


Benefits and Services Committee Meeting

Schedule Thursday, August 25, 2022 10:45 AM — 11:45 AM CDT
Venue 6850 Austin Center Blvd., Suite 320, Austin, TX 78731
Organizer Sarah McCleary

Agenda


1. Call roll of Committee members

Presented by Chair Noak

 [Item #1 Summary.docx](#)


2. Review order of business and establish meeting objectives

Presented by Chair Noak

 [Item #2 Summary.docx](#)

3. Consider approval of the June 2, 2022 Benefits and Services Committee minutes

Presented by Chair Noak

 [Item #3 Summary.docx](#)

 [2022 06 02 Benefits & Services Committee Minutes.docx](#)

4. Discuss and consider benefits administration including the following:


A. Benefits Administration Policy

B. Receive report on Benefits Administration Operating Procedures

Presented by Russell Nash

4A. Benefits Administration Policy

 [Item #4A Summary.docx](#)

 [Benefits Administration Policy in Markup Mode 08 25 2022.pdf](#)

4B. Receive report on Benefits Administration Operating Procedures

 [Item #4B Summary.docx](#)

 [04B Report on Benefits Operating Procedures 2022.docx](#)

1. Call roll of Committee members

Presented by Chair Noak

AGENDA ITEM 1:
Call roll of Committee members

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

Each Trustee should respond to the roll call, and it will be noted which Trustees are present in person and which Trustees have joined via video conference.

2. Review order of business and establish meeting objectives

Presented by Chair Noak

AGENDA ITEM 2:

Review order of business and establish meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

MEETING OBJECTIVES

1. The Committee will consider proposed revisions to the Board's Benefits Administration Policy and receive a report on the Benefits Administration Operating Procedures.
2. The Committee will discuss the process for updating the Board's Funding Policy to meet the statutory requirement for a joint COAERS and City of Austin Funding Policy.
3. As part of its oversight function, the Committee will receive a report on COAERS actuarial service provider.
4. The Committee will consider disability application #2202.

**3. Consider approval of the June 2, 2022
Benefits and Services Committee minutes**
Presented by Chair Noak

AGENDA ITEM 3:

Consider approval of the June 2, 2022 Benefits and Services Committee minutes

AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Benefits and Services Committee meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the June 2, 2022 Benefits and Services Committee meeting.

ATTACHMENT

1. Draft minutes of June 2, 2022 Benefits and Services Committee meeting



MINUTES

Benefits and Services Committee

Public Meeting held via videoconference on June 2, 2022 at 2:00 p.m. CT
Pursuant to Texas Govt. Code 551.127 – COVID-19 circumstances

Committee Members Present/(Absent)

Chris Noak, ex officio
Anthony Ross
Brad Sinclair
Diana Thomas
Leslie Pool†

Guests:

Paige Saenz, General
Counsel
Lewis Ward*, GRS
Belinda Weaver*
Brad Oxford*
Dr. Jonathan Dechard
Thomas Adams*
James Adams*

*Present telephonically

† present via videoconference

Other Board Trustees Present/(Absent)

Mike Benson
Kelly Crook
Amy Hunter†
(Yuejiao Liu)
Michael Granof
(Dick Lavine)

Others Present

Staff:

Christopher Hanson
Sarah McCleary
Russell Nash
Mehrin Rahman
Michelle Mahaini
Teresa Cantu*
Jenni Bonds*
Amy Kelley*
David Kushner
Bertie Corsentino*
Cathy Edwards*

1 Call roll of Committee members

Chair Chris Noak called the meeting to order at 2:01 p.m. The following Committee members were present in person: Ross, Sinclair, Thomas, and Noak. The following Committee member was present via teleconference: Pool.

2 Review order of business and establish meeting objectives

Chair Noak reviewed the order of business and objectives with the Committee. Agenda Item #6 was taken out of order.

3 Consider approval of the March 10, 2022 Benefits and Services Committee meeting minutes

(This agenda item was taken after item #6)

Chair Noak asked Trustees to review the minutes. Mr. Brad Sinclair moved to approve the March 10, 2022 Benefits and Services Committee minutes as presented. Mr. Anthony Ross seconded, and the motion passed unanimously.

4 Discuss and consider long-term plan sustainability including benefits policy and funding report

Mr. Christopher Hanson briefed the Committee on the progress of the working group with the City of Austin. The following recommendations were added to the working group's framework, and Mr. Hanson asked for Committee feedback.

- Set the amortization period for gain and loss layers at 20-years to prevent future negative amortization
- Establish a funded ratio at 90% where the City would be allowed to contribute less than the corridor midpoint if the ADEC calculated rate is less than the midpoint
- Change the interest rate for prior service buyback from the current statutory rate (member interest credit rate divided by .75) to the assumed rate of return (currently 6.75%)
- Convert the actuarial cost of sick leave conversion to an actuarial assumption to be priced into the System's normal cost calculation and keep the member's purchase rate at the current statutory level (the employee contribution rate)

Mr. Hanson confirmed that the working group had decided not to move forward with the alternative Defined Contribution Plan as part of this session's proposed legislation.

Mr. Ross moved to refer to the Board for approval the contribution and benefit policy recommendations of the working group as presented. Mr. Sinclair seconded, and the motion passed unanimously.

Mr. Hanson then presented the funding summary as of December 31, 2021 including metrics such as amortization period, funded ratio, percent of ADC (actuarially determined contribution) funded, and unfunded actuarial accrued liability. He also noted that the change in the assumed rate of return had an impact on the report.

5 Receive report on annual IRS compliance

Mr. Russell Nash reported that Tax Counsel Brad Oxford had reviewed the federal tax legislation that affects the Plan and recommended no changes to the COAERS plan documents. Mr. Nash explained that Mr. Oxford will also be consulted during the full review of the Benefits Operating Procedures to identify and address any items from an operational federal tax compliance perspective.

Ms. Pool was off camera from 2:44 p.m. to 2:49 p.m.

6 Discuss and consider disability retirement application – Chair Noak
a. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref. #2201

This agenda item was taken out of order at the beginning of the meeting.

Trustees convened into Executive Session at 2:05 p.m.

b. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref. #2201

Trustees reconvened into Public Session at 2:11 p.m.

Ms. Diana Thomas moved to recommend that the Board approve Disability Application #2201. Ms. Leslie Pool seconded, and the motion passed unanimously.

7 Review key meeting takeaways and call for future agenda items

Chair Noak summarized the actions taken and the information discussed during the meeting and asked for any future agenda items.

As there were no further items to address, the meeting adjourned at 2:49 p.m.

DRAFT

4. Discuss and consider benefits administration including the following:
 - A. Benefits Administration Policy
 - B. Receive report on Benefits Administration Operating Procedures
- Presented by Russell Nash

4A. Benefits Administration Policy

AGENDA ITEM 4:

Discuss and consider benefits administration including the following:

A. Benefits Administration Policy

AGENDA ITEM OBJECTIVE

This item is designed for the Committee to consider proposed updates the Board's Benefit Administration Policy.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.** It is an industry best practice to regularly review policies to ensure COAERS is enhancing its operational effectiveness.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends the Committee refer the Benefit Administration Policy to the Board of Trustees for adoption.

BACKGROUND

The Staff has reviewed the Board's Benefit Administration Policy and made updates to reflect the dissolution of the Disability Committee. The review and oversight of the Benefits Administration Policy is now the responsibility of the Benefits and Services Committee.

ATTACHMENT

1. Board Benefits Administration Policy

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY
BENEFITS ADMINISTRATION**

**ARTICLE I
BOARD AND STAFF RESPONSIBILITIES**

1.1 Responsibilities of the Board of Trustees. The City of Austin Employees' Retirement System (COAERS or the System) was established pursuant to Article 6243n of Texas Revised Civil Statutes (the Act), which requires COAERS to have a Board of Trustees (the Board or Trustees) to administer ~~COAERS~~ the System and invest its funds. The Board is the trustee of all plan assets, is responsible for the general administration and operation of COAERS, and is authorized by law to adopt rules for the administration of COAERS and the transaction of the business of the Board. The Board may, at its discretion, delegate authority to carry out the administration of the System. The Board has delegated the administration of benefits to the Executive Director with the directions and limitations stated herein.

1.2 Responsibilities of the Executive Director. The Executive Director shall follow the laws that govern COAERS and Board policies to administer benefits and, in matters not addressed by law or policy, consult with professional advisors and legal counsel to determine the rights and benefits of plan participants. The Executive Director shall create and maintain Benefits Administration Operating Procedures (the Procedures) to guide the administration of benefits and for publication to the COAERS membership. The Executive Director shall consult with professional advisors and legal counsel to ensure that the Procedures are interpreted and applied in a manner consistent with this Policy, the COAERS Act, applicable laws of the State of Texas, federal law, and applicable Internal Revenue Code sections and regulations promulgated thereunder.

1.3 Responsibilities of the General Counsel and Tax Counsel. The COAERS General Counsel and Tax Counsel shall provide advice to the Executive Director on benefits administration and tax-related matters. The General Counsel and Tax Counsel shall review the Procedures no less than every three years and make recommendations for revision to the Executive Director. The results of these reviews will be presented to the Benefits and Services Committee.

1.4 Responsibilities of the Benefits and Services Committee. The Benefits and Services Committee will receive and review the results of the periodic review of the Procedures. The Committee shall also review this Policy as necessary. The Committee will also hear initial disability applications and annually review the continuation of benefits for disability annuitants, and make a determination recommendation to the Board. The Committee will recommend action on initial disability applications and for disability annuitants who fail to meet the disability continuation requirements. The Committee will also undertake duties as defined in the Bylaws and the Committee's Charter.

**ARTICLE II
MEMBER RIGHTS AND RESPONSIBILITIES**

2.1 Member Rights. Member rights and privileges originate in the COAERS Act, applicable laws of the State of Texas, federal law, and applicable Internal Revenue Code sections and regulations promulgated thereunder.

2.2 Member Responsibilities - Generally. Members have to assume certain basic responsibilities for the administration of benefits to be effective. These responsibilities include:

- (a) Knowing when the member is eligible for benefits;
- (b) Timely and properly applying for and claiming benefits;
- (c) Keeping contact information up to date including address, telephone, and email details;
- (d) Keeping beneficiary designations up to date; and
- (e) Notifying COAERS of proportionate time accrued or accruing in another Texas retirement system that participates in the Proportionate Retirement Program and keeping that information current.

2.3 Right to Appeal Decisions by the Executive Director to the Board of Trustees. Any decision of the Executive Director made pursuant to the Procedures may be appealed to the Board. Only a member or beneficiary directly affected by a decision may appeal.

- 2.3.1** The member or beneficiary must appeal the decision within 30 calendar days of notification of denial by the Executive Director or designee.
- 2.3.2** The appeal shall set forth, in writing, the applicable facts and relevant law in support of the request for a hearing.
- 2.3.3** Appeals from a decision by the Executive Director or designee will generally be scheduled for hearing before the Board of Trustees within 120 calendar days of the written notice of appeal, unless an extension is granted by mutual agreement of the Executive Director and the appellant. Failure by the Board of Trustees to conduct a hearing within 120 calendar days does not result in an automatic decision of any kind.
- 2.3.4** The Board of Trustees reserves the right to rule on an appeal, regardless of whether the appellant appears at the scheduled hearing. Failure to appear will not automatically result in postponement of a scheduled hearing.

- 2.3.5** On appeals to the Board, the appellant may be represented by legal counsel or may personally present arguments. The System will be represented by the General Counsel for COAERS. However, unless a rule or policy outside of this policy requires a specific procedure due to the subject or nature of the appeal, the Board will determine the process to be followed at the hearing. The Board will determine the time permitted for the member and the Executive Director or General Counsel to make a presentation.
- 2.3.6** The appellant will be afforded an opportunity to present a statement concerning the facts and any arguments to the board, and will be allowed to respond to questions from Trustees. The member or beneficiary bears the burden of proof. In making a decision, the Board of Trustees shall consider System records and evidence presented by the member or beneficiary as well as any testimony or evidence provided by the General Counsel. A decision by the Board of Trustees is final.

ARTICLE III CORRECTION OF ERRORS AND RECOVERY OF OVERPAYMENTS

3.1 Correction of Errors. If an error in the COAERS records results in any member, surviving spouse, or beneficiary receiving more or less than the member, surviving spouse, or beneficiary would have been entitled to receive had the records been correct, COAERS may correct such error in accordance with the Act and Section 802.1024 of the Texas Government Code.

3.2 Cost of Recovery. In circumstances where an overpayment has been made as a result of a COAERS error, the Executive Director will consider the costs of recovering the overpayment in the amount requested to remedy the overpayment. This section only applies to amounts members and payees may owe to COAERS due to errors made by COAERS and shall not be construed to include amounts COAERS owes to members and payees.

ARTICLE IV INTEREST CREDITED TO MEMBER ACCOUNTS

4.1 Purpose. The accumulated deposits standing to the credit of a COAERS member are improved annually through crediting interest at a rate determined by the Board upon the advice of the System's actuary. Interest is credited as of December 31 to amounts standing to the credit of the member on January 1 of the same calendar year. This article establishes the responsibilities, guidelines, and procedures for the interest rate decision.

4.2 Responsibilities of the Actuary. The System's actuary provides advice to the Board regarding the interest rate credited to member accounts.

4.3 Guidelines. The interest rate is set based on fixed income type returns, not returns earned by the entire fund or other more aggressive investment vehicles. Neither the interest rate recommendation by the actuary nor the final decision by the Board should negatively impact the financial soundness of the System.

4.4 Procedure. The System's actuary will provide an interest rate recommendation to the Board. The recommendation will consider the following:

- (a) The average yield of 10-Year Treasury Constant Maturities (Nominal), as published by the Federal Reserve in Statistical Release H.15, during the 12 months from November 1 of the prior year through October 31 of the current year; and
- (b) Historical interest rates established by the Board, and
- (c) Any other factor relevant to the determination of that year's interest rate.

4.5 Crediting Interest to Member Accounts. Annually, member accounts will receive interest as determined by the Board.

ARTICLE V DISABILITY APPLICATION AND APPEALS PROCEDURES

~~**5.1 Role of the Disability Committee.** The Disability Committee (the Committee) will hear initial disability applications and annually review the continuation of benefits for disability annuitants, and make a determination recommendation to the Board. The Committee will recommend action on initial disability applications and for disability annuitants who fail to meet the disability continuation requirements. The Committee will also undertake duties as defined in the Bylaws and the Committee's Charter.~~

5.21 Role of the Executive Director. The Executive Director and/or designee is responsible for providing disability information to members, receiving information from members, determining the schedule for considering applications, appeals, and evidence, coordinating Medical Consultant and Committee/Board review, communicating to the Committee/Board all requests, or observed need, for accommodations, and obtaining additional information as directed by the Medical Consultant or Committee/Board. The Executive Director is also responsible for authorizing additional medical expertise as requested by the Medical Consultant. After Board action, the Executive Director and/or designee will initiate action to begin, suspend, or revoke disability benefits. The Executive Director and/or designee shall prepare and recommend for Board approval additional policies and/or procedures to carry out the requirements of this Article.

5.32 Medical Consultant Selection. The Board will contract with an independent medical physician(s) to review and evaluate applications, reports, information, and

evidence that is submitted by members and their physicians. The Board can contract with physicians directly and/or with medical networks, independent review organizations, or companies which provide disability services. The independent medical physician or physicians under contract shall be referred to herein as the Medical Consultant. The Medical Consultant will work in conjunction with Staff to obtain additional medical and/or employer information as needed. The Medical Consultant will evaluate the member's application and medical evaluations, and provide to the Committee a written professional opinion as to whether or not the member meets the definition of disability as prescribed in the Act. The Medical Consultant will attend meetings as determined appropriate by the Committee Chair, Board, or Staff.

5.43 Disability-Benefits and Services Committee Determinations. Disability retirement recommendations will generally be based on the member's application and the Medical Consultant's opinion. The Benefits and Services Committee may recommend approval or denial of the disability application, or may postpone its decision until a future meeting date and request supplemental information from the member, Staff, or Medical Consultant.

5.54 Disability-Benefits and Services Committee and Board Agendas. The Staff will place a properly and timely submitted disability retirement application on a Benefits and Services Committee meeting agenda after receipt of the Medical Consultant's opinion. Recommended disability decisions of the Committee will be placed on the agenda of a Board meeting. If an applicant properly and timely appeals a Committee decision, the Staff will place an appeal on a Board agenda after receipt of the Medical Consultant's opinion regarding the appeal. Disability retirement applications that are incomplete six or more months after receipt of the Member's Statement may be submitted for a determination by the Committee and appeals that are incomplete six months or more after receipt of the appeal request may be submitted for a determination by the Board.

5.65 Hearing of Disability Claims. The following procedure shall generally be followed when hearing an application for disability or an appeal of a denial of a disability application.

5.65.1 The Chair will first call the meeting into an Executive Session. Trustees, (including non-Committee members), relevant Staff, legal counsel for the Board, and the Medical Consultant may remain in Executive Session. Once in the Executive Session, the Chair will invite the applicant and/or their designated representative, if in attendance, into the Executive Session for the discussion of the application. The Chair will recognize Staff for a review of the applicant's eligibility and any previous procedural or contextual information establishing the basis for the case to be considered. The Chair will then recognize the Medical Consultant for a review of the application, and materials and records submitted, and to provide an opinion about whether or not the applicant meets the standard for disability retirement.

5.65.2 After the Medical Consultant's presentation, the Chair will recognize the member and/or their designated representative, if present, and ask if they would like to make a statement. The Chair will then allow for questions. Once the question and answer period is complete, the Chair will request the member and/or designated representative, Medical Consultant, and any other party who would provide evidentiary information to leave. If Trustees have additional questions, all parties would be invited back into the Executive Session to hear the questions and responses. The Board's legal counsel shall remain in the Executive Session at all times. Staff may be asked to remain in the Executive Session solely for the purpose of providing guidance on process.

5.65.3 Upon conclusion of the deliberations, the Chair shall dismiss the member and/or designated representative, if still present, and reconvene into Public Session for possible action. Where there are no applicants physically present for the hearings, the Chair will repeat this process until all cases are reviewed, and once complete will call the meeting back into Public Session.

5.76 Disability Appeal Process. A member, preselected survivor, or spouse whose disability retirement benefits have been denied, suspended, or revoked may appeal such action to the Board of Trustees.

5.76.1 An applicant shall have 20 calendar days from the date the Board denies or confirms denial of disability retirement benefits in which to give written notice of appeal of such action.

5.76.2 A member shall have 120 calendar days from the date such disability retirement benefit is suspended or revoked by operation of law, or by Board action, in which to give written notice of appeal of such action.

5.76.3 The Board shall generally decide each appeal within 120 calendar days from the date the notice of appeal is filed, except for any delay or extension resulting from a continuance or extension of time granted by the Executive Director, Committee, or Board. Failure by the Board to conduct a hearing within 120 days does not result in an automatic decision of any kind.

5.76.4 The Board's decision on an appeal shall be final.

5.76.5 The Executive Director shall consider extension of appeal timeframes for good cause.

5.87 Post Disability Examinations. Retirees receiving disability benefits must submit to examination(s) by physician(s) if and when required by the Committee and/or Board.

5.98 COAERS Payment for Additional Medical Evaluation. In conjunction with the postponement of a decision on disability, COAERS may authorize payment of expenses for medical evaluation visits and the completion of Physician Statements if the Committee

so desires. In no event shall COAERS pay for ongoing medical treatment for any applicant, appellant, or continuance including but not limited to inpatient care, outpatient care, occupational therapy, diagnostic expenses, office visits, prescription drugs, or medical equipment.

5.409 Disability Retirement Continuation. If, after an award of disability retirement benefits, a member receiving a disability retirement allowance is determined no longer physically or mentally incapacitated for the performance of all employment duties, the Board shall discontinue the disability retirement allowance.

5.409.1 ~~Disability~~ Committee's Right to Review Continues Through Normal Retirement Eligibility. The Benefits and Services Committee and/or Board has the right to request financial reviews and order examinations of any member on disability retirement until the member reaches the normal retirement age.

5.409.2 Personal Appearance Can Be Required. In addition, the member may be required appear in-person before the Disability Benefits and Services Committee/Board in order for a decision to be made about continuation of a member's disability benefits.

ARTICLE VI JOINT AND SURVIVOR ANNUITY CHANGES

6.1 Changes to Joint and Survivor Annuity Option Designations. A member may change the survivor beneficiary under a retirement option prior to the member's actual retirement, but a member cannot change the survivor beneficiary after retirement. If a member selects a retirement benefit option providing for an ongoing annuity at the time of their death, only the survivor beneficiary named at retirement will receive survivor benefits. Even if a retiree and the beneficiary are no longer married, the survivor beneficiary cannot be changed. If the member has a spouse at the time of retirement and designates a survivor beneficiary, the spouse must be designated to receive the survivor benefits unless the spouse signs a COAERS form authorizing otherwise.

4B. Receive report on Benefits

Administration Operating Procedures

AGENDA ITEM 4:

Discuss and consider benefits administration including the following:

B. Receive report on Benefits Administration Operating Procedures

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to receive the report of the Benefits Administration Operating Procedures review. These procedures are published to the COAERS membership and provide detailed guidance on the day-to-day administration of benefits.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to regularly review operating procedures to ensure COAERS is enhancing its operational effectiveness.

RECOMMENDATION FOR COMMITTEE ACTION

No action required; for informational purposes only.

BACKGROUND

The Board's Benefits Administration Policy requires the General Counsel and Tax Counsel to review the Benefits Administration Operating Procedures at least every three years and make recommendations for revision to the Executive Director. The results of these reviews are to be presented to the Benefits and Services Committee.

The Benefits Administration Operating Procedures have been reviewed by the Staff, the General Counsel, and our Tax Counsel.

It is important to note that these revisions **do not reflect proposed legislative** plan changes to be filed this upcoming legislative session. If the proposed legislation is enacted, Staff and Counsel will revise these Procedures accordingly in 2023 and update the Committee.

ATTACHMENT

1. Report on COAERS Benefits Operating Procedures, August 2022

SUPPLEMENTAL INFORMATION PROVIDED VIA CONVENE APP

1. Benefits Administration Operating Procedures

The Board's Benefits Administration Policy requires the General Counsel and Tax Counsel to review the Benefits Administration Operating Procedures no less than every three years and make recommendations for revision to the Executive Director. The results of these reviews are to be presented to the Benefits and Services Committee.

This year the Benefits Administration Operating Procedures have been reviewed by the Staff, General Counsel, and our Tax Counsel.

It is important to note that these revisions **do not reflect proposed legislative plan** changes to be filed this upcoming legislative session. If the proposed legislation is enacted, Staff and Counsel will revise these Procedures accordingly in 2023 and update the Committee at that time.

A summary of major changes follows:

Section	Subject	Revision Description
3.6	Tax advice	Adds language about the respective responsibilities of Staff and members regarding advice about the taxation of benefits
3.8	Fraud Procedures	Adds new language about how members can report fraud occurring with a payment they expect to receive from COAERS.
5.7	Email communication	Reiterates that confidential information should not be sent to COAERS via unsecure methods.
10.9	Address Changes	Extends the deadline each month to make address changes for paper checks.
11.3	Multiple breaks in service	Memorializes rules about how breaks-in-service reduce a member's total service credit.
11.11	Unused sick leave conversion	Adds more detail to the existing rules about converting unused sick leave to aid in member understanding of current rules.
13.7	QDRO for dependent child	Rephrases the text regarding QDRO's for the care of a child.
17.12	Pop Up	Adds language about a plan provision that allows a member to revert to a single life annuity upon the death of their survivor.
23	Rollovers	Allows eligible rollover distributions to be made separately and sent to separate plans, treated as one-distribution for tax purposes.
Multiple	Age for Required Minimum Distributions	In several places, updates the age for certain required distributions from age 70.5 to age 72 per federal regulations.

5. Discuss Funding Policy

Presented by Christopher Hanson

AGENDA ITEM 5:
Discuss Funding Policy

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to begin discussion of updates to the Board's Funding Policy.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.** This agenda item is a Strategic Plan action item for 2022 and supports the actuarial funding objectives for Goal 1.

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

BACKGROUND

In 2014, COAERS developed the first Funding Policy in the State of Texas. Soon thereafter, the Texas Legislature amended Texas Government Code to require all public retirement Systems in the state to develop a funding policy. Recently, the Texas Legislature further amended the Texas Government Code to require all non-statewide public retirement systems and their associated governmental entities to jointly develop and adopt a written funding policy detailing a plan for achieving a funded ratio equal to or greater than 100%. Given the ongoing legislative work between COAERS and the City of Austin regarding long-term pension sustainability, several of the necessary components are in place to create the new joint Funding Policy. Those include the following:

1. Established period to pay off the "Legacy Liability". The proposed legislation creates a 30-year payment schedule to pay off the existing unfunded actuarial accrued liability, aka the "Legacy Liability" between January 1, 2024, and December 31, 2053.
2. The actuarially determined employer contribution (ADEC) rate is set as the normal cost less the employer contribution rate (initial corridor midpoint), with gain/loss layers applied up to a +/-5% around the original corridor midpoint.
3. Future valuation gain/loss layers have preset closed periods with loss layers set at closed 20-year periods to avoid future negative amortization.

4. Risk-sharing via the ability of the employee contribution rate to increase above 10% should the ADEC breach the +5% maximum above the corridor midpoint. The increase in the employee contribution rate is capped at 2% for a maximum employee contribution rate of 12%.

Key points of discussion for the Committee are the following:

1. Should the new Funding Policy establish guidelines for future cost-of-living adjustments, benefit enhancements, or additional payments (13th checks)?
2. Are any of the current Funding Policy goals and objectives appropriate in the new Funding Policy?
3. Should the Board and City create a reporting process for COAERS to brief City Management and/or City Council on COAERS funding progress?

Staff will also brief the Committee on expected next steps in the creation of the new Funding Policy.

ATTACHMENTS

1. Board Funding Policy



Board Approved Policy

Subject: Funding

Review Committee: Benefits and Services Committee

Date Implemented: November 25, 2014

Date Updated: September 22, 2020

Signature of Chairperson:

A handwritten signature in black ink, appearing to read "Eyna Canales-Zarate".

Eyna Canales-Zarate

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY
FUNDING POLICY**

I. PURPOSE AND SCOPE

This Funding Policy ("Policy") is designed as a guideline to communicate the Board of Trustees' position on the City of Austin Employees' Retirement System (COAERS) long-term funding goals, determine appropriate methods for COAERS to achieve a 100% funded ratio as required by Texas Government Code, Section 802.2011, establish appropriate actuarial assumptions and methodologies, provide guidelines for benefit and contribution policy recommendations, and establish a process to monitor and report on COAERS' funding progress. COAERS is formally adopting certain baseline actuarial measurements to provide guidance for actuarial valuations performed on and after December 31, 2020.

II. FUNDING GOALS AND OBJECTIVES

The goal of this Policy is to develop a long-term strategy that ensures COAERS achieves its mission of providing reliable retirement benefits. To achieve this outcome, the Board of Trustees establishes the following objectives of this Policy:

- Ensure the security of vested accrued benefits by making that certain contributions and assets are sufficient to pay benefits when due.
- Achieve long-term full funding (funded ratio of 100% or greater) of the cost of promised benefits.
- Ensure that each generation of members and employers incurs the cost of benefits for the employee who provide services to them, rather than deferring those costs to future members and employers.
- Manage and control contribution rate volatility to the extent reasonably possible, consistent with other Funding Policy goals and objectives.
- Provide a reasonable margin for adverse experience to help offset the risks inherent in managing COAERS.
- Eliminate negative amortization as quickly as possible and maintain a contribution rate above the threshold that results in negative amortization.
- Support transparency and accountability to the stakeholders of COAERS.

III. DEFINITIONS

“Actuarial accrued liability” (AAL) means the actuarial accrued liability determined in accordance with the Actuarial Cost Method outlined this Policy.

“Actuarial value of assets” (AVA) means the Plan’s assets determined in accordance with the Asset Valuation Method outlined in this Policy.

“Actuarially Determined Employer Contribution Rate” (ADEC rate) means the contribution rate that pays for the Normal Cost plus amortizes the Unfunded Actuarial Accrued Liability over the Benchmark Funding Period, expressed as a percentage of payroll.

“Actual employer contribution rate” means the actual employer contribution paid by the City of Austin currently under the Amended Supplemental Funding Plan or by agreement.

“Benchmark Funding Period” means the length of time required to eliminate the System’s unfunded liability as established in this Policy.

“Benefit enhancement” means any change to the current benefit policy for retired, active, vested, and non-vested members of the System which increases the actuarially determined contribution rate, increases the amortization period, or decreases the funded ratio of the System. Examples include but are not limited to benefit formula multiplier increases, reductions in eligibility for benefits, cost of living adjustments, or lump-sum additional benefit payments to retired members or beneficiaries.

“Board of Trustees” means the Board of Trustees of the City of Austin Employees’ Retirement System as defined by Vernon’s Texas Civil Statute Article 6243n.

“Cost Method” means the actuarial method of allocating the Present Value of Projected Benefits into past and future periods.

“Cost of living adjustment” (COLA) means an adjustment which is added to the current monthly payment of the retirement annuities, pensions, or allowances of each retired member and beneficiary to help counteract the erosion of purchasing power caused by inflation.

“Funded ratio” means the value of a System’s assets, expressed as a percentage of the plan’s actuarial liability

“Funding Period” means the projected number of years to fully amortize the Unfunded Actuarial Accrued Liability assuming the current employer and employee contribution rates continue, and all future experience aligns with the underlying actuarial valuation assumptions.

“Normal Cost” (NC) means the portion of the total Present Value of Future Benefits that is allocated to a valuation year by the actuarial cost method as outlined in this Policy plus the annual assumed administrative expenses.

“Plan Sponsor” means the City of Austin.

“System” means the City of Austin Employees’ Retirement System and the provisions found in Vernon’s Texas Civil Statute Article 6243n.

“Statutory employer contribution rate” means the employer contribution rate as defined by Vernon’s Texas Civil Statute Article 6243n, which is currently eight percent (8%) of base compensation.

“Total Present Value of Projected Benefits” (PVPB) means the actuarial present value of all benefits expected to be paid from the Fund for all current members and beneficiaries.

“Unfunded Actuarial Accrued Liability” (UAAL) means the excess of the actuarial accrued liability above the actuarial value of assets.

IV. ROLES AND RESPONSIBILITIES

COAERS exists for the exclusive benefit of its members, beneficiaries, and retirees. This “exclusive benefit” rule shall be strictly followed when making, implementing, and monitoring funding policy decisions and specific care should be taken to maximize alignment of COAERS stakeholders while mitigating the conflicts of interest and agency problems that may arise.

Board of Trustees

The Board has the fiduciary duty of overseeing the System and ensuring the security of vested accrued benefits in accordance with the State Constitution and State Law. The Board is required by the State Constitution and State Law to select an actuary and adopt sound actuarial assumptions to be used by the System. The Board is also required by State Law to conduct an actuarial valuation annually and an actuarial experience study at least every five years.

The Board is also required to develop a written funding policy that details the Board’s plan for achieving a funded ratio of that is equal to or greater than 100% and file a copy with the City of Austin. In fulfilling this responsibility, the Board will establish and monitor System funding in accordance with the goals and objectives stated in this Policy and take actions as necessary in accordance with this Policy.

Benefits and Services Committee

The Benefits and Services Committee is chartered to assist the Board of Trustees in fulfilling its fiduciary oversight responsibility of the System. Duties of the Benefits and Services Committee may include, but are not limited to:

- Annually review and recommend action on the System's actuarial valuation report.
- Review the actuarial experience of the System.
- Review and recommend actuarial assumptions and methodologies.
- Review the results of all actuarial audits.
- Review and make recommendations for Plan revisions.

Executive Director

The Executive Director is responsible for reporting to the Board and the Benefits and Services Committee in accordance with this Policy.

Actuarial Consultant(s)

The Actuarial Consultant retained by the Board shall provide and present the annual actuarial valuation in accordance with the actuarial methods as outlined in this Policy and as adopted by the Board from time to time.

Plan Sponsor

Every five years, the City of Austin is required by State Law to conduct an audit of the System's most recent annual actuarial valuation.

V. ACTUARIAL METHODS AND ASSUMPTIONS

The Board adopts the following actuarial cost methods for the purposes of actuarial valuations occurring on and after December 31, 2020.

- A. Asset Valuation Method – Five-year smoothing with direct offset of gains/(losses) against the expected market value of assets and 20% soft corridor
- B. Actuarial Cost Method – Entry Age Normal (Individual)
- C. Funding Period – Determined based on an open group projection

All actuarial assumptions adopted by the Board are listed in Appendix A of this Policy.

VI. COAERS STATUTE AND CONTRIBUTION POLICY

COAERS is governed by to Vernon's Texas Civil Statutes, Article 6243n under which both the member and City contribution rates are set at 8% of base compensation. The City may elect to increase its contribution rate above the statutory rate and the members may increase the employee contribution rate by a majority vote of all such members voting at an election to consider an increase in contributions. The Board, however, may not unilaterally change contribution rates.

VII. FUNDING POLICY PRINCIPLES

For each valuation, the Board will require the disclosure of the ADEC rate to assess the System's funded status, trend in funding progress, and assess the need for changes in the current contribution rates, potential changes to benefits, or a combination thereof. The ADEC rate is the percent of payroll calculated to pay the Normal Cost (including administrative expenses) plus the amount needed to amortize the UAAL over the Benchmark Funding Period. Each future valuation will establish either a liability gain layer or a liability loss layer. These layers will represent unexpected increases or decreases in the UAAL. New gain and loss layers will be amortized over a 15-year closed period. The amortization layers will begin one year after the valuation date using a level percentage of payroll amortization method.

The Benchmark Funding Period is set at an initial 25-year closed period beginning with the December 31, 2020 actuarial valuation. If total contributions to the System are enough to satisfy the ADEC rate, the existing UAAL on December 31, 2020 will be fully funded within 25 years and the System will achieve a 100% funded ratio. Once the System achieves a funded ratio of 100% or greater, the ADEC rate should never be lower than the statutory employer contribution rate.

If the actual Funding Period exceeds the Benchmarking Funding Period for two consecutive actuarial valuations or the actual Funding Period exceeds the maximum funding period established in the Pension Review Board Funding Guidelines for one actuarial valuation, the Board will notify the City and COAERS' membership. Additionally, the Board will work with the City to consider modifications to contribution and benefit policies to return the Funding Period to the Benchmark Funding Period.

The following framework will guide consideration of changes to contribution and benefit policies to return the Funding Period to within the Benchmark Funding Period:

- Enact a more flexible contribution policy to manage the risks of the System and pay the unfunded actuarial accrued liability and normal cost of the System over an appropriate time-period.
- To the extent necessary, amend benefit policies to ensure that the System's obligations can be met for all generations of COAERS members.
- Utilize appropriate risk-sharing between the City and employees to manage the risks inherent in funding a defined benefit plan.

VIII. GUIDELINES FOR FUTURE COST OF LIVING ADJUSTMENTS

The Board establishes the following conditions for when the Board would consider supporting cost of living adjustments:

- A. The adjustment can be financially supported by contributions to the System on a regular, periodic basis preferably on an annual basis but no less frequently than every five years.
- B. The funded ratio of the Plan is greater than or equal to 80% after incorporating the cost of living adjustment, assuming it to be regular and periodic.
- C. The amortization period for unfunded liabilities is less than or equal to 20 years after incorporating the cost of living adjustments, assuming it to be regular and periodic.
- D. The actual employer contribution rate is greater than or equal to the ADEC rate after incorporating the cost of living adjustments, assuming it to be regular and periodic.
- E. The Board has reviewed sensitivity and stress testing analysis as to the impact to the System's amortization period and funded ratio of providing a cost of living adjustment should certain assumptions including rate of return and payroll have adverse future experience.

IX. GUIDELINES FOR FUTURE BENEFIT ENHANCEMENTS AND ADDITIONAL PAYMENTS

For all other benefit enhancements and additional payments, the Board establishes the following conditions for when the Board would consider supporting such enhancements:

- A. Annual cost of living adjustments are built into funding assumptions.
- B. The funded ratio is equal to or greater than 120% after incorporating the benefit enhancement.
- C. The ADEC rate is equal to the statutory employer contribution rate.

- D. The Board has reviewed sensitivity and stress testing analysis as to the impact to the System's amortization period and funded ratio of the benefit enhancement or additional payment should certain assumptions including rate of return and payroll have adverse future experience.

X. GUIDELINES FOR FUTURE REDUCTIONS IN EMPLOYER CONTRIBUTION RATES

The Board of Trustees believes that it is best to consider supporting a reduction in the actual employer contribution rate only when the following conditions exist:

- A. Annual cost of living adjustments are built into funding assumptions; and
- B. The funded ratio will remain greater than or equal to 105% subsequent to any reduction in the actual employer contribution rate.
- C. The actual employer contribution rate should not go down by more than 1% of pay per year.
- D. The Board has reviewed sensitivity and stress testing analysis as to the impact to the System's amortization period and funded ratio of the reduction in the employer contribution rate should certain assumptions including rate of return and payroll have adverse future experience.

XI. AMENDED SUPPLEMENTAL FUNDING PLAN

- A. This Policy is to be implemented consistently with City of Austin Resolution No. 20100913-008 as known as the Amended Supplemental Funding Plan.
- B. So long as the Amended Supplemental Funding Plan remains in effect, any future benefit enhancements or cost of living adjustments otherwise permitted under the System's governing documents will require recommendation from the City Manager and approval by the City Council.
- C. Any such recommendation by the City Manager should include an actuarial analysis by COAERS actuarial consultant of the effect of the requested enhancement or adjustment on the Plan and the level of employer contributions to the System, including sensitivity and stress testing analysis as to the impact to the System's amortization period and funded ratio of providing the cost of living adjustment or benefit enhancement should certain assumptions including rate of return and payroll have adverse future experience.

XII. MONITORING AND EVALUATION

- A. The Board of Trustees will monitor COAERS' progress towards the goals and objectives established in this Policy at least annually.
- B. The Executive Director and COAERS' actuarial consultant will annually report to the Board on progress toward meeting the goals and objectives established in this Policy by reviewing key metrics and funding trends including but not limited to the ADEC, funded ratio, funding period, actual returns compared to the assumed rate of return, UAAL as a percentage of payroll, active to retired ratio, negative amortization, cash flow, and duration of accrued liability. The report shall also include review of contribution and benefit policy modifications if necessary consistent with this Policy.
- C. Annually, COAERS will present a report to the City of Austin on progress toward meeting the goals and objectives established in this Policy including information as detailed in this section of the Policy.
- D. The Benefits and Services Committee will review this Policy at least every two years and make recommendations to the Board necessary to maintain progress towards the goals and objectives in this Policy.

APPENDIX A: ACTUARIAL ASSUMPTIONS

The most recent experience study was completed based on data collected through December 31, 2018. The Board adopted the assumptions outlined below to be effective with the December 31, 2019 actuarial valuation. Please see our Experience Study report dated December 2019 to see more detail of the rationale for the current assumptions. As authorized under Article 6243n of the Vernon's Civil Statutes of the State of Texas, actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary.

A. ACTUARIAL ASSUMPTIONS

1. Investment Return Rate (adopted effective December 31, 2019)

7.00% per annum, compounded annually, composed of an assumed inflation rate of 2.50% and a real rate of return of 4.50%, net of investment expenses.

2. Mortality

a. Nondisabled annuitants (adopted effective December 31, 2019)

Healthy retirees and beneficiaries – The Pub-2010 Healthy General Tables for males and females with full generational projection assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female. Mortality improvement is projected from the mortality table's base year of 2010 (see Item 20 for further discussion of mortality improvement).

b. Disabled annuitants (adopted effective December 31, 2019)

Disabled annuitants – The Pub-2010 Healthy General Tables for males and females, set forward three years with full generational projection assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female. Mortality improvement is projected from the mortality table's base year of 2010 (see Item 20 for further discussion of mortality improvement). A minimum 3% rate of mortality applies at all ages.

c. Active members (adopted effective December 31, 2019)

Active employees – The Pub-2010 Employees General Tables for males and females with full generational projection assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female. Mortality improvement is projected from the mortality table's base year of 2010 (see Item 20 for further discussion).

Note regarding mortality table extensions:

Pub-2010 mortality tables are not inclusive of all ages. Mortality rates for active members were extended above age 80 by a constant exponential rate to the Healthy Retiree rate at age 100. Mortality rates for nondisabled annuitants below age 50 were extended using a constant exponential rate to the Juvenile rates. Disabled annuitant mortality rates were extended below age 18 using a constant exponential based on the age 18 and 24 mortality rates.

3. Retirement Rates: (adopted effective December 31, 2019)

The following rates of retirement are assumed for members eligible for normal retirement.

<u>Age</u>	<u>Rates of Retirement</u>	
	<u>Males</u>	<u>Females</u>
44 & under	22.0%	25.0%
45	20.0%	20.0%
46	20.0%	20.0%
47	20.0%	20.0%
48	20.0%	20.0%
49	20.0%	20.0%
50	22.0%	24.0%
51	22.0%	24.0%
52	22.0%	24.0%
53	22.0%	24.0%
54	22.0%	24.0%
55	21.0%	26.0%
56	21.0%	26.0%

57	21.0%	26.0%
58	21.0%	26.0%
59	21.0%	26.0%
60	22.0%	21.0%
61	22.0%	21.0%
62	27.0%	24.0%
63	18.0%	16.0%
64	18.0%	16.0%
65	18.0%	24.0%
66	30.0%	24.0%
67	30.0%	26.0%
68	22.0%	26.0%
69	22.0%	26.0%
70	30.0%	26.0%
71	22.0%	24.0%
72	22.0%	24.0%
73	22.0%	24.0%
74 & older	100.0%	100.0%

Group B members are assumed to retire at twice the applicable rate upon the first year they attain eligibility for normal retirement. Early retirement rates (of 1% at age 55 increasing by 1% every two years to 5% at ages 63 and 64) apply for Group B members.

4. Rates of Decrement Due to Withdrawal (adopted effective December 31, 2019)

Rates of withdrawal are comprised of a select period for the first 5 years of employment and ultimate rates based on years of service from retirement after the end of the select period. The following rates during the select period apply at all ages during the applicable year of employment:

Years of Employment	Males	Females
1	0.1100	0.1600
2	0.1050	0.1500
3	0.0925	0.1275
4	0.0675	0.1000
5	0.0600	0.0850

After the select period ends, rates of withdrawal are based on the number of years from retirement. The rates are shown below for males and females

<u>Years from Eligibility for Unreduced Retirement</u>	<u>Rates of Withdrawal After Select Period</u>	
	<u>Males</u>	<u>Females</u>
1	0.0120	0.0080
2	0.0120	0.0175
3	0.0120	0.0175
4	0.0120	0.0200
5	0.0150	0.0200
6	0.0200	0.0200

7	0.0200	0.0250
8	0.0200	0.0250
9	0.0200	0.0250
10	0.0250	0.0300
11	0.0300	0.0350
12	0.0350	0.0375
13	0.0400	0.0400
14	0.0450	0.0700
15+	0.0560	0.0825

5. Disability Rates* (adopted effective December 31, 2015)

Sample rates are shown below:

<u>Age</u>	<u>Rates of Decrement Due to Disability</u>
	<u>Males and Females</u>
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180

* Rates are for disability due to all causes; occupational disability rates are assumed to be 10% of all causes.

6. Rates of Salary Increase (adopted effective December 31, 2019)

<u>Years of Service</u>	<u>Promotional Rate of Increase</u>	<u>Total Annual Rate of Increase Including 2.50% Inflation Component and 1.00% Productivity Component</u>
1 – 3	2.25%	5.75%
4 – 5	2.00%	5.50%
6	1.75%	5.25%
7	1.50%	5.00%
8	1.25%	4.75%
9 – 10	1.00%	4.50%
11 – 12	0.75%	4.25%
13 – 14	0.50%	4.00%
15 – 16	0.25%	3.75%
17+	0.00%	3.50%

7. DROP Participation: (adopted effective December 31, 2019)

It was assumed that 15% of retiring active members with at least 20 years of service would elect a “Backward” DROP. It is assumed that all members who Back Drop will elect to DROP back to the date that would provide the greatest actuarial value to the member.

8. Married Percentage: (adopted effective December 31, 1997)

100% of the active members are assumed to be married.

9. There will be no recoveries once disabled: (adopted effective December 31, 1997)

10. Spousal Age Difference: (adopted effective December 31, 2012)

Males are assumed to be three years older than females.

11. Normal Form of Payment: (adopted effective December 31, 1997)

It is assumed that all retiring members will elect the Life only form of payment with a guaranteed return of accumulated employee contributions.

12. Crediting Rate on Employee Contributions: (adopted effective December 31, 2002)

It is assumed that the interest credit rate on employee contributions will be 6.0%.

13. Individual salaries used to project benefits: (adopted effective December 31, 1997)

Rates of pay as of the valuation date are reported for all employees.

14. Pay increase timing: (adopted effective December 31, 1997)

Middle of calendar year.

15. Decrement timing: (adopted effective December 31, 1997)

Decrements of all types are assumed to occur mid-year.

16. Eligibility testing: (adopted effective December 31, 2002)

Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

17. Decrement relativity: (adopted effective December 31, 2002)

Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

18. Incidence of Contributions: (adopted effective December 31, 2002)

Contributions are assumed to be received continuously throughout the year based upon the contribution rates as a percent of payroll (established in statute or agreed upon under the Supplemental Funding Plan) shown in this report and the actual payroll payable at the time contributions are made.

19. Benefit Service: (adopted December 31, 1997)

All members are assumed to accrue one year of eligibility service each year.

20. Mortality Improvement:

The base mortality tables are anchored at the year 2010. To account for future mortality improvement, the base mortality rates in Item 2 are projected forward assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female.

21. Service Purchases (military, permissive, and sick leave conversion):

No service purchases of any type are assumed. Any gains or losses due to these purchases are recognized in the valuation following the purchase.

22. Cost of Living Adjustments and One-time Payments:

No future cost of living adjustments are assumed. In addition, no one-time payments (13th checks) are assumed.

ACTUARIAL VALUE OF ASSETS

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the Excess (Shortfall) between expected investment return and actual income. The expected investment return each year is calculated based on the market value of assets with the difference from actual income smoothed in over five years in 20% increments. If the current year's difference is opposite sign of the prior years' deferred Excesses/(Shortfalls), then the prior years' bases (starting with the oldest) are reduced dollar for dollar along with the current year's base. Any remaining bases are then recognized over five years (20% per year) from their initial creation. This can and will result in some bases being recognized in a period shorter than five years.

If the resulting preliminary asset value is less than 80% or more than 120% of the market value of assets, then 1/3 of the amount outside of the 80% to 120% corridor is recognized in the final actuarial value of assets. In extreme market conditions, this could result in an actuarial value of assets outside of the 80% to 120% market value of assets corridor.

B. ACTUARIAL FUNDING METHOD

The actuarial accrued liability is determined using the Entry Age Normal actuarial cost method. This method assigns the System's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost is determined on an individual basis using the Individual Entry Age Normal Cost method. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs where future normal costs are based on the benefit provisions that are applicable to each individual member. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

C. FUNDING PERIOD

The funding period is determined using an open group projection. In the open group projection, the demographic assumptions are applied to the current active employees and any employees that are assumed to leave employment are replaced one for one with a new employee. Over time this results in the change of the employee group from mostly Group A members to Group B members. The projection is built to assume no gains or losses on the actuarial accrued liability or the actuarial value of assets. The funding period is the length of time it takes in the open group projection for the actuarial value of assets to exceed the actuarial accrued liability.

In the projection, new members' pay are assumed to increase at 3.50% year over year (i.e. a new employee in 2020 is assumed to be hired at a salary that is 3.50% greater than a new employee hired in 2019. The 3.50% growth rate is equal to the wage inflation assumption of 3.50% (ultimate salary increase assumption showing in Item A.6.). Note that this is not an assumption that payroll will grow at 3.50% per year. Payroll could grow more slowly in the near-term due to membership demographics.

D. CHANGES IN ASSUMPTIONS AND METHODS

New assumptions were adopted effective December 31, 2019. Please refer to the Actuarial Experience Study report dated December 2019 for more detail on the assumption changes.

6. Receive report on actuarial service provider

Presented by Russell Nash

AGENDA ITEM 6:

Receive report on actuarial service provider – Russell Nash

AGENDA ITEM OBJECTIVE

The Committee will conduct the required annual review of the System's actuarial service provider.

RELEVANCE TO STRATEGIC PLAN

This item supports **Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

BACKGROUND

The Benefits and Services Committee has oversight responsibility for COAERS' actuarial consultant and annually receives a report on the performance, contract provisions, and working relationship with the actuarial consultant. The review is summarized in the attached report which will be discussed at the Committee meeting.

ATTACHMENT

1. Report on actuarial service provider

Summary Rating: Excellent. GRS Retirement Consulting has provided thorough actuarial valuation and assistance with preparing for legislative changes.

Firm Information: COAERS has retained the services of GRS Retirement Consulting (formerly Gabriel, Roeder, Smith and Company) for actuarial consultation services. GRS is a national actuarial and benefits consulting firm. Mr. Lewis Ward and Mr. Ryan Falls are assigned to COAERS. Mr. Ward has served as the COAERS lead consultant for this engagement for more than 25 years.

Observations: The GRS staff is known for their responsiveness, communication, and industry knowledge. GRS advises many other local and national public retirement systems, which provides the GRS staff with a broad perspective of the industry that they then bring to the COAERS relationship. Of note recently is Mr. Ward's analysis and assistance developing legislation for the 88th Legislature and his assistance with the asset liability study. Mr. Ward is responsive and works effectively with the COAERS Staff and our external partners (e.g. City working group and RVK).

Terms of the Representation: GRS provides services to COAERS under an Engagement Letter that defines the scope and fees of the relationship. The current engagement letter expires at the end of 2024.

	Engagement Letter Period		
	2022	2023	2024
Valuation	\$44,000	\$45,000	\$46,000
Experience Study			\$45,000
In Person Meeting Attendance	\$2,300	\$2,400	\$2,500
GASB 68 City Information	\$3,500	\$3,600	\$3,700
Ryan Falls	\$440	\$450	\$460
Lewis Ward	\$390	\$400	\$410
Senior Analyst	\$270	\$275	\$280
Analyst	\$220	\$225	\$230
Support	\$180	\$185	\$190

Future Activities: COAERS and GRS agreed to an Engagement Letter for calendar years 2022, 2023, and 2024. At this time, Staff recommends retaining GRS under the current Engagement Letter.

7. Discuss and consider disability retirement application

A. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref. #2202

B. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref. #2202

Presented by Chair Noak

AGENDA ITEM 7:

Discuss and consider disability retirement application

- A. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref.#2202
- B. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref.# 2202

AGENDA ITEM OBJECTIVE

The objective of this agenda item is designed to provide a hearing for a COAERS member's initial application for disability retirement benefits.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets with the core competency established in the **COAERS Strategic Plan** "Dependable operations: Managing the financial and operational commitments of the system within appropriate measurable standards" as this item fulfills the Trustee's statutory duty to hear initial applications for disability retirement benefits.

RECOMMENDATION FOR COMMITTEE ACTION

No action is allowed while in Executive Session; action may be considered upon reconvening into public session. The Medical Consultant opinion is included in confidential packet material.

ATTACHMENT

1. Medical opinion and selected disability application information (CONFIDENTIAL)

8. Review key meeting takeaways and call for future agenda items

Presented by Chair Noak

AGENDA ITEM 8:

Review key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.

ATTACHMENT

1. 2022 Benefits and Services Committee Work Plan

2022 Benefits and Services Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting (3/10/22)
 - ✓ 12/31/2021 Actuarial Valuation
 - ✓ Plan sustainability work with City of Austin
 - ✓ Disability applications TBD

2. June meeting (6/2/22)
 - ✓ Plan sustainability work with City of Austin
 - ✓ Adopt Benefits Resolution for IRS compliance
 - ✓ Disability applications TBD

3. August meeting (8/25/22)
 - ✓ Funding Policy with City of Austin
 - ✓ Benefits operating procedure review results
 - ✓ Actuarial service provider review
 - ✓ Disability applications TBD

4. November meeting (11/10/22)
 - Funding Policy with City of Austin
 - Medical consultant provider review
 - Disability continuation review
 - Disability applications TBD
 - 2023 Committee Work Plan