Public Pension Perspectives

Growing Our Investments

2011 TMRS Summary
Financial Report Inside!
The TMRS Act provides that the administration of TMRS is entrusted to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. If you wish to contact the Board, forward comments to ExecOffice@TMRS.com.
Dear TMRS Retiree,

I hope you are enjoying your summer. This issue of RetirementWise contains your TMRS 2011 Summary Annual Financial Report. The annual report is a brief overview of TMRS finances and achievements as of December 31, 2011. Last year, TMRS achieved an important step with the passage of SB 350 by Williams (House sponsor Pruett). That bill eliminated inefficiencies in our internal accounts, improved the System's financial health, and made benefits more affordable for many cities.

In this issue, “Public Pension Perspectives,” page 4, addresses the current perceptions (and misperceptions) about public retirement systems. This story explains how TMRS is different from some of the other retirement programs you may have read about. When you were a contributing member of TMRS, a percentage of your paycheck went toward your own retirement every month. Then, after you retired, the calculation of your lifetime annuity was derived from three things: the money you had contributed to your retirement savings, earnings from investments made by TMRS over the course of your career, and the city dollars they chose to match your funds. As the story explains, your earned retirement pension continues to be a lifetime promise.

As always, if you have any questions about anything related to TMRS, do not hesitate to contact us. If you call our 800 number during business hours, you’ll get a helpful member service analyst who will be happy to assist you.

Sincerely,

David Gavia
Executive Director
Public Pension Perspectives

A few short years ago, public pensions seemingly existed in their own world, off the radar of mainstream media and politicians. That all changed after the financial crisis of 2008. Since then, governmental pension plans have come under attack, perceived as a drain on taxpayers or an unaffordable expense of government. The retirement benefits earned by public employees are resented by some in the private sector who lost their retirement savings when the markets plunged.

For many public workers, the promise of a decent retirement was the equalizer to having lower pay than comparable jobs in the private sector. For your city, the TMRS program helps attract and hold talented people to serve on your police and fire forces, in your city offices, and in the departments that provide your city services. The average monthly benefit of a TMRS retiree with 20 to 25 years of service is not excessive ($1,438 a month in 2011). If you are like most TMRS retirees, the dollars paid to you in benefits flow back into the cities where you worked and the region where you live, therefore helping to stimulate the local and state economy.

The deposits you made during your city career and the city’s matching funds were conservatively invested by TMRS, and the majority of the benefit you are currently receiving was funded by investment earnings.

How TMRS Is Different

Not all pension plans are alike, and TMRS is very different from most plans. TMRS does not receive state or federal funding. Ours is a hybrid plan with both defined contribution and defined benefit features. All TMRS benefits are fully advance-funded over 25 or 30 years, so TMRS is not “underfunded.”

As a System, TMRS is healthy and well managed, with prudent investment policies. While some pension plans have been mismanaged, TMRS is not one of them. The enclosed Summary Annual Financial Report attests to the System’s soundness. Our current funded ratio (the accepted measure of a retirement system’s health) is growing steadily each year (see page 4 of the Summary Annual Financial Report for more information).

Remember, under TMRS, each city plan is funded independently by that city. Your employer selects the retirement options, including cost-of-living adjustments, if any, that best meet its individual needs and budget. Your retirement annuity was based on your contributions from your paycheck, investment earnings on those contributions, and the amount your city chose to match your retirement savings. As further evidence of how the plan is responsibly funded, your employer must pay 100% of its required contribution rate each year to ensure money is there to continue funding your retirement, so that costs are not pushed to future generations.

The debate over public retirement systems is legitimate. Taxpayers deserve accountability for the money they pay into governments, but singling out public employees and retirees as being somehow responsible for the financial downturn that has affected everyone is misplacing the blame. Public servants should be proud of the services they provide and should be fairly compensated for the work they do. A secure retirement benefit is an important part of that compensation.
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 2011

- Senate Bill 350, sponsored by Williams (House sponsor Truitt) was enacted into law in 2011. By consolidating the three main TMRS fund accounts, SB 350 provides a more efficient funding structure and reduces potential city contribution rate volatility. As a result of SB 350, most cities’ contribution rates declined and their funded ratios improved.

- During 2011, the System continued to diversify its investment portfolio. By year-end, the 40% strategic target allocation to equities was met through investments in passively managed equity index funds: 20% in the domestic Russell 3000 and 20% in the MSCI All Country World ex-US Investable Market Index. In addition, the System met its 5% strategic target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed $200 million to real estate limited partnerships, and funded $97 million by year-end. With the assistance of TMRS’ real estate consultant, ORG, over the next few years TMRS will continue to seek out and fund additional real estate investments up to the 10% target allocation. As the fixed income category continues to fund the other asset classes, it will gradually decline to its 35% target allocation.

- The overall one-year rate of return on the $18.5 billion investment portfolio was 2.41%, with the best performing asset class, fixed income, earning 7.99%. The return on equities was 1.03% for domestic and -13.35% for international.

- As of December 31, 2011, TMRS as a whole was 85.1% funded. This funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.

- Five new cities joined the System in 2011. TMRS staff answered over 91,000 member requests for assistance and processed almost 2,900 new retirements in 2011.

- At year-end 2011, TMRS administered plans for 847 member cities that included:
  - 141,532 employee accounts
  - 40,534 retired members
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. Net investment income earned in 2011 reflects a significant decrease from 2010, primarily affected by the lower returns in the equity markets. 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 38,260 in 2010 to 40,534 in 2011).

### Summary Comparative Statements of Plan Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
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<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments, at fair value</td>
<td>$18,464,825,574</td>
<td>$18,302,526,324</td>
</tr>
<tr>
<td>Receivables and other</td>
<td>1,666,432,835</td>
<td>1,643,712,522</td>
</tr>
<tr>
<td>Invested securities lending collateral</td>
<td>1,688,567,121</td>
<td>2,693,847,465</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>9,261,818</td>
<td>9,694,046</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>21,829,087,348</td>
<td>22,649,780,357</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables and accrued liabilities</td>
<td>1,526,807,921</td>
<td>1,916,591,404</td>
</tr>
<tr>
<td>Funds held for Supplemental Death Benefits Fund</td>
<td>27,026,910</td>
<td>26,400,118</td>
</tr>
<tr>
<td>Securities lending collateral</td>
<td>1,703,958,593</td>
<td>2,714,294,965</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td>3,257,793,424</td>
<td>4,657,286,487</td>
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<tr>
<td><strong>NET ASSETS</strong></td>
<td>$18,571,293,924</td>
<td>$17,992,493,870</td>
</tr>
</tbody>
</table>

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 2011 and 2010. 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 2011 and 2010, the value of TMRS’ investment portfolio continued to recover from the negative market conditions of 2008.

Another significant asset is securities lending collateral. Because of our participation in a securities lending program, we report both the asset and related liability of the collateral received for securities on loan at year-end. At December 31, 2011 and 2010, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of $15.4 million and $20.4 million, respectively, is reflected in the Statements of Plan Net Assets.
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 2011 toward this strategic target allocation included continuing monthly commitments to domestic and international equity index funds. By 2011 year-end, the target allocation to equities of 40% was met. In addition, during 2011, TMRS funded its 5% target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed $200 million to real estate limited partnerships, and funded $97 million by year-end.

The total return on TMRS’ investment portfolio was 2.41% for 2011. The following table compares TMRS’ actual returns to market returns for the year-end target allocation.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equities</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Equities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>0.5%</td>
<td>1.4%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>52.8%</td>
<td>47.8%</td>
<td>43.3%</td>
<td>38.5%</td>
</tr>
<tr>
<td>Real Return Global Inflation-Linked Bonds</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Total Fund Active Weighted Benchmark</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Reporting Standards • This Summary Annual Financial Report is derived from the TMRS Comprehensive Annual Financial Report for the Year Ended December 31, 2011 (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.
Perhaps the most important factor that affects the soundness of a retirement program is the employer funding policy. Many of the plans around the United States that have been in the news as being inadequately funded have received contributions lower than the actuarially determined rate needed to fund the plan. Under TMRS law, all cities pay the actuarially determined contribution needed to fully fund benefits.

One common measure of the soundness of a retirement plan is the plan’s funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive, but an even more meaningful measure of soundness is whether the funded ratio increases from year to year. As certified by the System’s actuary, Gabriel Roeder Smith & Company (GRS), as of December 31, 2011, TMRS as a whole was 85.1% funded; this funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.

A key assumption that affects the long-term stability of a retirement plan is the future long-term annual rate of investment earnings. TMRS uses a conservative 7% assumption, one of the lowest of any major retirement system. To reduce volatility that might arise from investment returns in any single year, actuaries use “smoothing techniques.” The 7.0% long-term rate of return assumption continues to be appropriate for TMRS. While the 2011 investment return of 2.41% fell short of the 7.0% target, smoothing the actuarial gains earned in 2010 enabled the actuaries to recognize an approximate 7.1% actuarial return for 2011.

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, 2010.

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 2011 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

Hale and Hearty—
Preventing a Heart Attack

About 325,000 people a year die of coronary attack in the U.S. before they can get to a hospital. In many cases, these deaths could have been prevented if the victims had plans in place to act quickly!

Here are some of the signs that can mean a heart attack is happening:

- Chest discomfort. Most heart attacks involve discomfort in the center of the chest that lasts more than a few minutes, or that goes away and comes back. It can feel like uncomfortable pressure, squeezing, fullness, or pain.
- Discomfort in other areas of the upper body. Symptoms can include pain or discomfort in one or both arms, the back, neck, jaw, or stomach.
- Shortness of breath. This may occur with or without chest discomfort.
- Other signs. These may include breaking out in a cold sweat, nausea, or lightheadedness.

Don’t Delay!

If you experience heart attack symptoms, don’t wait more than five minutes before calling 911. Getting to a hospital right away gives you a better chance of recovering from the attack. Plan ahead to have someone drive you to the hospital if you can’t call 911. Don’t drive yourself unless you have absolutely no other option.

Steps for Heart Health

- Don’t smoke, and avoid other people’s tobacco smoke.
- Treat high blood pressure if you have it.
- Eat foods that are low in saturated fat, trans fat, cholesterol, and salt.
- Be physically active.
- Keep your weight under control.
- Get regular medical check-ups.
- Take medicine as prescribed.
- Control your blood sugar if you have diabetes.

Source: American Heart Association.
New!
Retiree Account Statements

On February 1, 2012, TMRS sent out Retiree Account Statements for the first time. All TMRS annuitants should have received an account statement showing a snapshot of your retirement account as of the month of January 2012. If you did not get your statement, let TMRS know right away (call our toll-free number at 800-924-8677).

The letter-size statement has explanatory information on the front and your specific account information on the reverse. The statement shows your total gross monthly payment, amount of your COLA increase (if any), federal tax withholding, and the total net monthly payment in effect for calendar year 2012. Please note: this statement replaces the COLA letter that was sent to some retirees in past years. Your 1099-R form will continue to be mailed separately.

You may access your complete retirement account information on MyTMRS on our website at www.tmrs.com. A new feature of MyTMRS is your current and previous 1099-R forms, which may be viewed or printed. If you have any questions about your account statement or need assistance, please call our office.

Board and Advisory Committee Update

TMRS Board members serve six-year staggered terms, and Board members are unpaid appointees who are also members of TMRS through their city employment. H. Frank Simpson is the Chair of the TMRS Board for 2012, and Julie Oakley is the Vice Chair. See page 2 for the full list of Board members for 2012.

2012 Advisory Committee
The Advisory Committee on Retirement Matters is appointed by the TMRS Board of Trustees and serves at the pleasure of the Board. The Advisory Committee provides valuable assistance to the Board in considering benefit changes and improvements to the System, and acts as a voice for member, retiree, and city issues. Current members are listed below:

**Individual Class Members**
Allen Bogard, Sugar Land, City Manager
Ronald E. Cox, TMRS Retiree
Michael Dane, San Angelo, Interim City Manager
Dean Frigo, Amarillo, Assistant City Manager for Financial Services
Victor Hernandez, Lubbock, City Councilmember
Randle Meadows, Arlington Police Association President
Neil Resnik, Addison, City Council Member
Wayne Riddle, Deer Park, Mayor
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
Flor Garcia, City of San Antonio
Jerry Gonzalez, Service Employees International Union, San Antonio
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

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Growing Our Investments

TMRS invests its assets to produce a return to meet the short-term and long-term funding needs of the System. Investment earnings ensure that members, retirees, and beneficiaries receive their benefits and that employer costs remain reasonable and predictable. Our investment strategy is based on total return with appropriate consideration for portfolio volatility (risk) and liquidity. Total return includes dividends, interest, and realized and unrealized capital appreciation.

In 2011, TMRS continued implementing the strategic target allocations that were adopted by the Board in June 2009 (see the enclosed Summary Annual Financial Report for the target allocations and our progress toward those allocations). A diversified portfolio and a long-term perspective can lead to higher returns without undue risk. TMRS investment actions are reported on the TMRS website.

Keep Your Address Up-to-Date!

It is very important for you to keep your address current with TMRS. Without a valid address, you will not receive Retiree Account Statements, correspondence, or mailings such as RetirementWise.

If you need to update your address at any time, complete a TMRS-CHNG (Address or Name Change) form and fax it to 512.476.5576 or mail it to P.O. Box 149153, Austin, TX 78714-9153.