecos City, of course. The famous Pecos Cantaloupe hails from this West Texas town.

7. For sheer production, the oil capital of the world is Houston. However, TMRS city Electra, the “Pump Jack Capital of Texas,” lays claim to approximately 5,000 pump jacks within a 10-mile radius. And the oil industry was born with the famous Spindletop well, in Beaumont.

8. Because of the Anahuac National Wildlife Refuge, alligators outnumber the citizens of Anahuac almost 3-1.

9. Texas accounts for one third of the nation’s natural gas production. Spearheading Texas’ recent rapid growth is horizontal drilling in a geologic formation known as the Barnett Shale, which lies under the Denton/Fort Worth/Wichita Falls region (Denton and Wichita Falls are TMRS cities).

10. Port Aransas is known to salt-water anglers as the “Fishing Capital of Texas.” Toledo Bend Reservoir, which runs along the Louisiana/Texas border near Hemphill, is dubbed the “Fishing Capital of the World” for fresh-water fishing.

11. San Saba, the “Pecan Capital of the World,” hosts the Pecan Capital Trade day and the PecanPalooza festival.

12. High-quality clay deposits in the area led to the first factory opening in Elgin in 1884. The town currently has three brick factories.

13. The South Texas town of Weslaco (in the McAllen-Edinburg-Pharr metro area) was dubbed by the Texas Legislature the “Citrus Capital of Texas” in 1997.

14. Elgin again. This town produces well over 3 million pounds of sausage a year — maybe to feed its brickworkers!

15. Tyler, the “Rose Capital of America,” and surrounding Smith County produce about 20% of commercial rose bushes in the U.S. Tyler has the nation’s largest municipal rose garden and hosts the Texas Rose Festival each October.

16. Lots of cities sell great Texas barbecue, but Lockhart is a huge favorite and the one that uses “BBQ Capital” as its motto.

17. There is lots of competition for “Watermelon Capital.” Hempstead (west of Houston) claims the title, as does Dilley (south of San Antonio). Also, Luling hosts an annual “Watermelon Thump.”

18. The mesas of west Texas near McCamey are the ideal spot for wind turbines, helping Texas lead the nation in wind power production.
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.