

Retirement News Update

A Newsletter for Members of the City of Austin Employees' Retirement System

Financial Analysis Summary for Members of the City of Austin Employees' Retirement System at 12/31/2003

Introduction

This edition of *Retirement News Update* provides summary financial information about the City of Austin Employees' Retirement System (COA ERS) based on the 2003 *Comprehensive Annual Financial Report* (CAFR). The complete report provides in-depth information about the financial, investment and actuarial aspects of the retirement plan. To obtain a copy of the entire 2003 CAFR, please contact the Retirement Office by phone at (512) 458-2551 or by email at info@coaers.org. You may also download a copy of the report from our website at www.coaers.org.

About COA ERS

The City of Austin Employees' Retirement System is a public employee retirement system established in 1941 by City ordinance and governed since 1991 by the State of Texas. The purpose of COA ERS is to provide retirement, disability, and death benefits for its Members.

As of December 31, 2003, COA ERS has assets totaling \$1.259 billion and its future obligations were 86.9% funded.

Membership

City of Austin regular employees working 30 or more hours per week become Members of COA ERS on their date of employment. Members employed on October 1, 1995 are given service credit for one prior probationary period of up to six months. Members do not include:

- * *Temporary employees*
- * *Part-time employees working less than 30 hours per week*
- * *Civil service employees of the Fire Dept. and the Police Dept.*
- * *The Mayor and Members of the City Council*

As of December 31, 2003, COA ERS had 7,432 Active Members, 2,995 Retired Members and 624 Inactive Vested Members.

Contributions

Members of COA ERS currently contribute 8% of their base pay, calculated on a 40-hour work week. Contributions are made through payroll deduction each pay period; the City of Austin currently contributes an amount equal to the amount contributed by Member employees.

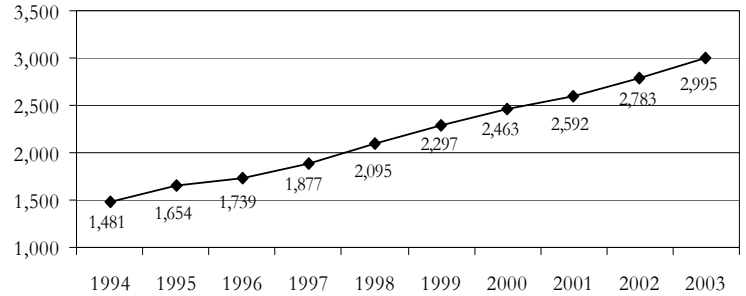
Retirement Eligibility

Members are eligible for retirement when they meet one of the following age and service requirements:

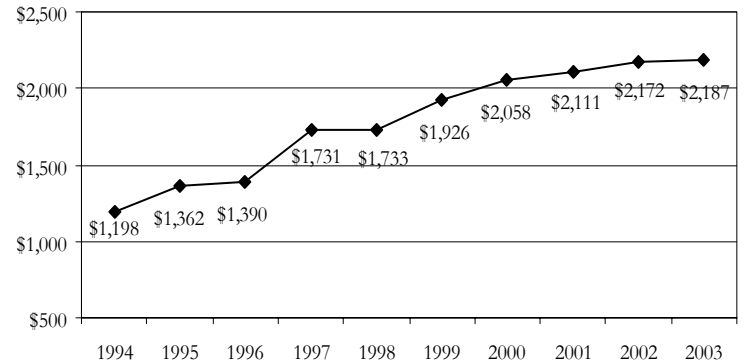
- * *An active Member having any number of years creditable service at age 62*
- * *20 years creditable service at age 55*
- * *23 years creditable service at any age*

For more information about specific retirement benefits, please refer to your COA ERS Retirement Benefits Guide or contact the Retirement Office at (512) 458-2551.

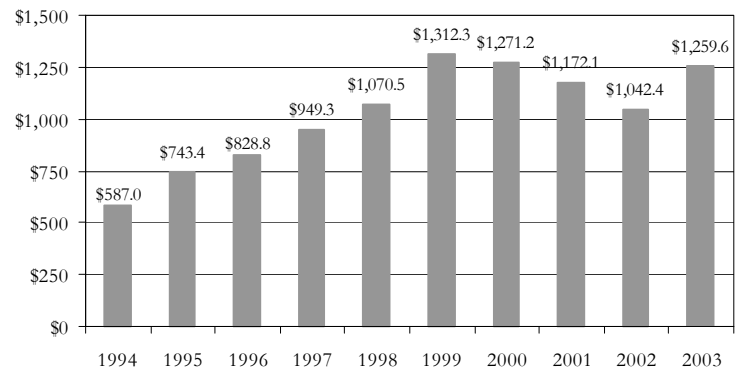
Number of Retired Members and Beneficiaries



Average Monthly Benefit

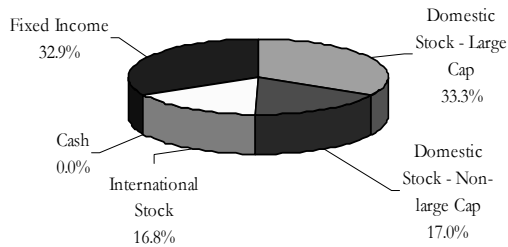


Total Plan Net Assets (Expressed in millions)



Investments

COA ERS is responsible for the prudent management of funds held in trust for the exclusive benefit of our Members' pension benefits. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Eleven Investment Managers have been selected to help maximize returns and control risk for the fund. In determining an appropriate asset allocation and selection of investment managers, the Board is assisted by an independent Investment Consultant. At December 31, 2003, the asset allocation for the portfolio was as follows:



Investment performance for the year ending 2003 was 24.0% net of fees. This was a welcome relief for the System, having previously endured three consecutive years of negative returns. For actuarial purposes, the System's annual investment performance is measured over a five-year period, thereby smoothing annual variations in return. COA ERS is a long-term investor with a permanent fund, so performance over extended periods of time is the most important.

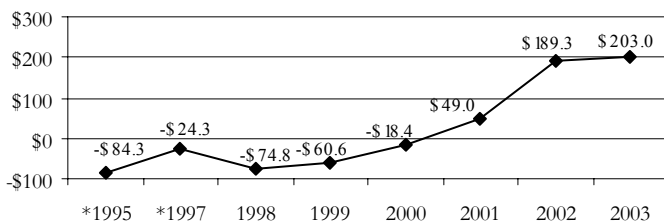
Funding Status

The Actuarial Valuation for the plan year ending December 31, 2003, discloses an increase in the Plan's unfunded actuarial liability. The System's current unfunded accrued liability increased from \$189 million for 2002 to \$203 million for 2003. Due to the significant asset losses that occurred in prior years, the System's current contributions are insufficient to amortize the unfunded liability of the System. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan.

COA ERS and City management have discussed various alternatives to deal with the funding situation. At this stage we do not know what the eventual solution will be, but we are confident that COA ERS and the City of Austin can reach a workable solution that will preserve the existing benefit structure and ensure the long-term financial health of the System. We will keep you informed of the status of our discussions with the City and will provide you with additional information as it becomes available.

Retirees' benefits are in no danger. In fact, the Texas Constitution guarantees that retirees' benefits cannot be reduced and that active member benefits that have already been earned or "accrued" cannot be reduced.

Unfunded Actuarial Accrued Liability (Expressed in millions)



Notes: Negative numbers in the above chart represent over-funded status for the periods indicated; prior to 1997 (*), actuarial valuations were performed biannually.

Summary of Plan Net Assets December 31, 2003 and 2002

	2003	2002	\$ Change	% Change
Assets:				
Cash & Receivables	\$ 6,778,351	\$ 7,426,870	\$ (648,519)	(8.7%)
Investments	1,255,601,924	1,035,242,762	220,359,162	21.3%
Invested securities lending collateral	103,030,695	124,622,294	(21,591,599)	(17.3%)
Capital assets	1,315,624	1,356,344	(40,720)	(3.0%)
Total Assets	1,366,726,594	1,168,648,270	198,078,324	16.9%
Liabilities:				
Total liabilities	107,170,426	126,272,147	19,101,721	15.1%
Net assets held in trust for pension benefits	<u>\$ 1,259,556,168</u>	<u>\$ 1,042,376,123</u>	<u>\$ 217,180,045</u>	<u>20.8%</u>

Summary of Changes in Plan Net Assets Years Ended December 31, 2003 and 2002

	2003	2002	\$ Change	% Change
Additions:				
Contributions	\$ 55,356,724	\$ 60,168,994	\$ (4,812,270)	(8.0%)
Investment Gain/Loss	248,816,551	(110,516,439)	359,332,990	325.1%
Investment Expenses	2,749,857	2,478,807	(271,050)	(10.9%)
Net investment income	246,066,694	(112,995,246)	359,061,940	317.8%
Other Income	2,636	2,223	413	18.6%
Total addition	<u>301,426,054</u>	<u>(52,824,029)</u>	<u>354,250,083</u>	<u>670.6%</u>
Deductions:				
Benefit Payments	82,693,239	75,246,711	(7,446,528)	(9.9%)
General & Admin Expenses	1,552,770	1,641,675	88,905	5.4%
Total Deductions	<u>84,246,009</u>	<u>76,888,386</u>	<u>7,357,623</u>	<u>(9.6%)</u>
Net Increase/Decrease	217,180,045	(129,712,415)	346,892,460	267.4%
Net assets held in trust for pension benefits beginning of year	1,042,376,123	1,172,088,538	(129,712,415)	(11.1%)
Net assets held in trust for pension benefits end of year	<u>\$ 1,259,556,168</u>	<u>\$ 1,042,376,123</u>	<u>\$ 217,180,045</u>	<u>20.8%</u>

Retirement News Update is a publication of the City of Austin Employees' Retirement System and is distributed for the information of COA ERS active, vested, and retired members, and their beneficiaries.