Introductory

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Texas Municipal Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

December 31, 2014

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2015

Presented to

Texas Municipal Retirement System

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

June 15, 2016

To: The Participants and Employers of the Texas Municipal Retirement System
and the Readers of the *Comprehensive Annual Financial Report*

We are pleased to present the *Comprehensive Annual Financial Report* (CAFR) of the Texas Municipal Retirement System (TMRS®, or the System) for the year ended December 31, 2015. We hope you will find this report informative.

The CAFR is prepared by TMRS staff under the direction of the Board of Trustees. Management of TMRS assumes full responsibility for both the accuracy of the data and the completeness and fairness of its presentation, based on a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement. This report complies with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

The TMRS Act requires that independent auditors perform an annual audit on the financial statements contained in this report. The Board selected KPMG LLP to perform the audit for the 2015 fiscal year. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section. Management's Discussion and Analysis (MD&A) is found in the Financial Section immediately after the Independent Auditors' Report and provides an analysis of condensed financial information for the current and prior fiscal years. MD&A should be read in conjunction with this transmittal letter.

About TMRS

TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 to provide retirement, disability, and death benefits to employees of participating cities. As a hybrid defined benefit plan, TMRS members contribute at a designated rate toward their own retirement benefit. At retirement, the member's account balance (including credited interest) plus employer matching contributions is used to calculate the member's retirement benefit. As of December 31, 2015, TMRS had 866 member cities, 157,601 employee accounts, and 56,481 retirement accounts. TMRS paid $1.1 billion in benefits in 2015, up from $1.0 billion in 2014.

Activity in 2015

With TMRS' member cities beginning their implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB 68), KPMG LLP was engaged to complete TMRS' first SOC-1 Type 2 audit in 2015. TMRS recently completed its second annual SOC-1 Type 2 audit, covering the period of April 16, 2015 through April 30, 2016. Throughout 2015, TMRS sent reminder emails to member cities and provided them with resources to assist with implementation of

GASB 68, including the GASB Employer Reporting Guide and city-specific GASB Employer Reporting Packages, both made available on TMRS' website. The confidential documents required for GASB 68 financial reporting are posted on a secure, password-protected City Portal.

In March 2016, the TMRS Board approved an approximate 0.06% interest credit to city accounts as of December 31, 2015, based on account balances as of January 1, 2015; member accounts were credited with 5%. The System's smoothing policy and deferred gains from prior years resulted in an actuarial return of 6.69%.

TMRS made significant progress in implementing ***TMRSDirect***™, a multi-year project to provide straight-through processing for member transactions in MyTMRS® (a tool that provides secure online access to personal data) and city administrative functions in the City Portal (an application that provides secure online access to member and city data). Cities can now enroll members online without a paper form. City administrators enrolled more than 1,800 members electronically by the end of 2015. Members registered for MyTMRS can now make address changes and access account information. Over 114,000 TMRS members and retirees have registered for MyTMRS accounts, and more than 622 cities are using the City Portal for plan administration. When the ***TMRSDirect*** project is completed, cities will be able to process retirements and verify refunds, while members will be able to update their beneficiaries and apply for refunds and retirements via a secure online interface.

A strong demand for member and retirement services continues. Seven new cities joined the System in 2015. Staff answered over 101,100 member requests for assistance and processed 3,302 new retirements in 2015.

The number of cities using the City Portal and the number of members using MyTMRS expanded during 2015. This led to increased retirement estimate requests: estimates requested via MyTMRS grew to over 140,000, and those requested through the City Portal totaled approximately 5,050. By comparison, estimates requested from member services representatives totaled over 22,500.

Staff provided a high level of support to cities in examining contribution rates and plan change requests. In support of this function and member education, the Travel Team made 284 trips to cities, visited with approximately 25,000 members, answered 7,533 emails, and provided individual counseling for 1,730 TMRS members. For group training sessions, the Communications department prepared and presented 13 Regional Pre-Retirement Seminars, four City Correspondent Certification Courses, and an Annual Training Seminar in 2015.

Investments

TMRS administered $24.3 billion in assets as of December 31, 2015. The Investments Department at TMRS follows these Total Portfolio Performance Objectives:

- Achieve a Total Rate of Return, over rolling five-year periods, consistent with the assumed long-term rate of return on TMRS assets established by the actuary (currently 6.75%)
- Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e., Policy Index)

After a detailed Asset Allocation review during 2015, TMRS adopted a new, more diversified asset allocation strategy. Diversification has been, and continues to be, implemented through a deliberate multi-year process. The updated asset allocation strategy is expected to meet the new, lower, long-term total return objective of 6.75%, consistent with the actuarial interest rate assumption for the plan. The rate was previously 7%. This lower return target reflects both the current investment return environment as well as a more conservative investment allocation.

As described in the Investment Section of this CAFR, the overall one-year gross rate of return for 2015 on the investment portfolio was 0.34%. The Investment Section of this CAFR contains a detailed summary of investment operations during 2015, including performance of different asset classes and diversification progress.

Funding and Actuarial Overview

As required by statute, TMRS obtains an annual actuarial valuation for each participating municipality, with results for the System as a whole presented in the Actuarial Section of this CAFR. Following the completion of the annual actuarial valuation, TMRS provides a Rate Letter to each participating municipality, reconciling the city's rate from the prior valuation to the current valuation and explaining the components of the reconciling items. TMRS makes these Rate Letters available on our website.

The TMRS Board of Trustees has been working with the actuarial firm of Gabriel, Roeder, Smith & Company (GRS) since June 2008, and GRS completed its eighth actuarial valuation for the System for the fiscal year ended December 31, 2015. As certified by GRS, the calculations for funding are prepared in accordance with Actuarial Standards of Practice, GASB principles, and state law. Each city has its own retirement program within the options offered by the plan. Each city's plan objective is to accumulate sufficient assets to pay benefits when they become due and to finance its long-term benefits through a contribution rate that is annually determined by the consulting actuary.

A member city's retirement contribution rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated to the year immediately following the valuation date; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits if adopted by a city — such as Updated Service Credit (USC) and COLAs — as well as future increases in salary.

TMRS generally performs an actuarial experience investigation study once every four years. These experience studies are conducted in accordance with generally accepted actuarial principles and practices and in compliance with Actuarial Standards of Practice issued by the Actuarial Standards Board. The actuarial assumptions used in the annual actuarial valuations reviewed as part of the experience study are generally grouped into two major categories:

1. Economic assumptions — including investment return, individual salary increases, overall payroll growth, inflation, etc.
2. Demographic assumptions — including rates of termination, forfeiture, service retirement, disability retirement, mortality, etc.

During 2015, TMRS' consulting actuary, GRS, conducted a four-year experience investigation study for the period ending December 31, 2014. This experience study included a full scale review by the actuaries of all actuarial assumptions — economic and demographic. A single set of assumptions is typically not expected to be suitable forever. As the actual experience of a plan unfolds or the future expectations change, the assumptions should be reviewed and adjusted accordingly. The Board considered recommendations on assumptions and adopted several assumption changes, including a reduction of the inflation assumption from 3.00% to 2.50% and the investment return assumption from 7.00% to 6.75%.

Also during 2015, in accordance with Board policy, an actuarial audit of the work performed by the System's consulting actuary, GRS, was completed. Specifically, the audit scope included a limited-replication of the December 31, 2014 actuarial valuation results and 2015 experience study. There were no major findings.

Conservative features of TMRS' plan include the 6.75% investment return assumption, and that each city's unfunded liability is amortized over a closed period of 25 or 30 years. As of December 31, 2015, TMRS as a whole was 85.8% funded; this funded ratio remains unchanged from 2014. Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress, included in the Actuarial Section of this CAFR. TMRS has adopted an Actuarial Funding Policy, which is posted on the TMRS website.

Professional Services

The Board of Trustees appoints consultants to perform services that are essential to the effective and efficient operation of TMRS. The Supplemental Schedules of the Financial Section contain information on professional services.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TMRS for its Comprehensive Annual Financial Report for the Year Ended December 31, 2014. This was the 28th consecutive year that TMRS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. TMRS believes that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and is submitting it to the GFOA to determine its eligibility for another certificate.

TMRS also received the Public Pension Standards 2015 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.

This CAFR is made available to all participating TMRS cities; their combined cooperation contributes significantly to the success of TMRS.

We would like to express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report and to the continued success of the System.

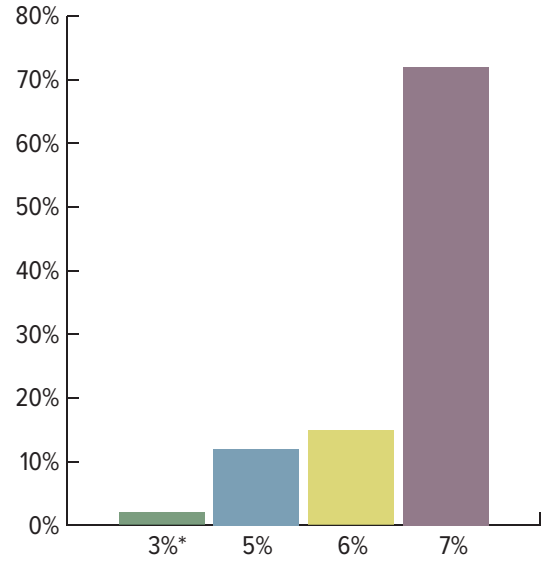
Respectfully submitted,

Julie Oakley	David Gavia	Rhonda H. Covarrubias
Chair, Board of Trustees	Executive Director	Director of Finance

	2013	2014	2015
Employer Contributions	$681.5 mil	$719.9 mil	$751.7 mil
Employee Contributions	$339.9 mil	$355.4 mil	$376.1 mil
Retirement Benefits	$946.5 mil	$1.0 bil	$1.1 bil
Terminated Member Refunds	$57.7 mil	$58.7 mil	$57.0 mil
Administrative Expenses	$12.8 mil	$13.4 mil	$21.3 mil
Investment Expenses*	$16.0 mil	$21.2 mil	$36.8 mil
Member Municipalities	850	860	866
New Member Municipalities	2	10	7
Retired Members	49,969	53,455	56,481
Active Plan Members	102,870	104,019	106,894
Inactive Plan Members	42,578	45,054	50,707
New Retirements	3,317	3,675	3,302
New Employee Members	11,093	14,457	15,476
Refunded Members	7,459	7,735	7,145
Investments, at Fair Value	$23.9 bil	$23.9 bil	$24.3 bil
Annual Total Return, Gross	9.86%	5.99%	0.34%
Interest Rate on Employee Deposits	5.0%	5.0%	5.0%
Interest Rate on Municipality Deposits	9.70%	5.68%	0.06%
Cities that:			
Adopted Updated Service Credit (USC)	597	598	595
Reduced percentage or rescinded USC	-	-	2
Adopted Annuity Increases to Retirees (AI)	475	475	471
Reduced or Rescinded AI	4	2	3
Increased Employee Contribution Rate	11	9	13
Increased City Matching Ratio	17	13	17
Reduced City Matching Ratio	-	-	-
Adopted Supplemental Death Benefits	1	-	-
Rescinded Supplemental Death Benefits	-	-	1
Adopted 5-Year Vesting	1	2	1
Adopted 20-Year, Any Age Retirement	11	6	4

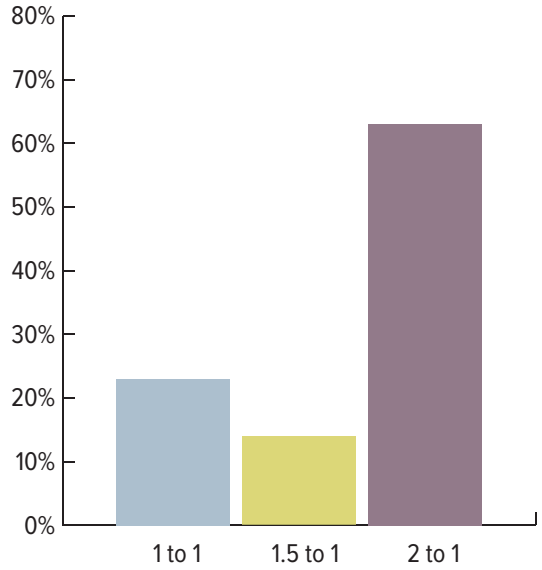
* Investment expenses do not include management and incentive fees that are paid directly out of the operations of the private investment funds.

2015 Distribution of Membership
by Contribution Rate (Employee Deposit Rate)



* This rate is no longer allowed for new cities

2015 Distribution of Membership
by City Matching Rate



TMRS Board of Trustees

Julie Oakley, CPA, 2015 Chair
Director of Finance
Lakeway
Term expires: February 1, 2019

David Landis
City Manager
Perryton
Term expires: February 1, 2021

Jim Parrish, 2015 Vice Chair
Deputy City Manager – Administrative Services
Plano
Term expires: February 1, 2017

Bill Philibert
Human Resources Director
Deer Park
Term expires: February 1, 2019

James "Jim" Paul Jeffers
City Manager
Nacogdoches
Term expires: February 1, 2021

Roel "Roy" Rodriguez, PE
City Manager
McAllen
Term expires: February 1, 2017

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. Three Trustees are "Executive Trustees" (Landis, Philibert, and Rodriguez) who are the chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three Trustees are "Employee Trustees" (Jeffers, Oakley, and Parrish) who are employees of a participating municipality. Per the Texas Constitution, Trustees continue to perform the duties of their office until a successor has been duly qualified.

TMRS Executive Director

David Gavia

The TMRS 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.

The Advisory Committee is a 19-member body composed of nine "Individual Representatives" representing TMRS members, retirees, and elected officials; and ten members representing associations and groups with an interest in the TMRS program, called "Group Representatives." Group Representatives are chosen by their respective associations and approved by the Board. The following members were on the Committee as of December 31, 2015.

Individual Representatives

- Michael Dane, Assistant City Manager/Chief Financial Officer, San Angelo
- Dean Frigo, TMRS Retiree
- Victor Hernandez, City Councilmember, Lubbock
- Bryan Langley, Assistant City Manager/Chief Financial Officer, Denton
- Julie Masters, Mayor, Dickinson
- Charles Windwehen, TMRS Retiree

Note: Three individual representative positions were vacant as of December 31, 2015.

Group Representatives

- Alex Cramer, Arlington Professional Fire Fighters
- Jerry Gonzalez, Service Employees International Union, San Antonio
- Vacant, Texas State Association of Fire Fighters
- Tadd Phillips, Texas Municipal Human Resources Association
- David Russell, Texas Municipal Police Association
- Keith Dagen, Government Finance Officers Association of Texas
- Greg Shipley, Combined Law Enforcement Associations of Texas
- Lori Steward, City of San Antonio
- Greg Vick, Texas City Management Association
- J.J. Rocha, Texas Municipal League

TMRS Professional Advisors

Actuary
Gabriel, Roeder, Smith & Company

Custodian
State Street Bank and Trust Company

Securities Lending Agent
Deutsche Bank AG

Depository Bank
JPMorgan Chase Bank

Economic Advisor
A. Gary Shilling & Co.

Fiduciary Counsel
Robert D. Klausner

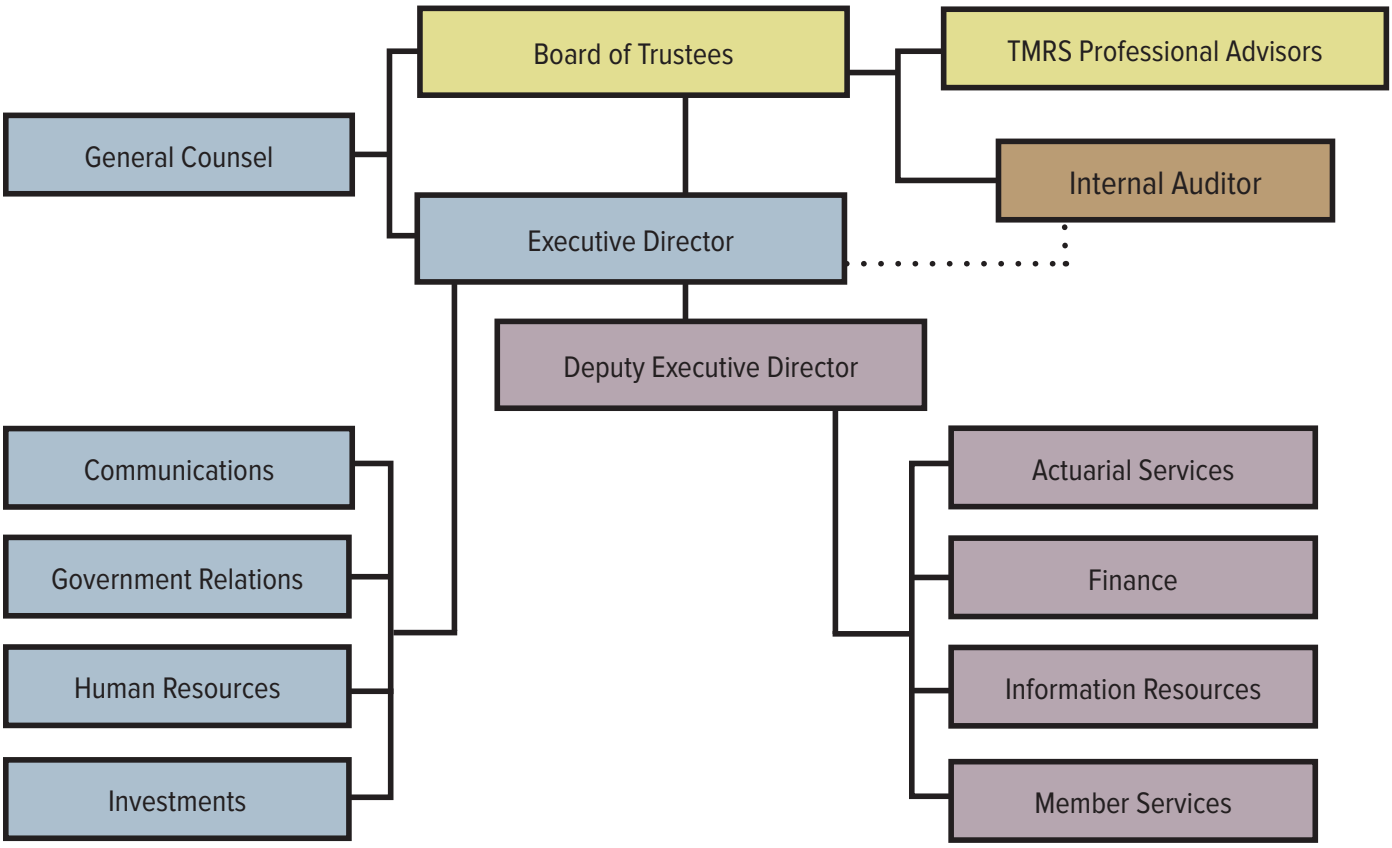
Independent Auditor
KPMG LLP

Investment Consultants
RVK
Courtland Partners Ltd.
Albourne America LLC
StepStone Group LP

Medical Board
Marvin Cressman, MD
John A. Genung, MD
William E. McCarron, MD

Note:
A schedule of investment management fees, by asset class, is provided in the Investment Section of this report.

TMRS Administrative Organization



Executive/Administrative
David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Leslee Hardy, Director of Actuarial Services
Kristie O'Hara, Director of Human Resources
Sandra Vice, Director of Internal Audit
Dan Wattles, Director of Governmental Relations
Bruce Boatright, Facilities Technician
Ariel Chou, Actuarial Analyst
Karen Jackson, Executive Assistant
Jesse Pittman, Senior Project Manager
LaShelle Ruiz, Administrative Assistant
Adrianne Strong, Human Resources Generalist
Stacy White, Administrative Assistant

Communications
Bill Wallace, Director of Communications
Angela Deats, Communications Analyst
Donna Neal, Communications Technology Design Specialist
Melanie Thomas, Process & Content Management Specialist

Travel Team/City Services
Colin Davidson, Regional Manager, City Services
Shannon Lucero, Regional Manager, City Services
Anthony Mills, Senior Regional Manager, City Services
Lorraine Moreno, Regional Manager, City Services
David Rodriguez, Senior Regional Manager, City Services
Sean Thompson, Regional Manager, City Services

Finance
Rhonda Covarrubias, Director of Finance
Josette Madry, Accounting Operations Supervisor
Candace Nolte, Assistant Finance Director
Nadia Ali, Accounting Specialist
Sherry Chapman, Investment Accountant
Paula Nguyen, Investment Accountant
Danielle Whitaker, Accountant

Information Resources
Scott Willrich, Director of Information Resources

Software Development
Pete Krnavek, Manager of Information Systems
Martin Burke, Business Process Analyst
Ming Cheung, Senior Software Developer
Blanca DaCosta-Cruz, Quality Assurance Analyst
David Himawan, Database Administrator/Developer
Monica Kache, Systems Analyst for Financial Applications
Steve Li, Database Administrator/Developer
Steven Lohmeyer, Senior Software Developer
Gretchen Meyer, Senior Systems Analyst
Tin-Sze Poon, Senior Software Developer
Kevin Wang, Senior Software Architect

Network Operations
Brian Farrar, Network Operations Manager
Chris Gillis, Computer Support Specialist
Bryan Meche, Network/Systems Administrator
Nick Pappada, Network/Systems Administrator
Joseph Roberts, Network/Systems Administrator

Records
Ricardo Zavala, Records Supervisor
Chyrlynne Crockett, Records Technician
Emersun Frechette, Records Technician
Brittany Royal, Records Technician

Investments
T.J. Carlson, Chief Investment Officer
Marc Leavitt, Director of Absolute Return
Tom Masthay, Director of Real Assets
Kristin Qualls, Director of Equities
Chris Schelling, Director of Private Equity
Dimitry Shishkoff, Director of Risk Management
Jason Weiner, Director of Fixed Income
Rachel Cleak, Investment Analyst
Martha deLivron, Investment Analyst
Debbie Farahmandi, Administrative Assistant
Germán Gaymer, Investment Analyst
Melissa Jerkins, Quantitative Analyst
Carol Leung, Investment Analyst II
Cindy Morse, Investment Support Analyst
Kate Reed, Compliance Officer
Eddie Schultz, Investment Analyst II
Chris Tindell, Investment Analyst

Legal
Christine Sweeney, General Counsel
Madison Jechow, Assistant General Counsel
Michelle Mellon-Werch, Associate General Counsel
Nicholas O'Keefe, Senior Staff Attorney
Michael Schaff, Assistant General Counsel
Tish Root, Legal Assistant

Member Services
Debbie Muñoz, Director of Member Services
Chad Nichols, Member Services Manager
Vikki Vasquez, Member Services Manager
Jay Adams, Member Services Analyst II
Debbie Davila, Member Services Analyst II
Vanessa De La Cruz, Member Services Analyst I
David Eastwood, Member Services Analyst II
Natalie Garza, Member Services Analyst I
Ida Gomez, Member Services Analyst II
Rhonda Green, Member Services Analyst II
April Hernandez, Member Services Analyst II
Karin Hicks, Member Services Analyst II
Peter Jeske, Member Services Project Specialist
Patricia King, Administrative Aide
Maryann Malave-Jaini, Member Services Analyst II
Corinne Moreno, Member Services Analyst II
Pamela Morgan, Support Services Analyst
Richard Ramos, Member Services Analyst II
Jade Rangel, Member Services Analyst I
Shelley Ransom, Member Services Analyst II
Cris Rodriguez-Horn, Support Services Analyst
Amelia Sanchez, Member Services Analyst I
Anna Silva, Member Services Analyst I
Wade Slaton, Member Services Analyst II
Leslie Smith, Member Services Analyst II
Tricia Solis, Support Services Analyst
Caroline Touchet, Member Services Analyst II

Purpose

The Texas Municipal Retirement System (TMRS, or the System) is an entity created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code, as a retirement system for municipal employees in the State of Texas. TMRS is a public trust fund governed by a Board of Trustees with a professional staff responsible for administering the System in accordance with the TMRS Act. The System bears a fiduciary obligation to its members and their beneficiaries.

Administration

The TMRS Act entrusts the administration of TMRS to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. Three trustees are Executive Trustees, who must be a chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three trustees are Employee Trustees, who must be employees of a participating municipality.

The TMRS Act requires regular Board meetings in March, June, September, and December of each year. The Board of Trustees employs actuarial, legal, medical, and other experts for the efficient administration of the System. The Board also forms committees to serve in an advisory role as needed.

The Board appoints an Executive Director to manage TMRS under its supervision and direction.

Membership

Cities choose to participate in TMRS. When a city joins TMRS, all of its eligible employees become members of the System. An employee in a position that normally requires at least 1,000 hours of work in a year, as determined by the city, is an eligible employee and is required to be a member of TMRS.

A person who leaves employment with all TMRS cities may withdraw all member deposits and interest from TMRS and cancel service credit with the System. A member may not refund his/her TMRS account unless there is a “bona fide” separation, and the employing city must certify that the employee has terminated employment.

Service Credit

TMRS members earn a month of service credit for each month they are employed in an eligible position by a participating TMRS city and make the required contribution to the System. Members may also receive Prior Service Credit for periods of city employment before the employing city joined TMRS. Because TMRS is a statewide retirement system, service credit may be a combination of service with several member cities. Service credit may also include Military Service Credit, credit for previously refunded TMRS service that has been purchased, and other types of service credit allowed under the TMRS Act.

A participating municipality can also grant, by ordinance, Restricted Prior Service Credit to an employee for service performed as a full-time paid employee of:

- Any public authority or agency created by the United States
- Any state or territory of the U.S.
- Any political subdivision of any state in the U.S.

- Any public agency or authority created by a state or territory of the U.S.
- A Texas institution of higher education, if employment was as a commissioned law enforcement officer serving as a college campus security employee

Restricted Prior Service Credit also can be granted for credit previously forfeited under one of the following systems:

- Texas Municipal Retirement System
- Teacher Retirement System of Texas
- Employees Retirement System of Texas
- Texas County and District Retirement System
- Judicial Retirement System of Texas
- City of Austin Employees Retirement System

This restricted credit may only be used to satisfy length-of-service requirements for vesting and retirement eligibility, and has no monetary value under TMRS.

Member Contributions

TMRS member cities designate, by ordinance, the rate of member contributions for their employees. This rate is 5%, 6%, or 7% of an employee's gross compensation. Three cities have a 3% rate, no longer available to cities under the TMRS Act. Compensation for retirement contribution purposes includes overtime pay, car allowances, uniform allowances, sick leave, vacation pay, and other payments if they are taxable.

All member contributions since 1984 are tax-deferred under the Internal Revenue Code, pursuant to Sections 401(a) and 414(h)(2). The member contribution rate may be increased by ordinance. However, the member contribution rate may only be reduced if the members in the city, by a 2/3 vote, consent to a reduction, and the city, by ordinance, provides for the reduction.

Interest is credited to member accounts annually on December 31 at a 5% rate, based on the balance in the account on January 1 of that year. In the year of retirement, interest will be prorated for the months of service in that year.

Vesting and Retirement Eligibility

TMRS members vest after either 5 or 10 years of service, based on their city's plan. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, apply for and receive a monthly retirement payment.

A member becomes eligible for service retirement based on various combinations of age and service, depending on which provisions have been adopted by the employing municipality, including:

- Age 60 with 5 years of service
- Age 60 with 10 years of service
- Any age with 20 years of service
- Any age with 25 years of service

Before a city adopts the 20-year, any-age provision, the System must prepare an actuarial study to determine the provision's effect on the city's contribution rate, and the city must conduct a public hearing on the adoption.

Effective January 1, 2002, TMRS law was changed to give cities the option to choose 5-year vesting. Cities that did not opt out of that vesting provision before December 31, 2001, automatically changed from 10-year to 5-year vesting. Cities that chose to retain 10-year vesting may change to 5-year vesting at any time.

City Contributions

Upon an employee's retirement, the employing city matches the accumulated employee contributions plus interest earned. Each city chooses a matching ratio: 1 to 1 (100%); 1.5 to 1 (150%); or 2 to 1 (200%). This match is funded with monthly contributions by the participating municipality at an annual, actuarially determined rate. A municipality may elect to increase or reduce its matching ratio effective January 1 of a calendar year.

Updated Service Credit

Member cities, at their option, may elect to adopt Updated Service Credit, either annually or on an annually repeating basis, effective January 1 of a calendar year. Updated Service Credit improves retirement benefits by using a member's average monthly salary over a recent three-year period to recalculate the member's retirement credit as if the member had always earned that salary and made deposits to the System, matched by the city, on the basis of that average monthly salary. Updated Service Credit also takes into account any changes in the city's TMRS plan provisions that have been adopted, such as an increase in the member contribution rate or the city's matching ratio. If there is a difference between the recalculated amount and the actual account balances, a percentage (50%, 75%, or 100%) of this difference is granted to the employee, funded by the participating municipality, as the Updated Service Credit. A member must have at least 36 months of service credit as of the study date in the adopting city before becoming eligible to receive this credit. Interest on Updated Service Credit is prorated in the year of retirement.

Retirement Payment Options

After applying for retirement, a TMRS member may choose one of seven optional monthly benefit payments. The member makes this choice before receipt of the first benefit payment, and the choice is irrevocable after the date the first payment becomes due. All options pay a monthly annuity for the life of the retiree. The options include:

- A benefit for the retiree's lifetime only ("Retiree Life Only" option)
- Three guaranteed-term benefits that pay a benefit for the lifetime of the member and to a beneficiary for the balance of 5, 10, or 15 years if the member dies before the term is reached ("Guaranteed Term" options)
- Three options that pay a lifetime benefit to the member and, upon the member's death, a survivor lifetime benefit equal to 50%, 75%, or 100% of the member's benefit ("Survivor Lifetime" options)

As a minimum benefit, TMRS guarantees that an amount equal to at least the member's contributions and interest will be returned, either through payment of a monthly benefit or through a lump-sum refund.

Each of the three survivor lifetime retirement options includes a "pop-up" feature. The "pop-up" feature provides that if the designated beneficiary dies before the retiree, the retiree's benefit will "pop up" to the Retiree Life Only amount. Retirees who marry or remarry after retirement and who meet specific conditions also have a one-time option to change from a Retiree Life Only benefit to one that provides a survivor benefit.

Members who are eligible for service retirement may choose to receive a Partial Lump Sum Distribution, a portion of the member's deposits and interest in cash, at the time of retirement. The Partial Lump Sum Distribution is equal to 12, 24, or 36 times the amount of the Retiree Life Only monthly benefit, but cannot exceed 75% of the member's deposits and interest. The remaining member deposits are combined with the city's funds to pay a lifetime benefit under the selected retirement option.

The Partial Lump Sum Distribution may be chosen with any of the retirement options and is paid in a lump sum with the first retirement payment. This amount may be subject to federal income tax and an additional 10% IRS tax penalty if not rolled over into a qualified plan.

Section 415(b) of the Internal Revenue Code limits the amount of an annual benefit that may be paid by a pension plan's trust to a retiree. This provision is known as the Section 415 limit, which is set by Congress and can be periodically adjusted by the IRS. Any portion of a retiree's annual benefit that exceeds the Section 415 limit cannot be paid from the TMRS trust fund. However, Internal Revenue Code Section 415(m) allows pension plans to create a separate fund, known as a qualified governmental excess benefit arrangement, to pay the benefits above the Section 415 limit. Accordingly, the TMRS Act established such an arrangement, which is referred to as the "Full Benefit Arrangement." Additional details are made available to affected retirees if they will reach the Section 415 limit in any given year.

Annuity Increases (COLAs)

A member city may elect to increase the annuities of its retirees (grant a cost-of-living adjustment, or COLA), either annually or on an annually repeating basis, effective January 1 of a calendar year. For cities that adopted annuity increases since January 1, 2000, the adjustment is either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – All Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December 13 months before the effective date of the increase, applied to the original monthly annuity.

Survivor Benefits

If a member dies before vesting, the member's designated beneficiary is eligible to receive a lump-sum refund of the member's deposits and interest. For a vested member, a beneficiary who is the member's spouse may select a monthly benefit payable immediately; withdraw the member's deposits and interest in a lump sum; or leave the member's deposits with TMRS, where they will earn interest until the date the member would have reached age 60, and then the beneficiary may receive a lifetime benefit. A beneficiary who is not the member's spouse may select a monthly benefit payable immediately or withdraw the member's deposits and interest in a lump sum.

Disability Retirement

All active TMRS cities have adopted an Occupational Disability Retirement benefit. If a member is judged by the TMRS Medical Board to be disabled to the extent that the member cannot perform his or her occupation,

and the disability is likely to be permanent, the member may retire with a lifetime benefit based on the total reserves as of the effective date of retirement. The Occupational Disability annuity will be reduced if the combined total of the Occupational Disability annuity and any wages earned exceeds the member's average monthly compensation for the highest 12 consecutive months during the three calendar years immediately before the year of retirement (indexed to the CPI-U). As the minimum disability benefit, the member's deposits and interest are guaranteed to be returned, either through payment of the monthly benefit, or upon termination of the annuity through a lump-sum refund.

Supplemental Death Benefits

Member cities may elect, by ordinance, to provide Supplemental Death Benefits for active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is $7,500. This benefit is paid in addition to any other TMRS benefits the beneficiary might be entitled to receive. If an individual has multiple retirements, his/her beneficiary will receive only one Supplemental Death Benefit; the last employing city with this provision pays the benefit.

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of his or her deposits and interest, the member forfeits all service credit. If the member is reemployed by a TMRS member city, and if the employing city adopts the buyback provision by ordinance, the member may repay the amount of the refund plus a 5% per year withdrawal charge, in a lump sum, to reinstate the previously forfeited credit. A member must have 24 consecutive months of service with the reemploying city, and must be an employee of that city on the date the buyback ordinance is adopted to be eligible to buy back service credit.

Military Service Credit

Members who leave employment with a TMRS city, serve in the military, and then return to city employment may establish credit for the time they spend in the military, up to 60 months. Members who meet the requirements of the federal Uniformed Services Employment and Reemployment Rights Act (USERRA) may make member contributions to TMRS as though they had been employed by the city for the period of their military service.

In cities that have adopted Military Service Credit, members who are not eligible for USERRA credit, or who choose not to make contributions, may establish service credit for up to 60 months of military time. A member must have five years of TMRS service credit to establish non-USERRA Military Service Credit.

Members with five years of TMRS service credit who were employed on December 31, 2003, by a city that had previously adopted Military Service Credit, may choose to purchase this credit at a cost of $15 per month of credit sought (purchase amount would increase the member's account balance), or may use the no-cost time-only provision. ■

This discussion is an informal presentation of the TMRS Act. If any specific questions of fact or law should arise, the statutes will govern.