



RECOMMENDATION TO COUNCIL

Economic Prosperity Commission

Recommendation Number: 20251119-010: Pensions and OPEB Benefits

WHEREAS, City Council created the Economic Prosperity Commission to advise the council on matters related to job creation and the City of Austin is one of the largest employers in Austin and retirement benefits make up a large percentage of the compensation of City of Austin employees.

WHEREAS, City Council created the Economic Prosperity Commission to advise the council on matters related to job creation and the financial health of the City of Austin's government is a signal used by employers to decide where to create jobs.

WHEREAS, the City of Austin's Annual Comprehensive Financial Report says "The deficit in governmental unrestricted net position is largely due to the net pension liability of \$2.3 billion and other postemployment benefits (OPEB) liability of \$1.9 billion."

WHEREAS, the Legacy Liability of all 3 pensions is expected to increase. The police pension's increases until 2030, COAERS until 2031, and the firefighter's until 2032.

WHEREAS, the payments to reduce the Legacy Liability will exceed \$190 million in 2028. And those payments will continue until 2051 for the police pension, until 2053 for COAERS, and until 2055 for the firefighters'.

WHEREAS, the City of Austin has not saved any money to pay for "other post-employment benefits" (OPEB), such as medical care.

WHEREAS, the City of Austin is not legally required to provide OPEB and employees have no guarantee that OPEB will continue.

NOW, THEREFORE, BE IT RESOLVED that the Economic Prosperity Commission makes the following recommendations:

- The City should establish a defined-contribution plan to pay for OPEB for all employees hired after the plan was created. This is a legal trust where a fixed percentage of wages should be put into the fund to pay for OPEB benefits during each employees' retirement.
- The City should continue to explore the cheapest way to provide medical care to existing retirees. This includes studying Chicago's plan to use the Affordable Care Act, known as ObamaCare, as a way to get medical coverage for retirees.

- The City Budget’s “Taxpayer Impact Statement” page should include the per-ratepayer change in the City’s “total governmental activities net position” for the previous year.
- The pensions’ rules should be simulated under random expected conditions (for example, shuffled historical data) and varying assumptions. The output of those simulations should include the range of values for net pension liabilities in 2053. It should also include the range of employer contributions and the probability that the employer’s “maximum contribution rate” is exceeded at any point. The impulse response should be computed for a once-in-a-decade and a once-in-a-century loss.
- If simulations show that there is a significant probability of exceeding the employer’s “maximum contribution rate”, City Council should work to specify what happens to each pension.
- The City’s reports, such as the Budget and Annual Comprehensive Financial Report, should include a range of values for the pension liability based on the distribution of assumed returns, to remind readers that values are uncertain. The range of values should have appropriate context, such as the “likely ranges” of investment returns as calculated by Meketa.
- When negotiating contracts, City Council should be informed about the effect on the pension liabilities.
- Each pension fund should track the effects of mispredicted assumptions since the ADEC was implemented for the pension. Each pension should report the sum of increased liabilities since the ADEC was implemented that were caused by each class of prediction. The prediction classes are: investment returns, actuarial predictions (lifespans), employee behavior (quitting, etc.), and others.
- Pension funds should report correlations with well-known risks that cross multiple investments. These are risks like inflation, interest rates, S&P 500, VIX, individual currencies, oil, and geographic proximity. The City should also measure these correlations with its other assets and incomes, such as sales tax.
- Once each decade, the City of Austin should adjust the pension retirement ages, to account for longer lifespans. This may need to be a recommendation to the state legislature to adjust the appropriate state laws.
- When pensions predict future wages to calculate liabilities, they should use the wages that the City has already contracted for.
- The City voluntarily pay-off pension liability layers with losses over a 7 year period, instead of a 20 year period.
- The City voluntarily pay-off pensions’ legacy liability faster than is required, in order to get more from our investments and lower residents’ taxes.
- Explore replacing the defined-benefit pension plans with defined-contribution plans.
- Base pension benefits on career average pay, rather than on the highest salary earned.

- Request that the Government Accounting Standards Board (GASB) require a prudent, financially conservative discount rate and use it for the liabilities used to calculate the City's total governmental activities net position.
- Pension funds should report the external sources for their predicted investment return rates and other predictions.
- Pension funds should all use the same predictions of inflation rate, predicted return rates for asset classes, etc.

Date of Approval: November 19, 2025

Motioned By: Commissioner Pleuthner

Seconded By: Commissioner Randall

Vote: 9-0

For: Chair Gonzales, Commissioners Cantu, Joshi, Nahas, Pleuthner, Randall, Rashed, Tomaszewski, Zapata

Against: None

Abstain: None

Off the dais: None

Absent: Vice Chair Valdez Sanchez

Attest: *Ryan Sperling*

(Economic Prosperity Commission Staff Liaison)