



City of Austin Employees Retirement System

MINUTES

ANNUAL MEMBERS' MEETING CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Wednesday, October 13, 2010 – 5:00 p.m.
418 E. Highland Mall Blvd., Austin, Texas

Board

Board Members Present

Janet Bartles
Reagan David -arr. 5:23 p.m.
Ed Golden
Francine Gertz
Sam Jones
Mark Monteith
Anthony B. Ross, Vice-Chair
William Spelman -arr. 5:19 p.m.
Jim Williams

Members Absent

Art Alfaro
Elizabeth Gonzales

Staff and Guests Present

Staff: Stephen C. Edmonds, Melissa Adams, Donna Boykin, Teresa Cantu, Bertie Corsentino, Cathy Edwards, Laura Fugate, Melissa Kennedy, Lovie Robinson-Laurant, Michelle Mahaini, Jo Anne Norton, Russell Nash, Bobbie Simpson, Kirk Stebbins

Speakers: Eric Ralph, Summit Strategies Group
Lewis Ward, Gabriel, Roeder, Smith & Co.

Guests: Miriam Mora, Maria (Rosie) Barrios, James Wilhelm, Su Ann Craddock, Bob Craddock, John Marlberg, Madalyn French, Ernie French, Harvey Winkleman, Mohan Gadhia, Vasu Gadhia, Jonathan Luden, Charles Shell, Theresa Martinez, Gilbert Anguiano, Nohemi Alvarez, Oscar Kelly, Jr., Hugh Ramsey, Viviana Gonzales, Bill Padgett, Peter Rieck, Toni Chovanetz, James Anglin, Alice Faye Mann, Biju Mathew, James Welsh, Ken Muenzler, Crespín & Maria Guzman, Gilbert Cantwell, Joe Villarreal, Mary Witt, Rhonda Helm, Linda Welsh, L. Mitchell, Dan Ramirez, Brad Norton, George Oswald, Abebe Yirgov, Dianne Spelce, Glenn Marshall, Arthur V John, Robert DeCesare, Ed Jenkins, Jeff Knodel

The meeting was called to order at 5:04 p.m. by Board Vice-Chair, Anthony B. Ross, Sr.

1. **Welcome and Agenda Review**

Mr. Ross welcomed all attendees and reviewed the meeting agenda. There were no changes to the agenda.

2. **Introduction of Board Members, Executive Director, and Speakers**

Mr. Ross introduced the Board, the Executive Director, and the speakers.

3. Introduction of Retirement Office Staff

Mr. Edmonds introduced the staff.

4. Distribution of December 31, 2009 Comprehensive Annual Financial Report and Review of Recent Developments

S. Edmonds directed the Members to copies of the complete and summary versions of the December 31, 2009 Comprehensive Annual Financial Report. He mentioned that both versions are also available online at the COAERS website.

5. Investment Performance Review

Mr. Eric Ralph of Summit Strategies Group provided an extensive overview of general market performance and gave Members an understanding of the hard work that the Board has done for the System in regards to investment of the assets.

Mr. Ralph explained that equities are a significant component of the COAERS investment strategy. He showed a long-term chart of the historical returns of the S&P 500 Index to make the case for holding equities.

Mr. Ralph explained that we are in a global economic recovery. He mentioned that unemployment is high around 9%, and it may be a while before it starts coming down. Consumer confidence is still down and until that confidence comes back up we won't see the whole economy improving. Yield on bonds has gone down because consumers were afraid of the equity market. Equities in general have been volatile over the past 12 months, but are still moving higher.

Bill Spelman arrived 5:19 p.m.

In 2009, the COAERS investment portfolio returned around 26%, gross of fees. Our ranking was in the 11th percentile over a one year period. We were one of the best performing funds, much better than the average over most periods. We are ahead of the actuarial required return for this year so far with the fund up around 8.2%.

Reagan David arrived 5:23 p.m.

A member asked about US currency. Mr. Ralph answered that there are definitely structural imbalances within the global economy. We have a dramatic difference in the standards of living throughout the world. The standard of living in emerging markets countries may go up and ours may go down a little. Mr. Ralph stated that our fund has invested about 5% of assets in emerging markets.

Mr. Lewis, the System Actuary, asked about the outlook on inflation. Mr. Ralph answered that the break-even on Treasury Inflation Protection Securities (TIPS) is about 1.8% for a ten year period. If they had been purchased last year, they would have been purchased at levels that assumed no inflation over the next 10-20 years. This year, they are at a negative yield.

6. Actuary's Report on December 31, 2009 Valuation, Supplemental Funding and Plan Design

Mr. Lewis Ward of Gabriel, Roeder, Smith, and Company (GRS) discussed the actuarial valuation as of December 31, 2009.

As of the valuation date, the COAERS investment return in 2009 was 25.93% on a market value basis. Unfunded actuarial accrued liability decreased by \$107 million. The 2008 investment shortfall has still not been fully recognized in actuarial valuation. The annual required contribution (ARC) is 17.36%, and the unfunded actuarial accrued liability is \$658 million. The ARC is expected to increase in the future to more than 20% of pay. The original Supplemental Funding Plan has a maximum 12% City contribution rate. The key changes in this valuation are that COAERS significantly outperformed the 7.75% assumption. There was also a significant drop in the number of active members as the Community Care Department employees transitioned away from the City and the Public Safety and Emergency Management workers moved to participation under the Austin Police Pension System.

The City has passed an Amended Supplemental Funding Plan (ASFP) that increased the City contribution rates to 14% effective Oct 2010, 16% effective 2011, and 18% effective 2012 and thereafter. The new Benefit Tier for future hires is expected to become effective January 1, 2012. The ASFP should produce a finite funding period at the next valuation. The ASFP and the new Benefit Tier should produce a funding period of less than 30 years which will be recognized in the December 31, 2011 valuation. Cost of living adjustments (COLAs) were not possible with the original supplemental funding plan, however they may be plausible with the new ASFP but it is too early to tell when. As long as the ASFP remains in place, the City will be making the final determination on whether COLAs are granted, with first a review by the actuary, then a recommendation from the City Manager, and finally adoption by City Council.

Mr. Peter Rieck asked about granting a one-time stipend. Mr. Ward answered that the only way this might be accomplished is by a City pass-through, where the City would directly fund payments. However, from a funding standpoint, the actuary couldn't recommend this.

Mr. George Oswald asked what levels of funding and amortization period would positively support a Cost of Living Adjustment (COLA). Mr. Lewis answered that in the past, if the COLA didn't take the funding period above 30 years, then they could recommend a COLA. Going forward now, the City may not grant COLA's until we the funding period is further reduced. From the actuarial point of view, they will look at the funding period during their analysis. Until the benefit changes go into place, a COLA could not be granted because the funding period will be too high. Mr. John Luden said we should be mindful it is the community that is supporting this Amended Supplemental Plan, and we need to be sensitive to what the citizens are already contributing to the fund, and not ask

them to contribute more for COLAs when the City's contribution rate will go up to 18%.

7. General Comments from Members

Mr. French stated that if retirees don't get a COLA, City taxes and fees will eat up retirement benefits, and pretty soon we won't have any retirement benefits left.

Mr. Luden mentioned he heard an NPR program that was talking about pension funds that are in far worse shape than COAERS. He thanked the Board for this benefit. He asked about the Board about comments from those that believe defined benefit programs need to go away and everyone should take charge of their own investments. Mr. Ross answered that the City of Austin has a supplemental 457 plan for current employees.

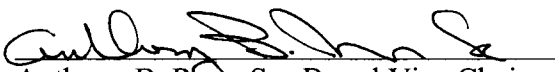
Mr. Ward commented that the average account balance in a 401(k) plan is around \$100,000. People within retirement age with only a 401(k) plan are really going to be hurt. There is a coming generation of retirees who don't have defined benefit plans and only have 401(k)'s. The 401(k) was not created or intended to be the only investment vehicle, only a supplement. Mr. Ralph mentioned a company in Houston that is looking at putting back a defined benefit plan because their employees are staying longer as they are unable to retire with their 401(k) assets. Mr. Ward said that 401(k)'s are also subject to political whims in corporate environments. The first thing that went away when the economy slumped was the company's matching 401(k) contribution.

Mr. Sam Jones stated that the Board has been working on trying to restore the funding level of the Plan and he has been particularly impressed with the cooperation of the City's financial and human resources staff. He stated that Council Member Spelman has been a very active participant representing the COAERS Board and he really appreciated how the City Council and the City Staff have stepped up to bolster the fund and to help us solve a mutual problem.

Mr. Oscar Kelly commented how very valuable the 457 plan is. The 457 plan really helped him out and people should consider this option to supplement their retirement.

8. Adjournment

Mr. Ross thanked the Members for attending and the meeting was concluded. The meeting adjourned at 6:55 p.m.


Anthony B. Ross, Sr., Board Vice Chair

11-23-2010
Date


Stephen C. Edmonds, Executive Director

11-23-2010
Date