



City of Austin Employees Retirement System

MINUTES
ANNUAL MEMBERS' MEETING
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Wednesday, October 14, 2009 – 5:00 p.m.
418 E. Highland Mall Blvd., Austin, Texas

Board Members Present

Art Alfaro – *arr. 5:11 p.m.*
Janet Bartles
Eyna Canales-Zarate
Reagan David
Ed Golden
Francine Gertz
Elizabeth S. Gonzales
Sam Jones
Mark Monteith

Absent

Anthony B. Ross, Sr.

Staff and Guests Present

Staff: Stephen C. Edmonds, Melissa Adams, Donna Boykin, Teresa Cantu, Bertie Corsentino, Laura Fugate, Rhonda Helm, Lovie Robinson-Laurant, Michelle Mahaini, Russell Nash, Bobbie Simpson, Kirk Stebbins
Barney Knight
Eric Ralph, Summit Strategies Group
Lewis Ward, GRS
Guests: Mohemi Alvarez, Chester Falk, Jr., Sharon Justice, Biju Mathew, Ken Muenzler, George Oswald, Charles & Cheryl Shell, Bernard & Sybil Strateman, Ganel Duane Troxell, Linda Vasquez, James Wilhelm

The meeting was called to order at 5:07 p.m. by Board Chair, E.S. Gonzales.

1. Welcome and Agenda Review

E.S. Gonzales welcomed all attendees and reviewed the meeting agenda. There were no changes to the agenda.

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

E.S. Gonzales performed introductions of the Board, Executive Director, and speakers.

3. Introduction of Retirement Office Staff

S. Edmonds performed introductions of the staff. Special recognition was made of Rhonda Helm, Operations Manager, the longest tenured COA ERS staff member who will be retiring next month. A special invitation was extended for any Member who has had the chance to know Rhonda to attend her retirement party on November 6, 2009 from 2:00 – 4:00 p.m. at the Retirement Office.

4. Distribution of December 31, 2008 Comprehensive Annual Financial Report

S. Edmonds directed the Members to copies of the complete and summary versions of the December 31, 2008 Comprehensive Annual Financial Report. Both versions are also available online at the COA ERS website.

5. Investment Performance Review

E. Ralph, Summit Strategies, provided an extensive overview of general market performance in light of this past year's market collapse. Overall, as bad as this most recent period was, it was not as bad as in the 1930's; in 1931, the markets were down 43%.

Equities have rebounded strongly off the March 9, 2009 lows. Equities in general have declined and rebounded significantly in performance over the past 12 months. Domestic and international equities are selling near their historic valuation levels. Lower earnings and recession can negatively impact equity returns over the next 10 years. Real estate is still correcting and will perform below long term expectations over the next couple of years.

COA ERS' total fund allocation summary was reviewed, and relative to our peer set, our total fund performance for 2008 followed along the same line. In 10 years out, it is expected to fair better than the benchmark. At the end of 2008, COA ERS' fund was at \$1.2 billion in assets. It was pointed out that COA ERS' asset allocation is a bit heavier in international equity than our peer set. Within the coming years, the Board will be taking prudent steps to consider adding alternative assets for further diversification to the portfolio and to generate higher investment returns over the long-term.

A Member brought up a question regarding inflation in the market and whether investors should be concerned. E. Ralph answered that inflation should not be an issue in the next year, but if there is concern, investors should look to buy assets that have inflation protection such as Treasury Inflation Protected Securities.

6. Actuary's Report on December 31, 2008 Valuation

L. Ward of Gabriel, Roeder, Smith, and Company (GRS), discussed the actuarial valuation as of December 31, 2008; he advised that the valuation is a snapshot of the plan at a point in time over 10 months ago and does not include the impact of recent market events.

He presented the good news that the City increased the Supplemental Funding Plan by 2% (for a total contribution rate of 12%) instead of the required 1% on October 1, 2009. The bad news is that the fund took a really big hit this year and the Supplemental Funding Plan is no longer expected to be sufficient. COA ERS was severely impacted by the collapse of the financial markets in the 4th quarter of 2008, as was most every large pension plan in the country.

As of now, we have a negative cash flow which is normal for a mature fund such as ours. Our funded ratio based on actuarial value has decreased due to asset

losses (from 78.3% in the prior year to 65.9%). Our unfunded actuarial accrued liability increased to \$765 million. The total City contribution rate will be 12.0% effective October 1, 2009; it would take a City contribution rate of 18.20% to produce a 30-year funding period. In the absence of a recovery in the investment markets, the rate to produce a 30-year funding rate is expected to increase the next few years. Investment returns are still the most important factor in determining the long term viability of the current benefits and contribution pattern.

In closing, Mr. Ward expressed that GRS is recommending that the Board be proactive with the City in discussions about restoring the System to a benefit structure that can be supported by the contributions. This means either a substantial increase in contributions from the City and/or employees, or benefit modifications for employees. To make changes to the plan design, it would require legislation that would not be expected to be enacted until sometime in 2011.

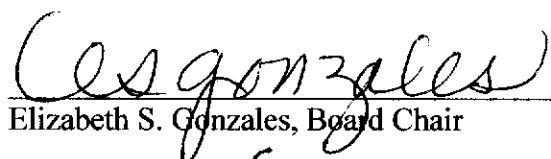
7. General Comments from Members

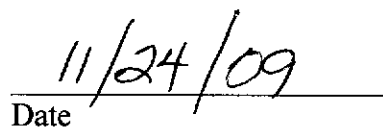
No additional comments or questions were made by the Membership.

8. Adjournment

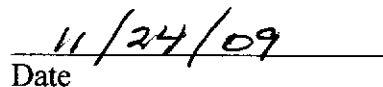
E.S. Gonzales thanked the Members for attending and the meeting was concluded.

The meeting adjourned at 6:32 p.m.


Elizabeth S. Gonzales, Board Chair


Date


Stephen C. Edmonds, Executive Director


Date