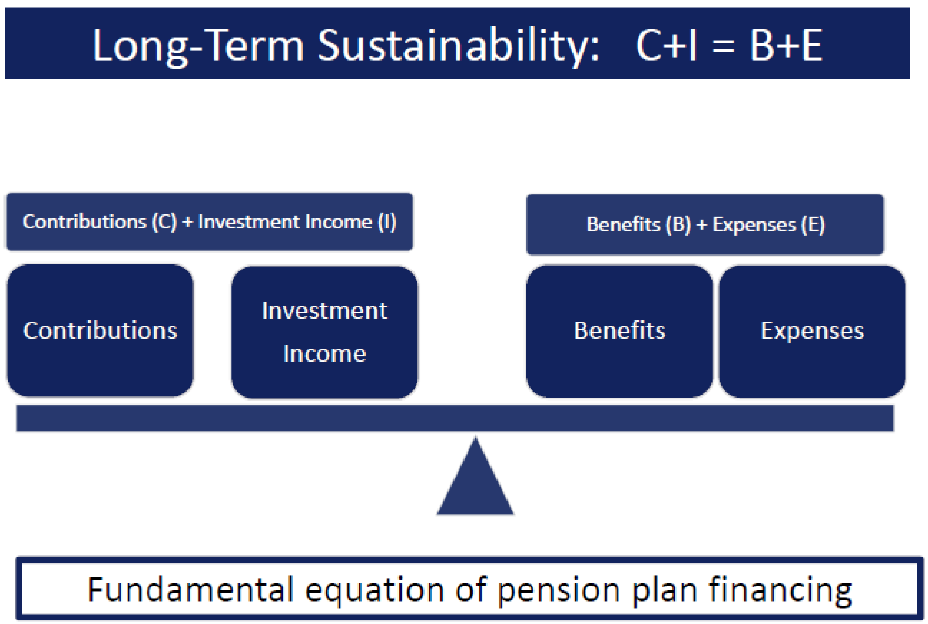
COST OF LIVING ADJUSTMENTS (COLAs)

Your COAERS retirement benefit is a Defined Benefit Plan, which means that the plan promises a guaranteed lifetime monthly retirement benefit once you start receiving it. The Plan's primary goal is to ensure that the promised benefits are provided to all current and future members in perpetuity. The Plan is financially structured to meet that goal. Contributions from the City of Austin and its employees plus investment income cover the costs of benefits and operating expenses. Cost of Living Adjustments (COLAs) are not automatically built into this funding mechanism. In times where funding is available, COLAs may be considered, however they should not be factored in your financial planning.

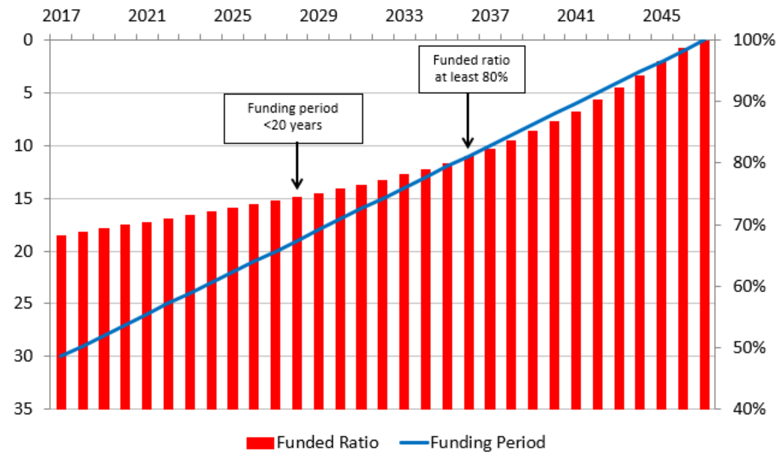


When Could a COLA be Considered?

COAERS' funding policy establishes the initial criteria for the consideration of a COLA. To consider a COLA the funding ratio must be 80% or more and the funding period must be below 20 years. Also, State law requires that the Plan's actuary recommend a COLA before the Board considers one. Finally, the Supplemental Funding Plan with the City of Austin (established in 2012 to provide extra funding to keep the Plan healthy) states that a COLA recommendation must be presented by COAERS to the City Manager. If the City Manager chooses to adopt COAERS' recommendation, it then must be approved by the City Council. Only when all of the above requirements are met would a COLA be granted.

Based on today's assumptions, it is projected to be at least 18 years before the criteria would be met. (See graph below)

When to Expect COLA Considerations



No Membership Growth

To advance and sustain the Fund to the point it would meet both criteria - the required 80% funded ratio and the 20-year funding period - contributions to COAERS would have to increase significantly. For example, the chart below estimates the effect of granting a one-time 2% COLA using only one of the two criteria (the 20-year funding period). In the scenario depicted below, the City of Austin would contribute an extra $24.5 million per year for the next 20 years (for an added total of $490 million) to COAERS to reach a 20-year funding period to just grant a one-time 2% COLA. For more information, you can view the COAERS' Actuary's most recent valuation presentation.

Estimated COLA Impact on Annual City of Austin Contribution to COAERS

Assumes Covered Payroll of $629,943,122
Uses smoothed value of assets – market value of assets decreases contributions by 0.66%

	Percent	Dollars	Increase
Current Annual Contribution	18.00%	$113,389,762	
Annual Contribution to Achieve a 20 Yr Funding Period	21.47%	$135,248,788	$21,859,026
Annual Contribution to Provide One Time 2% COLA – Maintain 20 Yr Funding Period	21.89%	$137,894,549	$24,504,787
Annual Contribution to Provide Recurring 2% COLA Each Year – Maintain 20 Yr Funding Period	33.26%	$209,519,082	$96,129,320

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