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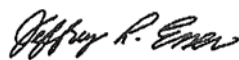
Texas Municipal
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

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.




President



Executive Director



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2008**

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 9, 2009

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, 2008. We hope you will find this report informative.

The CAFR is prepared by the 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 upon 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 2008 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 following 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

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. TMRS has delivered financial security to generations of municipal employees.

Accomplishments and Milestones in 2008

The 2008 fiscal year marked two major milestones for TMRS — asset diversification and a change in actuarial cost method.

The Board of Trustees in November 2007 approved the diversification of the System's assets from its predominately fixed income portfolio, beginning with dollar-cost-averaged commitments of 1% per month into equity index funds. By December 31, 2008, approximately 12% of the fund was invested in passively managed equity index funds: 6% in the Russell 3000 and 6% in the MSCI-EAFE. The remaining 88% of the fund was invested in fixed-income securities. The income rate of return on the \$14.5 billion investment portfolio was 5.89%; total return for the year was (1.30%).

In May 2008, TMRS undertook a project to reduce the duration of the System's fixed income portfolio. At that time, the duration of TMRS' bond portfolio was 13.8 years, exposing the System to significant interest rate risk. See the Investments section of this letter, for details about the restructuring of the fixed-income portfolio.



The actuarial valuation performed December 31, 2007 inaugurated the System's change to the Projected Unit Credit actuarial cost method from the previously used Unit Credit method. Experience with cities' utilization of the annually repeating benefit features of TMRS led the Board to the conclusion that Projected Unit Credit was a more appropriate method of recognizing the liabilities associated with future years' cost-of-living adjustments and Updated Service Credit.

The change to Projected Unit Credit caused significant contribution increases (beginning with the January 2009 contribution rate) for many cities that had adopted annually repeating benefits. TMRS dedicated resources during the year to ensure that cities understood the reasons for the increase and had the information and tools to make decisions with regard to their benefits. At the same time, TMRS worked with employee and retiree groups to ensure that members understood the changes in investments and actuarial methodology. The communication campaign that began in 2007 continued and accelerated throughout 2008. Highlights of the System's communications included funding workshops across the state, increased use of e-mail bulletins to cities, rate projection mailings to cities, and a redesign of the System's website. The System's Decision Support Actuary and Regional Managers provided an unprecedented level of support to cities in examining contribution rate issues. Cities that experienced a rate increase of 0.50% or more in their contribution rate, due to the change in actuarial cost method and assumption changes, were given the opportunity to phase-in the increase over an eight-year period.

The year also included major planning efforts for the 81st Regular Session of the Texas Legislature. TMRS convened a Legislative Stakeholder Group, composed of representatives from employee associations, the Texas Municipal League and its affiliates, and elected officials, to work with the TMRS Advisory Committee and craft a legislative proposal for the Board of Trustees' consideration prior to the legislative session. The group met five times and ultimately made recommendations that were approved by the Board and presented to the Legislature. In September 2008, the TMRS Advisory Committee was expanded to include the organizations represented in the Legislative Stakeholder Group, ensuring their future participation.

The bill containing these proposals was passed by both houses of the Legislature and sent to the Governor in May. Governor Perry signed HB360 as part of the 81st legislative session, on May 26, 2009.

The final, Board-approved legislative package passed into law contained three elements:

1. Guarantee an annual interest credit of at least 5% to member accounts and set the discount rate used in setting the annuity purchase rate for retirees at a minimum of 5%
2. Allow the crediting of unrealized income or losses to municipality accounts
3. Allow municipality accounts to receive an annual interest credit at a rate different from the member rate, including negative interest

In addition to the significant changes TMRS continued to undergo in 2008, the System continued its emphasis on the development of a more robust governance and accountability structure. The Strategic Plan adopted in 2007 was periodically examined, and all goals and objectives were either met or on target at year-end. Regular sessions between the Board and a governance consultant focused on fiduciary duty. The Internal Audit Department completed a comprehensive risk assessment during 2008 using the Enterprise Risk Management framework. This risk assessment is useful in identifying and managing the risks faced by TMRS in the course of its business activities. Internally, TMRS began a new initiative on staff development and continued to expand the duties and effectiveness of its Human Resources Department.

2008 saw a growing demand for member services and the ongoing improvement of the System's technological infrastructure. Six new cities joined TMRS in 2008, and we facilitated numerous plan changes for cities during the year. TMRS staff answered over 96,000 requests for assistance and processed 2,574 new retirements in 2008, as the trend of increased numbers of retirees with the general aging of the workforce continued. Implementation of the federal HELPS program provided a valuable benefit to retired public safety officers. TMRS enhanced its information technology by implementing server virtualization, improving processing efficiency. In addition, the Information Resources Department further expanded its imaging capabilities, reduced paper recordkeeping, and developed an online member benefit calculator for deployment in 2009.

Late in the year, as the world economy began a period of unprecedented turmoil, TMRS found itself well positioned to meet the concerns of its members and cities. The changes the System began to make in 2007 and 2008 will help ensure the ongoing soundness of the retirement program, the security of members' benefits, and the continued availability of affordable benefit packages for Texas cities.

Investments

As described in the Investment Section of this CAFR, the markets in 2008 were significantly challenged by a continuing global financial crisis. This led to a flight to quality that rewarded the most secure investments, U.S. Treasury securities, and battered most of the remaining markets. TMRS was relatively well-positioned with its concentration in the fixed income markets and with its slow but deliberate entry into the equity markets.

In January 2008, TMRS began the process of diversifying its investments portfolio to protect against the risk of having a portfolio 100% in fixed income securities and, over time, to earn higher returns. The Board approved an initial allocation of 12% of the portfolio to equities by year-end 2008, which would continue to allow for a total portfolio yield in excess of 5% as currently required for interest credits. For much of its history, TMRS has invested primarily in fixed income securities (including U.S. government, high-quality corporate, and U.S. government agency bonds). This investment strategy provided a predictable annual income stream with minimal risk. However, as the yield on U.S. Treasury bonds has declined to levels below 5%, the lowest level in many years, the ability of the portfolio to deliver a satisfactory level of income from high-quality bond investments has declined. Legislation was enacted during the 2009 legislative session that provides for further diversification of the portfolio by allowing interest credits to be based on a total rate of return.

The Board selected Northern Trust as its equity index fund manager through commingled equity index funds replicating the Russell 3000 Index for domestic equities and the MSCI-EAFE Index for international equities. TMRS invested gradually — by dollar-cost averaging into the market — and by year end, the fund's equity investments represented 12% of the total portfolio.

In early 2008, TMRS hired BlackRock Financial Management to assist in the management of the fixed income portfolio. In May 2008, BlackRock began to restructure the fixed income portfolio, with the initial goal of reducing the duration of the portfolio while maintaining a yield in excess of 5%. By year end, the duration of the fixed income portfolio had been reduced to 7.4 years with a yield to maturity of 5.9%.

Net investment loss totaled (\$261.0) million for 2008, which is net of unrealized depreciation on the portfolio of (\$1.0 billion). The Investment Section contains a detailed summary of investment operations and allocations of investment earnings.



Funding and Actuarial Overview

In April 2008, the TMRS Board of Trustees selected the firm of Gabriel, Roeder, Smith & Company (GRS) to provide independent actuarial consulting services for TMRS. GRS began providing services to the System in June 2008 and completed their first actuarial valuation for the System for the fiscal year ended December 31, 2008.

As certified by our independent actuary, GRS, the calculations for funding are prepared in accordance with 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 rate of contribution 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, such as Updated Service Credit (USC) and Annuity Increases (AI) and future increases in salary.

At its December 5, 2008 meeting, the Board acted on recommendations made by GRS to revise assumptions for the actuarial valuation to be performed as of December 31, 2008. These revisions included (1) immediately applying the salary scale assumption; (2) explicitly recognizing the COLA associated with the balances in the Employees Saving Fund; and (3) setting the Municipality Accumulation Fund discount rate at 7.5%.

As required by statute, TMRS obtains an annual actuarial valuation for each participating municipality, the results of which are in the Actuarial Section of this CAFR. As of December 31, 2008, TMRS as a whole was 74.4% funded. This funded ratio increased from 73.7% in the prior year. 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.

A Summary of Actuarial Assumptions in effect for the December 31, 2008 valuation is provided in the Actuarial Section of this CAFR.

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 Fiscal Year Ended December 31, 2007. This was the 21st 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 2008 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 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.

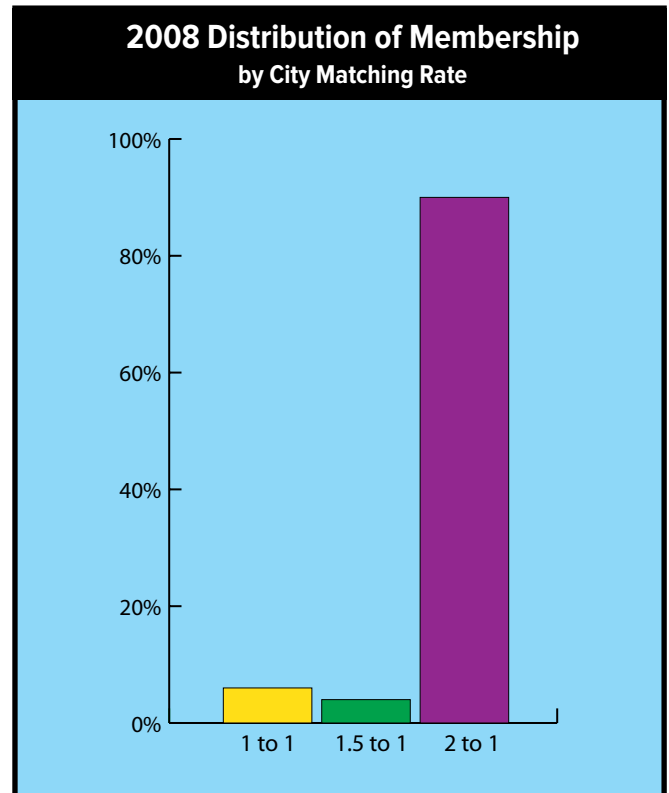
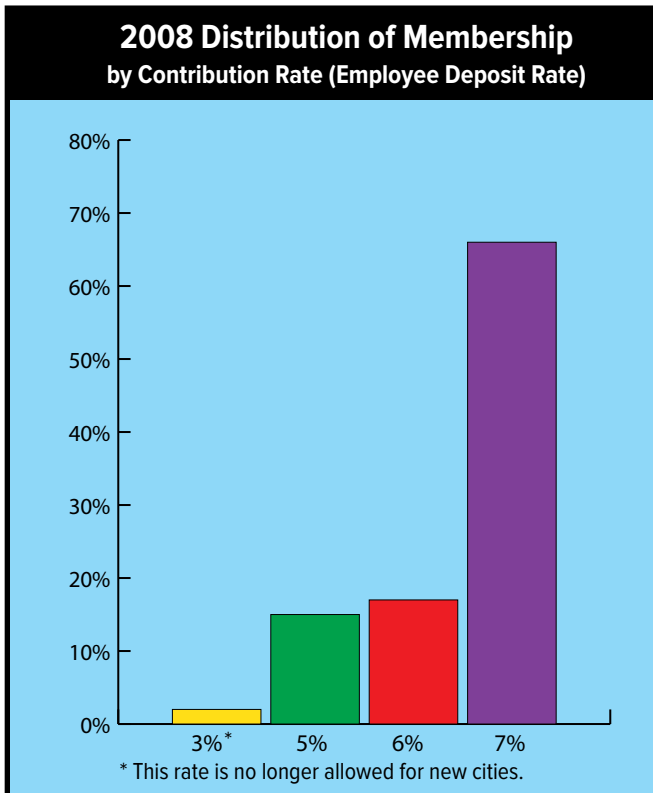
Respectfully submitted,

Roel Rodriguez, PE
Chair
Board of Trustees

Eric Henry
Executive Director and
Chief Investment Officer

Rhonda H. Covarrubias
Director of Finance

	2006	2007	2008
Employee Accounts	129,317	134,885	139,488
Retired Members	30,089	32,143	34,123
New Employee Members	15,476	16,419	15,942
Terminated Employee Members	8,465	8,299	7,955
Amount Paid to Terminated Members	\$49.0 mil	\$52.6 mil	\$49.1 mil
New Retirements	2,517	2,534	2,574
Total Amount Paid to Retirees	\$554.8 mil	\$596.2 mil	\$648.0 mil
Interest Rate on Employee Deposits	5.75%	5.0%	5.0%
Additional Benefits Paid to Retirees in the Form of an Extra Payment equal to .30 payment		N/A	N/A
Member Cities	821	827	833
Cities Beginning Participation	10	7	6
Inactive Cities Ceasing Participation	-	1	-
Cities that:			
Adopted Updated Service Credit (USC)	596	600	597
Reduced percentage or rescinded USC	-	-	2
Adopted Annuity Increases to Retirees (AI)	486	495	491
Reduced or rescinded AI	-	1	3
Increased Employee Contribution Rate	25	23	13
Increased City Matching Ratio	22	20	14
Reduced City Matching Ratio	1	-	1
Adopted Supplemental Death Benefits	3	1	3
Rescinded Supplemental Death Benefits	-	-	5
Adopted 5-Year Vesting	2	3	2
Adopted 20-Year, Any Age Retirement	18	25	9





Roel "Roy" Rodriguez, PE, 2008 Chair
Assistant City Manager / MPU General Manager
McAllen
Term expires: February 1, 2011



Carolyn Linér, 2008 Vice Chair
Director of Human Resources / Civil Service
San Marcos
Term expires: February 1, 2013



Ben Gorzell
Director of Finance
San Antonio
Term expires: February 1, 2013



Pat Hernandez
Municipal Court Judge
Plainview
Term expires: February 1, 2011



April Nixon
Chief Financial Officer
Arlington
Term expires: February 1, 2015



Frank Simpson
City Manager
Missouri City
Term expires: February 1, 2015

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" (Gorzell, 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 Nixon) who are employees of a participating municipality. As per the Texas Constitution, Trustees continue to perform the duties of their office until a successor has been duly qualified.

TMRS Executive Director



Eric Henry
Executive Director and Chief Investment Officer



The TMRS Advisory Committee on Retirement Matters was established by the Board of Trustees in December 1994. This 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. The members of the Advisory Committee appointed by the Board are called “Individual Class” members.

These nine members are:

- Allen Bogard, City Manager, Sugar Land
- Keith Brainard, City Councilmember, Georgetown
- Ronald E. Cox, Former Board Member
- Dr. Susan Helt, Public Information Officer, Plano
- Michelle R. Leftwich, Assistant City Manager/Planning Director, Mercedes
- John Lewis, City Councilmember, North Richland Hills
- Lynn McIlhane, City Councilmember, College Station
- Randle Meadows, President, Arlington Police Association
- Jim Moore, Assistant Fire Chief – Operations, Mesquite

In 2008 a new charter was written for the Advisory Committee, and the group was expanded to include ten members from various employee groups and organizations. These “Group Class” representatives are chosen by their respective organizations and approved by the Board. In 2008 the representatives were:

- David Crow, Arlington Professional Fire Fighters
- Chris Heaton, Texas Municipal Police Association
- Scott Kerr, Texas State Association of Fire Fighters
- Suzanne Levan, City of San Antonio
- Richard Martinez, Service International Employees Union, San Antonio
- Jim Parrish, Texas Municipal Human Resources Association
- Mike Perez, Texas City Management Association
- Bob Scott, Government Finance Officers Association of Texas (GFOAT)
- Mike Staff, Combined Law Enforcement Associations of Texas (CLEAT)
- Monty Wynn, Texas Municipal League

The TMRS Legislative Stakeholder Group (LSG) was convened by the Board during the 80th Texas Legislative interim. The LSG included the TMRS Advisory Committee along with TMRS stakeholder groups and individuals identified below. TMRS would like to thank the members of the LSG for their work and commitment in preparation for the 81st Texas Legislature. We would also especially like to thank the individuals and the groups they represented for committing time and resources and for participating in this invaluable process.

As TMRS prepared for the 81st Texas Legislature, it became apparent that the session would be one of the most important sessions in TMRS history. To that end, the LSG was instrumental in assisting the TMRS Board in recognizing and identifying the core provisions the System needed to include in the TMRS legislative package for the 81st Texas Legislature. The provisions will allow TMRS to continue its 60-year tradition of providing sound retirement benefits for Texas municipal employees.

Thanks go to the TMRS Legislative Stakeholder Group members:

- The Honorable Keith Brainard
- Ron Cox
- David Crow
- The Honorable Rufus Duncan
- Chris Heaton
- Dr. Susan Helt
- Mike Higgins
- Chris Jones
- Darlene Lanham
- The Honorable John Lewis
- Richard Martinez
- The Honorable Debra McCartt
- The Honorable Lynn McIlhane
- Joe McLaughlin
- Randle Meadows
- Jim Moore
- Keith Morton
- Jim Parrish
- Mike Perez
- Bob Scott
- Jim Starr
- Jim Thomas
- Isaac Valencia
- Greg Vick
- Monty Wynn

Actuary

Gabriel, Roeder, Smith & Company

Compensation & Benefits Advisor

The Waters Consulting Group, Inc.

Custodian

State Street Bank and Trust Company

Depository Bank

JPMorgan Chase Bank

Economic Advisor

A. Gary Shilling & Co.

Fiduciary Counsel

Robert D. Klausner

Independent Auditor

KPMG LLP

Investment Consultant

R.V. Kuhns & Associates, Inc.

Investment Advisor

BlackRock Financial Management, Inc.

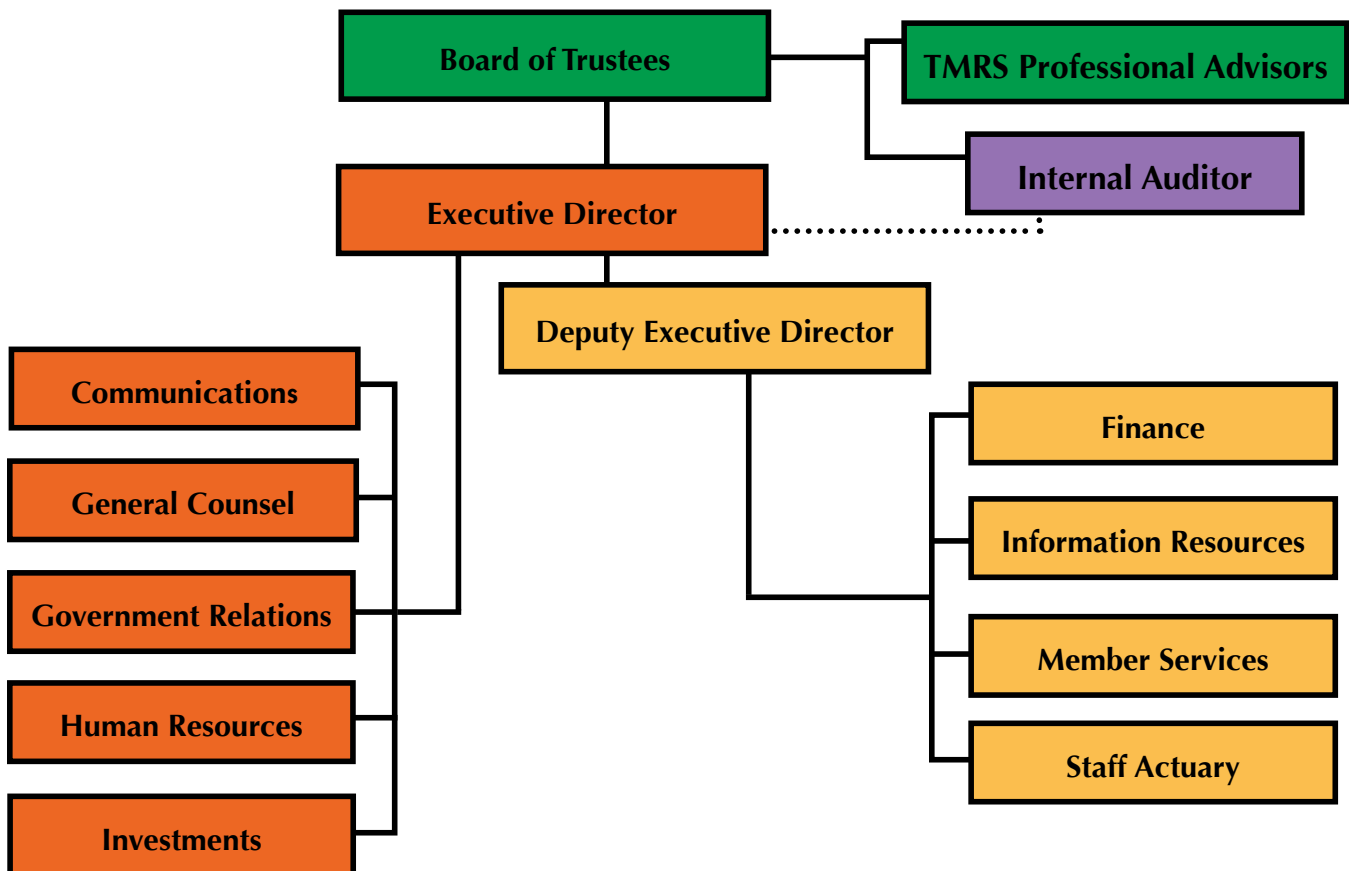
Investment Manager

Northern Trust Global Investments

Medical Board

Grover L. Bynum, MD
Marvin Cressman, MD
Thomas "Tim" I. Lowry, MD

TMRS Administrative Organization



Executive and Administrative

Eric Henry, Executive Director, Chief Investment Officer
Eric Davis, Deputy Executive Director
Ian Allan, Director/Internal Audit
Leslee Hardy, Director/Decision Support Actuary
Bruce Boatright, General Services
Dinah Harris, Administrative Assistant
Cindy Morse, Executive Assistant

Communications

Bill Wallace, Director of Communications
Angela Deats, Communications Analyst
Donna Neal, Communications Specialist
Melanie Thomas, Editor

Travel Team

Anthony Mills, Regional Manager, City Services
Lorraine Moreno, Regional Manager, City Services
David Rodriguez, Regional Manager, City Services
Colin Davidson, Regional Representative, City Services
Shannon Lucero, Regional Representative, City Services
Sean Thompson, Regional Representative, City Services

Finance

Rhonda Covarrubias, Director of Finance
Josette Madry, Accounting Operations Supervisor
Candace Nolte, Controller
Sherry Chapman, Investment Accountant
Gloria Figueroa, Accounting Specialist

Government Relations

Eddie Solis, Director of Government Relations

Information Resources

Scott Willrich, Director of Information Resources
John Carroll, Records and Information Manager
Brian Farrar, Network Operations Manager
Pete Krnavek, Information Systems Manager
Rick Almanza, Computer Support Specialist
Paige Brundage, Records Technician
Martin Burke, Business Process Analyst
Blanca DaCosta-Cruz, Quality Assurance Analyst
Charles Fuller, Network/Systems Administrator
Chris Gillis, Records Technician
Monica Kache, Systems Analyst - Financial

Steve Li, Senior Software Developer
Charles Matthes, Network/Systems Administrator
Patrick McShea, Database Administrator/Developer
Gretchen Meyer, Senior Systems Analyst
Anna Silva, Records Technician
Andy Solomon, Systems Analyst
Kevin Wang, Senior Software Developer

Investments

Nancy Goerdel, Director of Public Investments
Holly Macki, Director of Fixed Income Instruments
Kristin Qualls, Assistant Director of Equities
Debbie Farahmandi, Investment Operations Specialist
Kate Reed, Investment Analyst

Legal

David Gavia, General Counsel
Michelle Mellon-Werch, Associate 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 I
Nadia Ali, Member Services Analyst I
Debbie Davila, Member Services Analyst II
David Eastwood, Member Services Analyst I
Veronica Escobedo, Member Services Analyst I
Ida Gomez, Member Services Analyst I
Rhonda Green, Member Services Analyst I
April Guerrero, Receptionist
Karin Hicks, Member Services Analyst II
Peter Jeske, Support Services
Maryann Malave-Jaini, Member Services Analyst II
Jenny Milburn, Member Services Analyst I
Corinne Moreno, Member Services Analyst I
Pamela Morgan, Support Services
Richard Ramos, Member Services Analyst I
Shelley Ransom, Member Services Analyst II
Cris Rodriguez-Horn, Support Services
LaShelle Ruiz, Member Services Analyst II
Leslie Smith, Member Services Analyst I
Tricia Solis, Member Services Analyst I
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 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.

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



Summary of Plan Provisions

CONTINUED

Restricted Prior Service Credit also can be granted for credit previously forfeited under one of the participating Proportionate Retirement 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, Section 401(a). 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

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 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 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 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. 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, upon the member's death, a survivor lifetime 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 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 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.

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 January 1, 1982, or later, 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, minus any previously granted increases.



Summary of Plan Provisions

CONTINUED

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. 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 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 (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 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.

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of their 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 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 no-cost time-only provision. ♦