

**RESOLUTION NO. 20050512-045**

**A RESOLUTION OF THE CITY OF AUSTIN ESTABLISHING  
A SUPPLEMENTAL FUNDING PLAN FOR THE CITY OF  
AUSTIN EMPLOYEE'S RETIREMENT SYSTEM.**

**WHEREAS**, the City of Austin-Employee's Retirement System (the System") provides retirement benefits to employees as provided in and pursuant to *art. 6243n, Tex. Rev. Civ. Stat.*; and

**WHEREAS**, the System's unfunded actuarial accrued liability results in an infinite funding period and will require supplemental funding if the System's market returns are not adequate; and

**WHEREAS**, the System's actuary will not recommend cost-of-living increases if the System has an infinite funding period; and

**WHEREAS**, pursuant to *Art. XVI, Sec. 66, Tex. Const.*, the City and the System are responsible for ensuring that accrued benefits payable by the System are not reduced, and *Art. XVI, Sec. 66*, and *art. 6243n* authorize supplemental funding to be provided by the City; and

**WHEREAS**, the attached City of Austin Employees' Retirement System Supplemental Funding Plan is adopted for the purpose of satisfying the requirements of *Art. XVI, Sec. 66, Tex. Const.*; **NOW, THEREFORE,**


**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:**

Sec. 1. The City Council adopts the attached City of Austin Employees' Retirement System Supplemental Funding Plan (the "Plan").

Sec. 2. If market returns do not meet the threshold established in the Plan, the City will provide the additional funding and subsidy to the System as set forth in Section II.A. of the Plan, beginning in 2007 and continuing thereafter as necessary under the Plan; and

Sec. 3. The supplemental funding and subsidy will be appropriated and provided to the System pursuant to *Art. XVI, Sec. 66, Tex. Const.* and *art. 6243n, Tex. Rev. Civ. Stat.*, from the general fund and the enterprise funds with respect only to System members budgeted within such funds.

**ADOPTED:** May 12, 2005

**ATTEST:**   
Shirley A. Brown  
City Clerk

## **City of Austin Employees Retirement System{PRIVATE } Supplemental Funding Plan**

### **I. Background**

According to actuarial analysis as of December 31, 2004, the funded ratio for the City of Austin Employees Retirement System (COA ERS) is 80.8%. This is the ratio of the actuarial value of assets to the actuarial accrued liability for all current and projected benefits. In calculating the funded ratio, investment returns are smoothed over a rolling five-year period to avoid dramatic swings in funding status.

While a funded ratio of 100% or more is highly desirable, a system with less than 100% funding can be very sound if there is an adequate financing arrangement to amortize the unfunded actuarial accrued liability (UAAL). In this respect, COA ERS currently falls short. According to the latest actuarial analysis by Gabriel, Roeder, Smith & Company, the current level of combined employer and employee contributions will not adequately fund the COA ERS over the long-term. Each year of under funding exacerbates the problem as it adds to the unfunded liability.

Effective in 2007, the Governmental Accounting Standards Board (GASB) will require employers to report certain measures related to their pension plans based on an amortization period of no more than 30 years. Currently, the standard for an amortization period is no more than 40 years. In addition, the State of Texas Pension Review Board has stated funding should be adequate to cover the normal cost, and to amortize the unfunded actuarial accrued liability over a period which should never exceed 40 years, with 25-30 years being a more preferable target. The choice of assumptions should be realistic and reasonable in the aggregate.

As of December 31, 2004, the COA ERS had an UAAL of \$321.4 million resulting in an infinite funding period. This means that the current contribution rate of 16% and assumed rate of return of 7.75% will not provide the resources necessary to reduce the amortization period of the UAAL to 30 years.

### **II. Additional Funding**

A. **Funding of Existing Benefits.** The City of Austin will provide a subsidy above the 8% employer contribution beginning in fiscal year 2007 to reduce the UAAL to an amount that can be amortized over a 30 year period under current assumptions. The subsidy will equal 1% of compensation in fiscal year 2007, 2% of compensation in fiscal year 2008, 3% of compensation in fiscal year 2009, and 4% of compensation in fiscal year 2010 and thereafter, if necessary. If during the period of January 1, 2005 through December 31, 2005 COA ERS earns greater than a 12% time weighted rate of return net of fees, the subsidy will be delayed until fiscal year 2008. If during any January 1 through December 31 period COA ERS earns greater than a 12% time weighted rate of return net of fees, the increase in the subsidy will be postponed one budget cycle. Any previously enacted subsidy will remain in effect even though the scheduled increase is delayed. In any year that the actuary

determines that a 30 year amortization period has been attained, the subsidy will be reduced to the appropriate amount to maintain a 30 year amortization period. The subsidy will be calculated annually to achieve a 30 year amortization period according to the base case attached as Exhibit 1. The subsidy may be decreased due to market increases to maintain the amortization period shown in Exhibit 1, but will not be increased to accelerate the point at which a 30 year amortization period is achieved (2012). The annual subsidy increase is limited to 1% of compensation. The subsidy will remain in effect until the current 8% employer contribution rate is sufficient to maintain a 30 year amortization period.

B. Consideration of Benefit Enhancements. Any future benefit enhancements or cost of living adjustments will require a recommendation from the City Manager for subsequent approval by City Council. The recommendation and approval requirement will remain in effect indefinitely. Prior to seeking City Council approval, COA ERS and the fund's actuary must provide the City Manager with detailed projections of the effect of the requested benefit enhancement or cost of living adjustment on the retirement system and the City subsidy. These projections should include an analysis of the required City subsidy, if any, under a variety of future earnings scenarios including scenarios simulating volatile market returns. If the Consumer Price Index as determined by the COA ERS actuary based on the index stated in the governing statute exceeds 3.0% in any 12 month period ending December 31, the above described projections will be calculated to determine the additional subsidy required to provide a cost of living adjustment. The initial Consumer Price Index reading will be December 31, 2006. If a cost of living adjustment is financially feasible, the City Manager will make a recommendation to City Council for approval.

**City of Austin Employees' Retirement System**  
**Exhibit 1**  
**Projection Results Based on December 31, 2004 Actuarial Valuation**

Valuation as of January 1st,	Market Return for FY Beginning on Valuation Date	Employer Contribution Rate to be effective Oct 1	Compensation (in millions)	Actuarial Accrued Liability (AAL, in millions)	Actuarial Value of Assets (AVA, in millions)	Unfunded Actuarial Accrued Liability (UAAL, in millions)	Funded Ratio	Funding Period (Years)	Market Value of Assets (MVA, in millions)	Funded Ratio Using MVA	External Cash Flow as Pct. Of MVA
(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	(11)	(12)	(13)	(14)
2005	7.75%	8.00%	\$ 326.0	\$ 1,678.2	\$ 1,356.8	\$ 321.4	80.8%	42	\$ 1,375.0	81.9%	-2.1%
2006	7.75%	9.00%	335.4	1,763.0	1,388.8	374.2	78.8%	53	1,441.9	81.8%	-2.7%
2007	7.75%	10.00%	345.9	1,848.8	1,457.7	391.0	78.8%	50	1,509.5	81.7%	-2.8%
2008	7.75%	11.00%	357.2	1,935.6	1,571.3	364.3	81.2%	37	1,580.7	81.7%	-2.8%
2009	7.75%	12.00%	368.9	2,023.1	1,655.5	367.6	81.8%	34	1,655.5	81.8%	-2.8%
2010	7.75%	12.00%	381.1	2,110.6	1,733.8	376.8	82.1%	33	1,733.8	82.1%	-2.8%
2011	7.75%	12.00%	394.2	2,197.8	1,814.8	383.0	82.6%	31	1,814.8	82.6%	-2.9%
2012	7.75%	12.00%	408.5	2,285.8	1,896.9	388.8	83.0%	30	1,896.9	83.0%	-3.0%
2013	7.75%	11.95%	422.9	2,374.7	1,980.4	394.3	83.4%	30	1,980.4	83.4%	-3.1%
2014	7.75%	11.82%	437.8	2,463.9	2,064.5	399.4	83.8%	30	2,064.5	83.8%	-3.3%
2015	7.75%	11.70%	453.5	2,553.6	2,149.3	404.3	84.2%	30	2,149.3	84.2%	-3.4%
2016	7.75%	11.57%	470.2	2,643.9	2,234.6	409.3	84.5%	30	2,234.6	84.5%	-3.5%
2017	7.75%	11.45%	487.4	2,734.9	2,320.6	414.3	84.9%	30	2,320.6	84.9%	-3.6%
2018	7.75%	11.33%	505.1	2,825.9	2,406.6	419.4	85.2%	30	2,406.6	85.2%	-3.8%
2019	7.75%	11.22%	523.4	2,917.3	2,492.8	424.5	85.4%	30	2,492.8	85.4%	-3.9%
2020	7.75%	11.11%	542.6	3,008.9	2,579.2	429.7	85.7%	30	2,579.2	85.7%	-4.0%
2021	7.75%	11.00%	562.1	3,100.7	2,665.7	435.0	86.0%	30	2,665.7	86.0%	-4.1%
2022	7.75%	10.89%	582.4	3,192.6	2,752.3	440.3	86.2%	30	2,752.3	86.2%	-4.2%
2023	7.75%	10.79%	603.3	3,283.8	2,838.1	445.7	86.4%	30	2,838.1	86.4%	-4.4%
2024	7.75%	10.69%	625.4	3,374.2	2,923.0	451.2	86.6%	30	2,923.0	86.6%	-4.5%
2025	7.75%	10.58%	648.2	3,464.2	3,007.5	456.7	86.8%	30	3,007.5	86.8%	-4.6%

30 Amortization period for benchmark contribution rate  
0.00% Rate of growth for active membership