Fund Restructuring Bill Signed into Law
How TMRS is Different from Other Plans

Gearing Up for the Future

2010 TMRS Summary Financial Report Inside!
Texas Municipal Retirement System

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McAllen

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

August
30 Annuity checks mailed
31 Direct deposit of annuity payments

September
5 Holiday (Labor Day)
21-22 TMRS Board of Trustees Meeting – Austin
29 Annuity checks mailed
30 Direct deposit of annuity payments

October
12 TMRS Board of Trustees Meeting – Houston (in conjunction with TML)
28 Annuity checks mailed
31 Direct deposit of annuity payments

November
11 Holiday (Veteran’s Day)
24-25 Holidays (Thanksgiving)
29 Annuity checks mailed
30 Direct deposit of annuity payments

December
1-2 TMRS Board of Trustees Meeting – Austin
23 & 26 Holidays (Christmas)
29 Annuity checks mailed
30 Direct deposit of annuity payments
Dear TMRS Retiree,

The best news of this very hot and dry summer is that the TMRS fund restructuring bill (SB 350) passed both houses of the Legislature and was signed into law by Governor Perry on June 17, 2011. See the story on page 4 for all the details.

The enactment of SB 350 eliminated inefficiencies in our internal accounts, improved our Systemwide funded ratio to 82.9%, reduced contribution rates for many TMRS cities, and significantly reduced our unfunded liabilities. This major accomplishment is the result of a lot of hard work by our Board, staff, consultants, the Advisory Committee, and importantly, Senator Tommy Williams and Representative Vicki Truitt, the Senate author and House sponsor of SB 350, respectively. The most important thing for retirees to know about SB 350 is that restructuring TMRS internal accounts does not in any way affect your retirement benefit. The benefit you earned during your working years is secured by state law.

In the middle of this issue you will find the 2010 Summary Annual Financial Report. As you can see from the report, TMRS had a good year. We are still in the process of the investment diversification that was begun in 2008, and have been well positioned during some challenging times in the investment markets (see page 3 of the Summary Annual Financial Report for details).

At a time when public retirement systems have come under increased scrutiny, I am pleased to assure you that your retirement program is soundly funded, and prudently invested (see the story on page 5 for more information).

Sincerely,

David Gavia
Executive Director
TMRS 2010 SUMMARY ANNUAL FINANCIAL REPORT

We are sending retirees the 2010 Summary Annual Financial Report inside this issue. This report (also called the Popular Annual Financial Report, or PAFR), is produced every year and sent to all TMRS members and annuitants. You may wish to remove the PAFR from the middle of the magazine in order to read it as a separate document.

Fund Restructuring Bill Passes

The fund restructuring proposal, discussed in the Winter 2010 issue of RetirementWise, was signed into law by Governor Rick Perry on June 17, 2011. The bill, SB 350, was effective immediately.

SB 350 Details

The 82nd Texas Legislature enacted SB 350 by Senator Tommy Williams (House sponsor Vicki Truitt), containing the proposal for TMRS internal fund restructuring recommended by the TMRS Board of Trustees and the TMRS Advisory Committee on Retirement Matters.

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

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

Restructuring does not affect the benefits of any TMRS retiree. More efficient structuring of our internal accounts will help TMRS benefits remain affordable to cities.

Return-to-Work (After Eight-Year Separation) Approved

HB 159 by Raymond and SB 812 by Zaffirini (identical bills) provide that a retiree, who, after a break in service of at least eight years, resumes employment with the city from which he or she retired, will be eligible upon re-retirement from the city for a lump sum payment of any benefit payments suspended during the period of re-employment. The bill was signed on June 17 and became effective immediately. This legislation affects only a small number of current retirees of the System, but will apply to anyone in the future who returns to work for the city from which he or she has been retired for at least eight years.

The Texas Legislature also considered, but did not pass, a number of other bills that would have affected TMRS. For a complete list of the bills and links to their final status in the session, please see: www.tmrsc.com/legislative_tracking.php#bills.
The Texas Municipal Retirement System (TMRS, or the System) prepares this report annually. Its purpose is to provide you with an overview of how the System has performed financially in the past year. This report describes the accomplishments TMRS made this year in its ongoing operations to serve members, cities, and retirees.

The Year at TMRS

Noteworthy Accomplishments of 2010

- David Gavia, former Legal Counsel at TMRS, served as Interim Executive Director from August 2009 to March 12, 2010, when the Board selected him as Executive Director of the System. On June 18, 2010, Nancy Goerdel was selected as the Chief Investment Officer of the System.

- Working with the System’s Advisory Committee, the TMRS Board made recommendations to the State Legislature that were enacted into law in 2011. SB 350 provides a more efficient funding structure and reduces contribution rate volatility. For most cities, contribution rates will decline and funding ratios will improve (see page 4).

- The System continued to diversify its investment portfolio into equity index funds. By 2010 year end, 33% of the fund was invested in passively managed equity index funds: 17% in the domestic Russell 3000 and a combined 16% in the international MSCI-EAFE and MSCI All Country World Investable Market Index – ex US IMI; 67% of the fund remained invested in fixed income securities and short-term investments.

- The TMRS Board appointed ORG Portfolio Management LLC (ORG) as its real estate consultant.

- Most markets produced positive performance in 2010, with equities, in general, outperforming fixed income. TMRS benefited from the new equity allocation, which contributed to an overall 12-month rate of return on the $18 billion investment portfolio of 9.0% (return on equities was 16.9% domestic and 8.4% international, while 6.5% was earned from the fixed income portfolio).

- Under the new provisions of SB 350, as of December 31, 2010, TMRS as a whole was 82.9% funded. This funded ratio increased from 75.8% in 2009 and 74.4% in 2008. For member cities, the actuarial changes made in previous years provide advance funding of annually repeating TMRS benefits and ensure that each city’s plan remains soundly funded.

- Five new cities joined the System in 2010. TMRS staff answered over 92,000 member requests for assistance and processed over 2,700 new retirements in 2010.

- At year-end 2010, TMRS administered plans for 842 member cities that include:
  - 141,372 employee accounts
  - 38,260 retired members

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

The six members of TMRS’ Board of Trustees are appointed by the Governor with the advice and consent of the Senate. Board members serve six-year terms and are responsible for fiduciary oversight of the System. The Board adopts investment and other policies; appoints the Executive Director; and selects financial, medical, legal, and other experts to perform important services for TMRS.

- Ben Gorzell, 2010 Chair
  Chief Financial Officer, San Antonio

- April Nixon, 2010 Vice Chair
  Chief Financial Officer, Arlington

- Patricia Hernandez
  Municipal Court Judge, Plainview

- Julie Oakley, CPA
  Director of Finance, Lakeway

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

- H. Frank Simpson
  Assistant City Manager, College Station
The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net assets) at both year-end 2010 and 2009. Net assets represent funds accumulated for the payment of future benefits. Investments, stated at fair market value, make up the largest portion of net assets held in trust for pension benefits. During both 2010 and 2009, the value of TMRS’ investment portfolio substantially recovered from the negative market conditions of 2008. Another significant asset is securities lending collateral. Because of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2010 and 2009, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of $20.4 million and $54.3 million, respectively, is reflected in the Statements of Plan Net Assets. The increase in both receivables and payables is primarily due to an increase in trade activity in 2010 resulting in increased trade receivables/payables balances at December 31, 2010.

**Summary Comparative Statements of Plan Net Assets**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments, at fair value</td>
<td>$18,302,526,324</td>
<td>$15,961,843,739</td>
</tr>
<tr>
<td>Receivables and other</td>
<td>1,643,712,522</td>
<td>720,131,342</td>
</tr>
<tr>
<td>Invested securities lending collateral</td>
<td>2,693,847,465</td>
<td>3,357,731,657</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>9,694,046</td>
<td>10,031,982</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>22,649,780,357</td>
<td>20,049,738,720</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payables and accrued liabilities</td>
<td>1,916,591,404</td>
<td>305,547,677</td>
</tr>
<tr>
<td>Funds held for Supplemental Death Benefits Fund</td>
<td>26,400,118</td>
<td>26,446,295</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>2,714,294,965</td>
<td>3,412,069,105</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>4,657,286,487</td>
<td>3,744,063,077</td>
</tr>
</tbody>
</table>

**NET ASSETS**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>$17,992,493,870</td>
<td>$16,305,675,643</td>
</tr>
</tbody>
</table>

The second summary statement (below) reports activity for the year (changes in net assets). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is comprised of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation in the fair value of investment securities. The increase in contributions is due primarily to the increase in employer contribution rates from 2009 to 2010. Net investment income earned in 2010 compares reasonably with 2009. The total return on TMRS' investment portfolio of 9.0% in 2010 (compared with 10.2% in 2009), enabled the Board to credit 5% interest to employee accounts and 7.5% to municipality accounts. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady increase in the number of retired members (from 36,098 in 2009 to 38,260 in 2010).

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

<table>
<thead>
<tr>
<th>ADDITIONS</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions and other</td>
<td>$994,946,183</td>
<td>$955,223,051</td>
</tr>
<tr>
<td>Net investment income</td>
<td>1,496,328,020</td>
<td>1,483,308,952</td>
</tr>
<tr>
<td><strong>TOTAL ADDITIONS</strong></td>
<td>2,491,274,203</td>
<td>2,438,532,003</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DEDUCTIONS</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit payments</td>
<td>743,467,100</td>
<td>685,691,673</td>
</tr>
<tr>
<td>Refunds of contributions</td>
<td>49,041,627</td>
<td>45,307,488</td>
</tr>
<tr>
<td>Allocation to Supplemental Death Benefits Fund</td>
<td>1,312,293</td>
<td>1,304,784</td>
</tr>
<tr>
<td>Administrative expenses and other</td>
<td>10,634,956</td>
<td>10,514,186</td>
</tr>
<tr>
<td><strong>TOTAL DEDUCTIONS</strong></td>
<td>804,455,976</td>
<td>742,818,131</td>
</tr>
</tbody>
</table>

**CHANGE IN NET ASSETS**

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,686,818,227</td>
<td>1,695,713,872</td>
</tr>
</tbody>
</table>

**NET ASSETS**

<table>
<thead>
<tr>
<th>BEGINNING OF YEAR</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>16,305,675,643</td>
<td>$17,992,493,870</td>
<td>$16,305,675,643</td>
</tr>
</tbody>
</table>
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Eight professionals on TMRS’ staff oversee the System’s investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS, and, as presented below, establishes target asset allocations, with implementation to occur over a multi-year period.

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

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

**Reporting Standards** - This Summary Annual Financial Report is derived from the TMRS Comprehensive Annual Financial Report for the Year Ended December 31, 2010 (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared in accordance with GAAP and is subject to external audit. In contrast, this summary report provides information only for the TMRS Pension Trust Fund and is presented at a more condensed level. If you would like to review a copy of the CAFR, please download the PDF version from www.tmrs.com/publications.php#investments.
Passage of Senate Bill 350 in the 82nd Session of the Texas Legislature effectively restructured TMRS’ internal accounts.

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

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

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

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

Awards

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

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

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

TMRS also received the Public Pension Standards 2010 Award from the Public Pension Coordinating Council (PPCC) in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.
How TMRS Is Different from Other Plans

Some of the news about retirement systems nationally has been troubling. There is a great deal of misinformation about public employee retirement plans, and a lively debate has ensued over whether public sector employees should even have traditional retirement programs. In some states, retirement systems are “underfunded” and, by some projections, will require large contributions to make them sound again.

It is important to understand the difference between TMRS and some of these other plans and to know that your retirement program is properly funded and secure. TMRS is a different type of retirement program from the standard “defined benefit” plan offered by many governments. Our plan design is flexible, and all employers (cities) are required each year to pay an amount into the plan that will ensure retirements are fully funded. Our future assumed investment return is also more conservative than that of many other systems (7% instead of 8% or higher).

It is also important to remember that, although city contributions (and therefore tax dollars) paid for a portion of your benefit, you also contributed each month toward your retirement. The majority of your retirement benefit is funded by the System’s investment earnings.

TMRS published a pamphlet last year that contains important facts about how TMRS differs from some of the retirement plans that have been in the news. You can download or print a copy of “Understanding Benefits, Funding, and Economic Impact” from the TMRS website (go to www.tmrs.com/down/pubs/BenefitsAndFunding_web.pdf), Or, if you would like us to send you a copy, send a note to communications@tmrs.com or call 800.924.8677.
Board Changes in 2010

Two TMRS Board of Trustees members ended their terms in 2010: Carolyn Linér of San Marcos and Patricia Hernandez of Plainview. The Board and staff of TMRS wish to thank Ms. Linér and Ms. Hernandez for their many years of dedicated service to TMRS and the cities, city employees, and retirees of Texas.

In August 2010, Governor Rick Perry appointed Lakeway Finance Director Julie Oakley to the TMRS Board to complete the term of Carolyn Linér. In early 2011, Governor Perry appointed McKinney Deputy City Manager Jim Parrish to the Board to replace Pat Hernandez. In addition, the Governor appointed Roel “Roy” Rodriguez, PE, of McAllen to another term. All three Board appointments were confirmed by the Texas Senate on February 18, 2011.

Advisory Committee Update

The TMRS Advisory Committee on Retirement Matters is a 19-member body appointed by the Board to provide input on matters relating to TMRS and to provide an additional conduit for communication between TMRS and its members, member cities, and retirees. To serve on this committee, an individual must be a TMRS member, retiree, or an elected official of a TMRS city. The Committee is chaired by a TMRS Trustee.

The Advisory Committee is composed of two groups — nine Individual Class members and ten Group Class members. Individual Class Members are selected by the Board from a pool of applicants who have expressed interest in serving on the committee. Applications are available on the TMRS website or by request. Group Class members are nominated by their respective groups and approved by the Board.

The Committee holds two regular meetings each year and additional meetings as called by the Chair. During the last two legislative interims, the recommendations of the Advisory Committee and the support of its members have been invaluable in the legislative process. Current members are listed below.

Individual Class Members
Allen Bogard, Sugar Land City Manager
Ronald E. Cox, TMRS Retiree
Michael Dane, San Angelo Finance Director
Dean Frigo, Amarillo Assistant City Manager
Michelle R. Leftwich, Mercedes Assistant City Manager
Victor Hernandez, Lubbock City Councilmember
Randle Meadows, Arlington Police Association President
Charles Windwehen, TMRS Retiree

Group Class Representatives
David Crow, Arlington Professional Fire Fighters
Kevin Lawrence, Texas Municipal Police Association
Scott Kerr, Texas State Association of Fire Fighters
Nikki Ramos, City of San Antonio
Jerry Gonzalez, Service Employees International Union
Don Byrne, Texas Municipal Human Resources Association
Mike Perez, Texas City Management Association
Bob Scott, Government Finance Officers Association of Texas
Mike Staff, Combined Law Enforcement Associations of Texas
Monty Wynn, Texas Municipal League
Tracking Withholding on the Web

Because of changes in the tax tables this past year, many retirees were surprised that different amounts were withheld from their annuity payments than expected. The amount of your withholding may have increased for 2011 as a result of the federal “Making Work Pay” credit expiring on December 31, 2010. The increase in withholding led to reductions in net amounts.

If at any time you wish to change your withholding election (and thereby change the net amount of your payment), you should fill out a new W-4-P form, also known as a Withholding Certificate for Pension or Annuity Payments. The withholding form is available for download from our website from the Forms page, or you can get it from the IRS website by typing www.irs.gov/pub/irs-pdf/fw4p.pdf. The completed form should be mailed to TMRS at PO Box 149153, Austin TX 78714-9153 or faxed to 1.512.476.5576.

Tracking the amount of your payments and withholding year-to-date can be easily accomplished using MyTMRS®. If you are not yet a registered MyTMRS user, follow the steps in the box on the right.

Registering for MyTMRS
2. Click on the yellow MyTMRS button on the right side of the page.
3. Register for MyTMRS (you’ll receive an e-mail verification within minutes)
4. Log in to MyTMRS using your chosen user name and password.
5. View your account information.
6. Print information, if you wish.

Withholding Certificate for Pension or Annuity Payments

Form W-4P

Purpose: Form W-4P is for U.S. citizens, resident aliens, or their estates who are recipients of pensions, annuities (including commercial annuities), and certain other deferred federal compensation. Use Form W-4P to tell payers the correct amount of federal income tax to withhold from your payments. You also may use Form W-4P to choose (a) not to have any federal income tax withheld from the payment (except for eligible roth rollover distributions, or payments to U.S. citizens delivered outside the United States or its possessions) or (b) to have an additional amount of federal income tax withheld.

Your options depend on whether the payment is periodic, nonperiodic, or an eligible rollover distribution, as explained on pages 3 and 4. Your previously filed Form W-4P will remain in effect if you do not file a Form W-4P for 2011.

What do I need to do? Use the additional worksheets on page 2 to further adjust your withholding allowances for itemized deductions, adjustments to income, any additional standard deduction, certain credits, or multiple pensions/more-than-one-income situations. If you do not want any federal income tax withheld (see Purpose above), you can skip the worksheets and go directly to the Form W-4P below.

Sign this form. Form W-4P is not valid unless you sign it.