Building for the Future

■ The Good Story of TMRS®
■ Do You Need a Living Will?

TMRS 2013 Summary Annual Financial Report Inside!
The TMRS Board of Trustees Update

The TMRS Board has undergone many changes this past year, gaining three new Trustees in 2013. In March, the Texas Senate approved the Governor’s appointment of Bill Philibert of Deer Park, who took up the term of exiting Trustee Ben Gorzell of San Antonio. In October, Governor Perry appointed David Landis of Perryton to replace the late H. Frank Simpson of College Station. Then, in December, Jim Jeffers of Nacogdoches was appointed to take up the remaining term of retiring Board member April Nixon. TMRS thanks former Board members Mr. Gorzell and Ms. Nixon for their years of dedication and service.

2014 TMRS Board Officers

At its December 2013 meeting, the Board elected Roel “Roy” Rodriguez of McAllen as Chair for 2014 and Julie Oakley of Lakeway as Vice Chair.

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,

The TMRS 2013 Summary Annual Financial Report, included in the middle of this issue of RetirementWise, is a brief overview of the System’s finances and investments as of December 31, 2013.

In the last calendar year, our total net pension position grew to $22.5 billion, continuing a trend of steady growth in assets, due in part to our ongoing investment diversification. As our cover story explains, TMRS is “Building for the Future” (see page 5). Our System continues to grow steadily and run smoothly, benefitting our retirees and their communities.

We are working constantly to expand and improve the information we provide to you. Our website, www.tmrs.com, is one of the best ways to keep in touch with what’s going on at TMRS. MyTMRS® allows you to review your account information at your convenience (see page 4). If you are a Facebook user, you might also consider “liking” us on Facebook to receive regular updates on important issues.

Other stories in this issue provide health and medical planning tips (pages 6 and 7). As always, we are here for you — please contact us if you have any questions!

Sincerely,

David Gavia
Executive Director
“Like” Us on Facebook!
If you’re a regular user of social media, it’s easy to keep up with TMRS news by liking or following our Facebook page. We provide regular updates on TMRS and help you stay up-to-date with information that is important to members and retirees.

Annual Financial Report
The TMRS 2013 Summary Annual Financial Report (also called the Popular Annual Financial Report, or PAFR), is sent to all retirees every year to brief you on the System’s financial status. The PAFR may be removed from the issue and read as a separate document.

Keep Up-to-Date with MyTMRS!
It is very important to keep TMRS updated with all your current personal information. Whenever there is a major change in your life (such as moving), please let us know as soon as possible.

It’s a good idea to check your account and your personal choices periodically by using MyTMRS to view your account details. If you have not registered for MyTMRS, you may do so through the website, and an e-mail confirmation will be sent to you.

In MyTMRS, you can review:
- Your personal information (name, last employing city, and current address)
- Your monthly annuity, payment method, year-to-date payments (taxable payments and withholding)
- Your Retirement Account Statement(s) and tax documents (1099-Rs)
- Your beneficiary(ies) name, date of birth, and relationship to you
- Your eligibility for a Supplemental Death Benefit (if this option for retirees is chosen by your city)

MyTMRS is currently undergoing a re-design that will improve and expand on the information you can view. Look for even more features in the future!

The Importance of E-mail Addresses
When you sign up for MyTMRS, you are asked to provide a valid e-mail address. As we begin to offer more functionality through MyTMRS, keeping your e-mail up-to-date is very important so that we can provide future communications over the Internet. We highly recommend you choose a viable, long-lasting e-mail address when you sign up for MyTMRS or when you use the Change of Address form to change your TMRS contact information. Some people find that using an e-mail address from a service like Gmail or Yahoo provides a longer term solution than one from an Internet service provider.
The Texas Municipal Retirement System (TMRS, or, the System) prepares this report annually 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 to serve members, cities, and retirees.

TMRS in 2013

- The System continued to diversify its investment portfolio by expanding the real estate asset class and further diversifying other asset classes. As of December 31, 2013, TMRS had committed $1.15 billion to private real estate funds, of which $537.4 million was funded as of year-end. In addition, in late 2013 TMRS implemented additional active strategies in the domestic equities asset class, hiring two new external equity managers to manage investment portfolios of $200 million each.

- The overall one-year rate of return on the investment portfolio was 9.86%, with domestic and international equities the best performing asset classes, earning 33.20% and 16.33%, respectively, while the return on fixed income was -1.94%.

- Member municipalities received an approximate 9.70% interest credit on their January 1, 2013 Benefit Accumulation Fund balances.

- As of December 31, 2013, TMRS as a whole was 84.1% funded. This funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.

- TMRS staff answered over 101,000 member requests for assistance and processed 3,317 new retirements in 2013.

- Two new cities joined the System in 2013. At year-end 2013, TMRS administered plans for 850 member cities that included:
  - 145,448 employee accounts
  - 45,580 retired members

TMRS Board of Trustees (as of December 31, 2013)

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 have 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.

Roel “Roy” Rodriguez, PE, 2013 Chair
City Manager, McAllen

Jim Parrish, 2013 Vice Chair
Deputy City Manager — Administrative Services, Plano

David Landis
City Manager, Perryton

April Nixon¹
Chief Financial Officer, Arlington

Julie Oakley, CPA
Director of Finance, Lakeway

Bill Philibert
Human Resources Director, Deer Park

¹ On December 26, 2013, Governor Rick Perry appointed James “Jim” Paul Jeffers of Nacogdoches to replace Board Member April Nixon of Arlington, who retired in late 2013.
The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at both year-end 2013 and 2012. Net position represents funds accumulated for the payment of future benefits.

Investments, stated at fair market value, make up the largest portion of the net position held in trust for pension benefits, and reflect an increase due to net appreciation in value from year end 2012 to 2013. As a result of our participation in a securities lending program, we are required to report both the asset and the related liability of the collateral received for securities on loan at year end. At December 31, 2013 and 2012, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of $4.2 million and $6.1 million, respectively, is reflected in the Statements of Plan Net Position. The significant increase in the securities lending collateral asset and liability from 2012 to 2013 was due to the winding down of lending activity at year end 2012 in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013, at which time lending activity resumed.

The second summary statement (below) reports activity for the year (changes in net position). 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 in 2013 and 2012 was significantly affected by the unrealized gains recognized in the equities asset classes.

Net investment income in 2013 and 2012 was significantly affected by the unrealized gains recognized in the equities asset classes. The total return on TMRS’ investment portfolio was 9.86% in 2013 and 10.11% in 2012, respectively. Investment earnings in 2013 enabled the Board to credit 9.70% to municipality accounts while maintaining a reserve of $100 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retired members (from 42,931 in 2012 to 45,580 in 2013).
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Eleven 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 over a multi-year period.

Initiatives during 2013 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

The total return on TMRS’ investment portfolio was 9.86% in 2013. The table at right compares TMRS’ actual returns to policy benchmark returns.

**Investments**

**Reporting Standards**

This Summary Annual Financial Report is derived from the *TMRS 2013 Comprehensive Annual Financial Report for the Years Ended December 31, 2013 and 2012* (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 / print a copy of the CAFR, please download the PDF version from www.tmrs.com.
The most important factor that affects the soundness of a retirement program is the employer funding policy. 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. As certified by the System’s actuary, Gabriel Roeder Smith & Company, as of December 31, 2013, TMRS as a whole was 84.1% funded; this funded ratio decreased from 87.2% in 2012 due primarily to a change in actuarial cost method from Projected Unit Credit to Entry Age Normal effective with the December 31, 2013 actuarial valuation.

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. 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.

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, 2012. 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 2013 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.

**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.
As a retiree, you are well aware of the value of your own retirement with TMRS. But TMRS as a System has value beyond that of each city’s or retiree’s individual plan. The reach of your retirement dollars – after you spend them – extends outward to help the economy of your state and your local community.

TMRS wants all of its retirees to understand that ours is a healthy system. The city from which you retired chose to participate in TMRS, which means the city guarantees (through statutorily required plan funding) its current and future retirees a lifetime retirement annuity.

Here are some facts and current statistics about TMRS:

**TMRS has been the system of choice for Texas cities since 1948**

- More than 850 cities participate in TMRS.
- TMRS has 102,870 contributing members and 45,580 retirees.
- Offering a retirement with TMRS continues to give your city a competitive edge in hiring.

**TMRS plan features are good for both you and your city**

- TMRS is a “hybrid” cash-balance defined benefit retirement plan.
- Your retirement benefit was based on your account balance at retirement. Your lifetime benefit was funded through your deposits, city contributions, and investment income.
- TMRS is a good deal for your city’s taxpayers. Although you and your city contributed toward your retirement, TMRS’ investment income provides the majority of your benefit.
- The administrative costs for TMRS are not paid by the cities or members. The System’s expenses are paid completely from the fund’s investment income.
- Since TMRS retirement benefits are spent locally, your retirement dollars directly benefit your state and community.

**The System’s investment performance and funded status are healthy**

- TMRS’ funded status was 84.1% as of 12/31/13.
- TMRS administers $22.5 billion in assets, as of 12/31/13 (total net pension position).
- The overall one-year rate of return on TMRS’ investments was 9.86% at the end of 2013. (For a full description of investment activity in 2013, see the TMRS 2013 Summary Annual Financial Report, in the middle of this issue, and the Investments page on the TMRS website.)

— All data as of 12/31/13, as issued in the *TMRS 2013 Comprehensive Annual Financial Report.*
Exercise Alleviates Arthritis

According to the Center for Disease Control and Prevention, “Exercise can actually decrease joint pain and stiffness, and improve flexibility, mobility, mood, and overall wellness for those with arthritis.” Although the thought of doing strenuous exercise can be intimidating for those with osteoarthritis, rheumatoid arthritis, and other joint disorders, it definitely has health benefits. When you pair some kind of exercise routine with weight loss, that combination is one of the best ways to manage the disease. As with most changes in your activity level, consult your doctor before embarking on a new exercise program.

Depending on your kind of arthritis and where your problem areas are, increasing your activity level, whether alone or in a class, helps improve your mental outlook as well as your physical health. Here are ten fun activities to keep your joints mobile and the muscles around them strong:

- Aquatics
- Jogging
- Yoga
- Tai Chi
- Dance
- Biking
- Walking
- Golf
- Strength Training
- Working with a Trainer

HELPS Changes Require New Form

If you are an eligible retired Public Safety Officer, you are eligible for the HELPS Provision (under the federal Pension Protection Act of 2006). This provision allows you to deduct, from your taxable income, payments made from an eligible retirement plan (such as TMRS) that are used to pay premiums for accident, health, or long-term care insurance. The amount by which you may reduce your taxable income is the amount of the premiums paid, up to $3,000 per year.

What should you do if your HELPS information (provider or amount) changes?

If you’re currently using HELPS to pay for insurance premiums, and either amount you need deducted or your insurance provider changes, you must complete a new form to change this information with TMRS. Since this is an amendment to your original form, the city will not have to certify your amended form.

Eligible retirees may deduct any amount that does not exceed their monthly annuity. Also, keep in mind that any payments over the $3,000 annual limit are not included in your tax deduction. TMRS is not responsible for any lapsed insurance coverage or any other coverage or benefit issues that arise if you are using this deduction arrangement.
Advance Directives

By the time you retire, you've probably done some estate planning and prepared a will. But have you prepared an advanced directive that states your preferences for future medical treatment? This type of document comes into play when you are physically and/or mentally unable to give directions about your care. Advance directives are important planning tools for all people, regardless of age.

The questions and answers on this page are derived from the websites of the Texas Attorney General’s Office (www.texasattorneygeneral.gov), the State Bar of Texas (www.texasbar.com), and the Texas Department of Aging and Disability Services (www.dads.state.tx.us) and are intended for informational purposes only as a guide to documents you may find useful. Additional information is available from these websites. You may wish to consult legal counsel to help advise you and prepare appropriate legal documents. TMRS does not offer legal advice.

Q. What is an Advance Directive?
A. An advance directive is a type of legal document in which you specify the actions you want to be taken for your health care if you are not able to make decisions for yourself because of illness or incapacity. In this era of highly advanced medical care and life-extending options, you can choose whether you want these treatments. An advance directive for medical care allows you to handle areas such as pain control, financial choices, nursing home placement, drug therapy, and end-of-life questions such as do-not-resuscitate (DNR) orders.

Q. What is a Living Will?
A. A living will is the oldest form of advance directive. It allows you a way to express your desires concerning medical treatments at the end of your life or if you are incapacitated. Because this form of “will” is designed for you to use while you are still alive but no longer able to make decisions, it was dubbed the “living will.” In Texas, the living will is called a “Directive to Physicians and Families or Surrogates” and is notarized.

Q. What is a medical power of attorney (POA)?
A. This is a type of advance directive that allows you to appoint someone to be in charge of making your medical decisions if you lose the ability to do so. This person is called your health care agent, proxy, or surrogate and is supposed to act in your best interests if you cannot. When choosing a person to be your health care agent, it's best to identify both a primary person and a backup. Having a medical POA in addition to having your living will is useful because a living will can't cover all possible scenarios.

State Opportunity for City Retirees

The Texas Department of Public Safety — Division of Emergency Management (TDEM) is posting a job announcement to hire qualified and skilled engineering, architecture, and construction professionals to serve as reservists (occasional/seasonal work). These professionals would perform inspections and cost estimates for communities’ infrastructure, including transportation elements, buildings, utility infrastructure, etc. damaged by such natural disasters as hurricanes and floods. Retired city, county, and state workers looking for a way to continue to serve their community might wish to check out the posting. The positions will be advertised between July 29 and August 11, 2014. For more information, visit the employment section of the DPS home page at dps.texas.gov or call 512-486-6474.