

Summer 2015

RetirementWise

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



TMRS 2014 Summary Annual Financial Report Inside!

TMRSDirect[™] — New Online Initiatives

**Texas Wildflowers –
Perennial Favorites**

Texas Municipal Retirement System
2015 Board of Trustees



Julie Oakley, CPA
Chair
 Director of Finance
Lakeway



James "Jim" Paul Jeffers
 City Manager
Nacogdoches



Bill Philibert
 Human Resources Director
Deer Park



Jim Parrish
Vice Chair
 Deputy City Manager —
 Administrative Services
Plano



David Landis
 City Manager
Perryton



Roel "Roy" Rodriguez, PE
 City Manager
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.

Legislative Update

The 84th Legislative Session began on January 13, 2015 and ended on June 1, 2015. Prior to the session, the TMRS Advisory Committee on Retirement Matters held meetings to discuss possible recommendations to the TMRS Board of Trustees regarding potential benefit design changes. Ultimately, the Board did not propose any legislative changes to the TMRS plan design, but issued a resolution encouraging the Legislature "...to continue their support of TMRS and not support any legislative proposals that would negatively impact TMRS." Although numerous pension-related bills were filed and considered during the session, none of the bills that would have made changes to the TMRS plan design passed the Legislature. However, the Legislature did pass legislation that affected local pension plans and other statewide systems. More information on these bills and the Board resolution is available on the TMRS website at [Legislative page / 84th Session Resources](#).

Calendar

August

- 20-21 TMRS Board of Trustees
Strategic Planning Meeting – San Antonio
- 28 Annuity checks mailed
- 31 Direct deposit of annuity payments

September

- 7 Holiday (Labor Day)
- 23 TMRS Board of Trustees Meeting – San Antonio
- 29 Annuity checks mailed
- 30 Direct deposit of annuity payments

October

- 22-23 TMRS Board of Trustees Meeting – Austin
- 29 Annuity checks mailed
- 30 Direct deposit of annuity payments

November

- 11 Holiday (Veteran's Day)
- 26-27 Holiday (Thanksgiving)
- 27 Annuity checks mailed
- 30 Direct deposit of annuity payments

December

- 3-4 TMRS Board of Trustees Meeting – Austin
- 24-25 Holiday (Christmas)
- 30 Annuity checks mailed
- 31 Direct deposit of annuity payments

From the Executive Director



Dear TMRS Retiree,

In this issue of *RetirementWise*, you will find the Summary Annual Financial Report for the year ending December 31, 2014. In the last calendar year, our System's total net pension position grew to \$23.7 billion, continuing a steady growth in assets, due in part to our continuing investment diversification.

In this issue, our cover story and its related quiz (page 6) celebrate the beauty of our state's wildflowers, which have been blooming in record numbers all over Texas since the spring. Wildflowers are always with us – they are dependable Texas perennials, much like your retirement System. You can count on your annuity to be there, year after year.

In the 2015 Regular Session of the Texas Legislature, no laws were passed that directly affected TMRS. Prior to the 84th Legislative Session, which started in January, the TMRS Board weighed proposals to change the plan but ultimately decided to maintain a consistent course and focus on educating new Legislators on the value of TMRS.

We are also working to expand the ease of information and account access for all our members and retirees. Our electronic initiative — called *TMRSDirect*[™] — is designed to give you more ways to work online. For retirees, we are expanding the “straight-through processing” that is available through MyTMRS[®]. Later this summer we are adding the ability to change your address online and more features will be added in the future (see story, page 4).

Remember, TMRS is always here for you – please contact us if you have any questions!

Sincerely,

David Gavia
Executive Director

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SPECIAL INSERT:
TMRS 2014 Summary Annual Financial Report
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RetirementWise is dedicated to 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.



TMRS Direct — Bringing Online Access to You

TMRS Direct is TMRS' electronic initiative to provide self-service capabilities to cities, members, and retirees. These enhancements are to our two online systems: MyTMRS® and the City Portal, a tool for TMRS cities. With MyTMRS upgrades, retirees

will be able to make some changes online instead of submitting paper forms.

The move to electronic processing is just getting started. Currently retirees are able to view account details and verify personal information. You can also view, download, and print tax documents and other statements. Soon you will be able to change your address using MyTMRS instead of submitting a paper form. We will also be providing the ability to create a statement that verifies your annuity amount.

It's always a good idea to check the information TMRS has about your account and your beneficiaries regularly.

How to Sign Up

If you're not using MyTMRS to access your TMRS information, go to www.tmr.com, click on the MyTMRS button, and get started today! To register for MyTMRS, follow these steps:

1. Go to www.tmr.com
2. Click on the MyTMRS button on the home page
3. Click on the Create an Account link
4. Complete the registration process to set up your account

Your Email Address Needs to be "Persistent"

When you sign up for MyTMRS, you are asked to provide a working email address. As we increase our functionality through MyTMRS, a long-standing email address will be an important way for us to communicate these changes to you. Please choose a viable, long-lasting email address so that we can stay in touch with you and provide future communications electronically. Your email address should be "persistent" – choose an address you plan to keep using for a long time. Some people find that using an email address from a service like Gmail or Yahoo provides a longer term solution than one from an internet service provider.

For assistance with MyTMRS, call TMRS or send an email to MyTMRS-Help@tmr.com. ■

Annual Financial Report

The TMRS 2014 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.

TMRS 2014 Summary Annual Financial Report

For the Year Ended December 31, 2014



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 2014

- The System continued to diversify its investment portfolio by funding the absolute return and non-core fixed income asset classes, as well as expanding the real estate asset class and further diversifying within other asset classes. As of December 31, 2014, TMRS had committed \$1.4 billion and £50 million (British pounds) to private real estate funds, of which \$870.3 million was funded as of year-end. In addition, in late 2014 TMRS funded four non-core fixed income managers totaling \$900 million and a hedge fund-of-funds manager in the amount of \$1.1 billion.
- The overall one-year rate of return on the investment portfolio was 6.0%, with real estate and domestic equities the best performing asset classes, earning 20.4% and 12.6%, respectively.
- In preparation for the new GASB Statements Numbers 67 and 68, TMRS engaged KPMG LLP to perform a SOC 1 Type 2 audit, with the report issued in May 2015. Throughout 2014, TMRS continued its communications to cities about the upcoming changes under the new governmental accounting standards.
- By law, member accounts were credited 5% to their accounts as of January 1, 2014. Member municipalities received an approximate 5.7% interest credit on their January 1, 2014 Benefit Accumulation Fund balances. After smoothing, the actuarial return is approximately 7.5%.
- TMRS made significant progress in 2014 toward developing **TMRSDirect™**, its “straight-through processing” initiative for member and city self-service.
- As of December 31, 2014, TMRS as a whole was 85.8% funded. This funded ratio increased from 84.1% in 2013.
- TMRS staff answered over 101,000 member requests for assistance and processed 3,675 new retirements in 2014.
- Ten new cities joined the System in 2014. At year-end 2014, TMRS administered plans for 860 member cities that included:
 - 149,073 employee accounts
 - 53,455 retirement accounts

Contact Us

800.924.8677

phonecenter@tmrs.com

www.tmrs.com

TMRS Board of Trustees (as of December 31, 2014)

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, 2014 Chair
City Manager, McAllen

David Landis
City Manager, Perryton

Julie Oakley, CPA, 2014 Vice Chair
Director of Finance, Lakeway

Jim Parrish
Deputy City Manager – Administrative Services, Plano

James “Jim” Paul Jeffers
City Manager, Nacogdoches

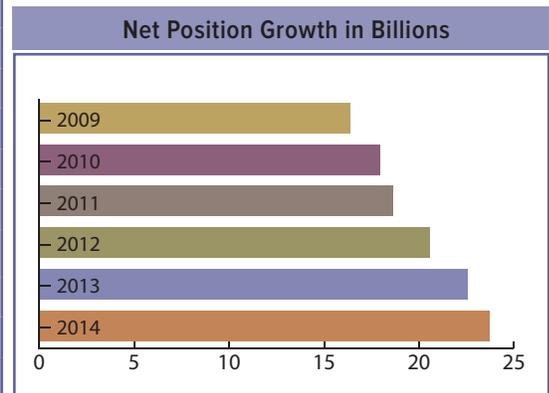
Bill Philibert
Human Resources Director, Deer Park

Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at years ended 2014, 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 2014. 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, 2014, 2013, and 2012, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of \$2.6 million, \$4.3 million, and \$6.1 million, respectively, is reflected in the Statements of Fiduciary Net Position.

Summary Comparative Statements of Fiduciary Net Position As of December 31, 2014, 2013, and 2012			
	2014	2013	2012
ASSETS			
Investments, at fair value	\$ 23,896,100,903	\$ 23,868,363,416	\$ 20,627,559,696
Cash, receivables and other	1,602,558,921	1,241,750,049	1,808,700,141
Invested securities lending collateral	1,030,835,345	1,886,115,119	147,077,460
Capital assets, net	<u>7,889,360</u>	<u>8,449,172</u>	<u>9,049,918</u>
TOTAL ASSETS	26,537,384,529	27,004,677,756	22,592,387,215
LIABILITIES			
Payables and accrued liabilities	1,754,249,820	2,622,251,033	1,923,350,813
Funds held for Supplemental Death Benefits Fund	22,176,214	23,421,789	25,249,880
Securities lending collateral	<u>1,033,480,569</u>	<u>1,890,371,310</u>	<u>153,187,500</u>
TOTAL LIABILITIES	2,809,906,603	4,536,044,132	2,101,788,193
NET POSITION RESTRICTED FOR PENSIONS	\$ 23,727,477,926	\$ 22,468,633,624	\$ 20,490,599,022

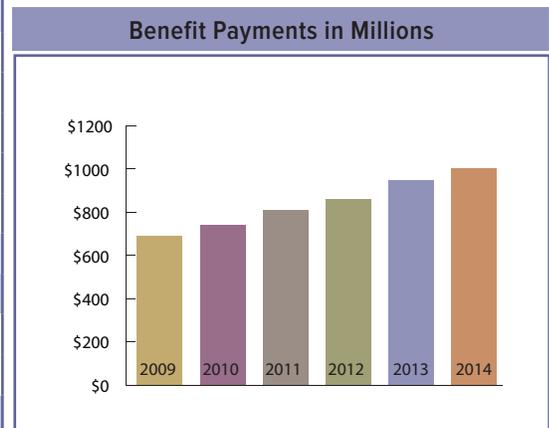


The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is composed of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation in the fair value of investment securities (or mark-to-market changes).

Net investment income in 2014, 2013, and 2012 was most significantly affected by the unrealized gains/(losses) recognized in the domestic and international equities asset classes. The total return on TMRS' investment portfolio was 6.0%, 9.9%, and 10.1% in 2014, 2013 and 2012, respectively. Investment earnings in 2014 enabled the Board to credit approximately 5.7% to municipality accounts

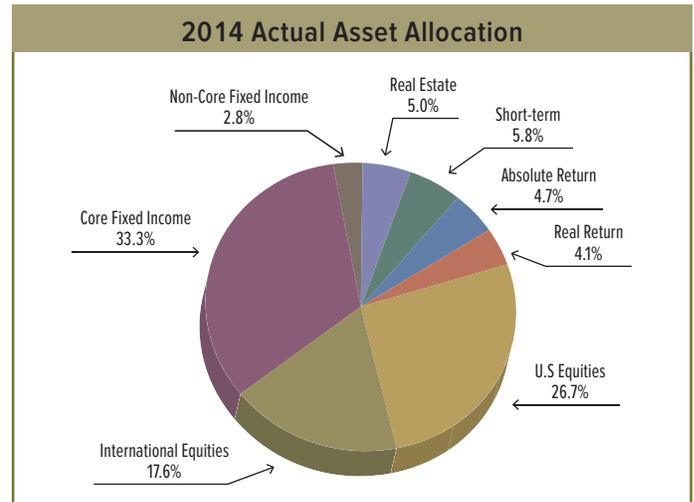
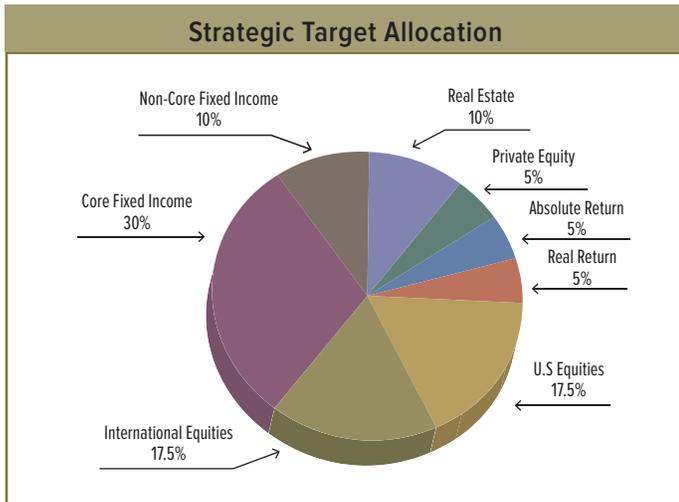
while maintaining a reserve of \$100 million; member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retirement accounts (from 46,902 in 2012 to 53,455 in 2014).

Summary Comparative Statements of Changes in Fiduciary Net Position For the Years Ended December 31, 2014, 2013, and 2012			
	2014	2013	2012
ADDITIONS			
Contributions and other	\$ 1,075,347,736	\$ 1,021,394,107	\$ 992,229,434
Net investment income	<u>1,285,344,179</u>	<u>1,974,888,477</u>	<u>1,863,280,541</u>
TOTAL ADDITIONS	2,360,691,915	2,996,282,584	2,855,509,975
DEDUCTIONS			
Benefit payments	1,028,572,120	946,496,522	864,937,039
Refunds of contributions	58,723,123	57,727,674	57,842,723
Allocation to Supplemental Death Benefits Fund	1,132,803	1,202,065	1,310,740
Administrative expenses	<u>13,419,567</u>	<u>12,821,721</u>	<u>12,114,375</u>
TOTAL DEDUCTIONS	1,101,847,613	1,018,247,982	936,204,877
CHANGE IN NET POSITION	1,258,844,302	1,978,034,602	1,919,305,098
NET POSITION			
BEGINNING OF YEAR	<u>22,468,633,624</u>	<u>20,490,599,022</u>	<u>18,571,293,924</u>
END OF YEAR	\$ 23,727,477,926	\$ 22,468,633,624	\$ 20,490,599,022



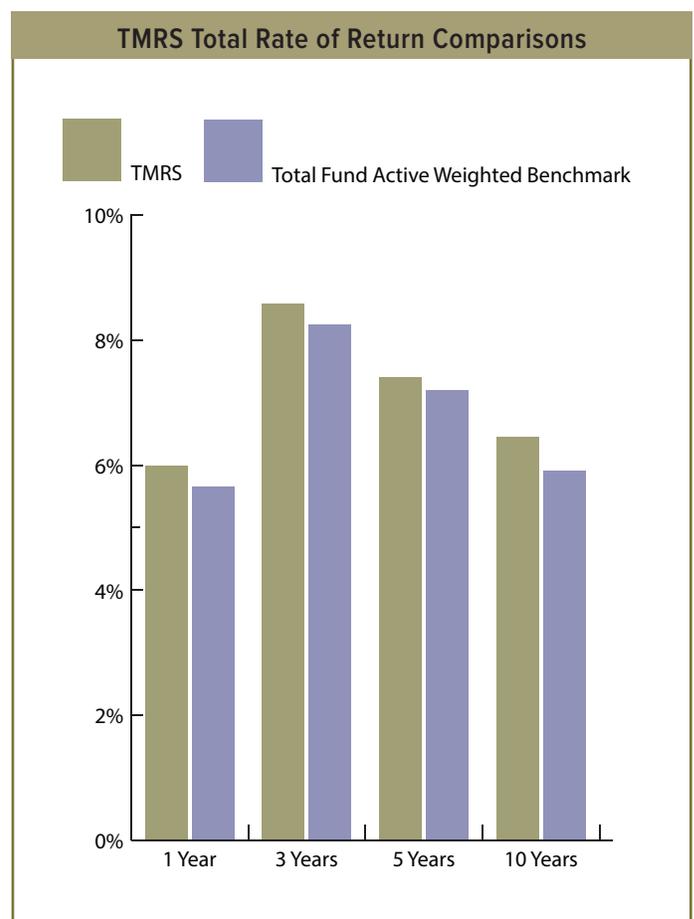
Investments

The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Fourteen 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 2014 toward this strategic target allocation included funding of non-core investments and absolute return assets (hedge funds), as well as continued investment in the real estate asset class.

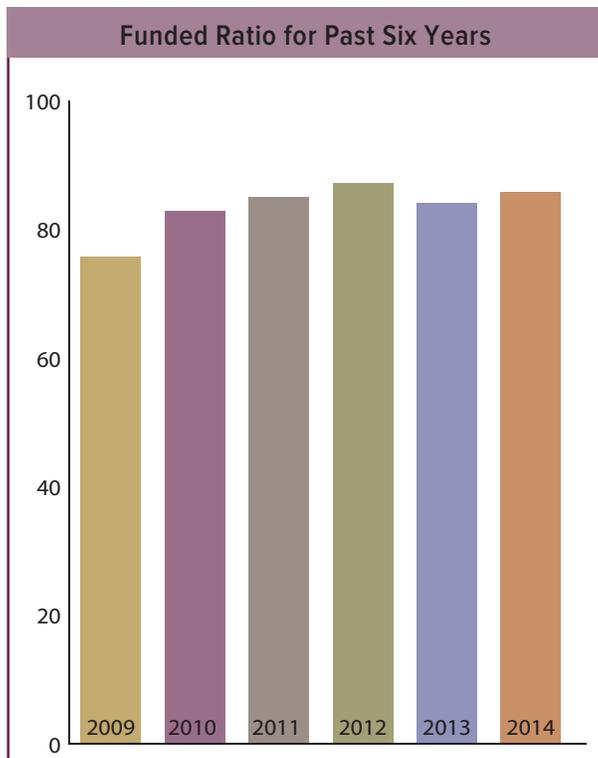
The total return on TMRS' investment portfolio was 6.0% in 2014. The table (right) compares TMRS' actual returns to the Total Fund Active Weighted Benchmark, which comprises all policy benchmarks associated with each asset class.



Reporting Standards

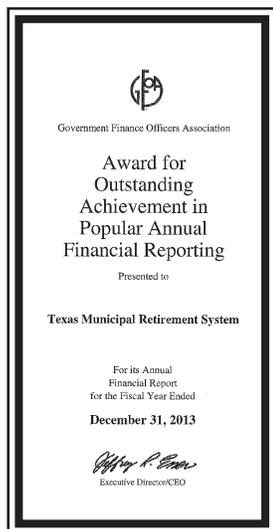
This Summary Annual Financial Report is derived from the *TMRS 2014 Comprehensive Annual Financial Report for the Years Ended December 31, 2014 and 2013 (CAFR)* but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR 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.

TMRS' Funded Status



- 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, 2014, TMRS as a whole was 85.8% funded; this funded ratio increased from 84.1% in 2013.
- 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 7% assumption. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques."

Awards



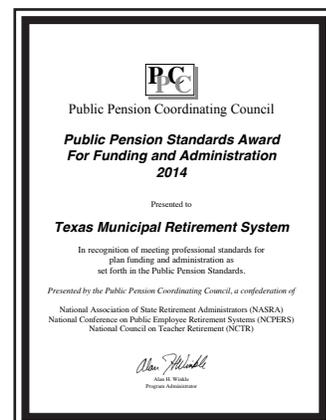
The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2013.

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 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 2014 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.

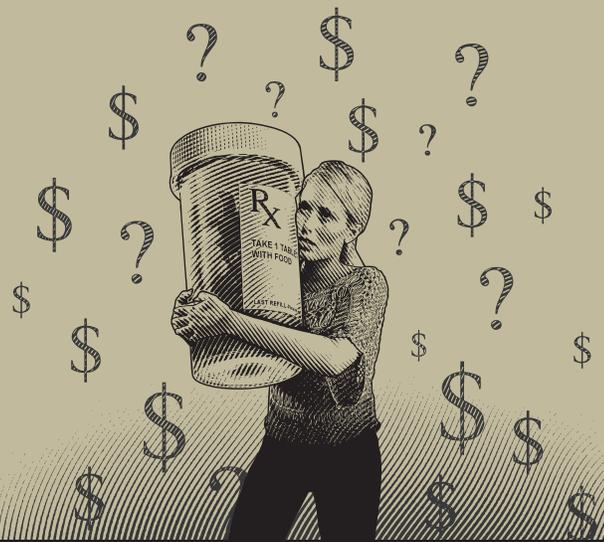
To Your Health

A Prescription for Savings

Many stores offer senior discounts or special savings programs for prescription drugs. These special deals may involve enrollment in an organization or savings club (they are “discount only” plans – not insurance). Here are a few examples of drug store savings programs that work well for those with limited or no prescription coverage:

- **CVS Pharmacy Health Savings Pass** (\$15 annually per person). This is not an insurance plan but is a prescription savings program (e.g., \$11.99 for 90 days of certain generic drugs). Also gives you 10% off MinuteClinic services inside select CVS stores.
- **Kmart Prescription Savings Club** (\$10 enrollment). Covers you and your family for certain generic drugs; also receive savings on non-preferred generics up to 65%, 20% savings on flu shots, and 10% savings on other immunizations.
- **Rite Aid Rx Savings Program** (no enrollment fee). Allows you to save 15% or more on brand name and generic drugs.
- **Target Prescription Savings Program** (\$10 annual enrollment) entitles all household members to savings of 10-50% off retail prescription medications. Card can be used at any Target pharmacy.
- **Walgreens Prescription Savings Club** (\$25 individual, \$35 family annual membership fee) gives reductions off the cash price of certain medications. If you don't save at least the cost of your membership fee in one year, Walgreens refunds the difference.

NOTE: TMRS does not endorse any particular stores or products; this list is not all-inclusive and information in this list is subject to change at any time. Contact your local store to find out their discount details.



Prescriptions Under Medicare Part D

Individuals on Medicare are eligible for prescription drug coverage under a Part D plan if they are signed up for benefits under Medicare Part A and/or Part B (hospital insurance and medical insurance, respectively). The Medicare prescription drug benefit (Part D) went into effect in 2006 and is intended to help subsidize the cost of prescription drugs and drug insurance premiums for Medicare beneficiaries.

If you join a Part D plan and use the plan's network pharmacies, you'll have access to discounted prices. Plans often negotiate lower prices with drug companies and pass those savings along to you. Each Part D drug plan has its own government-approved list of the drugs it covers, called a formulary or preferred-drug list. The formulary may vary from plan to plan, so before you choose a plan, you'll probably want to compare plan formularies to see which one best fits your needs.

Although your prescription drugs won't be free of charge, the cost will be significantly reduced. For each prescription, you'll pay a portion of the cost. Your plan will help you with some of the costs, but how much you pay and how much your plan pays will vary.

Source: www.medicare.gov

Same-sex Spouses and TMRS Benefits

In a decision on June 26, 2015, the United States Supreme Court gave same-sex couples the same marriage rights afforded to opposite-sex couples. TMRS adheres to all applicable federal and state laws; prior to the Supreme Court decision, TMRS had been in compliance with applicable Internal Revenue Service requirements regarding same-sex spouses. In addition, the TMRS Act allows a member to name any person, spouse or non-spouse, as a beneficiary. Following the Supreme Court decision, TMRS has updated our internal processes to recognize the spousal relationship of TMRS members in same-sex marriages. Current retirees will not be affected, as they have already chosen the beneficiary for their retirement benefit.

Texas Wildflowers – Perennial Favorites

Wildflowers embody the state’s hardy character and natural beauty, figuring prominently in Texas landscapes, photographs, and lore. Lady Bird Johnson was a strong proponent of preserving the natural landscapes of Texas, and her efforts led to the creation of the Lady Bird Johnson Wildflower Center, located in southwest Austin. The Wildflower Center’s mission is to conserve, restore, and create healthy landscapes (for more information: www.wildflower.org).

The extremely wet spring of 2015 led to a profusion of our native blooms. TMRS used the wildflower in our *Comprehensive Annual Financial Report (CAFR)* this year – they symbolize many things related to finance and to our System as a whole: growth, resilience, diversification. Like the wildflowers, TMRS endures through drought and rainy seasons and remains healthy year after year.

Take the Wildflower Quiz!

(Answers on next page.)

1



2



3



4



6



5



Answers: Here are the scientific and some of the popular names for these Texas wildflowers.
1. *Coreopsis tinctoria* (goldenwave, Plains coreopsis)
2. *Gallardia pulchella* (Indian blanket, firewheel)
3. *Lupinus texensis* (Texas bluebonnet, Texas lupine)
4. *Ratibida columnifera* (Mexican hat, coneflower)
5. *Helianthus annuus* (Sunflower, common sunflower)
6. *Oenothera speciosa* (pink evening primrose, buttercups)

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

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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

