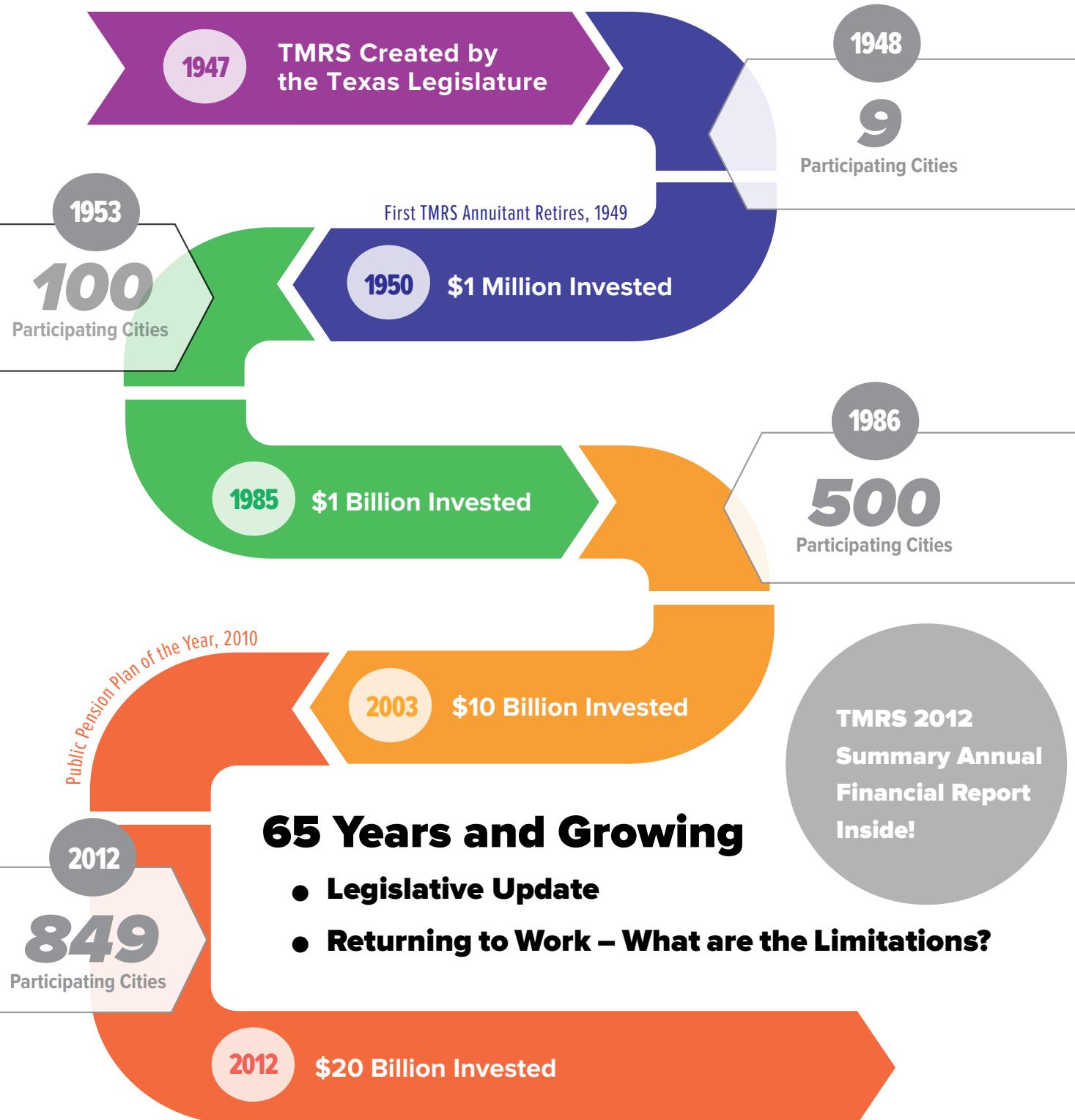


RetirementWise

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





Dedication

This issue of *RetirementWise* is dedicated to the memory of H. Frank Simpson, who passed away on April 27, 2013. He served on the TMRS Board for 10 years, from 2003 until his untimely death, and was the Board's Chair in 2006 and 2012. As an advocate for Texas cities, an outstanding public servant, and a staunch supporter of TMRS, Mr. Simpson will be greatly missed.

Frank Simpson's employment history with Texas cities epitomized a story of hard work, talent, and service. He began his career as a utilities worker for the City of College Station in 1986, and then progressed to serve as City Manager for the Cities of Center, Webster, and Missouri City before returning to College Station, first as an Assistant City Manager, then as City Manager in 2013.

TMRS is deeply grateful for Mr. Simpson's concern for municipal employees and retirees, his analytical mind, and his leadership during a time of many changes in the System, including the passage of HB 360 in 2009 and the passage of SB 350 in 2011. We extend our deepest condolences to his family.

Texas Municipal Retirement System Board of Trustees



Roel "Roy" Rodriguez, PE, Chair
Assistant City Manager /
MPU General Manager
McAllen



April Nixon
Chief Financial Officer
Arlington



Julie Oakley, CPA
Director of Finance
Horseshoe Bay



Jim Parrish, Vice Chair
Human Resources Director
Plano



Bill Philibert
Human Resources Director
Deer Park

Vacancy
The Board currently
has a vacancy due to the death of
H. Frank Simpson (see above).

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.

TMRS Board of Trustees Update

The Board of Trustees has experienced changes in the past six months. Governor Rick Perry appointed, and on March 27 the Texas Senate confirmed, TMRS' newest Board member, Bill Philibert of Deer Park, to replace outgoing Trustee Ben Gorzell of San Antonio. Also, tragically, TMRS lost a member of the Board, H. Frank Simpson of College Station, to a heart attack in April (see dedication above). Julie Oakley, 2013 Chair of the Board of Trustees, accepted employment with a non-TMRS city. At its meeting after Mr. Simpson's death, the Board voted to elect the sitting Vice Chair, Roel "Roy" Rodriguez, as the Chair for the rest of the 2013 calendar year; Jim Parrish of Plano was elected to the Vice Chair position.

From the Executive Director



Dear TMRS Retiree,

This issue of *RetirementWise* is dedicated to Board member H. Frank Simpson, who died suddenly in April of this year. The TMRS Board and staff continue to mourn the loss of a man who contributed so much to the System's well-being. A large part of our recent success is due to his efforts.

Our summer issue contains the 2012 TMRS Summary Annual Financial Report, which is sent to you annually in *RetirementWise*. The annual report is an overview of the System's finances and achievements as of December 31, 2012. In 2012, our total net pension position grew to \$20.5 billion, continuing a trend of steady growth in assets. Another significant gain was that our funded ratio increased to 87.2% for 2012, up from 85.1% for 2011.

This issue contains a summary of the recent legislative session, both the regular and the two special sessions of 2013. This past year, no changes were made to the law that governs TMRS.

If you have any questions about your retirement, please contact us. Our staff analysts can speak with you personally during regular business hours. In addition, our website offers lots of information and how-to's for retirees, including the online account access tool, MyTMRS.

Sincerely,

David Gavia
Executive Director

In This Issue

SPECIAL INSERT:
TMRS 2012 Summary Annual Financial Report
(after page 4)

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ISSN 1559-9833

This magazine is an informal presentation of information about TMRS and related issues. If any specific questions of fact or law should arise, the statutes will govern. For information about your own individual situation, please contact TMRS at 800.924.8677.

TMRS, MyTMRS, and the TMRS logo are registered trademarks of the Texas Municipal Retirement System.

RetirementWise is dedicated to the needs of 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.

ANNUAL FINANCIAL REPORT

Now presenting.... the 2012 Summary Annual Financial Report! This report is sent to all members and annuitants every year to brief you on the System's financial status. This report may be removed from the middle of *RetirementWise* and retained as a separate document. ■

No TMRS Bills Passed in Legislative Sessions

Before the 83rd Regular Legislative Session, the TMRS Board's Advisory Committee on Retirement Matters met five times to discuss potential legislation. The Committee studied a variety of proposed plan changes but ultimately declined to suggest any changes to the Board of Trustees. The Board adopted a resolution expressing its support for the TMRS plan design and encouraging the Legislature not to pursue any changes during the session that would negatively impact TMRS.

Even so, legislators filed a number of bills that proposed changes specific to TMRS, but none of these bills passed. Other bills were filed that addressed such topics as confidentiality and transparency for all pension systems in Texas, and some of these bills passed. The protection of member and retiree personal information was not affected. Status of bills considered by the Legislature is provided on the Legislative page of the TMRS website.

The 83rd Regular Session came to an end on May 27, 2013. That same day, the Governor called a Special Session to take up legislation concerning redistricting. During the Special Session, he added several other topics, but nothing that would make changes to the statewide retirement systems, including TMRS. The Governor then called a second Special Session, slated to end July 30. At press time, none of the topics considered in the special sessions affected TMRS.

If you have suggestions that would enhance our plan, feel free to contact Dan Wattles, Director of Governmental Relations, at dwattles@tmrs.com. ■

2013 Advisory Committee Members

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
Michael Dane, San Angelo, Assistant City Manager / CFO
Dean Frigo, Amarillo, TMRS Retiree
Victor Hernandez, Lubbock, City Councilmember
Randle Meadows, Arlington Police Association President
Neil Resnik, Addison, City Councilmember
Charles Windwehen, TMRS Retiree

Group Class Representatives

Joe Angelo, City of San Antonio
David Crow, Arlington Professional Fire Fighters
Jerry Gonzalez, Service Employees International Union, San Antonio
Scott Kerr, Texas State Association of Fire Fighters
Kevin Lawrence, Texas Municipal Police Association
Debbie Maynor, Texas Municipal Human Resources Association
Mike Perez, Texas City Management Association
Bob Scott, Government Finance Officers Association of Texas
Gregg Shipley, Combined Law Enforcement Associations of Texas
Monty Wynn, Texas Municipal League ■

TMRS 2012

Summary Annual Financial Report

For the Year Ended December 31, 2012



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 2012

- 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, 2012, TMRS had committed \$650 million to private real estate funds, of which \$312.5 million was funded as of year-end. In addition, TMRS added active strategies in the domestic and foreign equities asset classes, hiring two new external equity fund managers.
- The overall one-year rate of return on the investment portfolio was 10.11%, with domestic and international equities the best performing asset classes, earning 16.33% and 17.23%, respectively, while the return on fixed income was 4.94%.
- Member municipalities received a 9.95% interest credit on their January 1, 2012, Benefit Accumulation Fund balances.
- As of December 31, 2012, TMRS as a whole was 87.2% funded. This funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- TMRS staff answered over 101,000 member requests for assistance and processed 2,995 new retirements in 2012.
- Two new cities joined the System in 2012. At year-end 2012, TMRS administered plans for 849 member cities that included:
 - 142,883 employee accounts
 - 42,931 retired members

TMRS Board of Trustees (as of December 31, 2012)

Contact Us
800.924.8677
phonecenter@tmrs.com
www.tmrs.com

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.

This Summary Annual Financial Report is dedicated to TMRS Board Member H. Frank Simpson, who passed away in April 2013.

H. Frank Simpson, 2012 Chair
City Manager, College Station

April Nixon
Chief Financial Officer, Arlington

Julie Oakley, CPA, 2012 Vice Chair
Director of Finance, Lakeway

Jim Parrish
Human Resources Director, Plano

Ben Gorzell
Chief Financial Officer, San Antonio

Roel "Roy" Rodriguez, PE
Assistant City Manager / MPU General Manager, McAllen

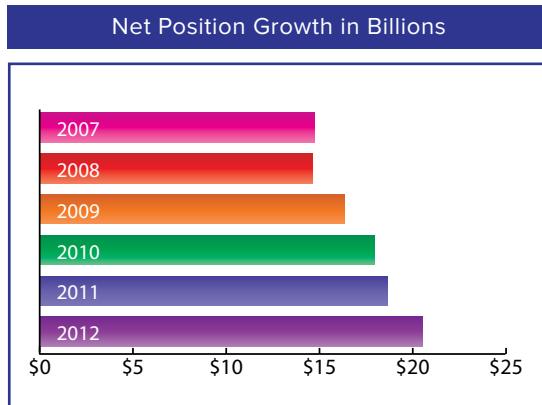
Financial Information

The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net position) at both year-end 2012 and 2011. 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 in net appreciation from year-end 2011 to 2012. As a result of our participation in a securities lending program, we are required to report both the asset and related liability of the collateral received for securities on loan at year end. At December 31, 2012 and 2011, the cost basis of the collateral exceeded its market values, and therefore an unrealized loss on the collateral pool of \$6.1 million and \$15.4 million, respectively, is reflected in the Statements of Plan Net Position. The reduction in the securities lending

collateral asset and liability from 2011 to 2012 reflects a significant decline in securities lending activity in anticipation of the transfer of the program from State Street Bank to Deutsche Bank, effective January 1, 2013.

Summary Comparative Statements of Plan Net Position As of December 31, 2012 and 2011		
	2012	2011
ASSETS		
Investments, at fair value	\$ 20,627,559,696	\$ 18,464,825,574
Receivables and other	1,808,700,141	1,666,432,835
Invested securities lending collateral	147,077,460	1,688,567,121
Capital assets, net	<u>9,049,918</u>	<u>9,261,818</u>
TOTAL ASSETS	22,592,387,215	21,829,087,348
LIABILITIES		
Payables and accrued liabilities	1,923,350,813	1,526,807,921
Funds held for Supplemental Death Benefits Fund	25,249,880	27,026,910
Securities lending collateral	<u>153,187,500</u>	<u>1,703,958,593</u>
TOTAL LIABILITIES	2,101,788,193	3,257,793,424
NET POSITION	\$ 20,490,599,022	\$ 18,571,293,924

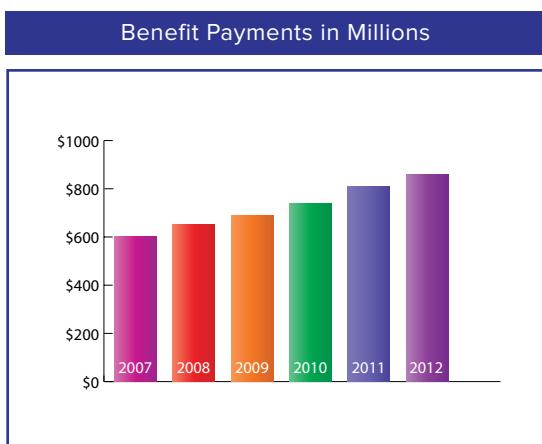


The second summary statement (below) reports activity for the year (changes in net position). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been 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 earned in 2012 reflects a significant increase from 2011 earnings, primarily affected by the unrealized gains in the equities asset classes. The total return on TMRS' investment portfolio of 10.11% (compared with 2.41% in 2011), enabled

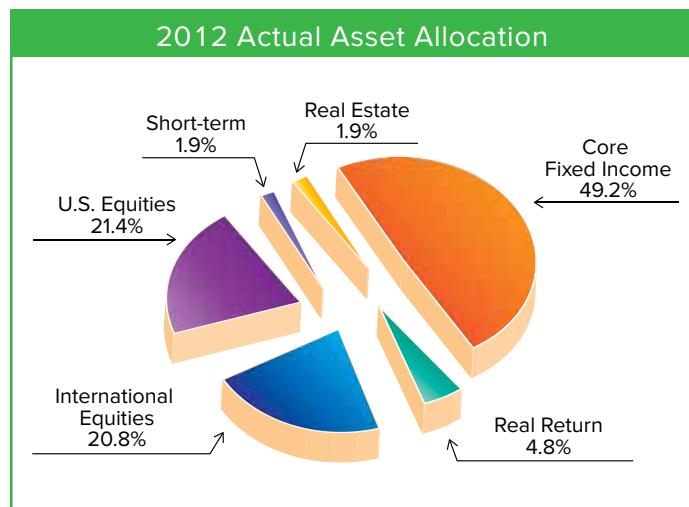
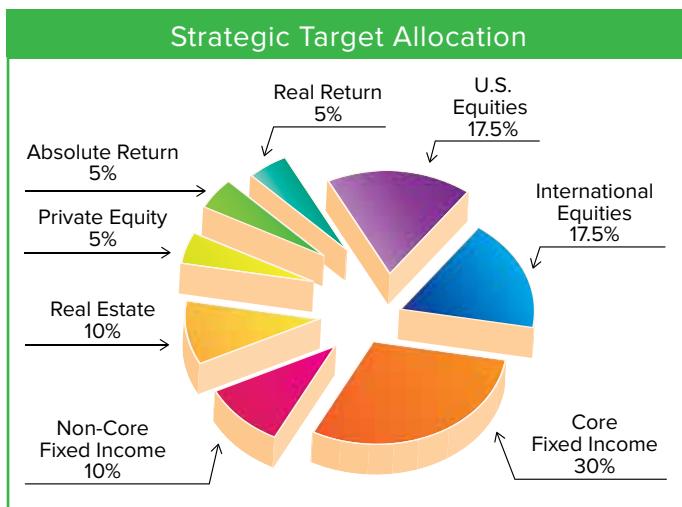
the Board to credit 9.95% to municipality accounts while member accounts received the statutory credit of 5%. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady rise in the number of retired members (from 40,534 in 2011 to 42,931 in 2012).

Summary Comparative Statements of Changes in Plan Net Position For the Years Ended December 31, 2012 and 2011		
	2012	2011
ADDITIONS		
Contributions and other	\$ 992,229,434	\$ 1,022,789,196
Net investment income	<u>1,863,280,541</u>	<u>434,765,653</u>
TOTAL ADDITIONS	2,855,509,975	1,457,554,849
DEDUCTIONS		
Benefit payments	864,937,039	810,317,265
Refunds of contributions	57,842,723	55,666,288
Allocation to Supplemental Death Benefits Fund	1,310,740	1,331,570
Administrative expenses and other	<u>12,114,375</u>	<u>11,439,672</u>
TOTAL DEDUCTIONS	936,204,877	878,754,795
CHANGE IN NET POSITION	1,919,305,098	578,800,054
NET POSITION		
BEGINNING OF YEAR	18,571,293,924	17,992,493,870
END OF YEAR	\$ 20,490,599,022	\$ 18,571,293,924



Investments

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.

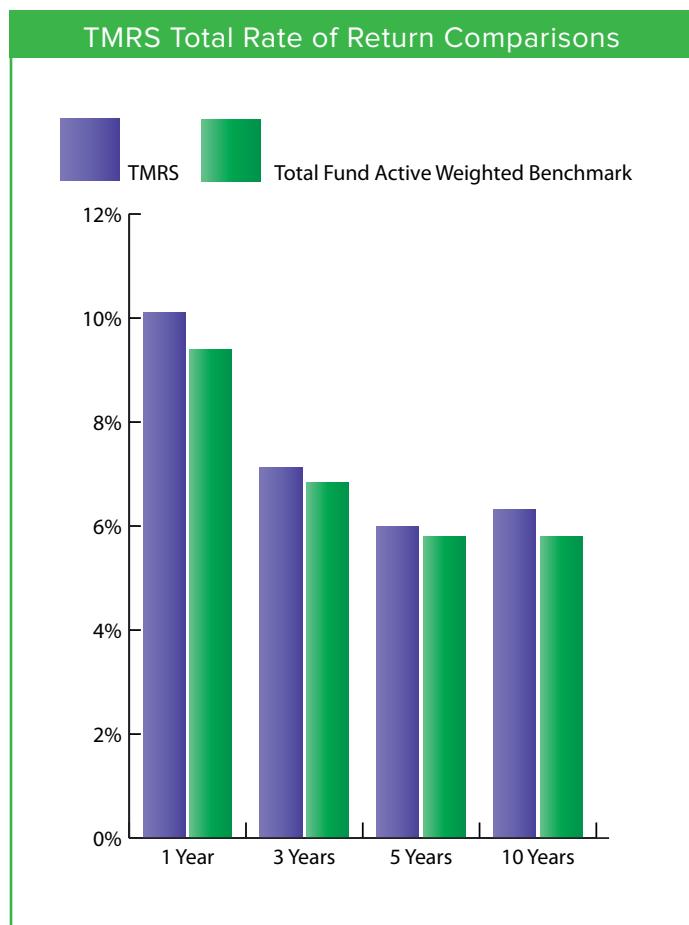


Initiatives during 2012 toward this strategic target allocation included continued investment in the real estate asset class, including private real estate funds and real estate securities.

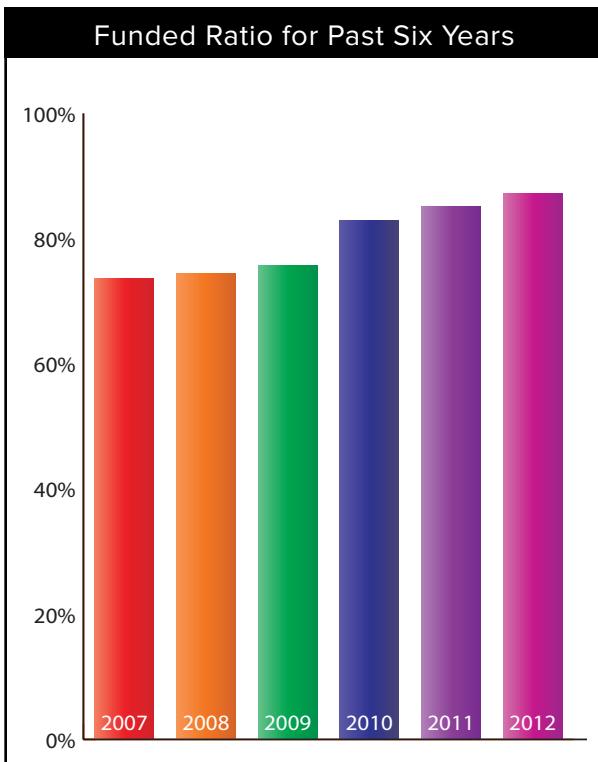
The total return on TMRS' investment portfolio was 10.11% in 2012. The following table compares TMRS' actual returns to policy benchmark returns.

Reporting Standards

This Summary Annual Financial Report is derived from the *TMRS 2012 Comprehensive Annual Financial Report for the Year Ended December 31, 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.

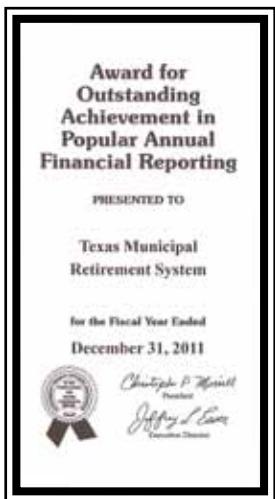


TMRS' Funded Status Continues to Improve



- Perhaps 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, 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, as of December 31, 2012, TMRS as a whole was 87.2% funded; this funded ratio increased from 85.1% in 2011 and from 82.9% in 2010.
- 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.

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, 2011.

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 2012 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.

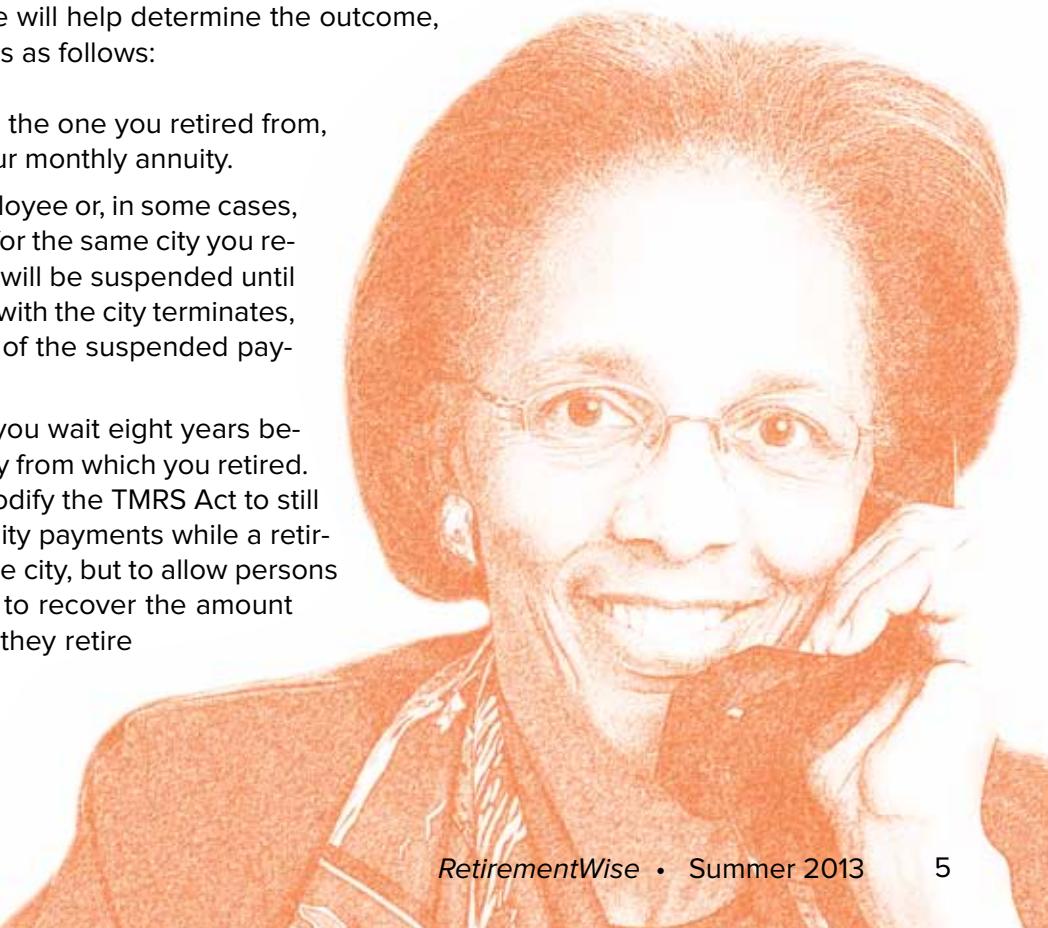
Return-to-Work Rules for TMRS Retirees

As an employee working for a TMRS city, you were an active participant in TMRS until your retirement. Here are some helpful definitions:

Bona Fide Separation. In general, when you left your position with the city and applied for retirement, the city was required to certify the termination, which had to be “bona fide” for both state and federal tax law purposes. Applicable law does not allow a distribution if there isn’t a bona fide termination. Generally, it would not be a bona fide termination if you separated from service and then later returned to work (either as an employee or an independent contractor) in any kind of pre-arranged manner.

Return to Work. Assuming you have a bona fide termination and retire, but want to return to work, then the TMRS “return to work” provisions will apply. Under the TMRS Act, the “return to work” benefit suspension provision depends on whether a retiree returns to employment with the same city from which he or she retired. If you retire from your position with the city and are later re-employed (either as an employee or, in certain cases, as an independent contractor) by any TMRS member city, in a position requiring at least 1,000 hours of duty per year, you will resume membership in TMRS and make required contributions as an active member. The facts of each case will help determine the outcome, but a general description of the rules is as follows:

- If the city is a different city than the one you retired from, you will continue to receive your monthly annuity.
- If you return to work (as an employee or, in some cases, as an independent contractor) for the same city you retired from, the monthly annuity will be suspended until such time as your employment with the city terminates, and you will forfeit the amount of the suspended payments.
- The only exception to this is if you wait eight years before going back to the same city from which you retired. In 2011, a law was passed to modify the TMRS Act to still require the suspension of annuity payments while a retiree is re-employed with the same city, but to allow persons with at least an eight-year gap to recover the amount of suspended payments when they retire again from the city. ■



To Your Health

Staying Hydrated

Summer is a hot, dry time, particularly in Texas! Dehydration occurs when your body does not have enough fluids to function properly. The risk of dehydration, or fluid imbalance, increases as you age because natural changes in your body alter the way your kidneys work. Also, some medical conditions and medications can increase dehydration. It may be brought on by severe diarrhea or vomiting, excessive sweating, not drinking enough during exercise, or high temperatures. Severe dehydration that goes untreated requires medical attention and can be deadly. However, if you stay alert to the symptoms, you can maintain a healthy fluid level in your body.

Symptoms of Moderate Dehydration

- Dry and or sticky feeling in the mouth / excessive thirst
- Feeling sleepy, lightheaded, dizzy, or weak
- Headache, not feeling interested in moving
- Confusion and irritability
- Urine that is dark, or little urine output
- Low blood pressure and rapid pulse

Symptoms of Severe Dehydration

Seek Immediate Medical Attention!

- Sunken eyes, skin loses elasticity
- Presence of fever, feeling delirious or faint
- No urination for more than 8 hours or having severe diarrhea for 3 days or more
- Acting disoriented or having unexplained seizures
- Lapsing into a coma or experiencing organ failure (symptoms of life-threatening dehydration)

Recommendations

- Always keep water handy, and drink whenever you're hungry or thirsty.
- Consume at least eight 8-ounce glasses of fluid a day.
- When you're sweating due to exercise or high temperatures, or if you're ill, increase your fluid intake by two more cups per day.
- If you're concerned about your fluid intake or have health issues, check with your doctor or a registered dietitian. ■

Sources: Mayo Clinic, Centers for Disease Control, and the Livestrong Foundation.

65 Years of Retirement Security

TMRS Growth in Recent Years

Year	2007	2008	2009	2010	2011	2012
Employee Accounts	134,885	139,488	141,983	141,372	141,532	142,883
New Employee Members	16,419	15,942	12,158	10,303	11,619	13,176
Retired Members	32,143	34,123	36,098	38,260	40,534	42,931
New Retirements	2,534	2,574	2,384	2,754	2,874	2,995
Payments to Retirees	\$596.2M	\$648.0M	\$685.7M	\$743.5M	\$810.3M	\$864.9M
Total Cities	827	833	837	842	847	849

Source: TMRS 2012 Comprehensive Annual Financial Report. Full report is available on the TMRS website.

TMRS Board Studies Mortality Tables

As part of its strategic plan, the TMRS Board has asked its consulting actuary to review the mortality tables used to calculate a member's retirement benefits. These tables were adopted in the early 1980's and have not been updated to reflect improvements in mortality; i.e., people living longer. **It is important to note that if any changes are made to these tables, there would be no effect on current retirees.** ■

Calendar

August

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

September

- 2 Holiday (Labor Day)
- 19-20 TMRS Board of Trustees Meeting • Austin
- 27 Annuity checks mailed
- 30 Direct Deposit of annuity payments

October

- 9 TMRS Board of Trustees Meeting • Austin
- 30 Annuity checks mailed
- 31 Direct Deposit of annuity payments

November

- 11 Holiday (Veteran's Day)
- 28-29 Holiday (Thanksgiving)
- 27 Annuity checks mailed
- 29 Direct Deposit of annuity payments

December

- 5-6 TMRS Board of Trustees Meeting • Austin
- 24-25 Holiday (Christmas Eve and Christmas Day)
- 30 Annuity checks mailed
- 31 Direct Deposit of annuity payments

RetirementWise

Texas Municipal Retirement System

P.O. Box 149153 • Austin, Texas 78714-9153

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