MEMORANDUM

TO: Mayor and Council Members

THROUGH: Ed Van Eenoo, Chief Financial Officer

FROM: Diana Thomas, Deputy Chief Financial Officer

DATE: January 13, 2023

SUBJECT: **Cost of Living – City of Austin Retirees (FY23 Kelly Budget Rider 3)**

This memo is intended to provide responsive information regarding Council Member Kelly's Fiscal Year 2022-2023 Budget Rider 3 regarding assessing the cost of living for City of Austin retired employees.

The City of Austin offers three defined benefit retirement plans:
- City of Austin Employees' Retirement System (COAERS);
- Austin Police Retirement System (APRS), and
- The Austin Fire Fighters Relief and Retirement Fund.

These systems are established in state law and some changes to the operations of these retirement plans must go to the legislature to be enacted.

Plan Membership

As of December 31, 2021	COAERS	APRS	AFRRF
Inactive employees or beneficiaries receiving benefits	7,221	1,164	924
Inactive employees entitled to but not yet receiving benefits	3,459	138	29
Active employees	10,228	1,673	1,175
Total Members	20,908	2,975	2,128

The November 21, 2022, Audit and Finance Committee meeting included a detailed presentation on these plans, which can be found here.

Because the City does not maintain current contact information for City of Austin retirees, it would be difficult to survey these individuals regarding their cost of living (taxes, utilities, medical care, etc.). Once an employee retires, they maintain a relationship with their respective retirement system and no longer update their contact information with the City making it difficult to gather information on their cost of living (COL). One measure of the increase in COL is the CPI index. Based on our calculations, the CPI increase for our area is approximately 8% from 2021 to 2022.

Because of the difficulty in determining how to survey retirees, staff analyzed the cost of providing one-time and recurring cost-of-living adjustments (COLAs) in response to this request.

Determining the ability to provide COLAs is the responsibility of the pension systems. In some instances, this would require the System and the City to go to the legislature to get approval for a COLA (APRS). The most recent COLAs were granted by the systems in calendar years 2002 (COAERS), 2007 (APRS) and AFRRF (2022).

With COAERS representing the largest population of those receiving retirement benefits from one of the City's pension systems, Financial Services Department staff reached out to COAERS for their assistance in determining what it would take for the system to have sufficient funded status to provide a cost-of-living adjustment (COLA) for their membership.

Under the State Pension Review Board funding guidelines:
1. The funding of a pension plan should reflect all plan obligations and assets.
2. The allocation of the normal cost portion of the contributions should be level or declining as a percentage of payroll over all generations of taxpayers and should be calculated under applicable actuarial standards.
3. Funding of the unfunded actuarial accrued liability should be level or declining as a percentage of payroll over the amortization period.
4. Actual contributions made to the plan should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years, with 10 – 25 years being a more the preferable target range. **Benefit increases should not be adopted if all plan changes being considered cause a material increase in the amortization period and if the resulting amortization period exceeds 25 years.** (emphasis added)
5. The choice of assumptions should be reasonable and should comply with applicable actuarial standards.
6. Retirement systems should monitor, review, and report the impact of actual plan experience on actuarial assumptions at least once every five years.

COAERS' actuary ran four scenarios, including one-time COLAs and recurring COLAs, which result in an increase in the City's <u>annual</u> contributions to the system. It includes the following assumptions:
- Covered payroll for 2023 is $774,616,607
- Uses smoothed value of assets as of December 31, 2022 (as projected)
- Assumes the increase to achieve a 25-year funding period is achieved as well as the scenario COLAs.

Scenarios	Amount	Increase from Current
Current annual City contribution (8% of payroll statutory plus an additional 11% of payroll voluntary)	$147,177,155	
Base scenario: Achieving 25-year funding period (this would allow the consideration of a COLA)	$167,549,572	$20,372,417
1. Base scenario PLUS providing a one-time increase in payments that continue into the future		
a. 1% (i.e. move from $10,000 per year to $10,100 per year)	$169,331,190	$22,154,035
b. 2% (i.e. move from $10,000 per year to $10,200 per year)	$171,035,347	$23,858,191
2. Base scenario PLUS providing recurring increases in payments		
a. 1% recurring (i.e. move from $10,000 to $10,100 to $10,201, etc.)	$212,090,027	$64,912,872
b. 2% recurring (i.e. move from $10,000 to $10, 200 to %10,404, etc.)	$264,918,880	$117,741,724

Approximately 30-35% of these contributions would need to be funded by the General Fund with the balance coming from the City's enterprise activities resulting in increased taxes, rates, and fees.

Should you have any questions or need additional information, please reach out to Diana Thomas, Deputy Chief Financial Officer at diana.thomas@austintexas.gov.

cc: Spencer Cronk, City Manager
Veronica Briseño, Assistant City Manager