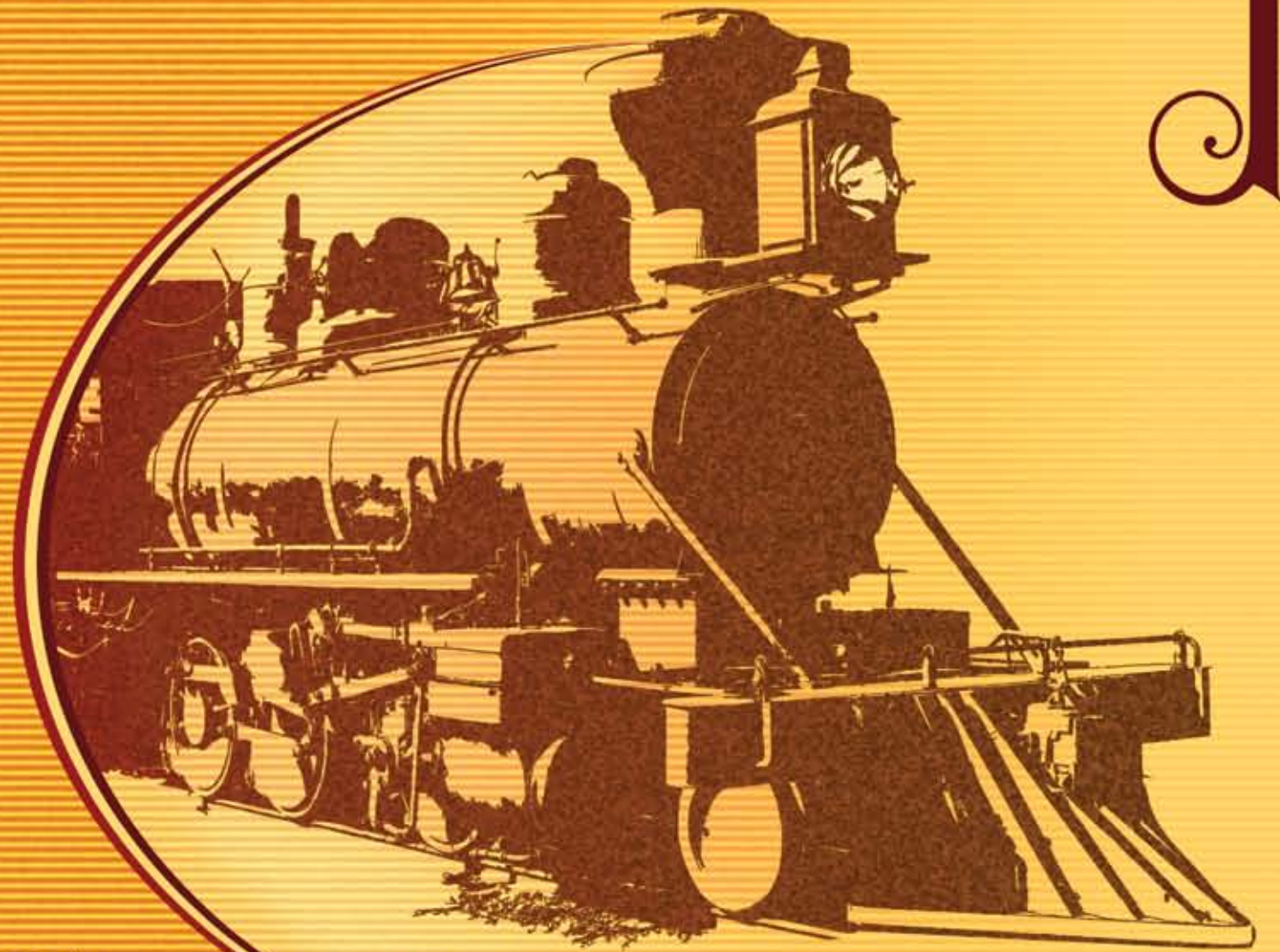




T M R STM
TEXAS MUNICIPAL RETIREMENT SYSTEM
PO Box 149153 • AUSTIN, TEXAS 78714-9153
512.476.7577 • TOLL-FREE 800.924.8677
WWW.TMRS.COM

TEXAS MUNICIPAL RETIREMENT SYSTEM ~ COMPREHENSIVE ANNUAL FINANCIAL REPORT ~ 2005



TEXAS MUNICIPAL RETIREMENT SYSTEM

2005

Comprehensive Annual Financial Report

For the Year Ended December 31, 2005

IN MANY WAYS, the history of Texas and its cities is written in rail lines. In 1836, the Texas Rail-Road, Navigation and Banking Company became the first rail business chartered in the new nation of Texas. It was not until 1841 that the first track grading was performed in the Republic by the Harrisburg Railroad and Trading Company, which provided the basis for the Buffalo Bayou, Brazos and Colorado Railway Company, the first railroad to operate in Texas. Growth of the new transportation system was slow and dependent on small companies with uncertain financing. Then, in the 1880s, Texas-chartered companies expanded and were acquired by outside interests, including the Southern Pacific; the Atchison, Topeka, and Santa Fe; and the Missouri Pacific, under the control of railroad magnate Jay Gould. The last independent Texas railroad, the Fort Worth and Denver, operated until 1982, when it merged with the Burlington Northern.

Growth and development of the rail lines became one of the most powerful influences on the state's development, with cities' fortunes tied to the routes and traffic of the rails. Early steam trains needed to make frequent "watering stops," and many Texas towns grew up along rail lines where this important service was provided. Quite often, towns were named for railroad personnel. Today Texas still has more miles of rail line than any other state, with railroads shipping enormous quantities of oil and chemical products, agricultural goods, and coal. The sight of a locomotive running alongside a Texas highway is one that many Texans treasure as part of the heritage of the state, and the rails continue to be commercial lifelines for many Texas cities.

The Texas Municipal Retirement System Comprehensive Annual Financial Report for the Year Ended December 31, 2005 is published by the Texas Municipal Retirement System, copyright 2006.

Texas Municipal Retirement System
TMRS®
P.O. Box 149153
Austin, TX 78714-9153
Phone 800.924.8677
Website: www.TMRS.com

TMRS and MyTMRS are registered trademarks of the Texas Municipal Retirement System. The TMRS logo is a trademark of the Texas Municipal Retirement System.

Acknowledgements

Photographs: Library of Congress, Prints & Photographs Division, reproduction numbers LC-USZ62-71699 (p. 24), LC-DIG-ppmsca-09855 (pp. 24-25), LC-USZC2-3451 (p. 104), LC-USZ62-78673 (p. 168), LC-USZC2-3757 (back cover), LC-USZC2-3323 (back cover).

Maps: Courtesy of Texas State Library and Archives Commission, Map #6277 (pp. 4-5), Map #7699 (pp. 24-25), Map #0404e (pp. 94-95), Map #0945 (pp. 104-105), Map #1032 (pp. 168-169).

TEXAS MUNICIPAL RETIREMENT SYSTEM

Comprehensive Annual Financial Report
For the Year Ended December 31, 2005



Prepared by: The Finance Department of Texas Municipal Retirement System

TABLE OF CONTENTS

INTRODUCTORY SECTION

Certificate of Achievement.....	6
Letter of Transmittal	7
TMRS Highlights	12
TMRS Board of Trustees	13
TMRS Advisory Committee.....	14
TMRS Professional Advisors.....	14
TMRS Administrative Organization.....	15
TMRS Staff	15
Summary of Plan Provisions.....	20

FINANCIAL SECTION

Independent Auditors' Report.....	26
Management's Discussion and Analysis (Unaudited)	28

Basic Financial Statements

Fiduciary Fund - Pension Trust Fund:	
Statements of Plan Net Assets	32
Statements of Changes in Plan Net Assets	33
Proprietary Fund - Supplemental Death Benefits Fund:	
Statements of Net Assets	34
Statements of Revenues, Expenses, and Changes in Net Assets	34
Statements of Cash Flows	35
Notes to Financial Statements	36

Required Supplementary Information

Schedule of Funding Progress	49
Schedule of Employer Contributions.....	49
Notes to Trend Data	49

Supplemental Schedules

Schedule of Administrative Expenses	50
Schedule of Professional Services	51
Schedule of Investment Expenses	52
Changes in Employees Saving Fund	53
Changes in Municipality Accumulation Fund	74

INVESTMENT SECTION

Report on Investment Activity	96
Outline of Investment Policies.....	98
Summary of Investments.....	99
Asset Allocation.....	99
2005 Investment Results	100
Summary of Investment Operations.....	102
Largest Holdings (by Fair Value)	103
Schedule of Investment Fees.....	103

ACTUARIAL SECTION

Actuary's Certification Letter.....	106
Summary of Actuarial Assumptions.....	107
Definitions	110
Participating Employers and Active Members	111
Retiree and Beneficiary Data	111
Summary of Actuarial Liabilities and Funding Progress.....	112
Funded Portion of Actuarial Liabilities by Type.....	113
Contribution Rate Information.....	114
Actuarial Valuation of Participating Municipalities.....	116

STATISTICAL SECTION

Trend Information:	
Schedule of Additions to Net Assets by Source	170
Schedule of Deductions from Net Assets by Type.....	170
Schedule of Benefit Expenses by Type.....	171
Schedule of Refunds by Type	171
Schedule of Average Benefit Payments.....	172
Schedule of Retired Members by Type of Benefit.....	173
Plan Provisions for Participating Municipalities	174

WEST-BOUND - 4 IMPORTANT GATEWAYS 4



THE TEXAS AND PACIFIC RAILWAY
THE SHORT LINE
NEW ORLEANS

TO ALL POINTS IN
NORTHERN TEXAS
CALIFORNIA,
COLORADO
AND THE
WEST

L. S. THORNE, E. P. TURNER,
TRASS 512-1122, 1121 GEN'L. MGR., GEN'L. PASSEN. AND TRASS. AGT.,
DALLAS, TEX. P.O. BOX 6



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, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emer

Executive Director



May 11, 2006

To: The Board of Trustees and
Participants of the Texas Municipal Retirement System

We are pleased to present the *Comprehensive Annual Financial Report (CAFR)* of the Texas Municipal Retirement System (TMRS) for the year ended December 31, 2005. The CAFR is, in many ways, a chronicle of one year at TMRS. We hope you will find this report useful and informative.

Structure of the Report

This report is divided into five sections:

- **Introductory Section**, containing this Letter of Transmittal, information on the TMRS Board of Trustees and staff, key highlights of recent years, and a summary of the plan's benefits.
- **Financial Section**, containing the report of the independent auditors, Management's Discussion and Analysis, the audited financial statements, required supplementary information, and supplemental financial schedules.
- **Investment Section**, containing a report on investment activity for 2005, a summary of TMRS' investment policy, investment results with comparative performance, and other investment schedules.
- **Actuarial Section**, containing the report of the independent actuary, the annual actuarial valuation, and supporting schedules.
- **Statistical Section**, including additional data on TMRS and its participating municipalities.

The CAFR is prepared by the TMRS staff under the direction of the Board of Trustees. The TMRS management is responsible for both the accuracy of the data and the completeness and fairness of its presentation. This report complies with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB). Sufficient internal accounting controls exist to provide reasonable assurance regarding the safe-keeping of assets and fair presentation of the financial statements and supporting schedules.

Each December, the Board of Trustees adopts an operating budget for the upcoming fiscal year (January through December), which estimates the amounts that will be required to pay for TMRS' operating expenses. A detail of the administrative expenses incurred in 2005 is provided in the Financial Section of this report.

Please see Management's Discussion and Analysis in the Financial Section for condensed financial information of the current and prior fiscal years.

The independent auditors, Deloitte & Touche LLP, performed an annual audit of the financial statements contained in this report, as required by the TMRS Act. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section.

About TMRS

The Texas Municipal Retirement System 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. Just as Texas' railroads have helped provide economic strength to Texas' cities, TMRS has delivered financial security to generations of municipal employees.

A Year of Accomplishments

The 2005 fiscal year saw two important milestones for TMRS. The expansion of the TMRS headquarters building was completed, adding new office space and room for future growth. This was the first construction project undertaken by TMRS since the original building was completed in 1979.

The Next Generation Member Benefits (NextGen) computer system, under development since 2000, was also completed and deployed. NextGen will improve all aspects of TMRS' customer service and plan administration, providing faster, more detailed benefit estimates, more efficient account management, and state-of-the-art administration.

Other highlights of the year included:

- Enrolled 10 new cities, facilitated 672 plan changes for cities, and added 2,345 new retirees during the year.
- Raised service levels, including a 17% increase in benefit estimates.
- Conducted field visits to well over 100 of our member cities across the state, providing counseling and education to thousands of members.
- Redesigned all TMRS publications, training materials, and the Certification Class for City Correspondents.
- Began the implementation of FileNet, a data storage and retrieval system, to improve access to member data.
- Implemented the recommendations of the Actuarial Services Review conducted in 2004, as part of the ongoing oversight of the actuarial soundness of TMRS.
- Participated again in the Cost Effectiveness Measurement survey of public retirement systems worldwide, showing service levels above both peer and universe groups, with cost trends that demonstrate efficiency of expenditures and staff size.
- Upgraded technology infrastructure in conjunction with the building expansion.
- Held the Annual Training Seminar in Austin, attended by over 200 city correspondents and other employees from across Texas.

TMRS is dedicated to quality service for its members and retirees. The System's accomplishments and reputation are only important in the benefits they make possible for the employees and retirees of the 811 cities that comprised the System at year end.

Investments

TMRS' basic investment objectives are to assure preservation of principal and to earn sufficient income to allow an annual interest credit on reserve funds, member accounts, and municipality accumulation accounts at the statutory rate as well as pay for administrative costs. When additional income is available, the TMRS Board may approve an extra payment to retirees and credit additional interest to the member and municipality accounts. In 2005, TMRS made an extra payment to each retiree equal to 40% of their monthly annuity payment and credited 6% interest (1% above statutory requirements) to member and municipality accounts.

Investments are made with the degree of judgment and care, under the circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, considering the probable income and safety of their capital.

Investment income, including interest and gains on the sale of bonds, is a significant revenue source, and totaled \$754.0 million for 2005. The high-quality bond portfolio had a yield to maturity of 5.1% at December 31, 2005. The Investment Section contains a detailed summary of investment operations and allocations of earnings.

Funding and Actuarial Overview

As certified by our independent actuary, The Segal Company, TMRS is maintained on an actuarially sound basis. 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 due and finance long-term benefits through contributions that remain approximately level from year to year as a percent of the city's payroll.

A member city's retirement contribution consists of the normal cost contribution rate, which finances the monetary credits as they accrue, and the prior service contribution rate, which amortizes the unfunded (or over-funded) actuarial liability (asset) over the remainder of each plan's amortization period. As an employer, we, like each member city, provide TMRS retirement benefits for all eligible employees.

As required by statute, we obtain an annual actuarial valuation for each participating municipality, the results of which are in the Actuarial Section of this CAFR. Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress, included as a part of the Required Supplementary Information in the Financial Section. As of December 31, 2005, TMRS, as a whole, was 82.7% funded.

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 fees and 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 Fiscal Year Ended December 31, 2004*. This was the 18th 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. We believe that our current *Comprehensive Annual Financial Report* continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

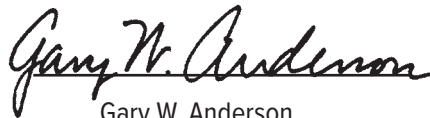
TMRS also received the Public Pension Standards 2005 Award from the Public Pension Coordinating Council (PPCC) in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

This report is provided to all participating TMRS cities; their combined cooperation contributes significantly to the success of TMRS. We hope you will find this report helpful and informative.

On behalf of the TMRS Board of Trustees, 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 TMRS.



Kathryn Usrey
Chair
Board of Trustees



Gary W. Anderson
Executive Director



Rhonda H. Covarrubias
Director of Finance and
Human Resources

TMRS HIGHLIGHTS

	2002	2003	2004	2005
Employee Accounts	119,747	122,547	124,638	127,960
Retired Members	22,085	23,790	25,505	27,363
New Employee Members	14,148	12,421	13,212	14,092
Terminated Employee Members	7,788	7,838	8,007	8,182
Amount Paid to Terminated Members	\$39.8 mil	\$40.5 mil	\$45.6 mil	\$48.6 mil
New Retirements	2,160	2,199	2,251	2,345
Total Amount Paid to Retirees	\$401.9 mil	\$442.6 mil	\$472.1 mil	\$515.1 mil
Interest Rate on Employee Deposits	8.75%	8.0%	7.0%	6.0%
Additional Benefits Paid to Retirees in the Form of an Extra Check equal to	1.75 checks	1.5 checks	1 check	.40 check
Member Cities	774	794	801	811
Cities Beginning Participation	16	20	8	10
Cities that:				
Adopted Updated Service Credit	559	566	579	584
Adopted Increases to Retirees	456	460	468	474
Increased Employee Contribution Rate	26	22	27	22
Increased City/Match Ratio (Future Service)	17	16	26	16
Adopted Provision Allowing Service Buyback	15	5	7	12
Adopted Supplemental Death Benefits	4	1	1	2
Adopted 5-Year Vesting	709	6	3	4
Adopted Military Service Credit Provisions	13	13	4	3
Adopted Senate Bill 505 Options	-	2	-	-
Adopted 20-Year, Any Age Retirement	41	18	18	20
Adopted Restricted Prior Service Credit	18	15	10	9
Adopted Probationary Prior Service Credit	-	-	1	-

Kathryn Usrey, Chair

Director of Human Resources
Carrollton
Term expires: February 1, 2009

Frank Simpson, Vice Chair

City Manager
Missouri City
Term expires: February 1, 2009

Pat Hernandez

Municipal Court Judge
Plainview
Term expires: February 1, 2011

Carolyn Linér

Director of Human Resources / Civil Service
San Marcos
Term expires: February 1, 2007

Rick Menchaca

City Manager
Midland
Term expires: February 1, 2007

Roel “Roy” Rodriguez, PE

General Manager, Public Utility
McAllen
Term expires: February 1, 2011



From left to right:
Carolyn Linér, Rick Menchaca, Frank Simpson, Kathryn Usrey, Roel Rodriguez, and Pat Hernandez

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” (Menchaca, Rodriguez, and Simpson) who are either the chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three Trustees are “Employee Trustees” (Hernandez, Linér, and Usrey) who are employees of a participating municipality.

TMRS ADVISORY COMMITTEE

The TMRS Advisory Committee on Retirement Matters was established by the Board of Trustees in December 1994. This nine-member committee provides input to the Board of Trustees on various issues related to TMRS and also serves as a conduit for communication between TMRS and its members, member cities, and retirees.

Susan Beckley-Helt (employee)
Public Information Officer, Plano

John Lewis (elected official)
Councilman, North Richland Hills

George Logan (retiree)

Jim Moore (employee)
Assistant Fire Chief, Mesquite

Ron Silvia (elected official)
Mayor, College Station

Jim Starr (retiree)

Isaac Valencia (employee)
Police Lieutenant, Corpus Christi

Vacancy (elected official)

Stephen McCullough (former Trustee)

TMRS PROFESSIONAL ADVISORS

Legal Counsel
Kendall & Osborn

**Compensation
& Benefits Advisor**
The Waters Consulting Group, Inc.

Medical Board
Grover Bynum, MD
Albert LaLonde, MD
Tim Lowry, MD

Investment Advisors
A. Gary Shilling & Co.
Hillswick Asset Management, LLC

Auditors
Deloitte & Touche LLP

Custodian
State Street Bank and Trust Company

Actuary
The Segal Company

Depository Bank
JPMorgan Chase Bank

SUMMARY OF PLAN PROVISIONS

Purpose

The Texas Municipal Retirement System (TMRS) is an entity created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, 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 the State of Texas, TMRS cities, members, retirees, and 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 financial 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 Introductory Section of this report includes a list of the current trustees (page 13).

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

Membership

Cities elect to participate in TMRS. When a city joins TMRS, all 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.

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 as a commissioned law enforcement officer for college campus security

Restricted Prior Service Credit can also be granted for credit previously forfeited under the Texas Municipal Retirement System, Teacher Retirement System of Texas, Employees Retirement System of Texas, Texas County and District

Retirement System, or the Judicial Retirement System of Texas. This restricted credit may only be used to satisfy length-of-service requirements for vesting and retirement eligibility, and has no monetary value.

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 Act.) Compensation for retirement contribution purposes includes overtime pay, car allowances, uniform allowances, sick leave, vacation pay, and other payments if they are taxable in the current year or future years.

All member contributions since 1984 are tax-deferred under the Internal Revenue Code, Section 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, based on the balance in the account on January 1 of that year. In the year of retirement, interest will be prorated for that year based on the interest rate granted the preceding 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 age, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, 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

Prior to a city's adoption of 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 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 and recalculating the member's retirement credit as if the member had always

SUMMARY OF PLAN PROVISIONS

CONTINUED

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. 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 chooses one of seven optional monthly payment plans. The member makes this choice before receipt of the first benefit check, and the choice is irrevocable after the date the first payment becomes due.

The options include:

- A benefit for the member's lifetime only
- 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
- Three options that pay a lifetime benefit to the member and a lifetime survivor benefit equal to 50%, 75%, or 100% of the member's benefit

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 a Retiree Lifetime 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 time of retirement. The Partial Lump Sum Distribution is equal to 12, 24, or 36 times the amount of the Retiree Life Only benefit, but cannot exceed 75% of the member's deposits and interest. The remaining member deposits are combined with all of the city's funds to pay a lifetime benefit under the selected retirement option. The Partial Lump Sum Distribution 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 an IRA or another qualified plan.

Annuity Increases

A member city may elect to increase the annuities of its retirees, either annually or on an annually repeating basis effective January 1 of a calendar year. For cities that adopted annuity increases after 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 one year before the effective date of the increase, minus any previously granted increases.

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 receive a lifetime benefit. Member deposits and interest may be refunded to a surviving spouse at any time. 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 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 (indexed to the CPI-U) exceeds the member's average monthly compensation for the highest 12 consecutive months during the three calendar years immediately before the year of retirement. 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 and 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 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.

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of the 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.

Military Service Credit

Members who leave service 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 and who were employed on December 31, 2003, by a city that had previously adopted Military Service Credit, may choose to purchase their military time at a cost of \$15 per month, (purchase amount would increase the member's account balance) or may use the new no-cost time-only provision. ♦