

















monthly supplement to social security benefits and personal savings to our members. The structure that provided the best fit led to the Board's recommendation for adding a second, lower cost benefit tier to TSRS for employees hired after June 30, 2011. The recommended plan design and eligibility changes became identified as the "Tier 2" program, and the Board's recommendation was passed by Mayor and Council effective July 1, 2011. Comparisons of the Tier 1 and Tier 2 plan designs are included in part C of Note 1 in the Notes to the Financial Statements and in the statistical section of this report.

Record keeping is the responsibility of the Human Resource Department, Employee Benefits and Retirement Section. Financial statements and investment control responsibilities of TSRS have been performed by the Accounting and Treasury Divisions of the City's Finance Department. TSRS uses the accrual basis of accounting. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB). Internal accounting controls provide reliable financial records for preparation of financial statements, and provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition.

### **Budgetary Controls**

Annually, the budget for the System must be approved by the Board of Trustees. The budget is also included in the City of Tucson annual budget which is recommended by the City Manager for adoption by the Mayor and Council.

Provisions of the Tucson City Code require unanimous approval of all System expenses by the Board of Trustees. Quarterly, the Board of Trustees reviews the financial report and expenses listing and ratifies all expenses.

Contributions to the System are based on principles of level-cost financing with current service financed as a level percent of payroll on a current basis and prior service amortized as a level percent of payroll over a fixed period of fifteen years.

### **Major Initiatives**

During the fiscal year ended June 30, 2011, the TSRS Board of Trustees recommended plan design changes to Article III, Chapter 22 of the Tucson City Code as described in some detail above. As experienced in previous years, budget shortfalls continue to be the norm due to the economic recession and this required the City to impose furlough pay policies to all employees to balance the budget without lay offs. The policy for prior years required active members to forego 9 days or 72 hours of annual pay; causing active members to lose 3.5% of their normal annual service credit hours. During the plan year ended June 30, 2012, this policy eased to foregoing 5 days of annual pay; and none are expected in FY 2014.

## Funding Status

Analysis of the funding progress for TSRS measures the net assets available for benefits against the actuarial accrued liability to arrive at the plan's percent funded ratio. As of June 30, 2012, the system's funded ratio decreased from the prior year 67.3% level to 63.5% on an actuarial valuation basis, and on a market basis, decreased from 64.6% to 61.7%. The actuarial accrued liability increased from \$928,608,791 to \$940,938,722; resulting in an increase of 1.33%; the actuarial value of assets allocated to funding and available for benefits decreased by 4.41% from \$642,664,880 to \$597,106,511. The unfunded actuarial accrued liability increased by \$39,888,300 in the current plan year. Elements associated with the change in accrued liability include experience gains attributable to pay increases of \$12,397,869 and gains from retiree mortality of \$2,299,106. Offsetting those gains were losses from investment experience of \$37,800,287; retirement incidence of \$10,872,163; new entrants of \$540,295; employee turnover, pre-retirement mortality, data and other factors of \$6,766,356.

## Investment Activities

The Board of Trustees (the "Board") reviews manager reports and schedules investment manager meetings throughout the year to review performance, economic outlook, and investment strategy. The Treasury Division staff monitors the investment portfolios and provides monthly reports to the Board regarding target and actual allocation levels and any unusual investment activities.

Net investment gain amounted to \$8,513,169. The net investment gain or loss is comprised of bond interest, dividend income, real estate income, security lending income, investment expenses and realized and unrealized gains and losses on securities. The rate of return for the total fund for the year was 2.4%. For the last five and ten years, the System had annualized returns of 1.2% and 6.2%, respectively.

TSRS asset allocation targets are 46% U.S. equities, 15% foreign equities, 8% real estate, 26% fixed income and 5% infrastructure. These percentages reflect the current diversification posture as of June 30, 2012 and represent the board's prudent judgment in the pursuit of maximum returns at acceptable levels of risk.

In the second quarter of the fiscal year, the Board decided to terminate two equity investment managers for not meeting performance objectives and restructured the fixed income portfolios, per investment consultant recommendations. Manager searches were subsequently conducted and completed during the second and third quarters of the fiscal year. After careful evaluation and assistance from the investment consultant, the board replaced Friess Associates (large cap growth) with T. Rowe Price and replaced Artio Global Investors (international equity) with Aberdeen Asset Management. In addition, the Board replaced the actively

managed In-House fixed income bond portfolio with a U.S. Debt Index Fund managed by BlackRock and expanded the diversified fixed income account with PIMCO by reducing the target to mortgages, adding an allocation to emerging market debt and increasing the targets to investment grade credit and high yield. Funding continues for the SteelRiver Infrastructure Fund North America account which was 84% funded as of June 30, 2012.

In accordance with investment policy, the System's asset classes were rebalanced throughout the fiscal year. Due to ongoing liquidity requirements needed to pay retiree pensions, \$27.2 million was moved out of various asset classes, in monthly increments, to the City's investment pool account. This amount was utilized throughout the fiscal year to make up the shortfall between pension contributions and distributions. This movement of funds had a "self-balancing" effect between equities, fixed income, real estate and infrastructure which helped to keep those asset classes within their target allocation percentage ranges.

Hewitt EnnisKnupp (formally Hewitt Investment Group) continues as investment consultant to the System and BNY Mellon continues to serve as master custodian.

### **Professional Services**

The Retirement Board retains money managers and other professionals to prudently discharge its fiduciary responsibility for the proper administration of the System. Opinions of the independent auditors and the actuary are included in this report. The professionals retained by the Board are listed on page viii of this report.

### **Acknowledgments**

This report is intended to provide information as a means for making management decisions, complying with statutory provisions, and demonstrating responsible stewardship for assets of the System. The preparation of this report reflects the combined efforts of all TSRS staff, the City of Tucson Finance Department, and others that have worked diligently to assure the successful operation of TSRS. Special words of appreciation are due to: David Roels, Principal Accountant, Allan Bentkowski, CPA, Finance Manager, Michael Jesse, Lead Analyst and Melissa Waychoff, Administrative Assistant. The direction and support extended by the Board of Trustees is also greatly appreciated.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tucson Supplemental Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the 16<sup>th</sup> consecutive year that the Tucson Supplemental Retirement System 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.

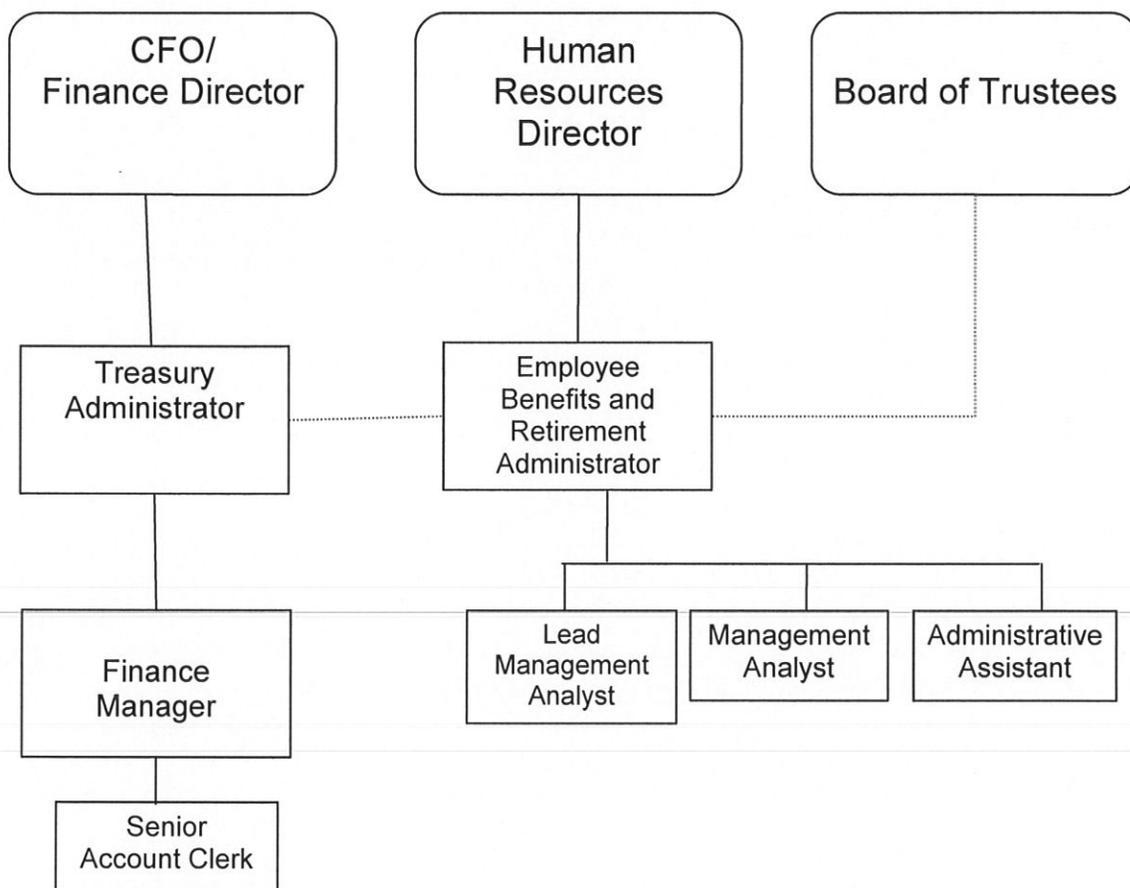
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael A. Hermanson". The signature is fluid and cursive, with the first name "Michael" being the most prominent and clearly legible part of the script.

Michael A. Hermanson, CPA  
Employee Benefits and Plan Administrator

### Organization Chart



## Administrative Organization

### BOARD OF TRUSTEES

Brian Bjorndahl  
Chairman

Kevin Larson  
City Manager's Appointee

Kelly Gottschalk  
CFO/Finance Director

Lani Simmons  
Human Resources Director

Walter "Brandy" Kadous  
Employee Representative

Karen Tenace  
Employee Representative

John O'Hare  
Retiree Representative

### TREASURY DIVISION STAFF

Allan Bentkowski, CPA  
Finance Manager

Deborah Gagnier-Campbell  
Sr. Account Clerk

### HUMAN RESOURCES EMPLOYEE BENEFITS AND RETIREMENT STAFF

Michael A. Hermanson, CPA  
Employee Benefits & Retirement  
Administrator

Michael Jesse  
Lead Finance Analyst

Melissa Waychoff  
Administrative Assistant

### ACCOUNTING

David Roels  
Principal Accountant

### LEGAL

David Deibel  
Principal Assistant City Attorney

Cassie Langford  
Yoder & Langford, P.C.  
Phoenix, AZ

### ACTUARY

Gabriel, Roeder, Smith & Company  
Denver, CO

### AUDITOR

CliftonLarsonAllen LLP  
Tucson, AZ

### INVESTMENT MANAGERS

Aberdeen Asset Management  
Philadelphia, PA

Alliance Capital Management Corporation  
New York, NY

BlackRock Institutional Trust Company, N.A.  
San Francisco, CA

Causeway Capital Management  
Los Angeles, CA

Pyramis Global Advisors  
Smithfield, RI

JP Morgan Asset Management  
San Francisco, CA

LaSalle Investment Management  
Chicago, IL

Pacific Investment Management Company  
Newport Beach, CA

Champlain Investment Partners  
Burlington, VT

Macquarie Capital (USA), Inc.  
New York, NY

SteelRiver Infrastructure  
New York, NY

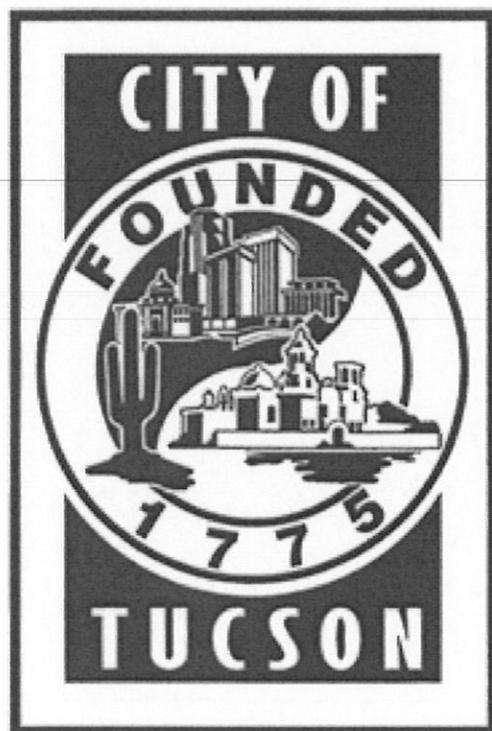
T. Rowe Price Associates  
Baltimore, MD

### INVESTMENT CONSULTANT

Hewitt EnnisKnupp  
Lincolnshire, IL

### CUSTODIAN BANK

BNY Mellon  
New York, NY





**CliftonLarsonAllen**CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com**Independent Auditor's Report**

The Board of Trustees  
Tucson Supplemental Retirement System

We have audited the accompanying statement of plan net assets of the Tucson Supplemental Retirement System (the System) as of June 30, 2012, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the System as of June 30, 2012, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 23 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The additional supplementary information on page 25 in the financial section for the year ended June 30, 2012 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, the investment section, the actuarial section, and the statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*CliftonLarsonAllen LLP*

Tucson, Arizona  
December 21, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

We are pleased to provide this overview and analysis of the financial activities of the Tucson Supplemental Retirement System (TSRS) for the plan year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page ii of this report.

### *Financial Highlights*

- The net assets of TSRS as of the close of the plan year ending June 30, 2012 are \$580,383,341 (net assets held in Trust for Pension Benefits). All of the net assets are available to meet TSRS's ongoing obligations to plan participants and their beneficiaries.
- TSRS's decrease for this plan year in total net assets held in trust for pension benefits was \$19,328,471, or 3.22%, primarily as a result of decreases in the fair value of the System's assets.
- TSRS's funding objective is to establish and receive contributions, which will remain approximately level from year to year and thereby minimize inter-generational cost transfers. As of June 30, 2012, the date of our last actuarial valuation, the funded ratio for TSRS was approximately 63.5% on an actuarial basis, 61.7% using the market value basis.
- Revenues (Additions to Plan Net Assets) for the year were \$45,162,766, which includes member and employer contributions plus transfers from other systems and contributions from other sources totaling \$36,649,597, investment earnings income of \$11,475,608 and a net gain in fair value of investments of \$566,661 reduced further by Investment Expenses of \$3,529,100.
- Expenses (Deductions from Plan Net Assets) increased from \$64,255,757 in the prior year to \$64,491,237 or approximately 0.37%. The net increase in deductions resulted from an increase in pension benefits of \$3,445,526, decreased refunds and transfers of \$3,032,007 and decreased administrative expenses of \$178,039; bringing the total increase in expenses to \$235,480.

### *Overview of the Financial Statements*

The following discussion and analysis are intended to serve as an introduction to TSRS's financial statements, which are comprised of these components:

1. Statement of Plan Net Assets
2. Statement of Changes in Plan Net Assets
3. Notes to the Financial Statements

Please note, however, that this report also contains other supplementary information in addition to the basic financial statements themselves, including details of the system's investments, actuarial analysis, and various statistical information found in sections under those names.

*The Statement of Plan Net Assets* is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

*The Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions to and deductions from the plan.

Both statements comply with applicable Governmental Accounting Standards Board (GASB) Statements. These pronouncements require certain disclosures and require state and local governments to report using the full accrual method of accounting. TSRS complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about TSRS's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses were taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all capital assets (fixed assets) are depreciated over their useful lives.

These two statements report TSRS's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – is one way to measure the system's financial position. Over time, increases and decreases in TSRS's net assets are one indicator of whether its financial condition is improving or deteriorating. (See TSRS's financial statements on pages 8 and 9 of this report).

*Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 10-22 of this report).

*Other information* - in addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning TSRS's progress in funding its obligations to provide pension benefits to members (See Required Supplementary Information on page 23 and 24 of this report).

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information on pensions. (See Supporting Schedules on page 25 of this report.)

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of TSRS's financial position (see table on page 5). The total assets of TSRS exceeded its liabilities at the close of the plan year ended June 30, 2011. Currently \$580,383,341 in net assets are held in trust for ongoing obligations to plan participants and their beneficiaries.

<b>Assets</b>	<b>6/30/12</b>	<b>6/30/11</b>	<b>% change</b>
Cash, Cash Equivalents and Receivables	14,026,483	26,803,596	-47.7%
Investments	591,555,915	602,060,372	-1.7%
Securities Lending Cash Collateral	15,567,962	37,410,180	-58.4%
Capital Assets, Net	37,794	62,978	-40.0%
<b>Total Assets</b>	<b>\$ 621,188,154</b>	<b>\$ 666,337,126</b>	<b>-6.8%</b>
<b>Liabilities</b>			
Accounts Payable and Other Payables	640,506	5,256,413	-87.8%
Due to Securities Lending Borrowers	15,567,962	37,410,180	-58.4%
Due to Brokers	24,596,345	23,958,721	2.7%
<b>Total Liabilities</b>	<b>\$ 40,804,813</b>	<b>\$ 66,625,314</b>	<b>-38.8%</b>
<b>Total Net Assets</b>	<b>\$ 580,383,341</b>	<b>\$ 599,711,812</b>	<b>-3.2%</b>

As of June 30, 2012, \$580,383,341 in Plan Net Assets was held in Trust for the payment of pension benefits, as identified in the Statement of Plan Assets on page 8. This amount represents a decrease of 3.2% from June 30, 2011. The decrease is attributable primarily to poor investment performance experienced in the financial markets during this plan year.

Additions to Plan Net Assets

	<b>6/30/12</b>	<b>6/30/11</b>	<b>% change</b>
Employer Contributions	27,429,666	23,432,916	17.1%
Employee Contributions	7,685,264	7,562,294	1.6%
Purchase of Service Credit	1,280,263	3,772,923	-66.1%
Transfers and contributions - other sources	254,404	750,009	-66.1%
Net gain (loss) in Fair Value of Investments	566,661	106,114,437	-99.5%
Investment and securities lending income (net)	7,946,508	8,213,469	-3.3%
<b>Total Additions</b>	<b>\$ 45,162,766</b>	<b>\$ 149,846,048</b>	<b>-69.9%</b>

Employer contributions increased by \$3,996,750; or 17.1%, and employee contributions increased by \$122,970, or about 1.6%. The increase in the employer contribution rate was offset by decreases in covered payroll. A total of \$1,280,263 was received from employees purchasing service credits; 66.1% less than the prior fiscal year. The decrease in employee purchases of service gives some evidence that TSRS members were not buying as much as they had in prior years. The change is partly attributed to the expiration of certain retirement incentives available in the prior fiscal year that were dropped in the current plan year, and also due to revisions in the total number of years

allowed to be purchased. Transfers from other systems dropped from the prior year by \$495,605, or 66.1%. Net gain (loss) in Fair Value of Investments fell by \$105,547,776, or -99.5%; and investment and securities lending income decreased for the current year by \$266,961, or -3.3%, caused by lower earnings on investments throughout the fiscal year as well as reduced portfolio values in the domestic and international financial markets on the measurement date.

### Deductions from Plan Net Assets

The principal purpose for which the System was created was to provide supplemental retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The costs of such programs include recurring benefit payments as required by the plan design, refunds of contributions to terminated employee's, the cost of administering the System and expenses incurred in the investment of the System's assets.

Total deductions for fiscal year 2012 were \$64,491,237 representing an increase of 0.4% from fiscal year 2011 expenses. The largest contributors to the increase in deductions for this year were attributed to new retirements following the final end of service program exits at December 31, 2011; which increased the amount of retirement benefit payments paid by \$3,445,526, for a 5.9% increase. The increased retirement benefits were offset by the absence of transfers to other systems; a change of \$2,928,607 related to a July 1, 2011 revision to an Arizona state law that previously allowed full reciprocity for member account transfers, effectively eliminating all transfers out during fiscal 2012.

<b>Deductions from Net Assets</b>	<b>06/30/12</b>	<b>06/30/11</b>	<b>% change</b>
Retirement Benefits	61,693,408	58,247,882	5.9%
Refund of Contributions	2,247,225	2,350,625	-4.4%
Transfers to Other Systems	-	2,928,607	-100.0%
Administrative Expenses	550,604	728,643	-24.4%
<b>Total Deductions</b>	<b>\$ 64,491,237</b>	<b>\$ 64,255,757</b>	<b>0.4%</b>
<b>Net Increase/(Decrease) in Plan Assets</b>	<b>\$ (19,328,471)</b>	<b>\$ 85,590,291</b>	<b>-122.6%</b>

### Reserves

The system places an amount into a separate Reserve for Employee Contributions for all amounts contributed by members. Deductions are made from this account when the member retires, transfers balances to other retirement systems, or when a member terminates employment and requests a refund. As of the plan year ended June 30, 2012, the balance in this reserve account increased by \$3,191,299 to \$122,240,396.

Upon retirement, the system places an amount in Reserves for Retirement Benefits equivalent to the present value of the actuarial benefit selected by the member. When the present value is determined, amounts are added to this reserve from amounts in the Reserve for Employee Contributions and from the Unreserved Net Assets balance to fully fund the expected liability. As a result of the change in market value of the system assets during the current plan year, this reserve decreased for the plan year ended June 30, 2012 by \$52,286,747 to \$484,928,539.

The impact of gains or losses recognized during the plan year ended June 30, 2012 affects the amount remaining in the Unreserved Net Assets. Employer funding is added to the Unreserved Net Assets balance. At retirement, amounts needed to fully fund retirement benefits are transferred from the Unreserved Net Assets to the Reserves for Retirement Benefits. As a result of the change in market values of the system's assets during the current year, the Unreserved Net Assets increased by \$29,766,977 to a negative balance of \$26,785,594.

*TSRS's Fiduciary Responsibilities*

TSRS's Board of Trustees and management staff are fiduciaries of the pension trust fund. Under the City of Tucson Code the assets can only be used for the exclusive benefit of plan participants and their beneficiaries.

*Requests for Information*

This financial report is designed to provide the Retirement Board of Trustees, our membership, taxpayers, investment managers and other interested parties with a general overview of TSRS's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Tucson Supplemental Retirement System  
Attention: TSRS Plan Administrator  
City Hall, 3<sup>rd</sup> floor - Human Resources Administration Office  
255 West Alameda Street  
Tucson, Arizona 85701

**Tucson Supplemental Retirement System**  
**Statement of Plan Net Assets**  
**June 30, 2012**

<b>Assets</b>	
Cash Deposits/Pooled Investments	\$ 777,974
Receivables:	
Accounts Receivable	
Employer Contributions (Note 3)	1,061,500
Employee Contributions (Note 3)	312,641
Due From Brokers	10,512,063
Interest and Dividends	1,362,305
Total Receivables	<u>13,248,509</u>
Investments, at Fair Value (Notes 4, 5, and 6):	
Short Term Investments	16,154,895
U.S. Treasuries, Agencies & Other Governmental Bonds	94,922,574
Corporate Bonds & Other Fixed Income Instruments	19,588,748
U.S. Corporate Stocks	264,513,258
International Fixed Income	33,183,349
International Equity	74,632,178
Real Estate	49,325,379
Infrastructure Investments	39,235,534
Total Investments, at Fair Value	<u>591,555,915</u>
Securities Lending Collateral at Fair Value	15,567,962
Capital Assets, Net of Accumulated Depreciation	37,794
Total Assets	<u>621,188,154</u>
<b>Liabilities</b>	
Accounts Payable	632,547
Accrued Wages Payable	7,959
Due to Brokers	24,596,345
Obligations under Securities Lending (Note 5)	15,567,962
Total Liabilities	<u>40,804,813</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$ <u><u>580,383,341</u></u></b>

**See Accompanying Notes to Financial Statements**

**Tucson Supplemental Retirement System  
Statement of Changes in Plan Net Assets  
Year Ended June 30, 2012**

**Additions**

## Contributions (Note 3):

City	\$ 27,429,666
Employee	7,685,264
Purchase of Service	1,280,263
Contributions from Other Sources	50,000
Transfers from Other Systems	204,404
Total Contributions	<u>36,649,597</u>

## Income from Investment Activity

Net Gain (Loss) in Fair Value of Investments	566,661
Interest	6,319,874
Dividends	4,981,339
Miscellaneous Income	16,833
	<u>11,884,707</u>
Investment Expenses	(3,460,730)

Net Income from Investment Activity 8,423,977

## Income from Securities Lending Activity

Gross Income	157,562
Management Fees	(68,370)
Net Income from Securities Lending Activity	<u>89,192</u>

Net Investment Income 8,513,169

Total Additions 45,162,766

**Deductions**

Benefits	61,693,408
Refunds	2,247,225
Administrative Expenses	550,604
Total Deductions	<u>64,491,237</u>

**Net Increase (Decrease) in Plan Net Assets** \$ (19,328,471)

**Net Assets Held in Trust for Pension Benefits (Note 7)**

July 1, 2011	599,711,812
June 30, 2012	<u>\$ 580,383,341</u>

**See Accompanying Notes to Financial Statements**

**Tucson Supplemental Retirement System**  
**Notes to Financial Statements**  
**Year Ended June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DISCUSSION OF PLAN ASSETS**

**A. Reporting Entity** - Due to the extent of the System's financial and operational relationship with the City of Tucson, the System is considered a component unit of the City's financial reporting entity and is included in its Comprehensive Annual Financial Report as a pension trust fund.

**B. Basis of Accounting** - The System's financial statements are prepared using the accrual basis of accounting using the economic resources measurement focus. Employee and employer contributions are recognized when due, pursuant to formal commitments. Benefits and refunds are recognized when due and payable in accordance with the plan provisions.

**C. Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value, which is determined by the System custodian in consultation with the System's investment managers.

The cost of common stock sold is determined on the average cost method. Realized and unrealized gains or losses are reflected in revenues.

At the end of the current fiscal year, there were no individual investments, other than those issued or guaranteed by the United States government that represented 5 percent or more of System net assets.

**D. Deposits** - In accordance with the City Charter and state statutes, the System is authorized to deposit money in certificates of deposit and interest-bearing accounts provided that deposits in excess of the insured amount are collateralized. State statutes require collateral pledged for deposits to be held in the System's name by a bank other than the pledging bank or by the pledging bank's trust department.

**E. Capital Assets** - Capital assets of the System currently include moveable equipment items and the capitalized cost of pension administration software, stated at historical cost net of accumulated depreciation. The straight-line method of depreciation for capitalized equipment and software is used over an estimated useful life of 6 years. The capitalization threshold is \$5,000.

**F. Benefit Changes** - The TSRS Board of Trustees shall determine, pursuant to its formal policy and in its discretion whether the System shall fund an annual supplemental post-retirement benefit payment to retired members and beneficiaries.

**G. Administrative Costs** - All costs of administering the plan are financed by the employer and member contributions made, based upon recommended contribution rates in effect for the year, applied on active member covered payroll.

**H. Adoption of GASB Statement 59** – The System adopted Governmental Accounting Standards Board (GASB) Statement No. 59, “Financial Instrument Omnibus” during the fiscal year. The adoption of GASB No. 59 had no impact on the financial statements of the System in the current fiscal year.

**I. Tax Status of the Plan** – The System applied for an IRS determination letter in November 2008, and received a favorable determination (qualified status) from the IRS July 19, 2012.

## 2. DESCRIPTION OF THE PLAN

**A. Authorization, Purpose, and Administration of the System** - The Tucson Supplemental Retirement System (the “System” or “TSRS”) is a single-employer defined benefit plan for City of Tucson (“City”) employees. It was established in the City Charter to provide its members with a supplement to the retirement and disability benefits of the social security system. The System is governed by a seven member Board of Trustees: a chairman who is appointed by the Mayor and Council, the City’s directors of human resources and of finance, two members elected by the membership of the System, a retired member elected by the System’s retirees, and one member appointed by the City Manager. Benefit provisions and changes in benefits or funding are recommended by the Board of Trustees and must be approved by Mayor and Council.

**B. Plan Membership** - The System covers substantially all City of Tucson, Arizona, employees, except for appointed officials and staff who may elect not to join, and commissioned police and fire personnel and elected officials, who are covered under other plans. Employees participate in the System immediately upon beginning employment with the City. Employee membership data as of June 30, 2012 is as follows:

Active plan participants:	
Vested	2,097
Nonvested	621
Total active plan participants	<u>2,718</u>
Current retirees and beneficiaries	2,704
Terminated vested participants	229

### C. Plan Benefits

#### 1. Retirement Benefits

- Tier I benefit plan: Any employee hired prior to July 1, 2011, who has attained the earlier of age 62, or a combination of the employee’s age and years of creditable service equaling the sum of 80, is entitled to receive monthly retirement benefits calculated at 2.25% of average final monthly compensation multiplied by the number of years of creditable service. Employees hired after July 1, 2009

receive the same benefit, but are required to have a minimum of five years accrued service. Average final monthly compensation is defined as the highest compensation of 36 consecutive months during the 120 months immediately preceding retirement. Accrued unused sick leave and vacation leave at the final salary is included in the member's service period and is substituted for an equal number of hours at the beginning of the 36 month period for determining the average final salary calculation.

- Tier II benefit plan: Any employee hired after June 30, 2011, who has attained the minimum retirement age of age 60, and who also has a combination of employee age and years of service equaling the sum of 85, is entitled to receive monthly retirement benefits calculated at 2.00% of average final monthly compensation multiplied by the number of years of creditable service. Average final monthly compensation is defined as the highest compensation of 60 consecutive months during the 120 months immediately preceding retirement. Accrued unused sick leave and vacation leave at the final salary is not included for member service credits or as a substitution for an equal number of hours at the beginning of the 60 month period final average salary calculation.

An employee who retires after attaining age 55 with 20 or more years of creditable service under Tier I; or after attaining age 60 with 20 or more years of credited service under Tier II, is entitled to early retirement benefits reduced to the actuarial equivalent of the amount to which the employee would have been entitled upon attaining normal retirement.

An employee is always fully vested in his/her individual contributions. Upon termination of employment for reasons other than retirement, employees having five or more years of creditable service (terminated vested participants) may leave their contributions in the System as a deferred retirement, and begin drawing a retirement allowance when they reach either their normal or early retirement eligibility date.

2. Disability Benefits - Employees with ten or more years of creditable service, who are not yet eligible to retire and who have a total and permanent disability may apply for disability retirement.

3. Death Benefits - The beneficiary of an employee who pre-selected a retirement option and died while eligible to retire, shall receive a benefit based upon the selected option if the member has made such an election by June 30, 2009.

The spousal beneficiary of an employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, may choose to receive a benefit equal to a 100% joint and survivor annuity based on the member's years of credited service and average final monthly compensation at the time of the member's death, or may elect to receive a lump sum payment of twice the members account balance plus interest, measured on the date of death.

The named beneficiary of an employee who is other than the spouse of the employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, may choose to receive a benefit equal to a 15 year term certain benefit to the named beneficiary, or the beneficiary may elect to receive

a lump sum payment of twice the members account balance plus interest, measured on the date of death.

Multiple designated beneficiaries of an employee who died while eligible to receive benefits but who had not pre-selected a benefit option by June 30, 2009, receive a lump sum payment of twice the members account balance plus interest, measured on the date of death.

The beneficiary of an employee who was not eligible for any retirement benefits, but had more than five years of creditable service, may receive a lump sum payment of twice the member account balance plus interest, measured on the date of death.

### **3. CONTRIBUTIONS AND RESERVES**

#### ***A. Funding Requirements***

**1. Employee Contributions** - Currently, employee contributions are 5% of regular salary and are made through payroll deductions for employees hired prior to July 1, 2006. Employees hired after June 30, 2006 are paying an amount equal to 40% of the actuarially required contribution rate determined annually by the system Actuary. For this fiscal year, the rate for new employees was 13.97%. A reserve is established for contributions and earnings allocations, less amounts transferred to the reserve for retirement benefits which includes retirement and disability and amounts reserved for terminated employees. If an employee leaves covered employment before attaining five years service credit, the accumulated contributions plus interest are refunded to the employee or his designated beneficiary. There are no long-term contracts for employee contributions to the System.

**2. Employer Contributions** - The City contributions are based on the annual required contribution rate determined by the Actuary, based on the difference between the total contribution rate recommended and the rate paid by employees, based on a level percentage of payroll method. The rate is set by the actuary at the level necessary to finance employee participation in the System and to fund the costs of administering the System. There are no long-term contracts for employer contributions to the plan, and all contributions are made on a bi-weekly basis.

#### ***B. Net Assets***

Two general types of net asset reserves are maintained within the System. The Reserve for Employee Contributions contains the employee contributions for all contributing members of the System, plus allocated interest earnings. At the time an employee retires or defers retirement, the actuarial value of the individual's retirement benefits is transferred to the Reserve for Retirement Benefits, which is decreased by payments to retirees and increased by interest earnings. The reserves are fully funded.

Earnings of the System are allocated semi-annually (at June 30 and December 31) to the reserves which comprise net assets. At the year ended June 30, 2012, allocations were based on rates of return of 6.00% per annum. Any unallocated earnings remain in unreserved net assets.

The net assets at June 30, 2012, consisted of the following components:

Reserved for employee contributions	\$	122,240,396
Reserved for retirement benefits		484,928,539
Unreserved net assets (deficit)		<u>-26,785,594</u>
Net Assets	\$	<u><u>580,383,341</u></u>

#### 4. INVESTMENTS

The System is governed by a Board of Trustees. The Board of Trustees is required by City Code in making investment decisions, to exercise the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income there from, as well as the probable safety of the capital. Investments of the System are held separately from those of other City funds by investment custodians. Quoted market prices have been used to value investments as of June 30, 2012.

For those investments that do not have established market exchanges, the fair market value is estimated as objectively as possible by third party appraisals. Real Estate and Infrastructure investment managers utilize third party appraisals to determine fair market value of assets under investment. Infrastructure investments pertain to forms of "real" property used for general public purposes that typically involve partnerships between governmental and private entities. Examples of infrastructure investments are toll roads, bridges, pipelines, airports, shipping ports, etc. The System currently participates in two pooled infrastructure funds as well as three real estate funds.

The System's investments at June 30, 2012 are listed below. These investments are either held by the System or its agent in the System's name and are either insured, registered or collateralized. A portion of these investments is subject to credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk and/or foreign currency risk. The Government Accounting Standards Board (GASB) Statement 40 requires the System to disclose such risks which are all discussed in the sections that follow.

All System investments are reflected in the following schedule with the exception of amounts held in the City's investment pool account. The City maintains an investment pool account for City funds. Bi-weekly contributions for the Tucson Supplemental Retirement System are held in the City's investment pool account and are used to pay recurring expenditures. The \$777,974 cash balance, as well as, current deposits to the City's investment pool account are invested in money market funds consisting of U.S. Treasuries and Agencies and separately held issues of federal agency and U.S. corporate bonds with ratings no lower than A2 as reported by Moodys.

<u>Investments</u>	<u>Fair Value</u>
U.S. Issues not on Securities Loan:	
U.S. Treasuries, Agencies & Other Governmental Bonds	\$ 93,731,101
Corporate Bonds & Other Fixed Income Instruments	15,524,209
Corporate Stocks	255,577,481
Non-U.S. Issues not on Securities Loan:	
International Fixed Income	33,183,349
International Equities	73,928,227
Subtotal	<u>471,944,367</u>
Investments Held by Broker-Dealers Under	
Securities Loans with Cash Collateral:	
U.S. Treasuries, Agencies & Other Governmental Bonds	1,191,473
Corporate Bonds & Other Fixed Income Instruments	4,064,539
Corporate Stocks	8,935,777
International Equities	703,951
Subtotal	<u>14,895,740</u>
Securities Lending Short-Term Collateral Investment Pool	15,567,962
Money Market Funds/Short-Term Investments	16,079,895
Real Estate Funds	49,325,379
Infrastructure Funds	<u>39,235,534</u>
Subtotal	<u>120,208,770</u>
Total Deposits and Investments	<u>\$ 607,048,877</u>

**A. Credit Risk** – As defined by GASB Statement 40, credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Associated with credit risk is concentration of credit risk and custodial credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The System presently maintains two externally managed fixed income (bond) accounts which are exposed to some form of credit risk. The assets in the first account are actively managed while the assets in the second account are invested in a commingled bond index fund (passively managed).

The TSRS Board has given the actively managed account manager discretion to invest in a broad array of public and private asset classes, instruments and

investment vehicles in order to meet or exceed the agreed upon investment return custom benchmark. However, the following specific investment policy guidelines pertain to this manager:

- The maximum position in a single issuer (excluding obligations of U.S. Government and its Agencies) should not exceed 5% of the portfolio's assets at current market value
- The portfolio should maintain an average quality of at least "BB+"
- Money market instruments must be rated in one of the two highest categories by a nationally recognized rating agency
- The minimum rating of individual issues should be CCC (based on market value) as rated by Moodys, Standard & Poor's or Fitch
- Should an issue be downgraded below the minimum, the manager will determine the appropriate action to be taken

The passive fund is expected to replicate, as close as possible, the characteristics, quality and performance of its underlying index, the BC Aggregate Bond Index.

The System currently does not have a policy regarding custodial credit risk for deposits or investments as defined in the Credit Risk section above. As of June 30, 2012 the System was exposed to custodial credit risk for deposits in the amount of \$5,504 and custodial credit risk for investments of \$795,000.

**A. Credit Risk** – (continued from previous page)

The System had the following credit risk structure as of June 30, 2012:

**Credit Risk Structure**

<u>Investment Type</u>	<u>Holdings</u>	<u>Average Credit Rating (1)</u>	<u>Fair Value</u>	<u>Percent of Grand Total</u>
Cash and Cash Equivalents:				
Cash & Short Term Investment Fund	2	Aa3	\$ 15,930,005	
U.S. Treasury - Less than 1 Year	1	Aaa	149,890	
Sub Total	<u>3</u>		<u>16,079,895</u>	9.82%
U.S. Treasury Notes & Bonds:	2	Aaa	1,669,809	1.02%
U.S. Agency & Other Governmental Obligations:				
U.S. Agency and Agency Pools	17	Aaa	33,125,525	
Municipal Bonds	6	A3	5,536,500	
Other Government Bonds	1	Aaa	787,570	
Sub Total	<u>24</u>		<u>39,449,595</u>	24.09%
BlackRock U.S. Debt Fund	1	Aa1	53,803,170	32.85%
Corporate & Other Fixed Income Instruments:				
Collateralized Mortgage Obligations (CMO)	4	Ba1	773,903	
Fixed Income Swaps & Options	32	Aa2	(259,536) (2)	
Banking & Finance	4	Ba2	1,896,752	
Health Care	2	Ba1	1,187,158	
Industrials	9	Ba2	4,922,146	
Utilities	3	B1	1,204,825	
Transportation	2	Baa3	1,119,226	
Other Corporate Issues	15	Baa3	8,654,274	
Convertible Securities	1	B3	90,000	
Sub Total	<u>72</u>		<u>19,588,748</u>	11.96%
International Bonds:	94	Baa2	33,183,349	20.26%
Grand Total	<u>196</u>		<u>\$ 163,774,566</u>	<u>100%</u>

## Footnotes

(1) Per Moodys Credit Rating Organization

(2) A negative value in any of the instruments noted above is the result of netting long and short positions against each other. This strategy is utilized as a means to mitigate interest rate risk from holding long positions in mortgages and / or corporate bonds.

**B. Interest Rate Risk** – As defined by the Government Accounting standards Board (GASB) in Statement 40, interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. For fixed income securities, there is an inverse relationship between the change in interest rates and their fair value. For example, in a rising interest rate environment the value of fixed income securities will tend to fall by varying degrees depending on the length of their maturities. In general, the value of fixed income securities with a longer duration will tend to decrease more than shorter duration securities in a rising interest rate environment.

The System's investment policy regarding interest rate risk for the actively managed fixed income account, is to limit duration to within 30% of the custom benchmark which is defined as 25% BC Mortgage Index, 25% BC Credit Index, 25% BC High Yield Index and 25% JPM EMBI Global Index. The passive fund should match, as close as possible, the maturity structure and duration of the BC Aggregate Bond Index.

The System had the following maturity structure as of June 30, 2012:

### Maturity Structure

Investment Type	Investment Maturities (in Years)				Total Fair Value
	Less Than 1	1 - 5	6 - 10	More Than 10	
Cash & Short Term Investment Fund	\$ 15,930,005	\$ -	\$ -	\$ -	15,930,005
U.S. Treasury Issues	149,890	-	-	1,669,809	1,819,699
U.S. Agency & Other Governmental Obligations	14,667,110	1,230,429	-	23,552,056	39,449,595
BlackRock U.S. Debt Fund	-	-	53,803,170	-	53,803,170
Corporate & Other Fixed Income Instruments	559,193	6,720,005	8,523,248	3,786,302	19,588,748
International Bonds	971,103	10,989,360	18,415,571	2,807,315	33,183,349
<b>Total</b>	<b>\$ 32,277,301</b>	<b>\$ 18,939,794</b>	<b>\$ 80,741,989</b>	<b>\$ 31,815,482</b>	<b>\$ 163,774,566</b>
<b>Effective Duration:</b>	<b>Active Account 4.39 years</b>	<b>Passive Account 4.40 years</b>			

**Note:** The information indicated has been presented using the specific identification method

**C. Foreign Currency Risk** – As defined by the Governmental Accounting Standards Board (GASB) in Statement 40, foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The TSRS Board has given the System's international equity managers discretion to invest in a broad array of common and preferred stocks, convertibles and warrants of companies headquartered outside of the United States in order to meet or exceed their agreed upon investment return benchmarks. However, the following specific investment policy guidelines pertain to these managers:

- Investments in any single country market should not exceed more than 4 times the weight of the country in the benchmark index or 50% of portfolio assets, whichever is lower
- If a country has a greater than 50% weight in the index, the maximum exposure to that country in the portfolio may be as high as its weight in the index
- No more than 35% of each manager's portfolio should be invested in "emerging markets" (i.e., markets that are not included in the Morgan Stanley Capital International Europe, Australia and Far East Index)
- Managers are permitted to enter into hedging strategies, including cross-currency hedges, using forward currency exchange contracts and currency options
- Derivatives should not be used for the purpose of speculation or for leveraging the portfolio

**C. Foreign Currency Risk** (continued from previous page)

The TSRS fund had the following foreign currency risk exposure as of June 30, 2012:

**Foreign Currency Risk Exposure**

Currency	Fair Value (1)	Percent of Total
Australian Dollar	\$ (1,553,340) (2)	-0.268%
Brazil Real	860,328	0.149%
Canadian Dollar	497	0.000%
Chinese Yuan Renminbi	-	0.000%
Euro Currency Unit	32,291,770	5.580%
Hong Kong Dollar	1,956,440	0.338%
Japanese Yen	6,268,872	1.083%
Mexican New Peso	988,062	0.171%
New Taiwan Dollar	(1,915) (2)	0.000%
Norwegian Krone	47,062	0.008%
British Pound Sterling	7,893,090	1.364%
South African Comm Rand	114,827	0.020%
Singapore Dollar	1,193,164	0.206%
South Korean Won	1,608,562	0.278%
Swedish Krona	533,600	0.092%
Swiss Franc	3,913,779	0.676%
U.S. Dollar	522,628,735	90.304%
<b>TOTAL</b>	\$ 578,743,533	100%

**Footnotes:**

(1) Over 50% of the total fair value is held in equity securities.

(2) A negative currency position is obtained by accepting an obligation to deliver the designated currency to a counterparty at a specified date in the future. This position is favorable for portfolio returns if the currency depreciates in value versus the U.S. dollar over the period of the contract.

## 5. SECURITIES LENDING

The Board of Trustees for the Tucson Supplemental Retirement System permits the custodian bank, BNY Mellon, to lend securities to broker-dealers and other entities. Each loan is executed with a simultaneous agreement to return the collateral for the same securities in the future. The custodian bank lends U.S. securities for collateral initially valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned for collateral initially valued at 105% of the fair value of the securities plus any accrued interest. Collateral is marked-to-market daily. As of June 30, 2012, the carrying amount and fair value of securities on loan was \$14,895,740. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day.

In the event of a borrower's default, the custodian bank is obligated to indemnify the lender if, and to the extent that, the fair value of the collateral is insufficient to replace the loaned securities. BNY Mellon's responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations covering securities lending.

Although the average term of the security loans is one week, each loan can be terminated at will by either the lender or the borrower. Cash collateral is invested in a short-term investment pool, which on average had a weighted maturity of 30 days. The relationship between the maturities of the investment pool and the security loans are affected by the maturities of the loans made by other entities that use the agent's pool.

The lender cannot pledge or sell collateral securities received until, and unless, a borrower defaults. There were no significant violations of legal or contractual provisions and no borrower or lending agent default losses known to the securities lending agent. As of June 30, 2012, the lenders had no credit risk exposure to borrowers because the fair value of collateral held exceeded the fair value of securities loaned.

## 6. DERIVATIVES

The Tucson Supplemental Retirement System permits the limited use of derivatives by its international equity and external fixed income managers. Examples of derivative instruments permitted, but not limited to, are forward foreign currency exchange contracts, financial futures, options, swaps and swaptions. All derivative instruments utilized are considered "Investment Derivative Instruments" as defined in GASB 53 "Accounting and Financial Reporting for Derivative Instruments." The statement addresses the recognition, measurement, and disclosure regarding derivative instruments entered into by the System.

The following table is a summary of the various derivative instruments utilized by the System's external fixed income manager as of June 30, 2012. Changes in Fair Value is included as part of the overall Increase (Decrease) in Fair Value of Investments in the Statement of Changes in Plan Net Assets. Fair Value is included as part of investments listed under Corporate Bonds & Other Fixed Income Instruments in the Statement of Plan Net Assets.

Investment Derivative Instrument	Notional Amount (1)	Changes in Fair Value	Fair Value	Principal Risk
OTC Swaptions	(10,200,000)	\$ 22,692	\$ (105,098)	Interest Rate
Currency Forwards (Net)	87,982,843	\$ (38,743)	\$ 13,652,360	Foreign Currency
Credit Default Swaps	16,156,000	\$ (103,290)	\$ (203,596)	Credit
Interest Rate Swaps	20,100,000	\$ 128,093	\$ 319,253	Interest Rate
Currency Forwards (2)	690,655	\$ 36,189	\$ 912,756	Foreign Currency

Footnotes:

(1) The Notional amount is the number of currency units (stated in U.S. and/or foreign currencies), shares or other units specified in the derivative instrument. It is a stated amount on which payments depend.

(2) As reported by Causeway Capital Management (International Equity Manager), all other amounts reported above have been obtained from PIMCO (Fixed Income Manager).

Whenever possible, the investment manager will base the valuation of derivatives on market information; however, where market quotes are not readily available, an independent third party pricing vendor will be utilized. Exchange traded derivatives are an example of derivatives where market quotes are available, whereas over-the counter (OTC) derivatives are not traded over standardized markets.

In addition to the principal risks noted above, Forward Foreign Currencies, Credit Default Swaps and Interest Rate Swaps are also subject to counterparty risk. In general, counterparty risk is the risk of loss of an amount expected to be delivered under an agreement in the event of the default or bankruptcy of the counterparty. Generally, counterparty risk is controlled through dealing with a number of different counterparties reasonably deemed to be creditworthy by the investment manager and using agreements with counterparties that permit netting of obligations. Counterparty risk with swaps is limited by execution under standardized International Swap and Derivatives Association Agreements. These contracts allow for the mutual exchange of collateral should an overall unsecured market value exceed a certain threshold (e.g., \$250,000).

Credit, interest rate and foreign currency risks are addressed in previous sections of Note 4. These risks, applicable to other fixed income and foreign investments, are not substantially different from principal risks associated with derivative instruments.

## 7. FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2012, the most recent actuarial valuation date, the plan was 63.5% funded on an actuarial value basis, 61.7% using the market value. The actuarial accrued liability for benefits was \$940.9 million and the actuarial value of assets was \$597.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$343.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$125 million, and the ratio of UAAL to the covered payroll was 275.1 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information

about whether the actuarial value of the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

## **8. ACTUARIAL METHODS AND ASSUMPTIONS**

In the June 30, 2012 actuarial valuation, the level-percent contribution requirements and actuarial present values are calculated using the entry age actuarial cost method. The actuarial assumptions included (a) 7.75 percent investment rate of return (net of administrative expenses); (b) projected salary increases at 3.50% compounded annually; and (c) additional projected salary increases of 0.00% to 4.00% attributable to seniority / merit. The assumptions do not include postretirement benefit increases, because there is no guarantee or requirement that future increases will be granted. The projection of benefits for financial accounting purposes also does not explicitly incorporate the potential effects of legal or contractual funding limitations, since they do not apply. The actuarial value of assets was determined using techniques that spread the effects of short term volatility in the market value of assets over a five-year smoothing period, which was first adopted for the plan year ended June 30, 2009. The Unfunded Actuarial Accrued Liability is being amortized as a level percentage of payroll on an open period of 15 years. This period of amortization has been used since the plan year ended June 30, 2007. The assumptions are selected based upon the recommendation of the plan's actuary and adopted by the Board of Trustees.

## Required Supplementary Information

## Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b)-(a)	Funded Ratio (a)/(b)	Active Member Covered Payroll (c)	Unfunded AAL as a Percentage of Active Member Covered Payroll ((b-a)/c)
1996	266,740	300,607	33,867	88.7	105,230	32.2
1997	304,684	327,378	22,694	93.1	110,189	20.6
1998	353,056	348,966	(4,090)	101.2	113,729	-
1999	402,875	400,224	(2,651)	100.7	126,817	-
2000	453,954	437,750	(16,204)	103.7	134,088	-
2001	470,672	495,359	24,687	95.0	145,059	17.0
2002	463,102	553,947	90,845	83.6	153,580	59.2
2003	458,857	601,173	142,316	76.3	143,164	99.4
2004	494,987	645,351	150,364	76.7	149,782	100.4
2005	538,789	693,871	155,082	77.6	162,149	95.6
2006	588,228	735,793	147,565	79.9	155,855	94.7
2007	634,763	763,539	128,776	83.1	159,250	80.9
2008	650,227	822,205	171,978	79.1	153,982	111.7
2009	665,298	859,485	194,187	77.4	149,925	129.5
2010	641,819	904,480	262,661	71.0	141,459	185.7
2011	642,665	928,609	303,944	67.3	121,631	249.9
2012	597,107	940,939	343,832	63.5	125,003	275.1

\$ Amounts are in thousands.

**Required Supplementary Information  
Schedule of Employer Contributions**

<b>Fiscal Year Beginning July 1,</b>	<b>Actuarial Valuation Date June 30</b>	<b>Annual Required Contribution</b>	<b>Percent Contributed</b>
1997	1996	\$ 9,800,579	100.0
1998	1997	9,475,558	100.0
1999	1998	9,707,235	100.0
2000	1999	10,123,248	100.0
2001	2000	9,088,970	100.0
2002	2001	12,765,619	100.0
2003	2002	18,457,476	100.0
2004	2003	21,657,270	100.0
2005	2004	23,643,630	100.0
2006	2005	25,958,330	100.0
2007	2006	25,232,745	100.0
2008	2007	24,358,460	100.0
2009	2008	27,601,156	100.0
2010	2009	28,756,890	100.0
2011	2010	34,824,621	100.0
2012	2011	36,846,476	100.0
2013	2012	39,526,319 <sup>1</sup>	100.0 <sup>1</sup>

<sup>1</sup>Projected amount: Actual required contribution dollar amount will be based on the computed contribution rate and the actual pensionable payroll for the period.

**Notes to Required Supplementary Information  
Summary of Actuarial Methods and Assumptions**

Valuation Date	June 30, 2012
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level percent-of-payroll, open
Amortization Period	15 years
Asset Valuation Method	Smoothed market
Actuarial Assumptions:	
Investment Rate of Return*	7.75%
Projected Salary Increases*	3.50-7.50%
Payroll Growth Rate	3.50%
*Includes Inflation	3.50%

**Supporting Schedules**  
**June 30, 2012**  
**Schedule of Administrative Expenses**

**Personal Services**

Staff Salaries	\$ 167,697
Fringe Benefits	75,394
Total Personal Services	<u>\$ 243,091</u>

**Professional Services**

Accounting	151,840
Actuary	43,500
Legal	5,614
Total Professional Services	<u>200,954</u>

**Miscellaneous**

Computer Software Maintenance	18,000
Depreciation	25,185
Insurance	18,578
Other	5,461
Postage	15,304
Printing and Supplies	16,468
Professional Development	7,563
Total Miscellaneous	<u>106,559</u>

<b>Total Administrative Expenses</b>	<b><u><u>\$ 550,604</u></u></b>
--------------------------------------	---------------------------------

**Schedule of Investment Services Expense**

Trust & Custody	\$ 264,414
Investment Consultant	157,000
Investment Management	2,918,052
Security Lending Management	68,370
Other Investment Expense	121,264
<b>Total Investment Expenses</b>	<b><u><u>\$ 3,529,100</u></u></b>



# INVESTMENT SECTION



# Hewitt ennisknupp

*An Aon Company*

October 23, 2012

The Board of Trustees  
Tucson Supplemental Retirement System  
City Hall  
255 West Alameda Street  
Tucson, AZ 85726-7210

Dear Board Members,

The investment section which follows summarizes the Tucson Supplemental Retirement System (TSRS) Retirement Plan's (Plan) investment activity through fiscal year-end June 30, 2012. The exhibits provide:

- An outline of investment policies;
- An outline of investment objectives;
- Investment results for the total portfolio and by investment manager over several measurement periods;
- The allocation and diversification of plan assets by investment manager and asset class;
- The shift in asset allocation across major asset classes over the past five years;
- A market value summary of the ten largest bond and equity holdings as of June 30, 2012; and
- A summary of investment manager, custodial, brokerage, and portfolio monitoring fees for the past fiscal year.

BNY Mellon (Mellon) served as custodian for a majority of plan assets. In addition, several of the investments are held in commingled vehicles with various custodians: the real estate and infrastructure portfolios, equity and fixed income index funds managed by BlackRock, an international equity fund managed by Aberdeen, and the fixed income funds and enhanced index equity fund managed by PIMCO. The investment activity summarized in this section is based primarily on the financial reporting provided by Mellon. Hewitt EnnisKnupp has confirmed the investment performance as calculated from the Mellon statements with the financial data as submitted to us by the respective investment managers. We endorse the Global Investment Performance Standards (GIPS®).

Hewitt EnnisKnupp, Inc.

100 Half Day Road | Lincolnshire, IL 60069  
t 847.295.5000 | f 847.771.2252 | www.hewittennisknupp.com

Board of Trustees

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October 23, 2012

### General Observations

Over the past year, Hewitt EnnisKnupp, Inc. (HEK) provided quarterly investment performance analysis of all investment portfolios relative to appropriate market benchmarks and peer groups. Each investment manager has been evaluated for adherence to investment policy guidelines, objectives, and consistency of style.

During the fiscal year the investment program was evaluated on a periodic basis. As discussed in the fiscal 2011 letter, two investment managers, Friess Associates (large cap growth) and Artio Global Investors (international equity), had not been meeting the respective performance objectives. Therefore, during the 2012 fiscal year, the Board decided to hire new investment managers: Friess Associates was replaced by T. Rowe Price; and Artio Global Investors was replaced by Aberdeen Asset Management. In addition, the Board restructured the fixed income portfolio. The In-House bond portfolio was replaced by a BlackRock index fund (managed versus the Barclays Aggregate Index).

The PIMCO strategy became more diversified, primarily by reducing the target to mortgages, increasing the targets to investment grade credit and high yield, and adding an allocation to emerging market debt.

As indicated in the following exhibits, the TSRS Retirement Plan produced positive returns during a year of market volatility. The total portfolio return for the fiscal year was 2.4% compared to 3.3% for the Custom Index. Several of the Plan's managers contributed to the value-added results (e.g., Champlain, Pyramis, Causeway, PIMCO fixed income, and J.P. Morgan Income & Growth). The primary detractors from performance were the two terminated managers, Artio and Friess.

Sincerely,

Hewitt EnnisKnupp, Inc.



Hewitt EnnisKnupp, Inc.  
Robert P. Van Den Brink, CFA

cc: Mr. Scott Coopriider, Hewitt EnnisKnupp, Inc.  
Mr. Justin Patton, Hewitt EnnisKnupp, Inc.

## Outline of Investment Policies

The asset allocation policy includes a 61% allocation to equity securities: 36% to large U.S. stocks; split among S&P 500 index, enhanced index, large capitalization growth and value accounts; 10% to mid-cap and small-cap U.S. stock accounts; and 15% to foreign stock accounts. There is also an allocation of 26% to fixed income, 8% to equity real estate and 5% to infrastructure.

The Board has set an asset allocation target range on each asset class, sub-class, and manager. The Board of Trustees has adopted a policy of rebalancing the portfolio when the actual allocation falls above or below the target range.

Over the long term, asset allocation policy will be the primary determinant of the returns generated by the TSRS pension fund and the associated volatility of returns. In particular, the level of equity exposure is the key element within the TSRS pension investment policies.

In developing asset allocation policies for its pension plan, the Board examined asset and liability projections to evaluate possible results over the next ten years. These projections examined the risk/return tradeoffs of alternative asset classes, as well as alternative levels of equity exposure. Through incorporating the results of these projections with its risk posture, as well as considering typical practices and practical investment issues, the Board has developed the following asset mix guidelines:

	Percent of Total Pension Fund		
	Minimum	Target	Maximum
<b>Equities:</b>			
Large Capitalization	31%	36%	41%
Small/Mid Capitalization	6%	10%	14%
International	13%	15%	17%
<b>Total Equities</b>	<b>56%</b>	<b>61%</b>	<b>66%</b>
<b>Fixed Income</b>	<b>21%</b>	<b>26%</b>	<b>31%</b>
<b>Real Estate</b>	<b>6%</b>	<b>8%</b>	<b>10%</b>
<b>Infrastructure</b>	<b>3%</b>	<b>5%</b>	<b>7%</b>

Separate target ranges are also set for each investment manager within an asset class and are monitored in conjunction with the overall asset allocation. TSRS monitors its asset mix and rebalances its portfolio mix at any time that a primary asset class (i.e., equities, fixed-income, and real estate), secondary asset class (i.e., domestic equities, international equities), portfolio style, or manager reaches the minimum or maximum allocation specified. Staff is authorized to direct rebalancing and report to the Board.

## Investment Objectives

### Total Pension Fund Performance Objectives:<sup>1</sup>

The TSRS Pension Fund's return will be, in part, a function of the capital market environment in which the plan's investment managers operate. Therefore, regardless of whether or not the market environment permits the achievement of substantial real returns, the TSRS expects any active investment managers that it retains to produce results that are above average relative to other actively-managed funds and relative to passive alternatives. Investment managers should cover the fees paid and provide a return increment that justifies the risk assumed in active management.

On a rolling three-year basis, the annualized total return of the portfolio should exceed the annualized total return of the following custom index:

- Standard & Poor's 500 Stock Index (36% weight)
- Russell 2500 Stock Index (10% weight)
- MSCI All Country World, ex-U.S. Stock Index (15% weight)
- Barclays Capital Aggregate Bond Index (23% weight)
- Barclays Capital High Yield Bond Index (3% weight)
- NCREIF ODCE Real Estate Index (8% weight)
- CPI + 4% (5% weight)

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<sup>1</sup> The investment objectives defined herein assume that performance comparisons will be based on a before-fee analysis, unless otherwise indicated.

**Individual Managers Performance Objectives**

On a rolling three-year basis, the annualized total return earned by an actively managed portfolio should place the account in a competitive ranking (i.e., top 40%) relative to a peer group of managers. In addition, the managers should outperform the following market index benchmarks:

*T. Rowe Price (Large Cap Growth Equity)*

- Exceed the annualized total return of the Russell 1000 Growth Index

*BlackRock Value (Russell 1000 Value Index)*

- Match the annualized total return of the Russell 1000 Value Index

*Alliance Capital (S&P 500 Index)*

- Match the annualized total return of the S&P 500 Index

*PIMCO StocksPlus (Enhanced Index)*

- Exceed the annualized total return of the S&P 500 Index

*Champlain Investment Partners (Mid Cap Core Equity)*

- Exceed the annualized total return of the Russell Mid Cap Index

*Pyramis Global Advisors (Small Cap Equity)*

- Exceed the annualized total return of the Russell 2000 Stock Index

*Aberdeen Asset Management (International Core Equity)*

- Exceed the annualized total return of the MSCI AC World ex-U.S. Index

*Causeway Capital Management (International Value Equity)*

- Exceed the annualized total return of the MSCI EAFE Index

*PIMCO (Custom Fixed Income)*

- Exceed the annualized total return of a customized fixed income benchmark composed of 25% BC Mortgage, 25% BC Credit, 25% BC High Yield and 25% JP Morgan EMBI index

*BlackRock U.S. Debt Index Fund (U.S. Investment Grade Fixed Income)*

- Match the annualized total return of the BC Aggregate Bond Index

*JP Morgan Strategic Property Fund (Core Real Estate)*

- Exceed the annualized total return of the NCREIF ODCE Real Estate Index

*LaSalle Income & Growth Fund IV (Value Added Real Estate)*

- Exceed the annualized total return of the NCREIF ODCE Real Estate Index

*JP Morgan Income & Growth Fund (Value Added Real Estate)*

- Exceed the annualized total return of the NCREIF ODCE Real Estate Index

*Macquarie European Infrastructure Fund 3 (European Infrastructure)*

- Exceed the annualized total return of the CPI + 4%

*SteelRiver Infrastructure Fund North America (North America Infrastructure)*

- Exceed the annualized total return of the CPI + 4%

**Investment Results by Year  
Last Ten Fiscal Years Ended June 30, 2012**

<u>Year Ended</u>	<u>Annual Return</u>	<u>3-Year Annualized Return</u>	<u>5-Year Annualized Return</u>	<u>10-Year Annualized Return</u>
6/30/12	2.4%	12.1%	1.2%	6.2%
6/30/11	23.2%	2.8%	4.0%	5.1%
6/30/10	11.6%	-5.6%	1.8%	2.1%
6/30/09	-21.0%	-4.1%	1.3%	2.0%
6/30/08	-4.6%	7.3%	9.8%	5.5%
6/30/07	17.2%	12.3%	11.5%	7.8%
6/30/06	10.7%	12.5%	6.2%	7.8%
6/30/05	9.3%	10.0%	2.4%	8.4%
6/30/04	17.8%	3.8%	2.6%	9.3%
6/30/03	3.3%	-4.4%	1.5%	7.9%

**Schedule of Investment Results  
For Period Ended June 30, 2012**

	<u>Annualized Returns (1)</u>		
	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>
<b>TOTAL PORTFOLIO</b>			
TSRS	2.39%	12.08%	1.21%
Custom Benchmark (2)	3.34%	12.41%	1.91%
<b>EQUITY FUNDS</b>			
Alliance S&P 500 Index	5.48%	16.39%	0.33%
S & P 500 Index	5.45%	16.40%	0.22%
PIMCO StocksPlus	5.81%	21.31%	2.92%
S & P 500 Index	5.45%	16.40%	0.22%
BlackRock Russell 1000 Value Index	3.07%	15.97%	-2.00%
Russell 1000 Value Index	3.01%	15.80%	-2.19%
T. Rowe Price Large Cap Growth		(account established February, 2012)	
Russell 1000 Growth Index	5.75%	17.50%	2.87%
Champlain Investment Partners	0.78%	(account established July, 2010)	
Russell Mid Cap Index	-1.65%	19.44%	1.06%
Pyramis Small Cap	0.44%	21.98%	3.11%
Russell 2000 Index	-2.08%	17.80%	0.54%
Causeway International Value Equity	-10.83%	11.49%	-3.08%
MSCI EAFE Index	-13.83%	5.97%	-6.10%
Aberdeen EAFE Plus Equity		(account established April, 2012)	
MSCI All Country World ex-U.S. Index	14.58%	6.96%	-4.63%
<b>FIXED INCOME FUNDS</b>			
BlackRock U.S. Debt Index		(account established January, 2012)	
Barclays Aggregate Bond Index	7.48%	6.93%	6.79%
PIMCO Custom Fixed Income	9.56%	9.80%	8.18%
Custom Index (3)	7.64%	8.25%	7.54%
<b>REAL ESTATE FUNDS</b>			
JPM Strategic Property Fund	12.00%	7.91%	0.22%
NCREIF ODCE Index	12.43%	8.39%	-0.90%
LaSalle Income & Growth Fund IV	-3.57%	-5.50%	-10.01%
NCREIF ODCE Index	12.43%	8.39%	-0.90%
JPM Income and Growth Fund	18.15%	11.26%	-7.02%
NCREIF ODCE Index	12.43%	8.39%	-0.90%

Notes: All data provided by independent investment consultant, Hewitt EnnisKnupp, Inc.

(1) Geometrically compounded, time-weighted rates of return

(2) Custom Benchmark = 36% S&P 500 Index + 10% Russell 2500 + 15% MSCI ACWI ex-U.S. + 23% Barclays Capital Aggregate + 3% Barclays Capital High Yield + 8% NCREIF ODCE + 5% CPI+4%

(3) Custom Index = 25% Barclays Capital Mortgage + 25% Barclays Capital Credit + 25% Barclays Capital High Yield + 25% JP Morgan EMBI Global

**Schedule of Investment Results**  
**For Period Ended June 30, 2012 (Continued)**

	<u>One Year</u>	<u>Annualized Returns (1)</u>	
		<u>Three Years</u>	<u>Five Years</u>
<b>INFRASTRUCTURE FUNDS</b>			
Macquarie European Infrastructure Fund 3 CPI + 4%	0.54% 5.75%	(funding completed February, 2010)	
SteelRiver Infrastructure Fund North America CPI + 4%	13.03% 5.75%	(funding still in progress)	

Notes: All data provided by independent investment consultant, Hewitt EnnisKnupp, Inc.

- (1) Geometrically compounded, time-weighted rates of return
- (2) Custom Benchmark = 36% S&P 500 Index + 10% Russell 2500 + 15% MSCI ACWI ex-U.S. + 23% Barclays Capital Aggregate + 3% Barclays Capital High Yield + 8% NCREIF ODCE + 5% CPI+4%
- (3) Custom Index = 25% Barclays Capital Mortgage + 25% Barclays Capital Credit + 25% Barclays Capital High Yield + 25% JP Morgan EMBI Global

**Asset Summary**  
**By Manager and Type of Investment (in thousands)**  
**June 30, 2012**

Manager	Style	Large U.S. Stocks	Small/Mid U.S. Stocks	Foreign Stocks	Fixed Income	Real Estate	Infra-structure	Short Term	Totals
Alliance Capital	S & P 500 Index	\$ 64,358	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182	\$ 64,540
T. Rowe Price	Large Cap Growth	54,819	-	-	-	-	-	358	55,177
BlackRock Russell Value	Large Cap Value Index	56,649	-	-	-	-	-	-	56,649
PIMCO StocksPlus	Enhanced Index	30,819	-	-	-	-	-	-	30,819
Champlain Investments	Mid-Cap Core	-	28,471	-	-	-	-	407	28,878
Pyramis Global Advisors	Small-Cap Core	-	29,452	-	-	-	-	418	29,870
Causeway Capital	Foreign Stocks-Value	-	-	39,250	-	-	-	1,073	40,323
Aberdeen Asset Mgmt	Foreign Stocks-Core	-	-	35,785	-	-	-	-	35,785
BlackRock U.S. Debt	U.S. Govt/Credit Bonds	-	-	-	53,803	-	-	-	53,803
PIMCO Custom Fixed Income	U.S. & Foreign Bonds	-	-	-	93,576	-	-	-	93,576
JPM Strategic Property Fund	Core Real Estate	-	-	-	-	34,285	-	-	34,285
LaSalle Income & Growth Fund	Value Added Real Estate	-	-	-	-	4,488	-	-	4,488
JPM Income & Growth Fund	Value Added Real Estate	-	-	-	-	10,552	-	130	10,682
Macquarie (MEIF3)	European Infrastructure	-	-	-	-	-	19,957	-	19,957
SteelRiver IFNA	North American Infrastructure	-	-	-	-	-	19,278	-	19,278
Liquidity Fund	Cash & Cash Equivalents	-	-	-	-	-	-	634	634
<b>TOTALS</b>		<b>\$ 206,645</b>	<b>\$ 57,923</b>	<b>\$ 75,035</b>	<b>\$ 147,379</b>	<b>\$ 49,325</b>	<b>\$ 39,235</b>	<b>\$ 3,212</b>	<b>\$ 578,744</b>

**Notes:**

- (1) The Asset Summary does not include the City pooled investment account. (2) Assets are reflected on a trade date basis. (3) Short-term investments have been adjusted for the net impact of unsettled transactions in order to report on a trade date basis. (4) Each asset class includes receivables and payables.

**Manager and Asset Diversification (in thousands)**  
**June 30, 2012**

<b>Manager</b>	<b>Actual</b>		<b>Target</b>	
	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
Alliance Capital	\$ 64,540	11.2%	\$ 63,662	11.0%
T. Rowe Price	55,177	9.5%	57,874	10.0%
BlackRock Russell Value	56,649	9.8%	57,874	10.0%
PIMCO StocksPlus	30,819	5.3%	28,937	5.0%
<b>Large U.S. Stocks</b>	<b>207,185</b>	<b>35.8%</b>	<b>208,347</b>	<b>36.0%</b>
Champlain Investment Partners	28,878	5.0%	28,937	5.0%
Pyramis Global Advisors	29,870	5.2%	28,937	5.0%
<b>Small/Mid-Cap U.S. Stocks</b>	<b>58,748</b>	<b>10.2%</b>	<b>57,874</b>	<b>10.0%</b>
Causeway Capital	40,323	7.0%	43,406	7.5%
Aberdeen Asset Management	35,785	6.2%	43,406	7.5%
<b>Foreign (International) Stocks</b>	<b>76,108</b>	<b>13.2%</b>	<b>86,812</b>	<b>15.0%</b>
<b>Total Equities</b>	<b>342,041</b>	<b>59.2%</b>	<b>353,033</b>	<b>61.0%</b>
BlackRock U.S. Debt	53,803	9.3%	57,874	10.0%
PIMCO Custom Fixed Income	93,576	16.2%	92,600	16.0%
<b>Fixed Income (Bonds)</b>	<b>147,379</b>	<b>25.5%</b>	<b>150,474</b>	<b>26.0%</b>
JPM Strategic Property Fund	34,285	5.9%	28,937	5.0%
LaSalle Income & Growth Fund	4,488	0.8%	8,681	1.5%
JPM Income & Growth Fund	10,682	1.8%	8,681	1.5%
<b>Real Estate</b>	<b>49,455</b>	<b>8.5%</b>	<b>46,299</b>	<b>8.0%</b>
Macquarie (MEIF3)	19,957	3.4%	14,469	2.5%
SteelRiver IFNA	19,278	3.3%	14,469	2.5%
<b>Infrastructure</b>	<b>39,235</b>	<b>6.7%</b>	<b>28,938</b>	<b>5.0%</b>
Liquidity Fund	634	0.1%	-	0.0%
<b>Total</b>	<b>\$ 578,744</b>	<b>100%</b>	<b>\$ 578,744</b>	<b>100%</b>

**Asset Allocation by Asset Class  
Last Five Fiscal Years**

<b><u>Asset Class</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>
<b>U.S. Stocks</b>	47%	44%	46%	46%	46%
<b>Foreign (International) Stocks</b>	14%	13%	13%	15%	13%
<b>Total Equities</b>	61%	57%	59%	61%	59%
<b>Fixed Income (Bonds)</b>	27%	29%	29%	26%	26%
<b>Real Estate</b>	9%	8%	6%	6%	8%
<b>Infrastructure</b>	0%	5%	5%	6%	7%
<b>Cash</b>	3%	1%	1%	1%	0%
	100%	100%	100%	100%	100%

**Ten Largest Bond Holdings**  
**(By Market Value)**  
**June 30, 2012**  
(dollars in thousands)

<u>Par Value</u>	<u>Bond</u>	<u>Coupon Rate</u>	<u>Due</u>	<u>Rating (1)</u>	<u>Market Value</u>
\$ 13,809	FHLMC MULTICLASS MTG	Variable	05/15/37	Aaa	\$ 13,800
684	MEXICAN BONOS	6.250%	06/06/16	Baa1	5,358
5,000	FNMA SF MTG	4.000%	08/01/42	Aaa	5,312
4,000	FNMA SF MTG	3.500%	08/01/42	Aaa	4,193
1,822	FNMA POOL #OAH8017	4.000%	03/01/36	Aaa	1,945
1,662	FNMA POOL #OAH5860	4.000%	02/01/41	Aaa	1,772
1,647	FNMA POOL #0932849	4.000%	12/01/40	Aaa	1,756
1,300	GAZPROM OAO VIA GAZ CAPITAL SA	9.250%	04/23/19	Baa1	1,621
800	AUSTRALIAN I/L BDS	4.000%	08/20/20	Aaa	1,581
1,400	FORD MOTOR CREDIT CO LLC	3.984%	06/15/16	Baa3	1,442

(1) Rated by Moodys Credit Rating Organization

**Ten Largest Stock Holdings**  
**(By Market Value)**  
**June 30, 2012**  
(dollars in thousands)

<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
14,490	APPLE, INC	\$ 8,462
5,318	GOOGLE, INC	3,085
10,600	AMAZON.COM, INC	2,421
3,171	PRICELINE.COM, INC	2,107
24,624	EXXON MOBIL CORP	2,107
38,200	DANAHER CORP	1,989
3,978	MASTERCARD INC	1,711
28,710	CROWN CASTLE INTERNATIONAL CORP	1,684
30,050	QUALCOMM INC	1,673
30,450	STARBUCKS CORP	1,624

A complete list of portfolio holdings is available by contacting the City of Tucson, Treasury Division, 255 W. Alameda, 5-west, Tucson, AZ 85701-1303

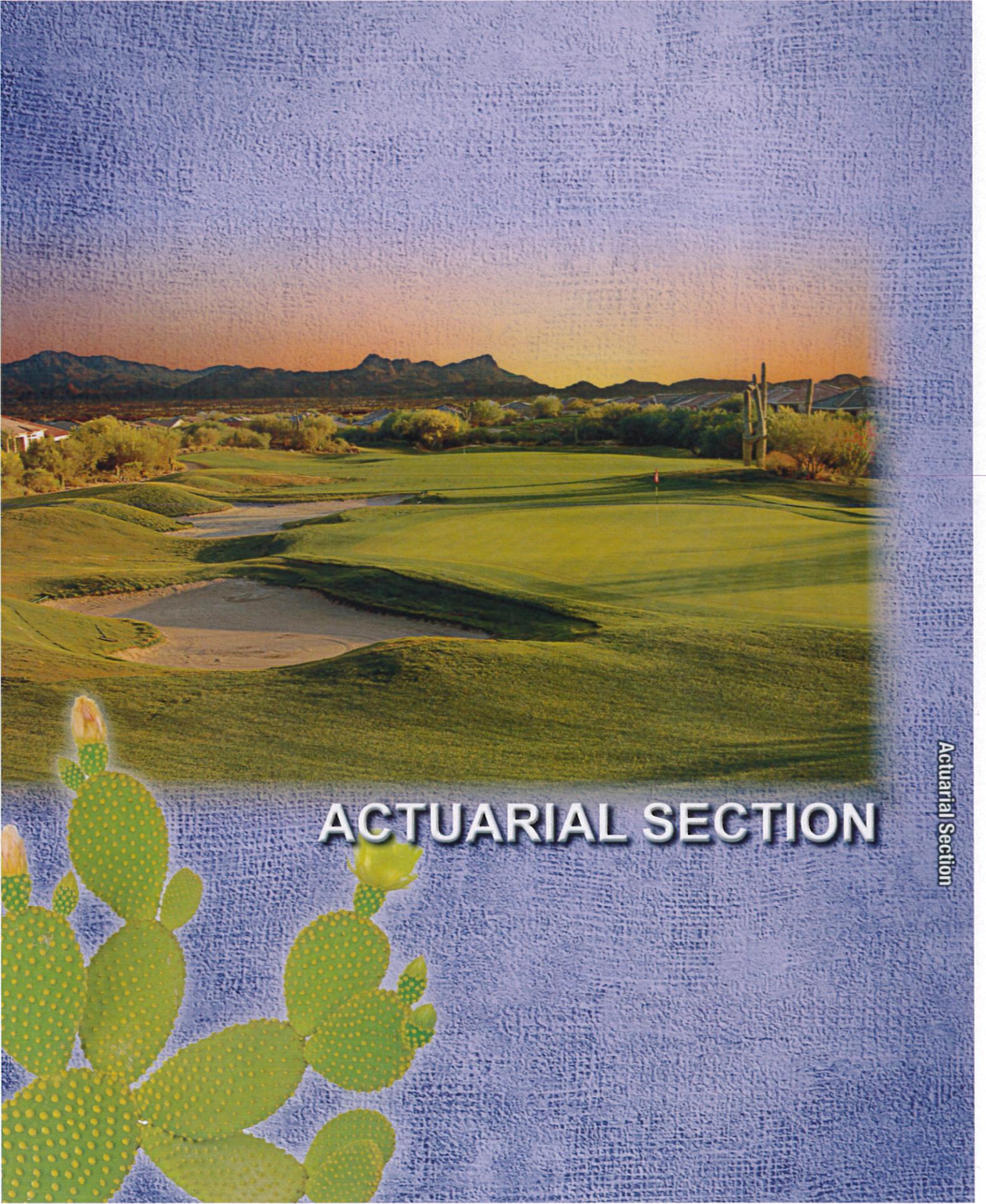
## Schedule of Fees June 30, 2012

	<u>Assets Under Management</u>	<u>Fees</u>
<b>Investment Manager Fees</b>		
<i>Fixed Income Managers</i>		
In-House / BlackRock U.S. Debt	\$ 53,803,170	\$ 25,297
PIMCO (Custom Fixed Income)	93,576,096	430,316
<b>Total Fixed Income</b>	<b>\$ 147,379,266</b>	<b>\$ 455,613</b>
<i>Equity Managers</i>		
Alliance Capital Management	\$ 64,539,205	\$ 25,256
BlackRock Russell Value Index	56,649,098	22,926
Friess/ T. Rowe Price	55,177,389	391,896
Causeway Capital Management	40,323,115	270,593
Pyramis Global Advisors	29,869,373	220,086
Artio/Aberdeen Asset Management	35,784,960	345,444
PIMCO StocksPlus	30,818,574	14,517
Champlain Investment Partners	28,877,817	248,620
<b>Total Equity</b>	<b>\$ 342,039,531</b>	<b>\$ 1,539,338</b>
Liquidity Account	633,674	-
<i>Real Estate Managers</i>		
JPM Strategic Property Fund	\$ 34,285,498	\$ 304,197
JPM Income & Growth Fund	10,681,958	156,358
LaSalle Income & Growth Fund IV	4,488,072	68,892
<b>Total Real Estate</b>	<b>\$ 49,455,528</b>	<b>\$ 529,447</b>
<i>Infrastructure Managers</i>		
Macquarie (MEIF3)	\$ 19,957,117	\$ 157,534
SteelRiver IFNA	19,278,417	236,120
<b>Total Infrastructure</b>	<b>\$ 39,235,534</b>	<b>\$ 393,654</b>
<b>Total Assets (Trade date basis)</b>	<b>\$ 578,743,533</b>	
<b>Total Investment Management Fees</b>		<b>\$ 2,918,052</b>
<b>Other Investment Service Fees</b>		
<i>Custodian Fees</i>		
BNY Mellon		\$ 264,414
<i>Security Lending - Bank &amp; Administration Fees</i>		
BNY Mellon		68,370
<i>Consulting and Performance Management</i>		
Hewitt EnnisKnupp		157,000
<i>Miscellaneous (includes Aberdeen Dilution Levy of \$116,345)</i>		121,264
<b>Total Other Investment Service Fees</b>		<b>\$ 611,048</b>

### Schedule of Commissions June 30, 2012

Broker Description	Shares	Commissions	Commissions Per Share
BNY CONVERGEX, NEW YORK	2,076,010	\$ 43,938	\$ 0.0189
LIQUIDNET INC, BROOKLYN	822,635	17,645	0.0260
CREDIT SUISSE, NEW YORK (CSFBUS33XXX)	845,612	13,857	0.0300
BNY CONVERGEX / LJR, HOUSTON	425,820	10,646	0.0179
MERRILL LYNCH PIERCE FENNER SMITH INC NY	327,142	7,075	0.0180
INSTINET CORP, NY	226,450	6,220	0.0229
J.P. MORGAN CLEARING CORP, NEW YORK	259,194	6,086	0.0244
DEUTSCHE BK SECS INC, NY (NWSCUS33)	277,018	6,058	0.0275
UBS SECURITIES LLC, STAMFORD	270,576	5,679	0.0337
ITG INC, NEW YORK	341,536	5,637	0.0196
JEFFERIES & CO INC, NEW YORK	188,515	5,532	0.0279
MORGAN STANLEY & CO INC, NY	487,266	5,392	0.0269
KNIGHT CLEARING SERVICE LLC, JERSEY CITY	239,100	5,356	0.0210
INVESTMENT TECHNOLOGY GROUP, NEW YORK	217,613	5,260	0.0299
GOLDMAN SACHS EXECUTION & CLEARING, NY	285,480	4,879	0.0275
SJ LEVINSON & SONS, JERSEY CITY	154,600	4,638	0.0187
STIFEL NICOLAUS	137,340	3,632	0.0283
RAYMOND JAMES & ASSOC INC. ST. PETERSBURG	92,330	3,522	0.0256
PERSHING LLC, JERSEY CITY	124,520	3,452	0.0222
DEMATTED MONNESS LLC, NEW YORK	79,900	3,196	0.0370
CITIGROUP GBL MKTS INC, NEW YORK	104,980	3,185	0.0357
ONEIL WILLIAM & COM INC / BCC LOS ANGELES	69,000	2,760	0.0300
MERRILL LYNCH INTL LONDON EQUITIES	352,289	2,704	0.0400
BAIRD, ROBERT W & CO INC, MILWAUKEE	71,330	2,675	0.0251
BARCLAYS CAPITAL LE, JERSEY CITY	89,400	2,610	0.0364
MND PARTNERS, NEW YORK	96,600	2,415	0.0360
CANTOR FITZGERALD & CO INC, NEW YORK	71,565	2,192	0.0337
GOLDMAN SACHS & CO, NY	67,127	2,175	0.0400
BARCLAYS CAPITAL INC./ LE, NEW JERSEY	94,402	2,141	0.0218
JANNEY MONTGOMERY SCOTT, PHILADELPHIA	48,000	2,119	0.0384
J.P. MORGAN SECURITIES INC, BROOKLYN	52,800	2,112	0.0410
PIPER JAFFRAY & CO, MINNEAPOLIS	56,190	2,027	0.0266
VARIOUS BROKERS - LESS THAN \$2,000	2,293,661	54,929	0.0315
<b>TOTALS</b>	<b>11,346,001</b>	<b>\$ 251,743</b>	
<b>AVERAGE COMMISSION RATE</b>		<b>\$</b>	<b>0.0222</b>





# ACTUARIAL SECTION

Actuarial Section



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October 24, 2012

The Board of Trustees  
Tucson Supplemental Retirement System  
City Hall – 255 W. Alameda Street  
Tucson, Arizona 85726-7210

The funding objective of the Retirement System is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Tucson citizens.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to provide for normal cost plus level percent of payroll financing of unfunded actuarial accrued liability (UAAL). The actuarial assumptions and methods meet the parameters set forth in Statement No. 25 of the Governmental Accounting Standards Board. In our opinion, the assumptions are reasonably related to past experience and represent our best estimate of future conditions affecting the System.

Actuarial valuations are performed annually. The most recent actuarial valuation was completed as of June 30, 2012. We believe the assumptions and methods produce results which are reasonable. Actuarial accrued liabilities were 63.5% funded by valuation assets. The unfunded liability was amortized as a level percent of payroll over 15 years to develop the annual amortization payment amount. The annual required contribution is the sum of the amortization payment and the normal cost for the year. The amortization period is a 15-year open period and is reflected in the June 30, 2012 actuarial valuation.

Data for the annual valuation was furnished by the Retirement System Administrator and was checked by GRS for internal completeness and year-to-year consistency. We prepared all of the schedules in the actuarial section with the exception of retirants and beneficiaries added to and removed from rolls. In the Financial Section, GRS prepared the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Summary of Actuarial Methods and Assumptions.

The undersigned is a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, an Enrolled Actuary, and a Member of the American Academy of Actuaries with over 30 years of experience in performing valuations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Leslie L. Thompson".

Leslie L. Thompson, FSA, FCA, EA, MAAA  
Senior Consultant

## Actuarial Cost Method

**Normal cost contributions** were computed as follows:

The series of contributions, payable from date of employment, sufficient to accumulate at time of retirement was computed as the discounted value of each member's projected pension and potential survivor's pension, using the assumptions summarized on the following pages. Each contribution in the series is a constant percentage of the member's year by year projected compensation (entry-age normal actuarial cost method).

**Actuarial accrued liability** was computed and financed as follows:

1. Retirants and beneficiaries. The discounted value of pensions likely to be paid to retired members and their potential survivors were computed using the investment return and mortality assumptions.
2. Active members and former members. The actuarial accrued liability associated with service rendered prior to the valuation date, including experience gains and losses, was computed using the investment return, mortality and other assumptions outlined on the following pages. The computed amount was reduced by applicable valuation assets and the unfunded amount was amortized over 15 years as of June 30, 2012. An open amortization period of 15 years was adopted effective June 30, 2007.

### Actuarial Assumptions

Level-percent contribution requirements and actuarial present values are calculated by using the entry-age actuarial cost method and assumptions concerning future experiences in the financial risk areas of a retirement plan. Actuarial gains and losses are amortized as a level percent of payroll over an open period of 15 years effective June 30, 2007. The assumptions are selected based upon the recommendation of the actuary.

The principal areas of risk which require assumptions about future experiences are:

- (i) long-term rates of investment return to be generated by the assets of the system
- (ii) patterns of pay increases to members
- (iii) rates of mortality among members, retirants and beneficiaries
- (iv) rates of withdrawal of active members
- (v) rates of disability among active members, and
- (vi) the age patterns of actual retirements

Through the valuation process, the monetary effect of each expected assumption against actual experience is projected for the lifetime of each covered member and potential beneficiary.

Actual experience of the system will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time, one or more of the assumptions are modified to reflect experience trends (but not random or temporary year to year fluctuations). The Board of Trustees adopts the assumptions based upon recommendations of the actuary. The demographic assumptions were last revised for the June 30, 2009 actuarial valuation following an actuarial investigation of experience of the Retirement System covering the period July 1, 2003 through June 30, 2008.

**Investment Return** 7.75% a year, compounded annually. This consists of a real rate of return of 4.25% a year plus a long-term rate of inflation of 3.50% a year.

This assumption is used to equate the value of payments due at different points in time. The approximate internal rate of investment return, for the purpose of comparison with the assumed rate is indicated below:

**Year Ended June 30**

	2011	2010	2009	2008	2007	3 Year Avg.	5 Year Avg.
Investment Return Rate <sup>1</sup>	0.1%	1.8%	-0.4%	6.2%	4.5%	0.5%	2.4%
Real Rate of Investment Return	-2.0%	-1.1%	-1.0%	7.5%	-0.5%	-1.4%	0.5%

<sup>1</sup> Based on actuarial value of assets, not market value

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other plans -- to do so will mislead.

**Pay Projections** These assumptions are used to project current pays to those which will determine average final compensation. The assumptions should consist of the same inflation component used for the investment return assumption plus an age graded component to reflect promotion and seniority increments.

<b>Less than Five Years of Service</b>				<b>Five or More Years of Service</b>			
Service	Inflation Component	Merit & Seniority	Total	Sample Ages	Inflation Component	Merit & Seniority	Total
0	3.50%	4.00%	7.50%	20	3.50%	2.00%	5.50%
1	3.50	3.50	7.00	25	3.50	2.00	5.50
2	3.50	3.00	6.50	30	3.50	2.00	5.50
3	3.50	2.50	6.00	35	3.50	2.00	5.50
4	3.50	2.00	5.50	40	3.50	1.50	5.00
				45	3.50	1.00	4.50
				50	3.50	0.75	4.25
				55	3.50	0.75	4.25
				60	3.50	0.75	4.25
				65	3.50	0.00	3.50

The pay increase assumptions will produce 3.50% annual increases in active member payroll (the base rate) given a constant active member group size. This is the same payroll growth assumption used to amortize unfunded actuarial accrued liability. In addition, an assumption is made that final average compensation will be increased by 2.2% to reflect unused sick leave for service retirements and vested terminations.

**Pre-Retirement Mortality Table** The 1994 Group Annuity Mortality Table with no set back and a multiplier of 80%. This assumption is used to measure the probabilities of members dying before retirement.

Sample Ages	Future Life Expectancy (years)		Deaths per 1,000 Lives	
	Men	Women	Men	Women
50	32.8	36.9	2.1	1.1
55	28.2	32.2	3.5	1.8
60	23.8	27.5	6.4	3.6
65	19.7	23.1	11.6	6.9
70	16.0	19.0	19.0	11.0
75	12.6	15.2	29.8	18.1
80	9.7	11.7	49.6	31.5
85	7.3	8.7	77.8	54.2

**Post-Retirement Mortality Table** The 1994 Group Annuity Mortality Table set forward one year for men and women with a multiplier of 80%. This assumption is used to measure the probabilities of each benefit payment being made after retirement. Disability mortality is set forward eight years.

Sample Ages	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)		Healthy Deaths per 1,000 Lives		Disabled Deaths per 1,000 Lives	
	Men	Women	Men	Women	Men	Women	Men	Women
50	\$139.27	\$144.83	31.9	36.0	2.3	1.3	6.3	3.4
55	131.85	138.89	27.3	31.2	4.0	2.1	11.5	6.7
60	122.61	131.17	23.0	26.6	7.2	4.1	19.9	11.8
65	111.82	121.82	18.9	22.3	13.0	7.8	31.2	18.3
70	99.79	110.72	15.3	18.2	20.8	12.0	50.2	31.7
75	86.30	97.33	12.0	14.4	32.7	20.3	82.5	54.9
80	72.12	82.48	9.2	11.1	54.9	35.2	127.0	93.8
85	58.65	67.14	6.9	8.2	84.6	60.3	198.4	155.9

**Rates of Retirement** Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year. For those ages 62 and older, the Rule of 80 retirement rates only applies if the Rule of 80 is attained by age 62.

Retirement Ages	Tier I Members Percentage of Those Eligible Retiring During Year		
	Rule of 80	Age Based	Early
50	25%		
51	25		
52	25		
53	25		
54	25		
55	25		8%
56	25		8
57	25		8
58	25		8
59	25		8
60	25		
61	25		
62	25	33%	
63	25	19	
64	25	28	
65	25	30	
66	25	38	
67	25	47	
68	25	75	
69	25	90	
70	100	100	

Deferred vested members are assumed to retire at age 62.

Retirement Ages	Tier 2 Members Percentage of Those Eligible Retiring During Year		
	Rule of 80	Age Based	Early
60	30%		8%
61	30		8
62	30		8
63	30		8
64	30		8
65	30	33%	
66	30	41	
67	30	50	
68	30	75	
69	30	90	
70	100	100	

Deferred vested members are assumed to retire at age 65.

**Rates of Separation from Active Membership** This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire.

Sample Ages	Years of Creditable Service	Probability of Termination During Year
Any	0	15.00%
	1	10.00
	2	9.00
	3	7.50
	4	7.00
25	5 & Over	6.30
30		5.90
35		3.90
40		2.90
45		2.20
50		1.80
55		1.70
60		1.70

**Rates of Disability** This assumption measures the probabilities of a member becoming disabled. The rates do not apply to members who are eligible to retire.

Sample Ages	% of Active Members Becoming Disabled During Next Year
25	0.01%
30	0.02
35	0.03
40	0.05
45	0.07
50	0.11
55	0.19
60	0.28
65	0.25

Disabled life mortality is measured by the 1994 Group Annuity Mortality Table, as previously noted, with ages set forward 8 years. It is assumed that no valued disability retirement benefits will be offset for worker's compensation benefits or earned income received by the disabled retiree.

**Forfeiture of Vested Benefits** The assumption is that 55% of the actuarial present value of vested termination benefits will be forfeited by a withdrawal of accumulated contributions.

**Marital Status** 80% of men and women were assumed married at retirement.

**Spouse Status** Women were assumed to be 3 years younger than men.

**Assumed Age for Commencement for Deferred Benefits** Members electing to receive a deferred benefit are assumed to commence receipt at the earlier of age 62 and eligibility for rule of 80 Tier I and the earlier of age 65 and eligibility for the rule of 85 for Tier 2.

**Active Member Group Size** The number of active members was assumed to remain constant.

**Active Members as of June 30, 2012  
By Attained Age and Years of Service**

Attained Age	Years of Service to Valuation Date							Total No.	Total Valuation Payroll
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus		
< 20	2	-	-	-	-	-	-	2	\$ 63,731
20-24	29	-	-	-	-	-	-	29	811,761
25-29	84	23	-	-	-	-	-	107	3,343,226
30-34	105	69	27	-	-	-	-	201	7,066,446
35-39	93	103	70	20	-	-	-	286	11,248,702
40-44	90	111	107	74	11	-	-	393	17,133,272
45-49	75	93	85	112	58	13	-	436	20,970,934
50-54	66	98	109	112	89	70	3	547	27,131,797
55-59	44	78	96	98	76	39	15	446	22,347,745
60	9	11	22	9	9	5	3	68	3,486,511
61	5	8	8	15	9	6	3	54	3,029,666
62	4	5	11	6	5	5	2	38	1,942,115
63	4	8	4	4	6	4	3	33	1,776,343
64	5	4	4	3	6	-	4	26	1,576,767
65	2	5	1	2	6	1	-	17	1,045,741
66	1	3	2	2	-	1	-	9	548,059
67	2	-	1	2	1	-	1	7	471,729
68	1	2	1	1	-	-	-	5	238,264
69	-	1	-	2	1	-	2	6	338,926
70	-	1	1	-	-	-	-	2	124,530
71	-	-	-	-	-	-	-	-	-
72	-	-	-	-	-	-	-	-	-
73	-	-	-	-	1	-	-	1	33,488
74	-	-	-	-	-	-	-	-	-
75	-	-	1	-	1	-	-	2	154,960
76	-	-	-	-	-	-	-	-	-
77	-	1	1	-	-	-	-	2	67,974
78	-	-	-	1	-	-	-	1	50,336
79	-	-	-	-	-	-	-	-	-
<b>Totals</b>	<b>621</b>	<b>624</b>	<b>551</b>	<b>463</b>	<b>279</b>	<b>144</b>	<b>36</b>	<b>2,718</b>	<b>\$ 125,003,023</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 47.3 years  
Service: 11.9 years  
Annual Pay: \$45,991

**Active Members Included in Valuation  
Comparative Schedule**

Valuation Date	Active Members	Annual Payroll	Average			Vested Inactive Members
			Age	Service	Pay	
6-30-89 <sup>1</sup>	3,250	81,386,395	41.8	8.6	25,042	40
6-30-90	3,246	86,478,158	42.1	8.7	26,641	42
6-30-91	3,195	86,829,527	42.4	9.0	27,177	38
6-30-92	3,149	86,205,432	42.9	9.4	27,375	48
6-30-93	3,224	92,867,286	43.3	9.8	28,805	45
6-30-94	3,287	94,180,104	43.6	10.1	28,652	40
6-30-95	3,284	99,847,171	43.9	10.2	30,404	45
6-30-96	3,378	105,229,504	43.9	10.2	31,151	43
6-30-97	3,430	110,188,751	44.3	10.9	32,125	52
6-30-98	3,484	113,729,143	44.5	11.0	32,643	104
6-30-99	3,550	126,816,830	44.8	10.7	35,723	119
6-30-00	3,600	134,088,074	45.2	11.0	37,247	81
6-30-01	3,669	145,058,897	45.4	11.1	39,536	107
6-30-02	3,626	153,580,185	45.7	11.6	42,355	111
6-30-03	3,364	143,164,205	45.5	11.2	42,558	125
6-30-04	3,476	149,781,753	45.9	11.4	43,090	130
6-30-05	3,609	162,149,200	46.2	11.4	44,929	148
6-30-06	3,247	155,855,162	46.6	12.1	48,000	394 <sup>2</sup>
6-30-07	3,326	159,249,822	46.2	11.4	47,880	223
6-30-08	3,251	153,982,399	45.7	10.6	47,365	202
6-30-09	3,175	149,924,649	46.3	11.2	47,220	205
6-30-10	2,982	141,459,257	47.1	12.1	47,438	215
6-30-11	2,628	121,631,362	47.1	11.9	46,283	208
6-30-12	2,718	125,003,023	47.3	11.9	45,991	229

<sup>1</sup>An amendment eliminated the one-year service requirement for participation in the Retirement System.

<sup>2</sup>Includes 136 former Library employees requesting a transfer of service to ASRS.

## Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year	Added to Rolls		Removed from Rolls		Rolls End of Year		Average Annual Allowance	Percentage Increase in Allowance
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowance		
6/30/2005	68	\$3,498,948	42	\$485,633	1,793	\$ 32,027,305	17,862	
6/30/2006	101	\$2,335,032	53	\$656,383	1,878	\$ 35,091,468	18,686	4.61%
6/30/2007	213	\$6,055,096	36	\$403,347	2,018	\$ 39,883,032	19,764	5.77%
6/30/2008	313	\$10,001,857	24	\$395,246	2,307	\$ 49,489,643	21,452	8.54%
6/30/2009	112	\$2,005,399	54	\$683,947	2,365	\$ 50,810,927	21,485	0.15%
6/30/2010	141	\$3,089,275	56	\$784,935	2,450	\$ 53,115,267	21,680	0.91%
6/30/2011	332	\$9,880,306	73	\$1,284,997	2,709	\$ 61,710,576	22,780	5.07%
6/30/2012	64	\$1,084,848	69	\$1,057,560	2,704	\$ 61,737,864	22,832	0.23%

### Comparative Schedule of Annual Pension Benefits Paid

Year Ending June 30	No.	Annual Pensions	% Increase	No. of Active Per Retired	Pensions as % of Active Payroll	Average Pensions	Actuarial Present Value of Pensions	Expected Removals	
								No.	Pensions
1989*	780	5,344,719	17.6	4.2#	6.6	6,852	46,556,352	26.6	133,860
1990	832	6,488,714	21.4	3.9	7.5	7,799	57,430,128	28.5	150,864
1991*	918	8,111,103	25.0	3.5	9.3	8,836	72,419,436	29.8	172,608
1992	965	9,010,345	11.1	3.3	10.5	9,337	80,342,604	32.3	208,068
1993*	989	9,704,929	7.7	3.3	10.5	9,813	85,832,484	34.3	235,068
1994	1,035	10,612,612	9.4	3.2	11.3	10,254	95,449,308	35.8	263,340
1995*	1,065	11,429,402	7.7	3.1	11.4	10,732	102,511,728	35.8	270,600
1996	1,105	12,236,298	7.1	3.1	11.6	11,074	109,572,672	37.7	302,952
1997*	1,156	13,391,185	9.4	3.0	12.2	11,594	119,508,312	39.4	325,440
1998	1,208	14,479,476	8.1	2.9	12.7	11,986	129,345,816	42.4	370,344
1999*	1,260	15,721,865	8.6	2.8	12.4	12,478	139,805,832	44.2	402,504
2000*	1,301	16,966,042	7.9	2.8	12.7	13,041	150,527,136	46.2	445,464
2001*	1,355	18,505,247	9.1	2.7	12.8	13,657	161,740,968	47.1	484,776
2002*	1,442@	21,273,162	15.0	2.5	13.9	14,753	187,508,568	53.3	622,236
2003*	1,742~	29,767,500	39.9	1.9	20.8	17,088	275,193,384	58.2	742,908
2004*	1,753	30,491,864	2.4	2.0	20.4	17,394	286,698,084	55.7	717,888
2005*	1,793	32,027,305	5.0	2.0	19.8	17,862	298,395,396	58.3	781,152
2006*	1,878	35,091,468	9.6	1.7	22.5	18,686	326,828,088	61.1	857,760
2007*	2,018\$	39,883,032	13.7	1.6	25.0	19,764	371,497,680	66.3	977,328
2008	2,307	49,489,643	24.1	1.4	32.1	21,452	473,240,976	74.4	1,134,019
2009	2,365	50,810,927	2.7	1.3	33.9	21,485	494,923,021	63.8	994,553
2010	2,450	53,115,267	4.5	1.2	37.5	21,680	525,200,232	58.9	948,815
2011	2,709	61,710,576	16.2	1.0	50.7	22,780	618,779,524	63.5	1,059,171
2012	2,704	61,737,864	0.0	1.0	49.4	22,832	607,450,331	66.1	1,125,302

\*Includes ad hoc cost-of-living increases.

#Reflects increase in the number of active members as a result of an amendment which eliminated the one year service requirement for participation in the Retirement System.

@Reflects increase in the number of retirees resulting from a temporary amendment that reduced requirements for retirement eligibility.

~Reflects increase in the number of retirees resulting from temporary amendments that reduced requirements for retirement eligibility and provided added retirement incentives during a limited period.

\$Reflects increase in the number of retirees resulting from temporary amendments that provided added retirement incentives during a limited period.

**Experience Gains (Losses)  
Comparative Schedule**

	Year Ended 6-30-12	Year Ended 6-30-11
(1) UAAL <sup>1</sup> at start of year	\$303,943,911	\$262,661,785
(2) + Normal Cost	15,279,908	17,399,444
(3) - Actual contributions	36,649,597	35,518,141
(4) + Interest accrual on (1), (2) and (3)	22,727,577	19,654,188
(5) Expected UAAL before changes	305,301,799	264,197,276
(6) Actual UAAL	343,832,211	303,943,911
(7) Experience gain (loss) (5) - (6)	(38,530,412)	(39,746,635)
(8) As % of beginning of year AAL <sup>2</sup>	(4.1%)	(4.4%)

<sup>1</sup> Unfunded actuarial accrued liability

<sup>2</sup> Actuarial accrued liability

Solvency Test

Valuation Date	Aggregate Accrued Liabilities For			Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member (Employer Financed Portion)		(1)	(2)	(3)
6-30-91	\$44,496,039	\$ 72,419,436	\$ 86,372,322	\$164,268,134	100.0%	100.0%	54.8%
6-30-92	49,238,019	80,342,604	86,902,648	179,569,858	100.0	100.0	57.5
6-30-93	55,146,786	85,832,484	98,492,344	197,281,861	100.0	100.0	57.2
6-30-94	60,424,161	95,449,308	105,838,311	213,540,661	100.0	100.0	54.5
6-30-95	66,316,408	102,511,728	113,211,848	237,712,863	100.0	100.0	60.8
6-30-96	72,294,235	109,572,672	118,739,900	266,740,007	100.0	100.0	71.5
6-30-97	78,991,358	119,508,312	128,878,531	304,684,444	100.0	100.0	82.4
6-30-98	85,106,175	129,345,816	134,514,294	353,056,577	100.0	100.0	103.0
6-30-99	92,367,491	139,805,832	168,050,794	402,875,158	100.0	100.0	101.6
6-30-00	100,413,022	150,527,136	186,809,583	453,953,722	100.0	100.0	108.7
6-30-01	108,696,394	161,740,968	224,921,223	470,671,667	100.0	100.0	89.0
6-30-02	118,913,979	187,508,568	247,524,186	463,101,526	100.0	100.0	63.3
6-30-03	110,195,709	275,193,384	215,784,329	458,856,831	100.0	100.0	34.0
6-30-04	123,643,527	286,698,084	235,009,321	494,986,798	100.0	100.0	36.0
6-30-05	135,346,297	298,395,396	260,129,138	538,788,828	100.0	100.0	40.4
6-30-06	140,387,532	326,828,088	268,577,863	588,227,845	100.0	100.0	45.1
6-30-07	136,028,896	371,497,680	256,012,354	634,763,193	100.0	100.0	49.7
6-30-08	125,331,432	473,240,976	223,632,380	650,227,215	100.0	100.0	23.1
6-30-09	133,633,947	494,923,021	230,928,190	665,298,494	100.0	100.0	15.9
6-30-10	140,224,998	525,200,232	239,055,106	641,818,551	100.0	95.5	0.0
6-30-11	119,049,097	614,497,202	195,062,492	624,664,880	100.0	82.3	0.0
6-30-12	122,240,396	607,450,331	211,247,995	597,106,511	100.0	78.2	0.0

## Summary of Benefit Provisions Evaluated or Considered (June 30, 2012)

### **Normal Retirement (NO REDUCTION FACTOR)**

#### **Eligibility:**

**Tier 1** – Members hired before July 1, 2011. Age 62, or a combination of age and creditable service equal to 80 (for those hired on or after July 1, 2009, eligibility at age 62 requires a minimum of 5 years of accrued service).

**Tier 2** - Members hired on or after July 1, 2011. Age 65, with 5 years of service or a combination of age and creditable service equal to 85 and the attainment of age 60.

**Amount** - Creditable service times 2.25% of average final compensation for Tier 1 and 2.00% of average final compensation for Tier 2.

**Average Final Compensation** – The average monthly creditable compensation for the period of 36 consecutive months during which the member's creditable compensation was the highest during the 120 months immediately preceding the date of retirement for Tier 1 and 60 consecutive months immediately preceding the date of retirement for Tier 2. Effective July 1, 2000, accrued unused sick leave at the final salary may be substituted for an equal number of hours at the beginning of the 36 month period for Tier 1.

### **Early Retirement (REDUCTION FACTOR)**

**Eligibility** - Age 55 with 20 or more years of creditable service for Tier 1 and age 60 with 20 or more years of creditable service for Tier 2.

**Amount** - An amount computed as for normal retirement but reduced by 1/2 of 1% per month for each month (6% per year) retirement precedes normal retirement.

### **Deferred Retirement (VESTED TERMINATION)**

**Eligibility** - 5 or more years of accrued service. Deferred retirement benefits for terminated vested employee becomes automatic at age 62 (age 65 for Tier 2) or when a combination of age and creditable service equals 80 (85 with the attainment of age 60 for Tier 2), unless the member elects to withdraw the employee contribution account in lieu of a deferred retirement benefit. In addition to the eligibility listed above, the term-vested member may chose an Early Retirement (minimum age of 55 for Tier 1 and 60 for Tier 2 and minimum service of 20 yrs) subject to the same reduction – reduced by 1/2 of 1% per month for each month (6% per year) retirement precedes normal retirement eligibility.

**Amount** - An amount computed as for normal retirement.

### **Disability Retirement**

**Eligibility** – Eligibility requires 10 or more years of credited service and a disability that is total and permanent.

**Amount** - An amount computed as for normal retirement. Disability Retirement Benefits are offset, if the combination of all employer-provided benefits exceeds 100% of the members adjusted income base, then members pension benefit from TPRS is reduced so income does not exceed the 100% maximum allowed.

### ***Pre-Retirement Survivor Benefits***

**Eligibility** - 5 or more years of accrued service.

**Amount** - Lump sum payment equal to twice the member's contributions, with interest. In lieu of the lump sum a surviving spouse may elect 50% of the deceased member's normal retirement amount accrued at the time of death.

**Eligibility** - 5 or more years of accrued service and not eligible to retire.

**Amount** - Lump sum payment equal to twice the member's contributions, with interest.

**Eligibility** - After attaining eligibility for retirement, in the event the member dies prior to submitting an application for retirement benefits:

**Amount** - If the member is married, a default provision allows the member's spouse to elect to receive either a lump sum payment of twice the member's contributions account, or receive a lifetime annuity benefit determined as if the member had elected a joint & last survivor benefit of 100% survivor annuity prior to death. If the member is not married and has named a single non-spousal beneficiary, the beneficiary may elect to receive either a lump sum payment of twice the member's contributions account, or receive a 15 year annuity benefit determined as if the member elected payment of a 15 year term certain annuity. If the member has named multiple designated beneficiaries, a lump sum refund of the member's account balance will be paid to the named beneficiaries.

### ***Other Termination Benefits***

**Eligibility** - termination of employment without eligibility for any other benefit.

**Amount** - accumulated contributions and interest in members account at time of termination.

### ***Employee Contributions***

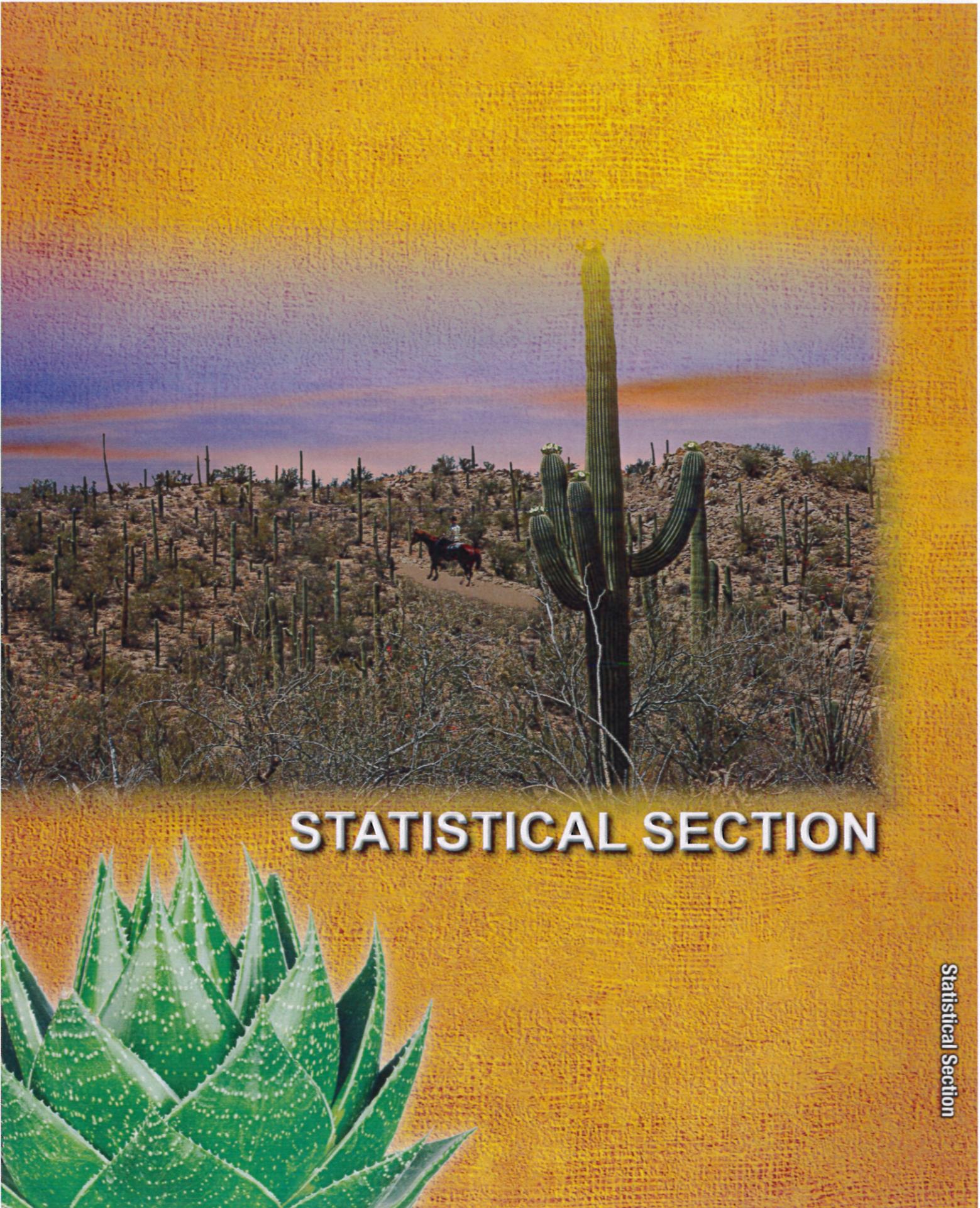
Interest is credited to member accumulated contributions accounts as simple interest two times per year at an annual interest rate of 6%. For those hired prior to July 1, 2006, employee contributions are 5.00% of salary. For those hired on or after July 1, 2006, employee contributions are 40% of the total required contribution. For those hired after July 1, 2009, employee contribution will be a minimum of 40% and a maximum of 50% of the total required contribution.

### ***City Contributions***

City Contributions are actuarially determined; which together with employee contributions and investment earnings will fund the obligations of the System in accordance with accepted actuarial principles.

### ***Post-Retirement Adjustments***

The TSRS Board has established formal policies to determine whether the system shall fund an annual supplemental post retirement benefit payment to retired members and beneficiaries.



# STATISTICAL SECTION

## **Discussion of Statistical Section**

This section of the Tucson Supplemental Retirement System's comprehensive annual financial report (CAFR) provides detailed financial and non-financial information, often considered relevant to users. The statistical section presents certain information on a trend basis; that is, a summary of information that is provided for each year in a ten-year period. Other non-trend schedules present demographic and participation information for our active and retired membership. Each schedule is defined below with an explanation and an identification of the source of the data.

### **Statement of Changes in Plan Net Assets**

This schedule provides the additions and deductions to the plan for the past ten years. The change in net assets is provided to illustrate whether or not sufficient resources are available in the current fiscal year to cover plan benefits. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

### **Retired Members by Type of Benefit**

This schedule provides the number of retired members by type of benefit. The TSRS plan benefits include payments for normal retirement benefits, disability benefits, survivor benefits, and term certain benefits paid to members, beneficiaries and alternate payees. The schedule is developed using TSRS' database.

### **Average Monthly Benefit Payments to New Retirees**

This schedule provides the average monthly benefit payments made to new retirees, using six ranges of years of credited service by year. This information is provided to illustrate changes in benefit payments as the amount of service earned increases and indicates the number of employees retired during each of the last 10 years. This schedule is developed using TSRS' database.

### **Demographics of Retired and Active Members**

This schedule provides the age demographics of all retirees, survivors and beneficiaries of retired members for this year only. Similarly, age demographics for the systems active membership are indicated as well as the relative composition of membership categorized by Tier. This schedule is developed using TSRS' membership database.

### **Employee and Employer Contribution Rates**

This schedule provides the contribution rates paid by the Plan sponsor and by City employees during the past 10 years. This schedule is a historical summary of the actual rates paid.

### **Benefit and Refund Deductions from Net Assets by Type**

This schedule provides the benefits paid to all service and disability retirees during each of the last 10 years. In addition, the lump sum payments to members elected to participate in the End of Service program since 2007 and refunds associated with member deaths, separation from service and transfers to other retirement systems are summarized. This schedule is developed using the Statements of Changes in Plan Net Assets for the past ten years.

### **Retiree Benefit and Service Summary**

This schedule indicates average retiree benefits paid to retirees, based on the number of years retired, indicating eight age categories and the years of credited service served. This schedule is developed using TSRS' membership database.

**Tucson Supplemental Retirement System**  
**Statement of Changes in Plan Net Assets - Last Ten Fiscal Years**

	Fiscal Years Ending June 30,				
	2012	2011	2010	2009	2008
<b>Additions</b>					
City Contributions	27,429,666	23,432,916	23,260,609	21,279,535	\$ 23,902,286
Employee Contributions	7,685,264	7,562,294	8,041,748	8,156,115	8,591,124
Purchase of Service	1,280,263	3,772,923	1,556,832	1,565,164	5,186,289
Contributions from Other Sources	50,000	50,000	50,000	140,512	130,784
Transfers from Other Systems	204,404	700,009	1,652,656	1,589,190	2,012,917
<b>Total Contributions</b>	<b>36,649,597</b>	<b>35,518,142</b>	<b>34,561,845</b>	<b>32,730,516</b>	<b>\$ 39,823,400</b>
<b>Investment Income</b>					
Net Gain (Loss) in Fair Value of Investments	566,661	106,114,437	40,143,355	(155,121,980)	\$ (50,256,771)
Interest	6,319,874	6,361,246	7,441,435	11,087,144	10,815,803
Dividends	4,981,339	5,589,052	6,743,309	7,219,584	10,009,694
Real Estate Income	-	-	-	-	-
Securities Lending Income	157,562	124,158	91,625	359,394	1,881,706
Miscellaneous Income	16,833	45,681	3,640	120,820	152,848
	<b>12,042,269</b>	<b>118,234,574</b>	<b>54,423,364</b>	<b>(136,335,038)</b>	<b>\$ (27,396,720)</b>
<b>Less Investment Expenses:</b>					
Securities Lending Fees	68,370	35,027	25,401	197,429	\$ 1,708,227
Investment Services	3,460,730	3,871,641	4,096,007	4,580,028	4,129,652
<b>Total Investment Expense</b>	<b>3,529,100</b>	<b>3,906,668</b>	<b>4,121,408</b>	<b>4,777,457</b>	<b>\$ 5,837,879</b>
Net Investment Gain	8,513,169	114,327,906	50,301,956	(141,112,495)	\$ (33,234,599)
<b>Total Additions</b>	<b>45,162,766</b>	<b>149,846,048</b>	<b>84,863,801</b>	<b>(108,381,979)</b>	<b>\$ 6,588,801</b>
<b>Deductions</b>					
Benefits	61,693,408	58,247,882	51,700,541	51,996,508	\$ 46,211,560
Refunds	2,247,225	2,350,626	2,110,360	1,689,956	1,265,235
Transfers to Other Systems	-	2,928,607	898,085	2,655,061	4,340,520
Administrative Expenses	550,604	728,642	672,622	864,382	519,346
<b>Total Deductions</b>	<b>64,491,237</b>	<b>64,255,757</b>	<b>55,381,608</b>	<b>57,205,907</b>	<b>\$ 52,336,661</b>
<b>Net Change in Plan Net Assets</b>	<b>(19,328,471)</b>	<b>85,590,291</b>	<b>29,482,193</b>	<b>(165,587,886)</b>	<b>\$ (45,747,860)</b>

**Tucson Supplemental Retirement System**  
**Statement of Changes in Plan Net Assets - Last Ten Fiscal Years**

	Fiscal Years Ending June 30,				
	2007	2006	2005	2004	2003
<b>Additions</b>	\$ 22,670,418	\$ 24,319,911	\$ 21,423,488	\$ 15,966,754	\$ 12,771,777
City Contributions	8,120,057	8,197,437	7,638,608	6,563,651	7,583,019
Employee Contributions	1,008,980	1,157,572	1,972,509	2,307,962	4,610,513
Purchase of Service	41,595	-	857,399	-	-
Contributions from Other Sources	3,794,093	620,601	-	294,722	525,986
Transfers from Other Systems	\$ 35,635,143	\$ 34,295,521	\$ 31,892,004	\$ 25,133,089	\$ 25,491,295
<b>Total Contributions</b>					
<b>Investment Income</b>	\$ 85,493,111	\$ 48,195,450	\$ 33,977,326	\$ 67,110,061	\$ 3,704,778
Net Gain (Loss) in Fair Value of Investments	7,649,621	4,144,414	3,692,702	4,051,824	2,261,333
Interest	9,537,064	8,187,034	9,779,723	7,691,638	8,105,077
Dividends	-	-	-	16,209	405,794
Real Estate Income	2,594,083	1,683,061	879,477	417,044	340,493
Securities Lending Income	6,038	53,855	43,387	24,744	24,675
Miscellaneous Income	\$ 105,279,917	\$ 62,263,814	\$ 48,372,615	\$ 79,311,520	\$ 14,842,150
<b>Less Investment Expenses:</b>	\$ 2,517,081	\$ 1,618,232	\$ 819,201	\$ 324,034	\$ 252,297
Securities Lending Fees	3,433,243	3,096,323	2,581,056	2,308,746	1,852,781
Investment Services	\$ 5,950,324	\$ 4,714,555	\$ 3,400,257	\$ 2,632,780	\$ 2,105,078
<b>Total Investment Expense</b>	\$ 99,329,593	\$ 57,549,259	\$ 44,972,358	\$ 76,678,740	\$ 12,737,072
<b>Net Investment Gain</b>	\$ 134,964,736	\$ 91,844,780	\$ 76,864,362	\$ 101,811,829	\$ 38,228,367
<b>Total Additions</b>					
<b>Deductions</b>	\$ 40,419,922	\$ 33,475,950	\$ 31,357,794	\$ 30,259,921	\$ 23,855,130
Benefits	1,573,276	1,219,263	1,229,267	1,249,453	1,186,455
Refunds	11,886,941	482,469	209,410	362,716	3,169
Transfers to Other Systems	485,469	433,350	389,303	380,407	373,718
Administrative Expenses	\$ 54,365,608	\$ 35,611,032	\$ 33,185,774	\$ 32,252,497	\$ 25,418,472

**Tucson Supplemental Retirement System  
Retired Members by Type of Benefit  
As of June 30, 2012**

Amount of Monthly Benefit	Number of Retirees							Type of Retirement <sup>a</sup>							Option Selected <sup>b</sup>							
	1	2	3	4	1	2	3	4	1	2	3	4	5	6	7	1	2	3	4	5	6	7
\$ 1 - \$ 250	36	9	1	1	33	-	1	1	33	-	1	1	5	3	4							
\$ 251 - \$ 500	104	41	20	20	117	2	20	2	117	2	1	4	23	7	31							
\$ 501 - \$ 750	140	52	36	11	132	2	11	2	132	2	2	3	48	18	34							
\$ 751 - \$ 1,000	147	50	31	7	122	-	7	-	122	-	-	-	53	20	40							
\$ 1,001 - \$ 1,250	189	38	27	2	132	-	2	-	132	-	-	1	40	35	48							
\$ 1,251 - \$ 1,500	231	29	14	3	93	2	3	4	93	2	4	2	46	34	50							
\$ 1,501 - \$ 1,750	221	11	11	-	111	-	-	-	111	-	-	2	45	38	47							
\$ 1,751 - \$ 2,000	225	9	10	-	101	-	-	3	101	-	3	1	52	40	47							
\$ 2,001 - \$ 2,250	177	7	4	-	81	2	-	4	81	2	4	-	51	22	30							
\$ 2,251 - \$ 2,500	166	-	5	-	75	-	-	-	75	-	-	1	47	18	30							
\$ 2,501 - \$ 2,750	140	3	2	-	78	-	-	2	78	-	2	1	23	15	26							
\$ 2,751 - \$ 3,000	105	-	1	-	64	-	-	-	64	-	-	-	10	16	16							
\$ 3,001 - \$ 3,250	75	-	1	-	36	-	-	-	36	-	-	2	13	6	19							
\$ 3,251 - \$ 3,500	46	1	-	-	26	-	-	-	26	-	-	-	7	8	6							
\$ 3,501 - \$ 3,750	53	-	-	-	32	-	-	-	32	-	-	-	8	5	8							
\$ 3,751 - \$ 4,000	37	1	-	-	25	-	-	-	25	-	-	1	2	1	9							
\$ 4,001 - \$ 4,250	37	1	-	-	21	-	-	-	21	-	-	-	5	3	9							
\$ 4,251 - \$ 4,500	28	-	-	-	16	-	-	-	16	-	-	-	5	6	1							
\$ 4,501 - and over	133	1	-	-	69	-	-	1	69	-	1	2	24	16	22							
	2,244	253	163	44	1,364	8	44	18	1,364	8	18	21	507	311	477							
	2,704																					

Notes:

<sup>a</sup>Type of retirement

- 1 - Normal retirement for age and service
- 2 - Beneficiary payment, normal retirement
- 3 - Disability retirement
- 4 - Beneficiary payment, disability retirement

<sup>b</sup>Option selected:

- 1 - Single life, beneficiary receives lump sum of member's unused contributions
- 2 - Beneficiary receives remainder of 5 yr term, if applicable
- 3 - Beneficiary receives remainder of 10 yr term, if applicable
- 4 - Beneficiary receives remainder of 15 yr term, if applicable
- 5 - Beneficiary receives 75% of member's reduced benefit

**Tucson Supplemental Retirement System**  
**Average Monthly Benefit Payments to New Retirees**

Retirement Effective Dates For Fiscal Years Ending June 30	Years of Credited Service							
	<5	5-9	10-14	15-19	20-24	25-29	> 30	
2012*								
Avg Monthly Benefit	\$ 237	\$ 563	\$ 923	\$ 1,829	\$ 1,428	\$ 2,401	\$ 2,745	
Avg Monthly Final Avg Comp.	\$ 2,728	\$ 3,355	\$ 3,240	\$ 4,787	\$ 2,767	\$ 3,869	\$ 3,745	
Number of Active/EOSP retirees	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
2011*								
Avg Monthly Benefit	\$ 519	\$ 560	\$ 964	\$ 1,913	\$ 2,303	\$ 2,998	\$ 3,780	
Avg Monthly Final Avg Comp.	\$ 2,865	\$ 3,350	\$ 3,352	\$ 4,774	\$ 4,509	\$ 4,899	\$ 5,044	
Number of Active/EOSP retirees	5	12	18	24	83	107	58	
2010*								
			1-9	10-14	15-19	20-24	25-29	>30
Avg Monthly Benefit		\$ 481	\$ 931	\$ 1,466	\$ 2,374	\$ 2,386	\$ 3,376	
Avg Monthly Final Avg Comp.		\$ 3,229	\$ 2,976	\$ 3,841	\$ 5,148	\$ 4,251	\$ 4,871	
Number of Active/EOSP retirees		23	16	13	35	23	13	
2009*								
Avg Monthly Benefit		\$ 620	\$ 1,117	\$ 1,452	\$ 2,165	\$ 3,475	\$ 2,811	
Avg Monthly Final Avg Comp.		\$ 3,474	\$ 3,823	\$ 3,671	\$ 4,281	\$ 5,775	\$ 3,942	
Number of Active/EOSP retirees		14	13	12	23	15	9	
2008*								
Avg Monthly Benefit		\$ 645	\$ 1,076	\$ 1,502	\$ 2,258	\$ 3,133	\$ 3,944	
Avg Monthly Final Avg Comp.		\$ 4,302	\$ 4,542	\$ 3,869	\$ 5,094	\$ 5,310	\$ 6,222	
Number of Active/EOSP retirees		18	16	27	74	84	63	
2007								
Avg Monthly Benefit		\$ 648	\$ 725	\$ 1,360	\$ 2,010	\$ 2,999	\$ 3,730	
Avg Monthly Final Avg Comp.		\$ 3,947	\$ 2,922	\$ 3,687	\$ 4,258	\$ 5,086	\$ 5,589	
Number of Active Retirees		12	11	33	42	55	48	
2006								
Avg Monthly Benefit		\$ 610	\$ 802	\$ 1,304	\$ 1,974	\$ 3,141	\$ 4,001	
Avg Monthly Final Avg Comp.		\$ 4,046	\$ 2,803	\$ 3,245	\$ 4,006	\$ 4,970	\$ 5,561	
Number of Active Retirees		20	14	25	27	33	20	
2005								
Avg Monthly Benefit		\$ 563	\$ 912	\$ 1,095	\$ 1,803	\$ 3,291	\$ 3,615	
Avg Monthly Final Avg Comp.		\$ 3,518	\$ 3,722	\$ 3,017	\$ 3,884	\$ 5,623	\$ 4,883	
Number of Active Retirees		8	3	10	20	17	10	
2004								
Avg Monthly Benefit		\$339	\$895	\$1,245	\$1,547	\$2,508	\$2,876	
Avg Monthly Final Avg Comp.		\$2,519	\$3,398	\$3,500	\$3,483	\$4,292	\$4,323	
Number of Active Retirees		4	10	6	7	8	2	
2003								
Avg Monthly Benefit		\$595	\$734	\$1,213	\$1,772	\$2,380	\$3,421	
Avg Monthly Final Avg Comp.		\$3,350	\$2,851	\$3,358	\$3,705	\$4,209	\$5,047	
Number of Active Retirees		10	18	31	41	145	62	
2002								
Avg Monthly Benefit		\$465	\$615	\$1,106	\$1,236	\$2,372	\$3,071	

\*includes EOSP Participants still employed and alt. payees receiving benefits

**Tucson Supplemental Retirement System  
Demographics of Retired and Active Members  
June 30, 2012**

**Retired Members**

Ages	Retirees			Survivors/Beneficiaries		
	Male	Female	Total	Male	Female	Total
Under 55	43	57	100	2	22	24
55 to 59	170	158	328	3	26	29
60 to 64	378	207	585	4	37	41
65 to 69	351	173	524	2	35	37
70 to 74	214	118	332	-	57	57
75 to 79	176	64	240	4	51	55
80 to 84	88	55	143	1	35	36
85 to 89	49	32	81	6	34	40
90 to 94	21	15	36	1	10	11
95 to 100	1	2	3	-	2	2
101 and over	-	-	-	-	-	-
<b>Total</b>	<b>1,491</b>	<b>881</b>	<b>2,372</b>	<b>23</b>	<b>309</b>	<b>332</b>

**Active Members**

Ages	Active Members			Percentage Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	-	2	2	0.00%	0.07%	0.07%
20 to 29	76	60	136	2.80%	2.52%	5.00%
30 to 39	269	218	487	9.90%	9.79%	17.92%
40 to 49	455	374	829	16.74%	13.54%	30.50%
50 to 59	612	381	993	22.52%	13.35%	36.53%
60 to 69	181	82	263	6.66%	3.02%	9.68%
70 and over	7	1	8	0.26%	0.04%	0.29%
<b>Total</b>	<b>1,600</b>	<b>1,118</b>	<b>2,718</b>	<b>58.87%</b>	<b>42.33%</b>	<b>100.00%</b>

**Composition of Active TSRS Membership by Tier**

	<u>Membership</u>	<u>Payroll</u>	<u>% of Payroll</u>
Tier 1 - Fixed Contribution Rates	1,945	96,523,851	77.22%
Tier 1 - Variable Contribution Rates	512	19,693,710	15.75%
Tier 2 - Variable Contribution Rates	261	8,785,462	7.03%
	<u>2,718</u>	<u>125,003,023</u>	<u>100.00%</u>

**Tucson Supplemental Retirement System  
Employee and Employer Contribution Rates  
Last Ten Fiscal Years**

Fiscal Year	Employee Rate (percentage)		Employer Rate (percentage)		Total Contribution
	Fixed	Variable	Fixed	Variable	
02/03	5.0	n/a	8.41	n/a	13.41
03/04	5.0	n/a	11.17	n/a	16.17
04/05	5.0	n/a	14.06	n/a	19.06
05/06	5.0	n/a	14.83	n/a	19.83
06/07*	5.0	7.5	15.04	12.54	20.04
07/08*	5.0	8.084	15.21	12.126	20.21
08/09*	5.0	7.788	14.47	11.682	19.47
09/10*	5.0	8.852	17.13	13.278	22.13
10/11*	5.0	9.428	18.57	14.142	23.57
11/12*	5.0	11.62	24.05	17.43	29.05

**Tucson Supplemental Retirement System  
Benefit and Refund Deductions from Net Assets by Type  
Last Ten Fiscal Years**

Type of Benefit	fiscal years ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>Service Benefits:</b>										
Retirees	48,475,837	51,377,474	45,580,606	40,123,580	39,940,472	31,993,340	28,946,679	27,440,364	26,533,141	20,209,887
EOSP lump sum <sup>(1)</sup>	7,656,801	1,517,252	997,448	6,805,342	1,495,136	4,069,547	-	-	-	-
Survivors <sup>(2)</sup>	3,166,737	2,951,507	2,757,941	2,700,791	2,499,152	2,236,330	2,229,540	1,860,300	1,646,238	1,661,008
<b>Disability Benefits:</b>										
Retirees	2,056,266	2,057,473	2,015,248	1,969,239	1,999,565	1,847,725	1,763,061	1,717,457	1,646,927	1,541,162
Survivors	337,767	344,176	349,299	397,556	277,235	272,980	536,670	339,672	433,615	423,073
<b>Total Benefits</b>	<b>61,693,408</b>	<b>58,247,882</b>	<b>51,700,541</b>	<b>51,995,508</b>	<b>46,211,560</b>	<b>40,419,922</b>	<b>33,475,950</b>	<b>31,357,794</b>	<b>30,259,921</b>	<b>23,855,130</b>
<b>Type of Refund</b>										
Death	310,994	305,536	250,047	299,778	96,935	70,309	147,588	86,361	223,073	296,371
Separation	1,936,231	2,045,089	1,860,312	1,390,177	1,168,300	1,502,967	1,219,264	1,225,670	1,242,340	890,084
Transfers	-	2,928,607	898,085	2,655,061	4,340,520	11,886,941	482,469	209,410	362,716	3,169
<b>Total Refunds</b>	<b>2,247,225</b>	<b>5,279,232</b>	<b>3,008,445</b>	<b>4,345,017</b>	<b>5,605,755</b>	<b>13,460,218</b>	<b>1,849,320</b>	<b>1,521,441</b>	<b>1,828,129</b>	<b>1,189,625</b>

<sup>(1)</sup> EOSP - An End of Service Program benefit option became available for the first time in FY2007, allowing retiring employees to accumulate up to one year's worth of benefit payments during their final year of employment

<sup>(2)</sup> Includes Death in service pension benefits

Tucson Supplemental Retirement System  
Retiree Benefit and Service Summary

# yrs Retired	Average Benefit	Total Monthly Benefit pmts	# of Retirees	Age at 6/30/12							Years of Credited Service			
				<55	55-59	60-64	65-69	70-74	75-79	80-84	=>85	<10	10-19	20>
<5	2,353	1,964,473	835	97	251	294	165	24	4	0	0	85	154	596
5-9	2,220	1,620,903	730	14	83	258	228	123	16	6	2	59	151	520
10-14	1,577	690,649	438	12	17	62	141	125	74	5	2	41	127	270
15-19	1,335	385,726	289	0	4	8	21	9	91	59	10	34	75	180
20-24	1,403	355,031	253	1	2	3	5	15	90	86	51	19	63	171
25-29	873	102,100	117	0	0	1	1	5	14	22	74	11	46	60
30>	618	25,940	42	0	0	0	0	1	6	1	34	13	18	11
	1,903	5,144,822	2,704	124	357	626	561	302	295	179	173	262	634	1808

Note: Includes alternate payees and survivors

