



**ECONOMIC PROSPERITY COMMISSION
RECOMMENDATION 20240417-002B**

Date: April 17, 2024

Subject: City's FY 2024 – 2025 Budget (Retirement Programs)

Motioned By:

Seconded By:

Recommendation

Reduce risk by moving retirement programs from pensions to defined contribution.

Description of Recommendation to Council

Remove risk by changing our retirement programs from pensions to defined-contribution programs.

Remove risk by paying other parties to accept Austin's existing pension liabilities. Payment could be either a series of future annual payments or an immediate payment, using funds raised by General Obligations bonds.

Rationale:

The City of Austin currently promises pensions to its employees. That is, we specify benefits after they retire for as long as they live. This sounds nice, but the hard truth is that we do not know the financial future. We do not know the price today of those promises.

Those promises have already created a gigantic problem. The 2023-24 Budget says our unfunded actuarial accrued liabilities in 2020 were "nearly \$2.4 billion". That is more than one-and-a-half years of the annual General Fund. Every resident, adults and children, lost more than \$100 benefits in Fiscal Year 2023-24 because the City of Austin spent that money fixing just 1/30th of our pension liability.

Pensions are dangerous. They crippled America's car industry. They almost ended America's steel industry. And multiple cities have declared bankruptcy due to the burdens of pension: Detroit MI, Stockton CA, San Bernardino CA, and more. Pension programs can harm more than the City of Austin; they might harm our employees in the future who would be relying on the City of Austin for those pensions in their retirement.

To ensure the City of Austin's economic prosperity, it should not make unpredictable promises about the future. It should "pay as we go" with its employees. That means a defined contribution plan, which puts a fixed-multiple of the employee's salary into a retirement program this fiscal year, without any promises about the future.

The risk from existing liabilities caused by past pension programs should be removed from the City of Austin budget. That can be done by paying a financial firm to accept the risk, in exchange for fixed future payments or a lump sum, raised with General Obligation bonds. The risk could also be removed by offering fixed or lump sum payments to holders of the pensions.

Vote

For:

Against:

Abstain:

Absent:

Attest: *[Staff or board member can sign]*

DRAFT