

Summer 2010

RetirementWise

Texas Municipal Retirement System • Providing Retirement Security for Texas Municipal Employees

New Executive Director
Investment Update
TMRS Wins Award

**2009 TMRS Summary
Financial Report
Inside!**

Texas Municipal Retirement System

Board of Trustees



Ben Gorzell, Chair
Chief Financial Officer
San Antonio



April Nixon, Vice Chair
Chief Financial Officer
Arlington



Pat Hernandez
Municipal Court Judge
Plainview



Carolyn Linér
Director of Human Resources/Civil Service
San Marcos



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

June

- 29 Annuity checks mailed
- 30 Direct deposit of annuity payments

July

- 5 Holiday (Independence Day is Sunday; office closed Monday)
- 29 Annuity checks mailed
- 30 Direct deposit of annuity payments

August

- 27 Joint Meeting of the TMRS Board and Advisory Committee - Austin
- 30 Annuity checks mailed
- 31 Direct deposit of annuity payments

September

- 6 Holiday (Labor Day)
- 24 TMRS Board of Trustees Meeting - Austin
- 29 Annuity checks mailed
- 30 Direct deposit of annuity payments

October

- 27 Special TMRS Board of Trustees Meeting - Corpus Christi (in conjunction with TML)
- 28 Annuity checks mailed
- 29 Direct deposit of annuity payments

Board Changes for 2010

Every year the TMRS Board of Trustees elects a new chair and vice chair. The Chair for 2010 is Ben Gorzell of San Antonio, and the Vice Chair is April Nixon of Arlington.

The Board of Trustees is responsible for fiduciary oversight of the System. The Board adopts investment and other policies, appoints the Executive Director, and selects experts to perform important services for TMRS. ▲

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SPECIAL INSERT:

TMRS 2009

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This magazine is an informal presentation of information about TMRS and related issues. If any specific questions of fact or law should arise, the statutes will govern. For information about your own individual situation, please contact TMRS at 800.924.8677.

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RetirementWise is dedicated to the needs of our retirees. If you have questions, suggestions, or ideas for stories, please write the Communications Department at TMRS, or send a fax to the editor at 512.225.3781 or an e-mail to communications@TMRS.com.



From the Executive Director

Dear TMRS Retiree,

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 happy to serve 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, our retirees, and our System overall. Before serving in that position, I was heavily involved with the laws, policies, and financial outlook of the system in my position as TMRS General Counsel.

TMRS has undergone significant changes over the past few years, under the Board's guidance. The passage of HB 360 in the 81st Session of the Texas Legislature allows us to move the System forward in a way that will keep us strong into the future. HB 360 also enables us to continue the diversification of our investment portfolio (see "Investment Update," page 6 of this issue). Due in part to the progress the system has made over the last 3 years as well as the passage of HB 360, your System was named the 2009 Public Pension Plan of the Year by *PLANSPONSOR* magazine (see story on page 7).

My promise to TMRS retirees is that your retirement will remain secure. We will continue to provide the timely and accurate information that you need. If you have any questions about your retirement or TMRS in general, please contact us.

Sincerely,

A handwritten signature in cursive script that reads "David Gavia".

David Gavia
Executive Director

TMRS 2009 Summary Annual Financial Report

The Summary Annual Financial Report, also called the Popular Annual Financial Report (PAFR), is produced every year and sent to all of the System's contributing members and annuitants. For the second year, we are providing the PAFR as an insert to your *RetirementWise* issue instead of as a separate mailing. You may wish to remove the PAFR from this issue in order to read it as an independent document.

TMRS Board Selects Executive Director

On March 12, 2010, the TMRS Board of Trustees announced its choice of TMRS General Counsel David Gavia as the fifth Executive Director of the System. Selected from a field of exceptional applicants, Mr. Gavia brings experience with TMRS and expertise in pension law, accounting, and administration to the office.

"After a comprehensive national search, the Board of Trustees is convinced that David Gavia is the individual best suited to lead TMRS into this new decade as we continue our mission of providing a secure retirement to tens of thousands of dedicated municipal employees while maintaining strict fiscal responsibility to the 837 city governments who have entrusted us with this important mission," said Ben Gorzell, Chair of the TMRS Board of Trustees.

A native of San Antonio, Mr. Gavia has been the Acting Executive Director of TMRS since the departure of former Executive Director Eric Henry in August 2009. Mr. Gavia joined TMRS as General Counsel in 2001. Prior to his employment at TMRS, he worked as Assistant General Counsel in the

Benefits / Tax Area for the Employees Retirement System of Texas. He received his Bachelor of Science degree in business administration from Trinity University in San Antonio and his Juris Doctor degree from the University of Texas at Austin. In addition to being an attorney, he is also a Certified Public Accountant.

Mr. Gavia is a member of the National Association of Public Pension Plan Attorneys, the Texas Association of Public Pension Attorneys, the State Bar of Texas, and the American Institute of Certified Public Accountants. He has represented TMRS before various regulatory agencies, served as a key member of the TMRS team that recommends statutory changes to the TMRS Act, and most recently helped move HB 360 through the Texas Legislature during the 81st Session.

As Executive Director at TMRS, Mr. Gavia will implement the Board's policies and manage the future direction of TMRS, which now has more than 140,000 member accounts and 837 cities. The System pays benefits to more than 36,000 retired Texans and administers a trust fund of over \$15.9 billion (as of year-end 2009). ■

TMRS 2009 Summary Annual Financial Report

For the Year Ended December 31, 2009

The Texas Municipal Retirement System (TMRS) 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 2009

- David Gavia, former Legal Counsel at TMRS, served as Acting Executive Director after Eric Henry's departure in August 2009. On March 12, 2010, the Board selected Mr. Gavia as Executive Director of the Retirement System.
- Working with the System's Advisory Committee, the TMRS Board made recommendations to the State Legislature that were enacted into law (see page 4).
- The System continued to diversify its fixed income portfolio into equity index funds. By 2009 year end, 23.5% of the fund was invested in passively managed equity index funds: 11.8% in the domestic Russell 3000 and 11.7% in the international MSCI-EAFE; 76.5% of the fund remained invested in fixed income securities and short-term investments.
- Most markets produced positive performance in 2009, 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 \$16 billion investment portfolio of 10.2% (return on equities was 28.4% domestic and 32.1% international, while 6.7% was earned from the fixed income portfolio).
- As of December 31, 2009, TMRS as a whole was 75.8% funded. This funded ratio increased from 74.4% in 2008 and from 73.7% in 2007. For member cities, the actuarial changes made in previous years provide advance funding of all TMRS benefits and ensure that each city's plan remains soundly funded.
- Four new cities joined the System in 2009. TMRS staff answered over 93,600 member requests for assistance and processed 2,384 new retirements in 2009.
- At year-end 2009, TMRS administered plans for 837 member cities that include:
 - 141,983 employee accounts
 - 36,098 retired members

TMRS Board of Trustees

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.

Carolyn Linér, 2009 Chair
Director of Human Resources /
Civil Service, San Marcos

Ben Gorzell, 2009 Vice Chair
Chief Financial Officer, San Antonio

Patricia Hernandez
Municipal Court Judge, Plainview

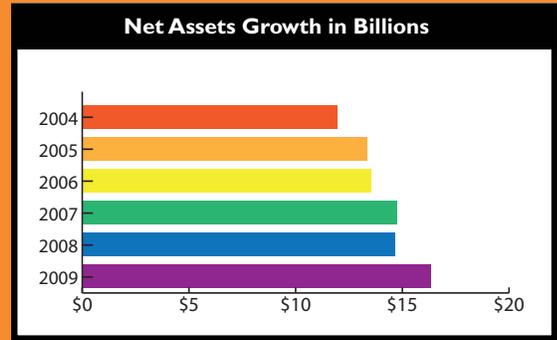
April Nixon
Chief Financial Officer, Arlington

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

H. 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 2009 and 2008. 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 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, 2009 and 2008, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$9.8 million and \$44.5 million is reported for 2009 and 2008, respectively. The increase in both receivables and payables is primarily due to an increase in trade activity in 2009 resulting in trade receivables/payables balances at December 31, 2009.

Summary Comparative Statements of Plan Net Assets		
As of December 31, 2009 and 2008		
	2009	2008
ASSETS		
Investments, at fair value	\$ 15,961,843,739	\$ 14,472,176,591
Receivables	719,901,342	205,089,909
Invested securities lending collateral	3,357,731,657	535,782,291
Other assets	<u>10,261,982</u>	<u>10,625,720</u>
TOTAL ASSETS	20,049,738,720	15,223,674,511
LIABILITIES		
Payables and accrued liabilities	305,547,677	8,041,430
Funds held for Supplemental Death Benefits Fund	26,446,295	25,381,951
Securities lending collateral	<u>3,412,069,105</u>	<u>580,289,359</u>
TOTAL LIABILITIES	3,744,063,077	613,712,740
NET ASSETS	\$ 16,305,675,643	\$ 14,609,961,771

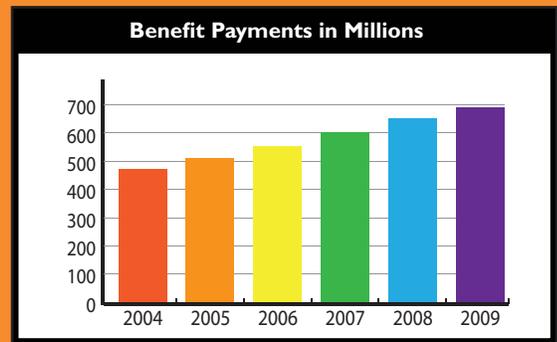


The second summary statement (below) reports activity for the year (changes in net assets). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income/(loss), which is presented net of investment expenses (i.e., after investment expenses have 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 increase in net investment income is due to higher 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 \$1.1 billion increase adjustment compared with a \$1.0 billion decrease adjustment in 2008.

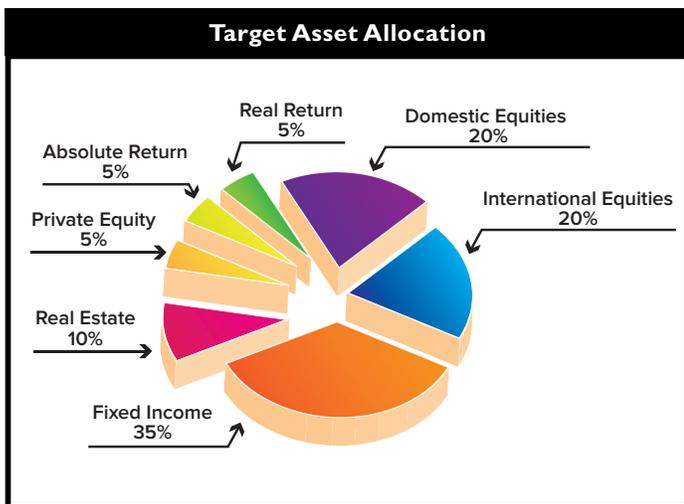
Summary Comparative Statements of Changes in Plan Net Assets		
For the years ended December 31, 2009 and 2008		
	2009	2008
ADDITIONS		
Contributions	\$ 955,223,051	\$ 865,190,222
Net investment income/(loss)	<u>1,483,308,952</u>	<u>(261,043,208)</u>
TOTAL ADDITIONS	2,438,532,003	604,147,014
DEDUCTIONS		
Benefit payments	685,691,673	648,030,389
Refunds of contributions	45,307,488	49,086,819
Allocation to Supplemental Death Benefits Fund	1,304,784	1,229,567
Administrative expenses and other	<u>10,514,186</u>	<u>11,699,849</u>
TOTAL DEDUCTIONS	742,818,131	710,046,624
CHANGE IN NET ASSETS	1,695,713,872	(105,899,610)
NET ASSETS		
BEGINNING OF YEAR	<u>14,609,961,771</u>	<u>14,715,861,381</u>
END OF YEAR	\$ 16,305,675,643	\$ 14,609,961,771

Excluding these required mark-to-market adjustments, net realized investment income for 2009 and 2008 was \$337.7 million and \$746.8 million, respectively. The decrease from 2008 is due to the continued diversification of the portfolio into equities and out of interest-bearing fixed income securities. In 2009, TMRS credited 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.

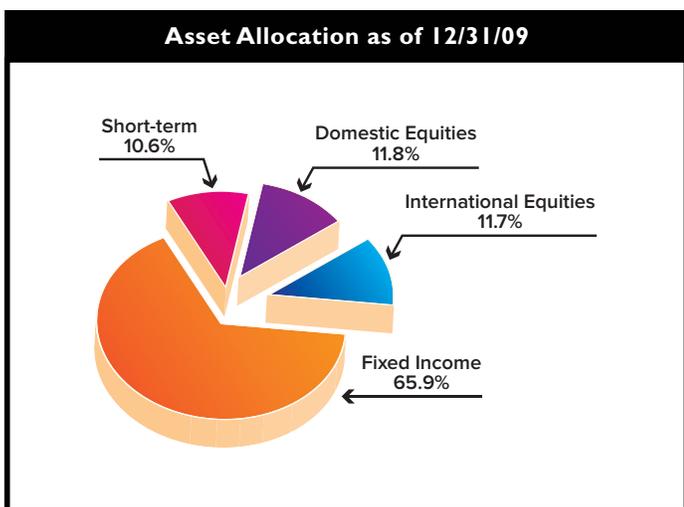


Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Six professionals on TMRS' staff oversee the System's investment portfolio and its management. With the passage of HB 360 in 2009, the Board adopted a new Investment Policy Statement and established the following target asset allocations, with implementation to occur over a multi-year period:

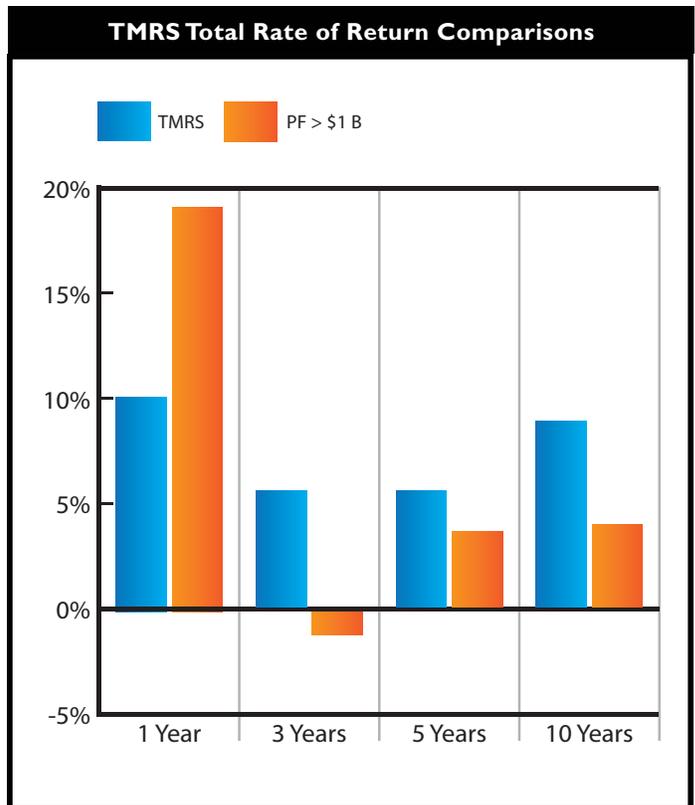


Initiatives during 2009 toward this target allocation included resuming monthly commitments to domestic and international equity index funds. By 2009 year end, the portfolio allocation to equities was 23.5%.



Also during 2009, the Board hired another external manager, Pacific Investment Management Company (PIMCO), to facilitate diversification of the fixed income portfolio by managing a core-plus fixed income portfolio.

The total return on TMRS' investment portfolio was 10.2% for 2009. In the following table, TMRS' performance is compared to a peer group of 81 public funds with total assets of greater than \$1 billion (PF > \$1 B).



Reporting Standards • This Summary Annual Financial Report is derived from the TMRS *Comprehensive Annual Financial Report* for the Year Ended December 31, 2009 (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 receive a copy of the CAFR, please contact TMRS or download the PDF version from www.TMRS.com.

HB 360 Amends TMRS Act

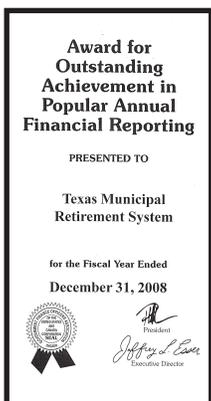
Passage of House Bill 360 by Representative Edmund Kuempel (Senate sponsor Tommy Williams) in the 81st Session of the Texas Legislature amended state law to change the way TMRS credits investment earnings to member and city accounts. HB 360, “relating to the crediting and charging of investment gains and losses on the assets held in trust by the Texas Municipal Retirement System and providing a guaranteed minimum credit to employee accounts,” passed both the Texas House and Senate unanimously and was signed into law by Governor Rick Perry on May 26, 2009, effective immediately upon signing. HB 360:

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

The changes the System made in the past three years, coupled with the passage of HB 360, 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.

The TMRS Board worked closely with its expanded Advisory Committee to craft the recommendations for legislation. The System wishes to extend gratitude to the Advisory Committee, legislators, and legislative staff members who helped in the passage of the bill.

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, 2008.

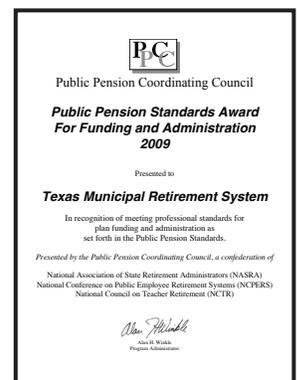
The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

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 2009 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.

The System was designated “Plan Sponsor of the Year” by *PLANSPONSOR* magazine for the Public Sector / Defined Benefit category for 2009. The feature story about TMRS appeared in the March 2010 issue of *PLANSPONSOR* and is reprinted in the 2009 CAFR.



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



THE EYES HAVE IT!
THE EYES HAVE IT!

Eyesight is a precious resource, and several national health organizations are sponsoring initiatives this summer to help you maintain the quality of your vision.

June is **Vision Research Month**, sponsored by Prevent Blindness America. Since 1908, Prevent Blindness America has been the nation's leading volunteer eye health and safety organization with the sole mission of preventing blindness and preserving sight. While millions of Americans benefit from vision research, many eye diseases have no effective treatments or cures. More information is available by calling 800.331.2020 or going to the organization's website at www.preventblindness.org.

In late June and early July (June 27–July 5), we will observe **Eye Safety Awareness Week**, an initiative of the United States Eye Injury Registry (USEIR) / American Society of Ocular Trauma. USEIR is a federation of individual state eye injury registries that collects and shares data about serious eye injuries to help develop preventive strategies and to distribute information about eye injury prevention and management to the public and professional community. For more information, go to www.useironline.org.

Other national awareness events relating to health occur in June. **Sun Safety Week**, sponsored by the Sun Safety Alliance (SSA), is June 6–12. The main mission of the SSA is reducing the incidence of skin cancer through prevention, education, and awareness. For more information, check out www.sunsafetyalliance.org. With the summer sun starting to blaze, be sure to protect your skin and your eyes from the damaging effects of UV rays! ■

INVESTMENT UPDATE

TMRS continues to diversify the System's investments. Legislation that passed in 2009 made changes that allow diversification to continue. The passage of HB 360 guaranteed a minimum 5% interest to members' accounts and a 5% discount rate used in setting the annuity purchase rates for retirees, while providing for variable interest credits to city accounts. This legislation also allows TMRS investments to be managed toward a total return objective, as we explained in the story, "Diversification for Security and Growth," in the Winter 2009 issue of *RetirementWise*.

Our plans going into 2010 and beyond involve further diversification of investments, such as increasing our equity (stock) allocations and moving into real estate and real return this year. We will continue to increase those allocations toward the policy targets and begin investing in absolute return and private equity in the next few years.

In a total return environment, we keep our eye on short-term performance but emphasize long-term returns. We are dedicated to managing risk while improving the return potential for the future.

TMRS investments are managed to ensure that members, retirees, and beneficiaries are provided with the benefits they have been promised by their cities at a reasonable and predictable cost to the employers.

2009 Performance

In past years, the Board of Trustees determined an annual interest credit rate for members and cities at its September meeting. In February 2010, the TMRS

Board approved a 7.5% interest credit to city accounts, the actuarially assumed rate. After the statutory 5% interest credit to accounts (employee and current service annuity reserve fund) and the 7.5% credit to city accounts, the remaining investment earnings were allocated to the TMRS interest reserve.

The TMRS Board has set an initial guideline for the reserve fund of approximately 20% of total assets. The reserve will be used to help stabilize city contribution rates in future years when investment returns may fall below the actuarially assumed 7% interest earning assumption. TMRS' total rate of return was 10.2% for 2009. Summary performance updates are regularly posted on www.TMRS.com on the Investments page.

Real Estate Investments

The strategic target allocation to real estate is 10% of TMRS' investment portfolio and will be implemented gradually and prudently as the market allows. After several educational sessions on real estate investing, the TMRS Board has selected real estate investment consultant ORG Portfolio Management LLC to assist with this asset class. The next step will be to develop an investment policy that is clear about the objectives for real estate and that will ensure that these investments follow a prudent, risk-managed strategy. TMRS hopes to make its first investments in real estate by the end of the year. TMRS will initially focus on well-diversified strategies, which include funds and managers that invest in commercial property types such as office, retail, apartment, and industrial. Investments may also include REITs



(Real Estate Investment Trusts), which provide some of the benefits of investing in real estate but with the liquidity that securities offer.

Real Return Investments

The TMRS strategic target allocation to Real Return is 5% of the total investment portfolio and will be implemented gradually and prudently as the market allows. Real Return strategies are designed to protect against inflation; therefore, performance objectives may include some return in excess of inflation. There is a broad range of strategies, including securities such as inflation-linked bonds (U.S. and global), commodities, and natural resource stocks. In February, the TMRS Board heard an educational presentation on U.S. Treasury Inflation Protected Securities (TIPS) and global inflation-linked bonds, which are U.S. and non-U.S. government-issued securities whose performance is linked to inflation. TMRS is continuing to evaluate these securities for the initial investments in this asset class, and after developing an investment policy that addresses the objectives and restrictions for these securities, expects to begin investing in this area during the second half of 2010.

TMRS will continue to keep our retirees informed of our progress in diversifying investments as well as our investment performance. This information is provided on the website Investments page, in this publication, and in the annual PAFR (included in this issue). ■



TMRS Wins Award “Plan Sponsor of the Year”

PLANSPONSOR magazine announced the 2009 winners of its annual “Plan Sponsor of the Year” awards this past March. The *PLANSPONSOR* awards are presented to retirement plans in the nonprofit, corporate, and public sectors. TMRS won the award in the Public Sector/ Defined Benefit category for 2009.

“TMRS appreciates the recognition this award represents. We will continue to do the best job we can to provide secure retirement benefits to our members and retirees while remaining mindful of the costs of these benefits to our cities,” said Ben Gorzell, Chair of the TMRS Board of Trustees.

PLANSPONSOR magazine is the nation’s leading resource on workplace retirement plans. The magazine annually recognizes plans that demonstrate leadership in providing a secure retirement for workers. Strong investment performance, rigorous corporate governance, and an enduring commitment to participant education are the hallmarks of these awards.

Descriptions of all the 2009 winners were featured in the March issue of *PLANSPONSOR* magazine. ■

RetirementWise
Texas Municipal Retirement System
P.O. Box 149153 • Austin, Texas 78714-9153

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PAID
AUSTIN, TEXAS
PERMIT NO 2644



How to Contact TMRS

Toll-free • 800.924.8677

Local (in Austin) • 512.476.7577

Website • www.TMRS.com

E-mail • phonecenter@TMRS.com

Fax • 512.476.5576