

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 12/31/2004

Introduction

This edition of *Retirement News Update* provides summary financial information about the City of Austin Employees' Retirement System (COA ERS) based on the 2004 *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 2004 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, 2004, COA ERS has assets totaling \$1.375 billion and its future obligations were 80.8% 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, 2004, COA ERS had 7,489 Active Members, 3,137 Retired Members and 612 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.

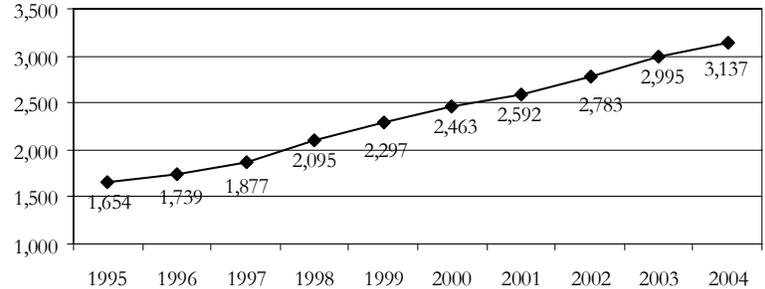
Retirement Eligibility

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

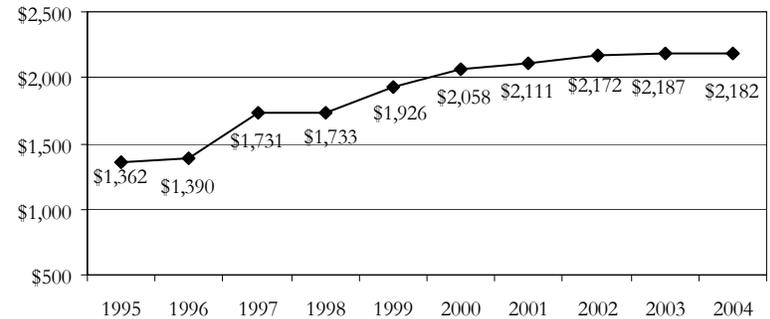
- * *An active Member having any number of years creditable service at age 62*
- * *20 years creditable service at age 55*
- * *23 years creditable service at any age*

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.

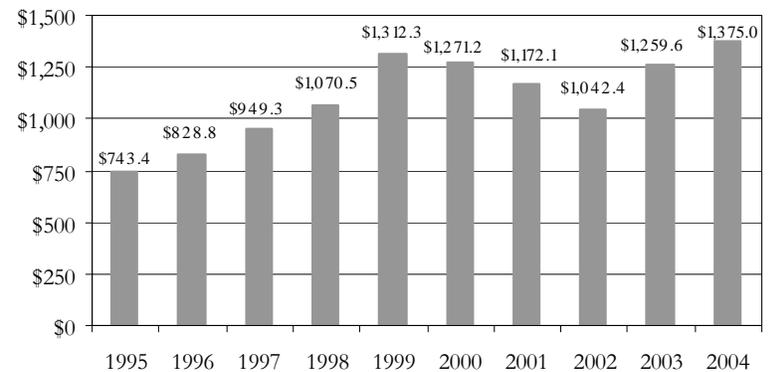
Number of Retired Members and Beneficiaries



Average Monthly Benefit

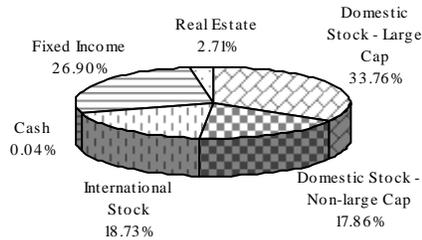


Total Plan Net Assets (Expressed in millions)



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. The Board of Trustees has retained eleven professional Investment Managers 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, 2004, the asset allocation for the portfolio was as follows:



Investment performance for the year ending 2004 was 11.8% net of fees. 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.

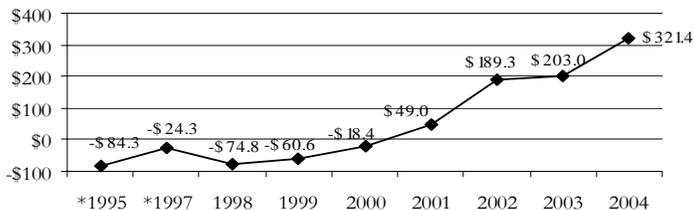
Funding Status

The Actuarial Valuation for the plan year ending December 31, 2004, reports an increase in the Plan's unfunded liability. COA ERS' unfunded accrued actuarial liability increased from \$203 million for 2003 to \$321 million for 2004. Current contributions are not sufficient to amortize the System's liabilities over a 30-year period as prescribed by standards of the Governmental Accounting Standards Board. To address this issue, the Austin City Council approved a supplemental funding plan for COA ERS in May 2005.

Supplemental Funding Plan

The Supplemental Funding Plan was developed by the COA ERS Board of Trustees working in partnership with the Austin City Manager. Under this plan, the City will provide a subsidy to COA ERS under certain conditions. The subsidy will begin in 2007 at 1% of employee compensation and gradually increase to 4%, if necessary. The start of the subsidy or any increase may be delayed, depending upon the investment earnings of the System. The subsidy will remain in effect until such time as the regular 8% City contribution is sufficient to maintain a 30-year amortization period. The plan also provides that future benefit enhancements or cost-of-living increases will require a recommendation from the City Manager for subsequent approval by the City Council. The supplemental funding plan *does not* require additional contributions from employees. The adoption of this plan by the Austin City Council will help ensure a financially sound retirement system.

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, 2004 and 2003

| | 2004 | 2003 | \$ Change | % Change |
|---|----------------------|----------------------|--------------------|--------------|
| Assets: | | | | |
| Cash & Receivables | \$ 8,886,396 | \$ 6,778,351 | \$ 2,108,045 | 31.1% |
| Investments | 1,367,901,934 | 1,255,601,924 | 112,300,010 | 8.9% |
| Invested securities lending collateral | 156,774,590 | 103,030,695 | 53,743,895 | 52.2% |
| Capital assets | 1,288,925 | 1,315,624 | (26,699) | (2.0%) |
| Total Assets | 1,534,851,845 | 1,366,726,594 | 168,125,251 | 12.3% |
| Liabilities: | | | | |
| Total liabilities | 159,820,188 | 107,170,426 | 52,649,762 | 49.1% |
| Net assets held in trust for pension benefits | \$ 1,375,031,657 | \$ 1,259,556,168 | \$ 115,475,489 | 9.2% |

Summary of Changes in Plan Net Assets Years Ended December 31, 2004 and 2003

| | 2004 | 2003 | \$ Change | % Change |
|---|--------------------|--------------------|----------------------|----------------|
| Additions: | | | | |
| Contributions | \$ 59,279,793 | \$ 55,356,724 | \$ 3,923,069 | 7.1% |
| Investment Gain/Loss | 149,450,920 | 248,816,550 | (99,365,630) | (39.9%) |
| Investment Expenses | 3,821,891 | 2,749,856 | (1,072,035) | (39.0%) |
| Net investment income | 145,629,029 | 246,066,694 | (100,437,665) | (40.8%) |
| Other Income | 2,376 | 2,636 | (260) | (9.8%) |
| Total additions | 204,911,198 | 301,426,054 | (96,514,856) | (32.0%) |
| Deductions: | | | | |
| Benefit Payments | 87,880,845 | 82,693,239 | (5,187,606) | (6.3%) |
| General & Admin Expenses | 1,554,864 | 1,552,770 | (2,094) | (0.1%) |
| Total Deductions | 89,435,709 | 84,246,009 | (5,189,700) | (6.2%) |
| Net Increase/Decrease | 115,475,489 | 217,180,045 | (101,704,556) | (46.8%) |
| Net assets held in trust for pension benefits beginning of year | 1,259,556,168 | 1,042,376,123 | 217,180,045 | 20.8% |
| Net assets held in trust for pension benefits end of year | \$ 1,375,031,657 | \$ 1,259,556,168 | \$ 115,475,489 | 9.2% |

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.