



Follow-up to Annual Pension Update

AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND (AFFRRF)
AUSTIN POLICE RETIREMENT SYSTEM (APRS)
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COAERS)

FINANCIAL SERVICES DEPARTMENT
NOVEMBER 20, 2019



Agenda

Recap of September 26, 2019 Presentation Annual Pension Update

History – COAERS Past Pension Adjustments – Why needed? How made?

Need for Current Pension Adjustment (COAERS and APRS)

Recent experience of certain large Texas cities

Recent Legislation affecting Retirement Systems

City Manager's FY2020 Initiative

LEGEND

COAERS = CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

APRS = AUSTIN POLICE RETIREMENT SYSTEM

AFFRRF = AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND



City of Austin Retirement Systems

System Eligibility and Vesting

Employee	Police	Fire Fighters
Eligibility		
All regular, full time City of Austin employees working 30 hours or more (excluding civil service police officers and fire fighters), includes Emergency Medical Services employees.	All commissioned law enforcement officers employed by the City of Austin Police Department and cadets upon enrollment in Austin's Police Academy.	All commissioned civil service and Texas state-certified fire fighters with at least six months of service employed by the Austin Fire Department.
Vesting		
After 5 years creditable service.	After 10 years creditable service.	After 10 years creditable service.
Retirement Eligibility		
<u>Group A – Hired before 1/1/2012</u> <ul style="list-style-type: none"> • 20 years service at age 55 • 23 years service at any age • Any # of years service at age 62 	<ul style="list-style-type: none"> • 20 years service at age 55 • 23 years service at any age • Any # of years service at age 62 	<ul style="list-style-type: none"> • 10 years service at age 50 • 25 years service at any age
<u>Group B – Hired on/after 1/1/2012</u> <ul style="list-style-type: none"> • 30 years service at age 62 • 5 years service at age 65 	n/a	n/a



City of Austin Retirement Systems

Actuarial Valuation and Contributions

	Employees	Police	Fire Fighters
Most Recent Actuarial Valuation	12/31/2018	12/31/2018	12/31/2018
Actuarial Value of Investments	\$2,695.4 M	\$808.0 M	\$954.6 M
Actuarial Accrued Liability	\$3,989.6 M	\$1,389.7 M	\$1,084.5 M
Unfunded Accrued Liability (UAAL)	\$1,294.2 M	\$581.7 M	\$130.0 M
Amortization Period	32 years	Infinite	17.9 years
Funded Ratio	67.6%	58.1%	88.0%
Assumption Inflation Rate	2.75%	2.50%	2.75%
Assumption Payroll Growth	4.00%	3.00%	3.50%
Assumption Investment Return	7.50%	7.25%	7.70%
Employee Contribution (% of earnings)	8.00%	13.000%	18.70%
City Contribution (% of earnings)	18.00%	21.313%	22.05%
Last Cost of Living Adjustment	2002 – 2.5%	2007 – 1.0%	2019 - 2.3%

M = Millions

NOTE: Fire Fighters do not participate in Social Security.



COAERS

Need for Past Pension Adjustments

COAERS funded ratio was 100% or more from 1994 until 2001.

Subsequent to benefit increases in late 1990s, investment returns were negatively impacted by economic events - 9/11 attacks, dot.com bubble, 2008 Great Recession.

COAERS funded ratio decreased steadily from 101.5% in 2000 to 65.9% by 2008; infinite amortization period from 2002 through 2010.

On Texas Pension Review Board Watch List.

- Infinite amortization period beginning with 12/31/2002 actuarial valuation.

COAERS = CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

COAERS Multiplier increased and applied retroactively

- None since 2002
- 2002 to **3.00x** from 2.98x
- 2000 to 2.98x from 2.70x
- 1999 to 2.70x from 2.60x
- 1997 to 2.60x from **2.30x**

COAERS COLAs granted

High investment returns 1995 through 1999; negative in 2000 through 2002

Year	COLA %
2002	2.5%
2001	3.5%
2000	0.0%
1999	3.0%
1998	5.0%
1997	6.0%
1996	6.0%

Year	Return %
2002	-9.74%
2001	-6.22%
2000	-1.64%
1999	24.34%
1998	14.81%
1997	15.83%
1996	12.46%
1995	22.88%



COAERS

Past Pension Adjustments

May 2005 – Council approved Supplemental Funding Plan to address COAERS infinite amortization period. Increased City's contribution rate from 8% to a maximum of 12% over time. Future Cost of Living Adjustments (COLAs) granted only with City's approval.

- No Board or Legislative action needed.

September 2010 – Council approved Amended Supplemental Funding Plan

- Initial Supplemental Funding Plan was not sufficient to achieve a 30 year amortization period in the foreseeable future given investment losses of 2008 (Great Recession) – All three systems had investment losses of greater than 20%.
- Increased City's contribution rate to a maximum of 18% over time.
- New benefit tier for employees hired on or after January 1, 2012 approved by COAERS Board of Trustees, City Council, and 2011 Texas Legislature (HB3033). New benefit tier increased age and service criteria to reach retirement eligibility and decreased pension multiplier.
- No change recommended at the time for APRS or AFFRRF; both were in better financial position.

COAERS = CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM



COAERS

Past Supplemental Funding Plans

City's contribution level increased incrementally over time; no change in employee contribution.

May 2005 increased City's annual contribution rate 1% each year to a maximum of 12%; employees contribution rate maintained at 8%

September 2010 increased City's annual contribution rate 2% each year to a maximum of 18%; employees contribution rate maintained at 8%

Fiscal Year Ended September 30	Incremental Increase	Cumulative City Contribution Rate	Supplemental Funding Plan Adopted
2006 Base Year	None	8.00 %	May 2005
2007	1.00 %	9.00 %	May 2005
2008	1.00 %	10.00 %	May 2005
2009	1.00 %	11.00 %	May 2005
2010	1.00 %	12.00 %	May 2005
2011	2.00 %	14.00 %	September 2010
2012	2.00 %	16.00 %	September 2010
2013	2.00 %	18.00 %	September 2010

NOTE: Contribution amount based upon contribution rate multiplied by payroll.

COAERS = CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM



COAERS

Need for Current Pension Adjustment

2018 Actuarial Valuation Report

- Funded ratio from 68.3% (2017) to 67.6%.
- UAAL amortization period increased from 30 years (2017) to 32 years.

Experience study underway in 2019; expect recommendation for changes to more conservative actuarial assumptions.

Lowering assumed rates of inflation, investment return, and/or payroll growth would increase the amortization period.

COAERS' current actuarial assumptions

- Inflation rate 2.75%.
- Investment return 7.50%.
- Payroll growth rate including 2.75% inflation, 1.25% productivity, and promotional increase from 0% to 2.25% based upon service years.
- Mortality table with annual life expectancy improvements built-in.

Proposed actuarial assumption changes will likely place COAERS on Texas Pension Review Board's list for a Funding Soundness Restoration Plan.

COAERS = CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM



APRS

Need for Current Pension Adjustment

Actuarial audit and experience study in 2019 recommend actuarial assumption changes.

APRS adopted more conservative assumptions in May 2019

- Inflation rate from 3.0% to 2.5%.
- Investment return from 7.70% to 7.25%.
- Payroll growth rate from 4.0% to 3.0%.
- Updated mortality table to reflect longer life spans.

2018 Actuarial Valuation Report July 17, 2019

- Decrease in funded ratio from 65.8% to 58.1%.
- UAAL amortization period increased from 35 years to infinite.

Actuarial Valuation Report with amortization period over 40 years reported to Texas Pension Review Board.

- Texas Government Code Section 820.2015 requires a funding “**Restoration Plan**” be developed by the retirement system and its plan sponsor after **three consecutive valuations result in a funding period beyond 40 years to amortize unfunded liabilities.**
- Restoration Plan must be presented to Texas Pension Review Board and identify options to improve funding to no more than a 40-year period to amortize UAAL within a 10-year timeframe after the Plan is adopted.

APRS = AUSTIN POLICE RETIREMENT SYSTEM



Amortization Period Comparison of Large Texas Cities

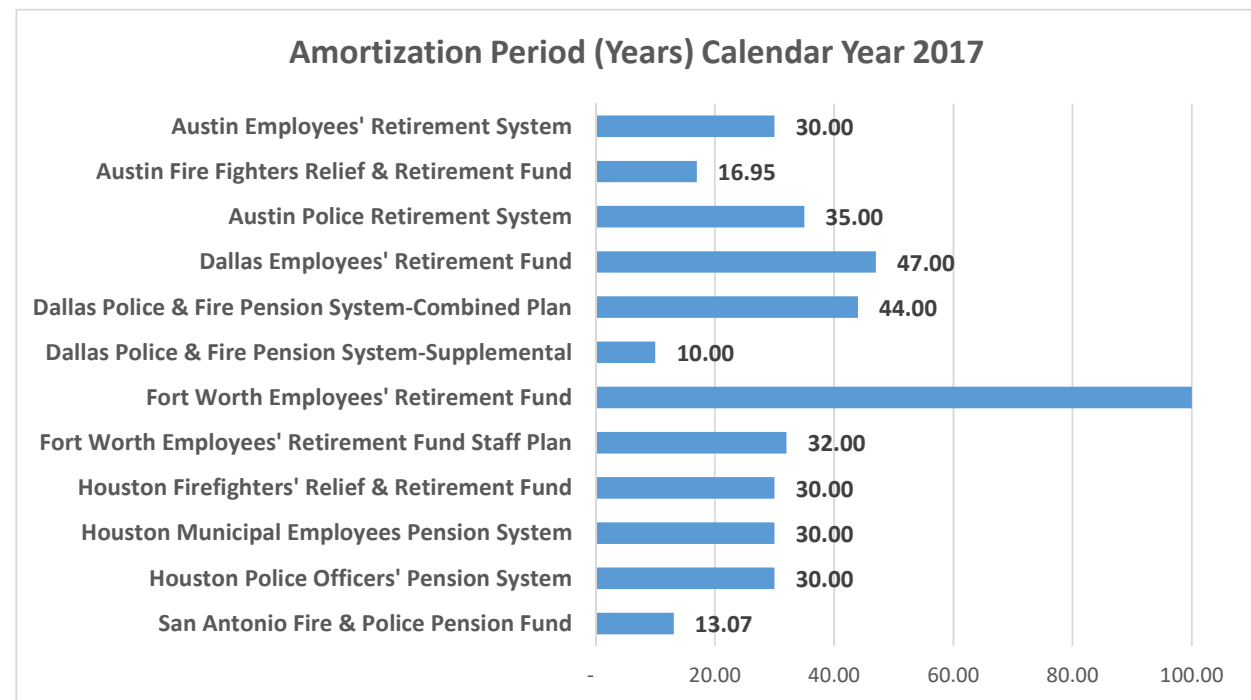
Texas Pension Review Board (TPRB) is the State agency mandated with oversight of all state and local pension systems.

TPRB definition

Time it would take to fully fund a system's unfunded actuarial accrued liability (UAAL).

TPRB Guideline

Prefer 10 – 25 year funding period.



SOURCE: Texas Pension Review Board (TPRB)



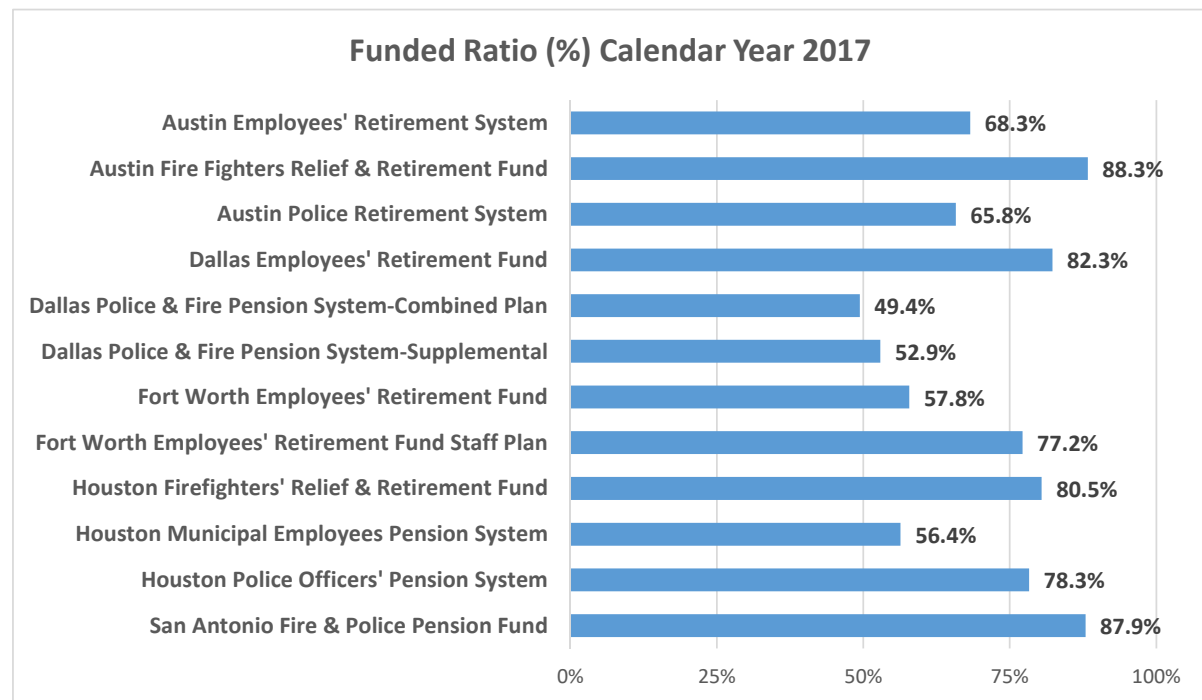
Funded Ratio Comparison of Large Texas Cities

TPRB definition Percentage of actuarial accrued liability funded by actuarial value of its assets.

Funding ratio equals assets divided by liabilities

A **ratio** of over 1.00 or 100% indicates pension assets are sufficient to cover liabilities.

- 100% is fully funded.
- Less than 100% is under-funded.



SOURCE: Texas Pension Review Board (TPRB)



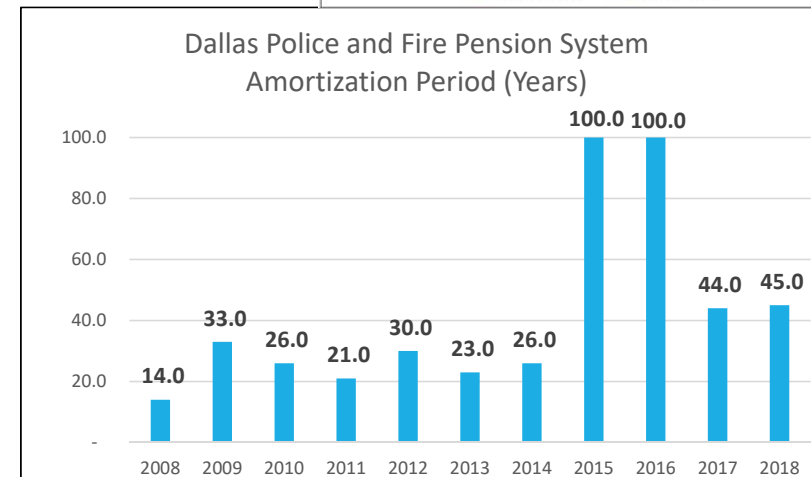
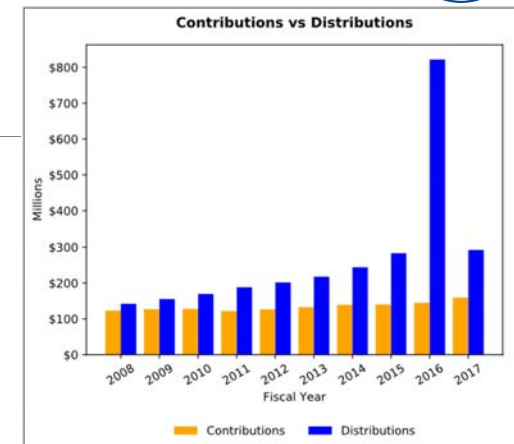
City of Dallas Police and Fire Pension System

Single employer contributory defined benefit plan providing retirement, survivor, disability benefits to uniformed public safety employees and beneficiaries.

Funding Soundness Restoration Plan (FSRP) - Trigger date 1/01/2017 due to 44 year Amortization Period. Goal year 2027. As of July 2019, system still working towards FRSP requirement of 40 year amortization.

2017 - HB3158 signed by Governor on 5/31/2017 reformed City of Dallas Combined Police and Fire Pension System amending provisions for benefits, contributions, governance. Significant amendments to Texas Statutes Article 6243a-1 and resulted in a solvent plan. Effective September 1, 2017.

NOTE: Dallas employees do not participate in Social Security.





City of Fort Worth Employees Retirement Fund

Multi-employer cost sharing defined benefit plan covering all regular employees, police officers, and firefighters employed full time.

2015 - HB310 – Fort Worth may independently formulate, adopt, revise as necessary the FSRP for Employees' Retirement Fund.

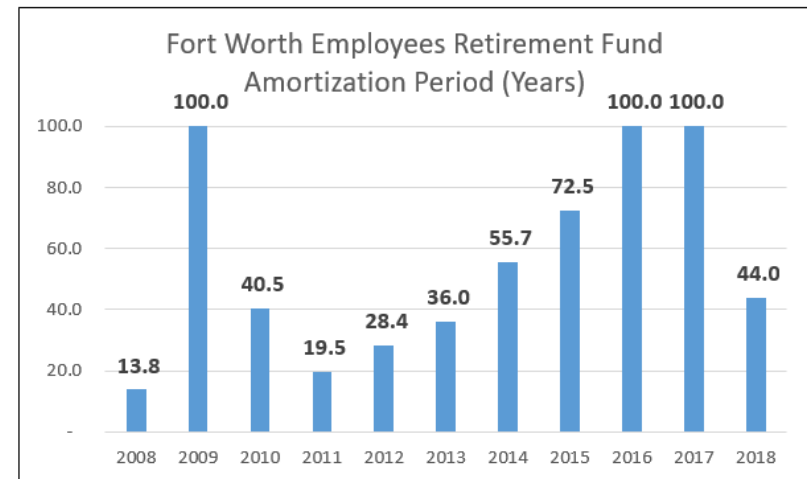
FSRP Trigger date 12/31/2016 due to an infinite amortization period. July 2019 - system still working towards FRSP requirement of 40 year amortization. Goal year 2026.

12/31/2018 Actuarial Valuation reports 44 year amortization period, 52.4% funded ratio; UAAL \$2.1M.

December 2018 Council approved increasing city and employees contributions, eliminating service credit for future accruals of sick leave/major medical leave, changes to Cost of Living Adjustments (COLAs).

February 2019 Employee vote approved proposed solution. Contribution changes began July 20, 2019; contributions changes for Police Officers and Fire Fighters phased-in over the next two years.

Contribution rates adjust in the future to meet funding needs based on plan experience (shared between City and employees).





City of Houston

Three Retirement Systems

2017 - SB2190 signed 5/31/2017 covered all three Houston retirement systems. Reformed pension benefit structure for long term sustainability and addressed City's prior underfunding of pension systems.

Resulted from a year of negotiations between City of Houston, pension systems, employee unions, stakeholders, Texas Legislature.

Included City of Houston's commitment to issue \$1.0 billion Pension Obligation Bonds (POBs) to provide funding for its Municipal Employees and Police Officers retirement systems. November 2017 favorable vote by Houston citizens.

Reduced assumed investment rate to 7%.

Fixed the amortization period for unfunded liability at 30 years.

Future benefit structure reduces unfunded liabilities by \$3 billion (police officers \$1B, fire fighters \$800M, municipal employees \$700M) over the next 30 years.

Benefit reductions primarily in scaled-back Cost of Living Adjustments (COLAs) and phased-out Deferred Retirement Options Programs (DROPs).

Contribution rates adjust in the future to meet funding needs based on plan experience (shared between City and employees).



Recent Legislation

2008 - HB 2664 approved by Texas Legislature in 2008 requires the City to conduct an **actuarial audit every five years** of the actuarial valuations, studies, and reports of public retirement systems with total assets of at least \$100 million. Texas Government Code Section 802.1012.

2015 - HB3310 signed by Governor Abbott 6/18/2015 (effective immediately) requires public retirement systems with assets of at least \$100 million to conduct an **actuarial experience study once every five years**. Established requirements for **funding soundness restoration plans (FSRP)** and submittal to Pension Review Board. Provided **City of Fort Worth** may independently formulate, adopt, revise as necessary a FSRP for its Employees' Retirement Fund.

2017 - HB3158 signed by Governor Abbott 5/31/2017 reformed **City of Dallas** Combined Police and Fire Pension System amending provisions for benefits, contributions, governance

2017 - SB2190 signed by Governor Abbott 5/31/2017 covered all three **City of Houston** retirement systems. Included City of Houston's commitment to issue \$1.0 billion Pension Obligation Bonds (POBs) to provide funding for its Municipal Employees and Police Officers retirement systems. POBs received a favorable vote of Houston citizens in November 2017.



Recent Legislation - 86th Legislature

2019 - S.B. 322 (Huffman/Murphy) – (Effective immediately.) **Public Retirement Systems** shall select an **independent firm to evaluate the appropriateness, adequacy, and effectiveness of the system's investment practices and performance** and make recommendations for improving the system's investment policies, procedures, and practices.

1. Evaluation **must include**:
 - a) Analysis of any investment policy or strategic investment plan adopted by retirement system and compliance with that policy/plan;
 - b) Detailed review of system's investment asset allocation, including: **(i)** process for determining target allocations; **(ii)** expected risk and expected rate of return; **(iii)** appropriateness of selection and valuations methodologies of alternative and illiquid assets; **(iv)** future cash flow and liquidity needs.
2. Review appropriateness of investment fees and commissions paid by retirement system.
3. Review of governance process for investment activities (investment decision-making process, delegation of investment authority, and board investment expertise and education).
4. Review investment manager selection and monitoring process.

2019 - S.B. 2224 (Huffman/Murphy) – (Effective September 1, 2019.) **Public Retirement Systems** governing body shall adopt a written **funding policy** that details its **plan for achieving a system's funded ratio equal to or greater than 100 percent no later than January 1, 2020.**



City Manager's FY2020 Initiative

Work closely with our partners at the Police and Employees' Retirement Systems to develop long-term strategies and options for ensuring their financial health.

Funding approved in FY2020 budget for consulting assistance to evaluate options

Pension experts to assist City in identifying and evaluating options

Evaluate options to meet future retirement funding needs

Evaluate employee retirement benefits (Current employees and retirees accrued benefits are protected by statute.)

Multi-department City team

Work collaboratively with retirement systems Board of Trustees and their Executive Directors

Input from stakeholders



Questions?

RESOURCE LIST

City of Austin Employees' Retirement System Annual Audit: <https://www.coaers.org/Resources/CAFR>

Austin Police Retirement System Annual Audit: <https://www.ausprs.org/reports>

Austin Fire Fighters Relief and Retirement Fund Annual Audit: <https://www.afrs.org/financial-statements>

City of Austin's Actuarial Audit of the City's Pension Systems (May 9, 2019 Item #17)

<http://www.austintexas.gov/department/city-council/2019/20190509-reg.htm>

- COAERS <https://www.austintexas.gov/edims/document.cfm?id=318613>
- APRS <https://www.austintexas.gov/edims/document.cfm?id=318615>
- AFFRRF <https://www.austintexas.gov/edims/document.cfm?id=318614>