

## **TMRS - OCTOBER 2008 UPDATE**

The following includes information on the 2008 interest rate, TMRS investments, answers to questions received by TMRS and rumor control.

### **2008 Interest Rate Set**

The TMRS Board set the interest rate for member and city accounts at 5% for 2008. Interest will be credited December 31, 2008, based on the account balance as of January 1, 2008. In accordance with Board policy, with interest credited at 5%, there will be no extra payment to retirees in 2008. The extra payment was never a guarantee, and given the current state of the economy, it is unlikely that extra payments will be made in the near future.

It is important to note that, at the present time, the 5% interest rate is not a guaranteed rate and, if interest rates continue to fall, the rate may even go lower in future years. To help prevent this, TMRS is working on changing the law that governs TMRS to guarantee a minimum 5% interest payment to member accounts and to credit employers with variable annual interest rates.

### **Investment Update**

With all the financial news that has been in the headlines recently, TMRS has received many phone calls and e-mails about investments.

In 2007, the TMRS Board approved a 12% diversification into equities (stocks) by the end of 2008. This diversification is being accomplished through indexed investments. A diversified portfolio reduces risks and helps the fund weather downturns in specific investment classes. Indexed investments are less volatile than purchasing individual company stocks. The gradual shift in strategy that TMRS began making in 2007 was designed to help TMRS earn more on investments over time and better manage investment risk.

### **Questions to TMRS from Members**

**QUESTION: (from a retiree) Is my TMRS benefit safe?**

**ANSWER:** Yes. Your TMRS benefit is secure, and your monthly benefit is not at risk. Even if the investment markets stay down for a long time, the performance of TMRS' investments will not affect your monthly benefit.

**QUESTION: (from an active member) Is my TMRS benefit safe?**

**ANSWER:** The benefit you have earned is safe. Cities always have the option of reducing future benefits, but what you have earned so far in your career is secure.

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**QUESTION: Is my TMRS account insured like a bank account?**

**ANSWER:** Your TMRS account is part of a \$14 billion trust fund, subject to state and federal law. TMRS accounts are backed by the cities that provide them and by the state law that governs the System. Your individual account is not “insured” by the federal government the same way your savings or checking account is, but it is protected by law from being diverted to other purposes.

**QUESTION: How are the recent stock market troubles affecting TMRS?**

**ANSWER:** TMRS is a long-term investor, and short-term downturns in the market will not have a detrimental effect on the System over the long-term. TMRS is conservatively invested and has minimal exposure to stocks issued by the companies recently in the news, such as Lehman Bros.

**QUESTION: How much stock in the troubled companies does TMRS own?**

**ANSWER:** The shares of stock from the companies that have been in the news (Lehman Bros, WaMu, and AIG) comprise only a tiny percentage of our portfolio and represent less than 1% of TMRS’ total holdings. Even if a stock loses all its value, the effect on TMRS will be minimal because the fund is so broadly invested. As of September, less than 10% of the fund is invested in two stock index funds — approximately half in U.S. companies and half in foreign companies.

**QUESTION: What about bonds? Does TMRS hold risky bonds?**

**ANSWER:** No. All of TMRS’ bonds are high grade. The residential mortgage-backed bonds TMRS holds are backed by Fannie Mae and Freddie Mac, and the commercial mortgage-backed bonds are well secured. Due to recent federal action, Fannie Mae and Freddie Mac are now fully backed by the U.S. government.

### **Rumor Control**

Many members have contacted TMRS regarding a rumor that effective January 2009, TMRS will remove the partial lump distribution option and that anyone wanting this option must retire before December 31, 2008. TMRS has indicated that the rumor is coming from the Dallas/ Fort Worth area and has spread primarily throughout Police Departments.

**This rumor is totally false and has never been discussed by TMRS.** Please pass this information along to anyone who might be questioning the removal of the partial lump sum distribution.

Be sure to visit the newly revised TMRS website at [www.tmrs.org](http://www.tmrs.org) for updates, forms and additional information on investments.