

COLA

1. Cost of Living Adjustment (COLAs) have not been provided to retirees since 2002 (21 years). The cost of living in Austin is rising, so is there any ability for COAERS to provide a COLA?

The first step in the process for a COLA to be provided, the COAERS actuary must recommend and certify that the System is in a financial position to provide one. As of the most recent actuarial valuation from December 31, 2022, COAERS has an amortization period of 34 years and is 64% funded. Because of this, COAERS doesn't meet the Pension Review Board "Funding Guidelines" to provide a COLA and therefore COAERS actuary will not recommend a COLA can be granted.

The recently passed legislation will put COAERS on a path to strengthen long-term financial health and the hope is that at some point in the future, the System may be in a financial position where a COLA could be considered.

FUNDING

2. If a massive recession were to occur, what guarantee or insurance is in place that would ensure that the pension fund does not file bankruptcy or reduce payments to retirees?

Article 16, Section 66 of the Texas Constitution protects retirees from a pension system reducing their earned benefit. It is prohibited per the Texas constitution. Furthermore, the System has adequate cash flow to fulfill its obligations even under low investment performance conditions. The recently enacted legislation created a contribution policy structure where lower than expected investment performance results in additional contributions to the System to keep COAERS on a long-term financially sustainable pathway.

3. Given the assumption that salaries have caught up with the market not just governmental, is there or has there been any consideration to change the City's pension system and go to a defined contribution plan or something like what the state is doing in order to go away from these long-term struggles to provide a defined benefit?

While there is a liability side with higher salaries, it also allows for greater contributions to the System. With the passage of the current legislation, the System is in a better financial position for the long-term without having to make any future change, so changing the plan from a defined benefit plan is not something the City or COAERS has discussed.

4. Is there a concern that increasing member contributions will lead to more employees leaving the City of Austin, thus ultimately less funding of the investment fund?

The City of Austin continues to rank as one of the fastest growing large cities and economies in the country. The City's workforce is the heart and core of the organization and essential to delivering vital services to the Austin community. In its current 2023-2024 fiscal year proposed budget, the City's budget establishes a \$20.80-per-hour living wage and a 4 percent wage increase for civilian employees to prioritize its skilled and dedicated professionals. While any shifts in the City's workforce does impact the contributions to the retirement system, with the passage of the legislation and COAERS responsible stewardship of the fund, the retirement system is designed to withstand demographic changes and changes in the market.

INVESTMENTS

5. Compared to the S and P 500; how have our investments done? For the past year? For the past five years?

2022 represented a very challenging investment environment across nearly all asset classes. During the year, the S&P 500 declined by 18.1% while the COAERS fund declined by 15.6%. Over the trailing 5 years, the S&P 500 was one of the best performing investment indices and returned 9.4% per annum, compared to a 3.7% annualized return for the COAERS fund.

It's very important to note that the Fund invests across a broad range of different asset classes to prudently increase diversification and not place all the System's eggs in one basket. Particularly notable is the current concentration in the S&P 500 as this index allocates nearly a third of its assets to only 10 stocks. While comparisons to the S&P 500 are an interesting idea, they do not account for the large amount of risk inherent in this index. When comparing the Fund's return to its most appropriate benchmark, the Fund has outperformed over the trailing 1-, 3-, 5- and 10- year periods, which shows the value in a well aligned investment program structured using best fiduciary practices.

6. Are there other retirement systems out there that are just knocking it out of the park performance wise? Anything we should be learning from peers to apply here?

COAERS routinely benchmarks its performance, risk profile and expenses against peer funds. However, it is important to note that peer fund performance needs to be considered within the context of each fund's risk and return profile.

Over the past five years, the COAERS Board, with guidance from the dedicated investment staff, has spearheaded several core initiatives that have moved to improve the performance of the retirement system. As part of the 2022-2026 Strategic Plan, the Board's goals and objectives are focused on identifying and implementing best-in class investment practices that are tied to annual action items and key performance indicators to track the Fund's progress.

Additionally, the COAERS general investment consultant provides occasional educational presentations on what other top performing pension systems are doing relevant to strategic asset allocation, investment implementation, and governance as another way to evaluate the range of opportunities available to COAERS.

LEGISLATION

7. At the COAERS meeting last year there was mention of bills being proposed in the Texas State Legislature that would require the city to fully fund their pension plans. What happened with these bills?

SB 1444 was signed by Governor Abbott on May 29. Key provisions of the legislation are:

- 1) Moving to a flexible actuarially determined employer contribution rate, which can increase to keep the plan on a steady path toward full funding.
 - 2) Implementing a schedule for the City to pay off the Unfunded Actuarial Accrued Liability within a 30-years.
 - 3) Increasing the employee contribution rate by 2%, from 8% to 10%, over a two-year phase-in period.
 - 4) Modified benefit policies such as service purchases and sick-leave conversions that will mitigate the risk of future costs to the System.
 - 5) Converted one elected active member COAERS board position to a City of Austin appointed position.
 - 6) Codifying the process to provide a COLA which requires support from both COAERS and the City of Austin to do so.
8. Will the cost of service credit purchases increase in light of Senate Bill 1444?

Effective January 2024, supplementary, military, and noncontributory service can only be purchased at retirement, which will increase the costs of these purchases relative to their cost as a new employee. A subsidy for military purchases was also removed as a provision of the bill.

9. I am a 22-year-old City of Austin employee. I would like to know if the Board would consider replacing the current Age 62 w/ 30 YOS rule for Group B with a more equitable Rule of 80 (YOS + Age at Retirement = 80) like what exists at the State of Texas ERS. Under the current plan, I and every other young professional in the City would have to work at least 40 more years just to retire with normal benefits, and because of this, I do not believe this policy is very conducive to attracting younger professionals to the City and retaining them long term. This would also help to reduce (but not eliminate) the extreme inequality in retirement benefits and timeline between Group A and Group B members, whose only difference between them is the date they were hired. Thank you.

Texas ERS no longer offers a traditional defined benefit for new hires. Beginning September 1, 2022, new state employees participate in a cash balance plan, which is a lower benefit than the traditional defined benefit. Only Group A state employees have a true "Rule of 80" benefit option and the State has reduced that option multiple times to improve ERS's long-term financial health.

Benefit changes that accelerate the date at which employees become eligible to retire increase the cost of the plan to the City and members. If the City were to pursue such a change, they would have to decide to amend the plan legislatively to reduce the threshold for retirement eligibility. Furthermore, this also becomes a workforce management issue which would be more appropriately decided by City management.

Employees who don't plan on a career with the City of Austin, have many options:

- 1) Employees may use the proportionate retirement system to get credit with other Texas public employers for your City of Austin service.
- 2) At termination, employees may leave their retirement contributions with COAERS, so you can have a lifetime benefit when you are eligible based upon your COAERS service.
- 3) At termination, employees may withdraw their COAERS contributions and interest and roll them over to another qualified retirement plan.
- 4) Employees may participate in the City's deferred compensation plan to accumulate additional retirement savings to use regardless of their future employment with the City.

10. What happens if at some point in the future the City does not comply with the requirements of this legislation, is there some kind of action on the part of the state or is there legal action that can be taken by retirees?

The City is required by state law to comply with the requirements of the legislation. Alternatively, the City would need to change the state law in order to not legally comply. If some future scenario should ever arise where the City does not comply, the COAERS Board and its members can take legal action. However, our strong partnership with the

City throughout the legislative process to improve the financial health and sustainability of the retirement system is a testament to the City's commitment and dedication to employees past and present.

11. Why were these changes codified into law instead of just an agreement with the City?

The System's contribution and benefit policies are codified in State law. To change them, it must go through the legislative process. This ensures that changes cannot be undone and that member benefits are protected. In the 1980s, many municipalities stopped paying into their retirement systems. To hold those plan sponsors accountable, the Texas legislature codified those systems into state law. The City of Austin is one of 13 municipalities that are codified in state law.

12. Will the 2% increase in member contributions apply to all current employees effective January 1, 2024, or will it be grandfathered in?

Yes, the increase in member contributions will apply to all current active members in both Group A and Group B. However, the legislation provides a two-year phase-in for the increase in the employee contribution rate. The rate will increase from 8% to 9% on January 1, 2024, and then from 9% to 10% on January 1, 2025.

BENEFITS

13. Can COAERS consider providing some sort of Life Insurance to Retirees?

The City offers, at no cost, a \$1,000 Retiree Life Insurance policy. In 2020, the City of Austin issued an RFP for retiree insurance and found the monthly premiums for additional life insurance to be very expensive. Additionally, insurance companies require a minimum number of retirees to enroll to offer the coverage. The City can't agree to such a requirement - offering a benefit during the open enrollment period and then cancelling the benefit later due to low enrollment.

As a reminder, COAERS provides an additional \$10,000 benefit upon a retiree's death. Moreover, active employees can choose among several joint and survivor benefits options which provide payments to a beneficiary after a retiree's death. This selection occurs at retirement.

As a reminder, the City's HR department will provide open insurance enrollment information after the City budget has been approved. Open enrollment will be held from October 9th through November 5th.

14. Sick leave conversion: "This purchase remains the same with the employee paying their contributions for the hours of sick leave converted at retirement based upon the employee contribution rate in effect at the time. The legislation would change the City's costs." What is the city's cost at this time and what will the cost change to on January 1, 2024?

Prior to the legislation, the City's cost was 19% of the hourly rate for each period of service converted. After the legislation, the same liability for future sick leave conversions was added as a cost to the City but funded in the form of an increase to the City's retirement contribution rate.

15. Is the COA considering dropping retirees from BCBS drug program? We retirees have already budgeted based on what we were promised. Some of the drugs I currently take would no longer be available to me and we could not afford them e.g., some would go from \$25 to \$1000 a month.

No, the City has budgeted the same medical insurance coverage for pre 65 retirees as in previous years with only minor changes, but there are no rate increases. For post 65 retirees, the City intends to offer the same coverage as in previous years with only minor changes, in addition to a Medicare Advantage option with reduced premiums and improved health plan benefits.

16. If you are buying worked time back, should you buy this year versus 2024?

If you left the City and withdrew your money, you can reinstate your service credit through purchase of your prior service if you are reemployed with the City or currently working for a proportionate employer. Members planning to buy prior service time can make this purchase at any time. The legislation changes the interest rate from the current statutory rate (member interest credit rate divided by .75) to the assumed rate of return (currently 6.75%).

Starting January 1, 2024, however, non-contributory service purchase and supplementary service purchase can only be made at retirement.

OTHER

17. Will the meeting be recorded so that it can be viewed online later?

Yes, a recording of the meeting is available for viewing online via the COAERS YouTube channel at www.youtube.com/@coaers.