March 2025 Benefits and Services Committee Meeting

Schedule	Wednesday, March 5, 2025 10:30 AM — 11:00 AM CST
Venue	4700 Mueller Blvd., Austin, TX 78723
Organizer	Sarah McCleary

Agenda

1. Call roll of Committee members 1
   Presented by Michael Benson
   - Item #1 Summary.docx 2

2. Review order of business and establish meeting objectives 3
   Presented by Michael Benson
   - Item #2 Summary.docx 4

3. Receive public comments 5
   Presented by Michael Benson
   - Item #3 Summary.docx 6

4. Consider approval of the November 14, 2024 Benefits and Services Committee minutes 7
   Presented by Michael Benson
   - Item #4 Summary.docx 8
   - 2024 11 14 Benefits Minutes.docx 9

5. Discuss and consider disability retirement application #2501 12
A. Convene into Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to review Disability Retirement #2501
B. Reconvene from Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to make recommendations as determined appropriate by the Committee on Disability Retirement #2501

- Item #5 Summary.docx 13
- 2024-03-05 Confidential Disab Pkt DRAFT.pdf 14
- Recommendation 2501.docx 37

6. Review 2025 Benefits and Services Committee Work Plan 38
Presented by Christopher Hanson

- Agenda Item #06 Summary.docx 39
- 2025 Draft Benefits and Services Committee Work Plan.docx 40

7. Discuss and consider actuarial matters including: 41
A. 2025 Preliminary Experience Study Findings
B. 12/31/2024 Risk Sharing Valuation Study

- Agenda Item #7A Summary.docx 42
- 07A COAERS Experience Study Preliminary Findings.pptx 43
- Agenda Item #7B Summary.docx 76
- VAL_12_31_2024_BS Committee.pptx 77

8. Review key meeting takeaways and call for future agenda items 86
Presented by Michael Benson

- Item #8 Summary.docx 87
- 2025 Draft Benefits and Services Committee Work Plan.docx 88

1. Call roll of Committee members

Presented by Michael Benson

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

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.

Please note that logging in to this meeting in real-time on Convene will automatically mark you as “present”. Sarah will indicate in the minutes if you are in person or virtual. If there are any Trustees who have not yet logged into Convene, please indicate to Sarah so she can mark you as present.

2. Review order of business and establish meeting objectives

Presented by Michael Benson

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COMMITTEE MEETING
Agenda Item Information Sheet

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.

1. The Committee will review the draft Committee 2025 work plan.
2. The Committee will consider Disability Application #2501.
3. The Committee will review the preliminary findings of the 2025 actuarial experience study.
4. The Committee will review the initial results of the 12/31/24 actuarial valuation from GRS Consulting.

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.

3. Receive public comments

Presented by Michael Benson

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 3:
Receive public comments

AGENDA ITEM OBJECTIVE
This standing agenda item allows System members and members of the public the opportunity to provide comments to the Committee.

ITEM SUMMARY
The Chair will recognize any person who wishes to comment for up to three minutes per person.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES
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.*"

4. Consider approval of the November 14, 2024 Benefits and Services Committee minutes

Presented by Michael Benson

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 4:
Consider approval of the November 14, 2024 Benefits and Services Committee minutes

AGENDA ITEM OBJECTIVE
This standing agenda item seeks approval of the minutes from the prior Benefits and Services Committee meetings.

RECOMMENDATION FOR COMMITTEE ACTION
Staff recommends approval of the minutes of the November 14, 2024 Benefits and Services Committee meetings.

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.*"

ATTACHMENT
1. Draft minutes of November 14, 2024 Benefits and Services Committee meeting

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

MINUTES
BENEFITS AND SERVICES COMMITTEE
Public Meeting held in-person and videoconference
Pursuant to Texas Govt. Code 551.127
4700 Mueller Blvd., Austin, TX 78723
Thursday, November 14, 2024

Committee Members Present/(Absent)	**Other Board Trustees Present/(Absent)**	**Others Present**
Diana Thomas, Committee Chair	Kelly Crook	Staff:
Mike Benson	Michael Granof	Christopher Hanson
Chris Noak	Dick Lavine	Russell Nash
(Leslie Pool)	(Yuejiao Liu)	Michelle Mahaini
Anthony Ross	(Brad Sinclair)	Sarah McCleary
	(Ed Van Eenoo)	Jenni Bonds
		Mehrin Rahman
		Amy Kelley*

Guests:
Paige Saenz, General Counsel
Dr. Harold Skaggs

* Present telephonically
† Present via videoconference

DRAFT

1 Call roll of Committee members

Committee Chair Diana Thomas called the meeting to order at 10:48 a.m. The following Committee members were present in person: Benson, Thomas, Noak, and Ross.

2 Review order of business and establish meeting objectives

Committee Chair Thomas reviewed the order of business and meeting objectives with the Committee. There were no changes to the order of business for the meeting.

3 Receive public comments

Committee Chair Thomas asked if there were any members of the public who wished to speak, either now or during an agenda item. There were no public comments.

4 Consider approval of the August 30, 2024 Benefits and Services Committee minutes

Committee Chair Thomas asked the committee to review the Benefits Services Committee minutes from August 30. Mr. Michael Benson moved to approve the August 30, 2024 minutes as presented. Mr. Anthony Ross seconded, and the motion passed 4-0.

5 Discuss and consider disability retirement applications

A. Convene into Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to review disability retirement #2408 and #2409

B. Reconvene from Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to make recommendations as determined appropriate by the Committee on disability retirement #2408 and #2409

The Committee convened into Executive Session at 10:51 a.m. and reconvened into open session at 11:16 a.m.

Mr. Benson moved to approve Disability Application #2408. Mr. Ross seconded, and the motion passed 4-0.

Mr. Chris Noak moved to approve Disability Application #2409. Mr. Benson seconded, and the motion passed 4-0.

6 Discuss and consider actuarial consulting engagement letter

Mr. Russell Nash reported that COAERS receives actuarial consulting services from GRS Retirement Consulting and is under an engagement letter that terminates at the end of 2024. Mr. Nash reported that GRS has provided an engagement letter that defines the scope and fees of the relationship for 2025.

Mr. Benson moved to refer to the Board for approval the 2025 GRS Engagement Letter with placement on the Consent Agenda. Mr. Noak seconded, and the motion passed 4-0.

7 Discuss and consider Benefits and Services Committee Charter

Mr. Christopher Hanson presented the suggested edits to the Benefits and Services Committee Charter. Staff suggested clarifying that the Committee should consist of at least three members in keeping with the Board Bylaws, removing language related to the review of legislative issues as the Board now includes a Legislative Committee, and re-wording of the disability retirement continuation process to comply with current statute and practice.

DRAFT

Mr. Noak moved to refer to the Board for approval the Benefits and Services Committee Charter as presented, with placement on the Consent agenda. Mr. Benson seconded, and the motion passed 4-0.

8 Receive report on medical consultant

Mr. Nash presented Staff's report on the medical consultant.

9 Receive report on disability retirement continuation

Mr. Nash presented a review of all income by living disability retirees for the calendar year 2023. Mr. Nash reported to the Committee that each disability retiree is compliant with the Substantial Gainful Activity (SGA) limit as defined by Social Security disability income guidelines and no disability allowances were recommended for discontinuation.

10 Review 2024 Committee Work Plan and discuss development of 2025 Work Plan

The Committee noted that all items on the 2024 Work Plan were complete except for one resolution that was deemed to no longer be needed, and reviewed a draft of the 2025 Benefits and Services Committee Work Plan.

11 Review key meeting takeaways and call for future agenda items

Committee Chair Thomas 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 11:33 a.m.

DRAFT

5. Discuss and consider disability retirement application #2501

A. Convene into Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to review Disability Retirement #2501

B. Reconvene from Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to make recommendations as determined appropriate by the Committee on Disability Retirement #2501

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 5:
Discuss and consider disability retirement application #2501

A. Convene into Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to review Disability Retirement #2501
B. Reconvene from Executive Session pursuant to sec. 13, art. 6243n, and sec. 551.0785 Texas Government Code, to make recommendations as determined appropriate by the Committee on Disability Retirement #2501

AGENDA ITEM OBJECTIVE
The objective of this agenda item is to provide a hearing for one initial application 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.

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.

ATTACHMENTS
1. #2501 Medical opinion and selected disability application information (CONFIDENTIAL)
2. Unsigned recommendation for application #2501

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

March 5, 2025
DISABILITY RECOMMENDATION

Disability retirement application #2501

The Benefits and Services Committee recommends that Board

☐ **Approve** ☐ **Deny**

Retirement application #2501.

_____ _____

Michael Benson
Committee Chair

Date

The physician recommends that Board

☐ **Approve** ☐ **Deny**

Retirement application #2501.

_____ _____

Harold Skaggs, M.D.
Physician

Date

6. Review 2025 Benefits and Services Committee Work Plan

Presented by Christopher Hanson

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 6:
Review 2025 Benefits and Services Committee Work Plan

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review the 2025 Committee work plan.

RELEVANCE TO STRATEGIC PLAN
This agenda item meets **COAERS Strategic Plan Goal 4: Identify and Implement Best Practices**. It is an industry best practice to establish and review Committee work plans.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ATTACHMENT
1. Draft 2025 Committee Work Plan

2025 Benefits and Services Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
   - 12/31/2024 Risk Sharing Valuation Study
   - 2025 Actuarial Experience Study – Preliminary Fundings
   - Disability applications TBD

2. June meeting
   - Adopt Benefits Resolution for IRS compliance
   - Disability applications TBD
   - Benefits Administration Policy
   - Actuarial Consultant RFP - Release

3. August meeting
   - Actuarial service provider review
   - Disability applications TBD
   - Actuarial Consultant RFP – Bid Review

4. November meeting
   - Actuarial Consultant Contract
   - Administrative Implementation of Assumption Changes
   - Medical consultant provider review
   - Disability continuation report
   - Disability applications TBD
   - 2026 Committee Work Plan

DRAFT

7. Discuss and consider actuarial matters including:

A. 2025 Preliminary Experience Study Findings

B. 12/31/2024 Risk Sharing Valuation Study

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 7:
Discuss and consider actuarial matters including:

A. 2025 Preliminary Experience Study Finding

AGENDA ITEM OBJECTIVE
The objective of this agenda item is for the Committee to review the 2025 preliminary actuarial experience study findings.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
Every five years, COAERS is required to conduct an actuarial experience study to test key actuarial assumptions against prior plan experience. COAERS consulting actuary, GRS Retirement Consulting, has begun preliminary work on the 2025 actuarial experience study and will present their initial findings to the Committee.

Noted below are a list of key initial findings and recommendations from the experience study.

1. Increase the payroll growth assumption by 25 bps to 3.50%.
2. Increase the wage inflation assumption by 25 bps to 3.75%.
3. Increase the promotional/merit component of the salary scale by 25 to 50 bps at all years of service.
4. Increase the administrative expense assumption from 51bps to 70 bps.
5. Adjust rates of retirement and rates of termination to reflect actual experience.
6. Maintain the inflation assumption of 2.50% and rate of return assumption of 6.75%.

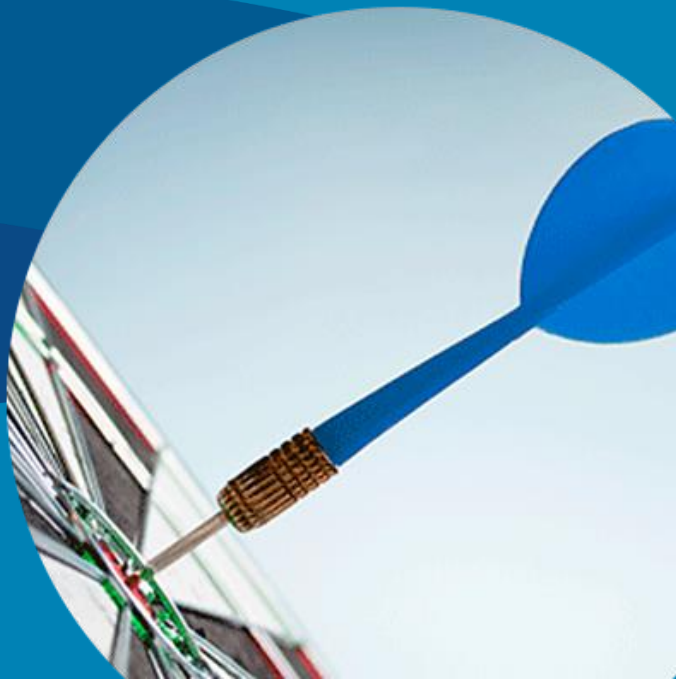
RELEVANCE TO STRATEGIC PLAN
This item supports **Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

ATTACHMENT
1. 2025 COAERS Experience Study - Preliminary Findings

City of Austin Employees' Retirement System Experience Study – Preliminary Findings

Lewis Ward and Janie Shaw

March 5th 2025



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Purpose of an Experience Study

- An experience study is a regularly scheduled process to analyze whether there needs to be changes to the assumptions
- The assumptions are not static; they should occasionally change to reflect
  - Developing industry best practices
  - New information and changing knowledge
  - Mortality improvement
  - Changing patterns of retirements, terminations, etc.
  - Implementation of improved technology and processes
- Thus, our analysis will address the following questions for each assumption
  - What was COAERS' actual experience?
  - How does that compare with current assumptions?
  - Is a change warranted?

Summary of Preliminary Findings

- In general, most of the current assumption set is reasonable
- The significant recommendations are:
  - Higher projected salary increases
  - Decrease rates of turnover for females over their entire career and for males early in their career
  - Both of these changes increase the normal cost and Actuarially Determined Contribution rate
- Full detail is in the report

Cost Impact of Preliminary Findings

Actuarial Cost Items	Valuation December 31, 2024	Experience Study December 31, 2024	Increase/ (Decrease)
1. Present Value Future Benefits			
a. Active Employees	$ 3,929,401,305	$ 4,152,981,732	$ 223,580,427
b. Inactive Members	123,014,568	122,882,243	(132,325)
c. Annuitants	3,185,668,419	3,170,048,883	(15,619,536)
d. Total	$ 7,238,084,292	$ 7,445,912,858	$ 207,828,566
2. Actuarial Accrued Liability	$ 5,951,865,556	$ 5,957,378,923	$ 5,513,367
3. Normal Cost as Percent of Pay			
a. Service Retirement	12.84%	14.21%	1.37%
b. Disability Benefits	0.21%	0.14%	-0.07%
c. Death Before Retirement	0.28%	0.28%	0.00%
d. Termination	3.47%	3.17%	-0.30%
e. Normal Cost of Benefits	16.80%	17.80%	1.00%
f. Administrative Expenses as Percent of Pay	0.51%	0.70%	0.19%
g. Total Normal Cost	17.31%	18.50%	1.19%
4. Increase in Contribution Rate due to $5.5 million layer using 3.5% PGR	0.03%	N/A	0.03%
5. Total Increase in Actuarially Determined Contribution Rate Due to New Assumptions			1.22%

General Findings

- Reviewed COAERS-specific experience through December 31, 2023
- Plan is large enough to base most demographic assumptions on actual experience
  - For most assumptions, we used five years of data
  - Used 10 years of data for salary and termination analysis
  - Examined if COAERS mortality experience could be used for partial credibility
- Current inflation assumption remains appropriate
- Current investment return assumption is supported by current capital market assumptions

General Findings

- Promotion/Merit component of individual salary increase assumption should increase
- Service based components of individual salary increase rates should increase
- Termination experience has been lower than currently assumed
- Administrative expense assumption needs to be increased
- Most other assumptions have no or only minor changes

General Findings

Economic Assumptions

Economic Assumption	Experience study observations	Recommendation
Inflation	Current assumption is 2.50%; investment consultants assumption between 2.13% and 2.70%	Maintain assumption of 2.50%
Rate of Return	For surveyed investment consultants: 1-year expectation between 6.57% and 8.54%; with an average of 7.64% 10-year compound return expectation between 5.86% and 7.87%; with an average of 6.97% Current assumption is 6.75%	Recommend maintaining the current assumption of 6.75%
Wage Inflation	Experience shows continued pattern of higher increases; current wage inflation is 3.50%	Increase wage inflation by 0.25% to 3.75%
Individual Merit and Promotion Increases	Experience shows increases warranted at all years of service; current assumption based on service	Recommend increases of 0.25% to 0.50% at all years of service
Administrative Expense	Experience shows significantly higher pattern of expenses over last 5 years; current assumption is 0.51% of payroll	Recommend increase to 0.70%
Payroll Growth Rate	Payroll growth continues to out pace assumption due to both membership and salary growth; current growth rate is 3.25%	Recommend increase of 0.25% (to 3.50%)

General Findings

Demographic Assumptions

Demographic Assumption	Experience study observations	Recommendation
Post-Retirement Mortality	Nationally recent mortality improvements have returned to pre-COVID levels. COAERS experiences more deaths than expected. Examined the possibility of using COAERS experience for partial credibility.	Maintain the Pub-10 General Employee Healthy Amount Weighted tables and update the projection scale to the ultimate MP 2021 Scale.
Disabled Life Mortality	Less than 30 disabled retiree deaths during the study period. Not a large enough number to provide any credibility to COAERS experience.	Maintain the Pub-10 Public Safety Disabled Amount Weighted tables and update the projection scale to the ultimate MP 2021 Scale
Active Life Mortality	Approximately 110 active deaths over the study period. Considerably higher than assumed, but not a large enough number to provide any credibility to COAERS experience.	Maintain the Pub-10 Public Safety Employee Amount Weighted tables and update the projection scale to the ultimate MP 2021 Scale
Rates of Disability	Less than 20 disabilities during the study period. Not a large enough number to provide credibility to COAERS experience. Plan design means many disabilities are not reported as such because members just take service retirement.	No change to disability assumption
Rates of Retirement	Retirement experience has been generally lower than expected. Changes in service purchase rules may continue this pattern.	Make adjustments to rates to better reflect lower level of retirements at younger ages.
Rates of Termination	Termination rates have been lower than expected, particularly for females.	Make adjustments to termination rates to better reflect lower level of terminations

Inflation

- Forward-looking Inflation Metrics
- 10-year metrics
  - Average of survey of 12 investment consultants 2.39%
  - Range of survey 2.13% - 2.70%
  - Philadelphia Federal Reserve 2.30%
- 20 and 30-year metrics
  - 20-year treasury bonds 2.39%
  - 30-year treasury bonds 2.21%
  - Social Security intermediate long-term 2.40%
- **Recommendation: Maintain inflation assumption of 2.50%**

Capital Market Assumptions – GRS Survey of Investment Consultants

- We performed the analysis on the “new” target asset allocation
- Projected real returns were developed using COAERS current target investment allocations and 2024 capital market return assumptions developed by twelve investment consulting firms:
- This process typically has a “mapping bias”, meaning asset classes don’t always map one-to-one, and the industry average will typically underestimate the expected returns when compared to the individual System’s consultant

Distribution of Expected Returns

One Year Mean Return (Arithmetic)

GRS 2024 CMAM							
Capital Market Assumption Set (CMA)	CMA Expected Nominal Return	CMA Inflation Assumption	Expected Real Return (2)–(3)	Actuary Inflation Assumption	Expected Nominal Return (4)+(5)		Standard Deviation of Expected Return (1-Year)
(1)	(2)	(3)	(4)	(5)	(6)		(7)
1	6.67%	2.60%	4.07%	2.50%	6.57%		12.29%
2	7.17%	2.70%	4.47%	2.50%	6.97%		12.71%
3	6.92%	2.25%	4.67%	2.50%	7.17%		11.95%
4	7.47%	2.40%	5.07%	2.50%	7.57%		11.71%
5	7.61%	2.44%	5.17%	2.50%	7.67%		12.03%
6	7.45%	2.21%	5.24%	2.50%	7.74%		12.58%
7	7.69%	2.50%	5.19%	2.50%	7.69%		12.12%
8	7.47%	2.20%	5.27%	2.50%	7.77%		11.79%
9	7.47%	2.21%	5.26%	2.50%	7.76%		11.53%
10	8.01%	2.51%	5.50%	2.50%	8.00%		12.51%
11	8.22%	2.51%	5.71%	2.50%	8.21%		11.46%
12	8.18%	2.13%	6.04%	2.50%	8.54%		12.12%
Average	**7.53%**	**2.39%**	**5.14%**	**2.50%**	**7.64%**		**12.07%**

Distribution of Expected Returns

10 Year Expected Return (Geometric)

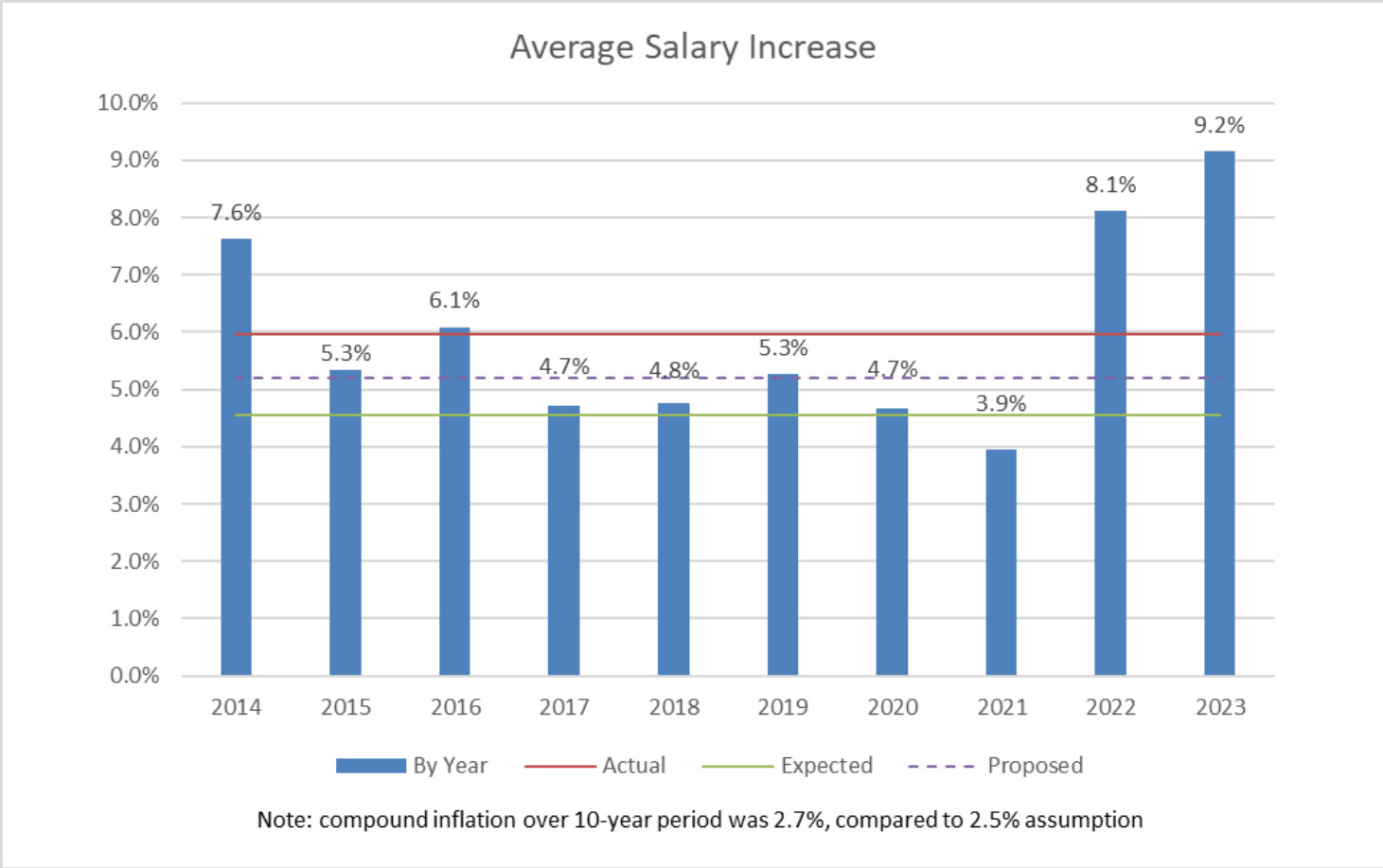
GRS 2024 CMAM				
Capital Market Assumption Set (CMA)	Distribution of 10-Year Average Geometric Net Nominal Return			Probability of exceeding
	40th	50th	60th	6.75%
(1)	(2)	(3)	(4)	(5)
1	4.89%	5.86%	6.84%	40.9%
2	5.22%	6.22%	7.23%	44.7%
3	5.57%	6.51%	7.47%	47.5%
4	6.02%	6.94%	7.88%	52.1%
5	6.05%	7.00%	7.96%	52.7%
6	6.02%	7.01%	8.01%	52.6%
7	6.06%	7.01%	7.98%	52.8%
8	6.19%	7.13%	8.07%	54.1%
9	6.24%	7.15%	8.07%	54.4%
10	6.29%	7.28%	8.28%	55.4%
11	6.70%	7.60%	8.52%	59.4%
12	6.92%	7.87%	8.84%	61.7%
Average	**6.01%**	**6.97%**	**7.93%**	**52.4%**

Recommendation

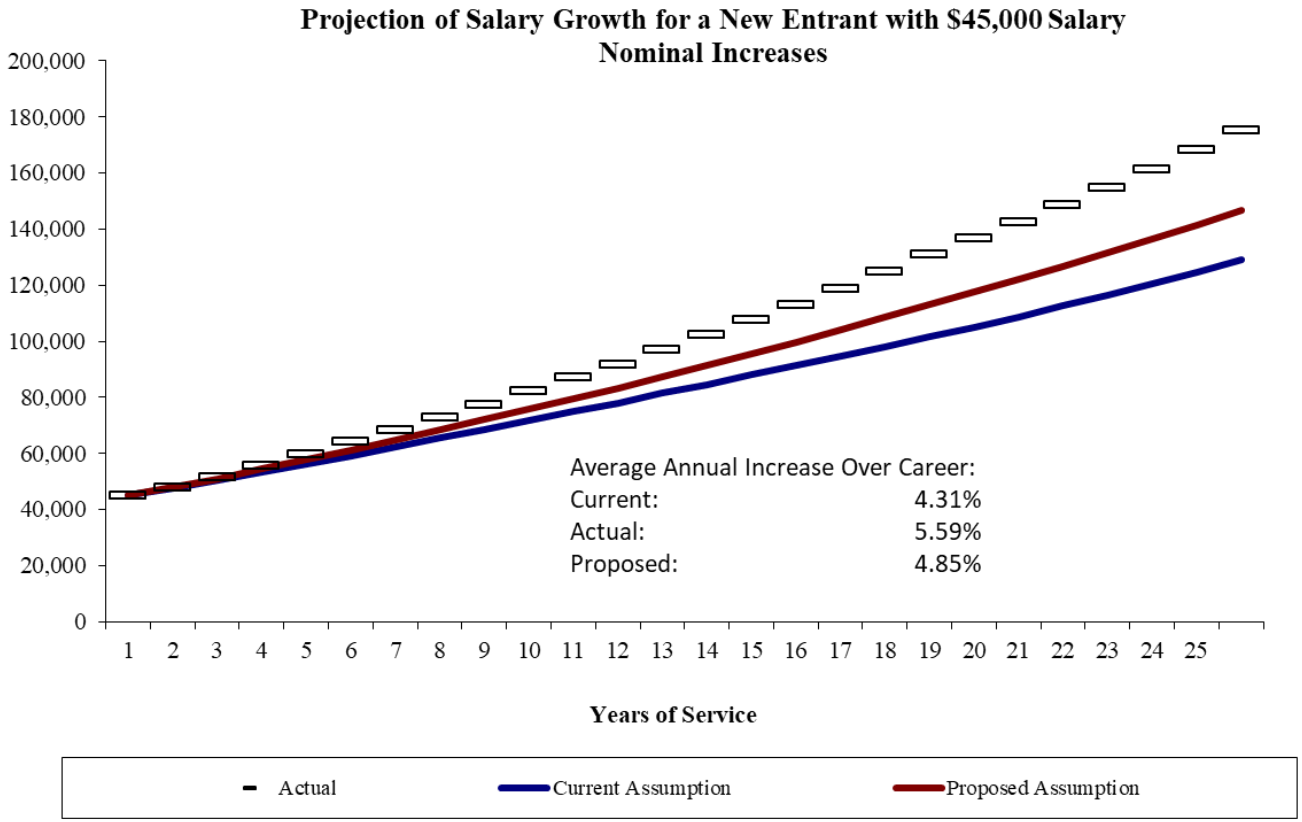
Investment Return

- Based on this analysis, we recommend maintaining the current investment return assumption 6.75% comprised of 2.50% for inflation and 4.25% for real return

Salary Increase for Individuals



Salary Increase for Individuals



Recommendation

Salary Increase Assumption

- We recommend increasing the salary scale, but only part way towards the experience
- We recommend increasing the Promotional/Merit component of the salary scale by 25 basis points
  - Total Wage Inflation of 3.75%
- Recommend increasing the service based components 25 to 50 basis points

Administrative Expense Assumption

- Administrative Expense Assumption is set as a percentage of payroll and is added to the contribution rate
- The past 5 years expenses have averaged 0.91% of payroll
  - This compares with 0.50% the previous 5 years
- However, there are some mitigating issues

Administrative Expense Assumption

- Part of the increase is due to the operations cost of owning the COAERS' building
- However, there is income being generated by the building
  - More than $2 million annually
- The COAERS building is not considered part of the investments of the System
  - The expected return on investments does not include any income generated by the building
  - This leaves this income available to offset administrative expenses

Administrative Expense Assumption

- 2023 - $8.5 million administrative expenses
  - $2.0 million in other income from operations
  - $6.5 million net administrative expenses
  - 0.76% of imputed payroll
- 2024 - $9.1 million administrative expenses
  - $2.8 million in other income from operations
  - $6.3 million net administrative expenses
  - 0.64% of imputed payroll
- Average of the two years is 0.70% of payroll

Administrative Expense Assumption

- Discussions with COAERS' staff indicates that the other income from operations is expected to be consistent (and growing) in future years
- We recommend the adoption of a 0.70% of payroll administrative expense assumption
  - This would reflect the netting of other income from operations
- We also recommend that this assumption be monitored annually to ensure the assumption remains appropriate

Payroll Growth Rate Assumption

- This assumption does not impact liabilities. It is only used in the determination of the % of payroll for amortizing new liability layers established after the Legacy Liability
- Current assumption is 3.25%
- Payroll growth over the past 10 years has grown on average 6.4%
  - Due to both membership growth and salary growth
  - Analysis shows that after adjusting for headcounts payroll growth has been about 1% higher than inflation over the past 10 years
- Recommend increasing payroll growth rate by 25 basis
  - 3.25% to 3.50%
  - Still less than the long-service salary increase assumption of 3.75%
  - Currently has only a minor impact on the contribution rate

Post-retirement mortality (Healthy)

- Current assumption
  - PubG-2010 Healthy Retiree Mortality Table for males and females (General Employees)
  - Generational mortality improvements projected from the year 2010 using the ultimate mortality improvement rates in the MP-2018 tables
- In setting the longevity assumption, the actuary must make two decisions:
  - How long are annuitants currently living?
    - Heavily dependent on actual data, provided the population is large enough
  - What improvement in longevity is expected in the future?
    - Heavily dependent on the underlying trends in the data, as well as more subjective decisions

Credibility

- For both males and females more deaths are occurring than predicted by the assumption
  - Approximately 24% more males and 17% more females
  - 460 male deaths and 213 female deaths during the study period
- The amount of data dictates how much credibility the actuary can apply to the results
  - For full credibility COAERS would need 1,537 deaths of each gender
- Credibility analysis shows that we could only adjust the base mortality rates to 104% for males and 101% for females
  - Not sufficient enough impact to warrant a change
- We recommend maintaining the current base mortality table assumption

Recommendation

Post-retirement Healthy Mortality

- We recommend the continued use of a generational mortality improvement
  - Assumption that life expectancy will continue to improve in the future
  - Future retirees will live longer than current retirees
- New mortality projection scales have been released since the last experience study
- We recommend updating the mortality projection improvement scale to the Ultimate rates of the MP 2020 scales

Recommendation

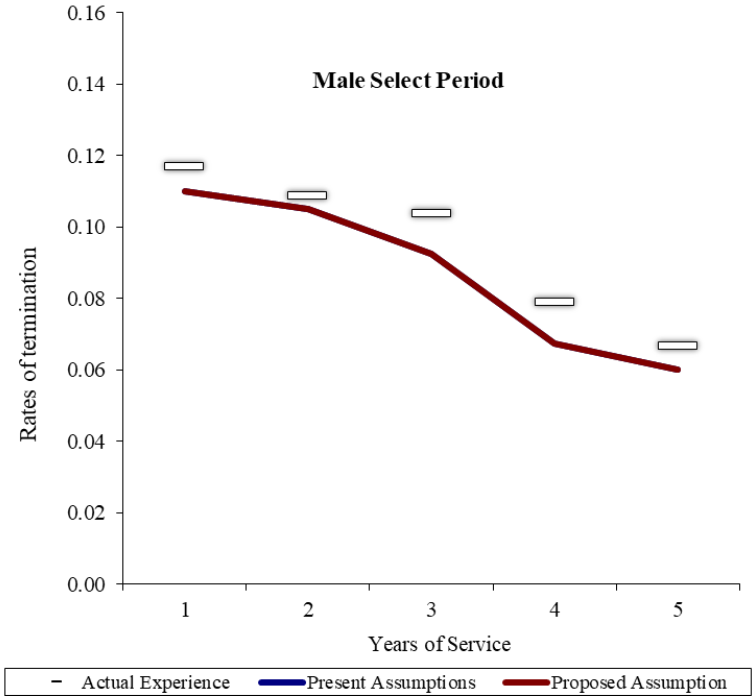
Pre-retirement and Disabled Mortality

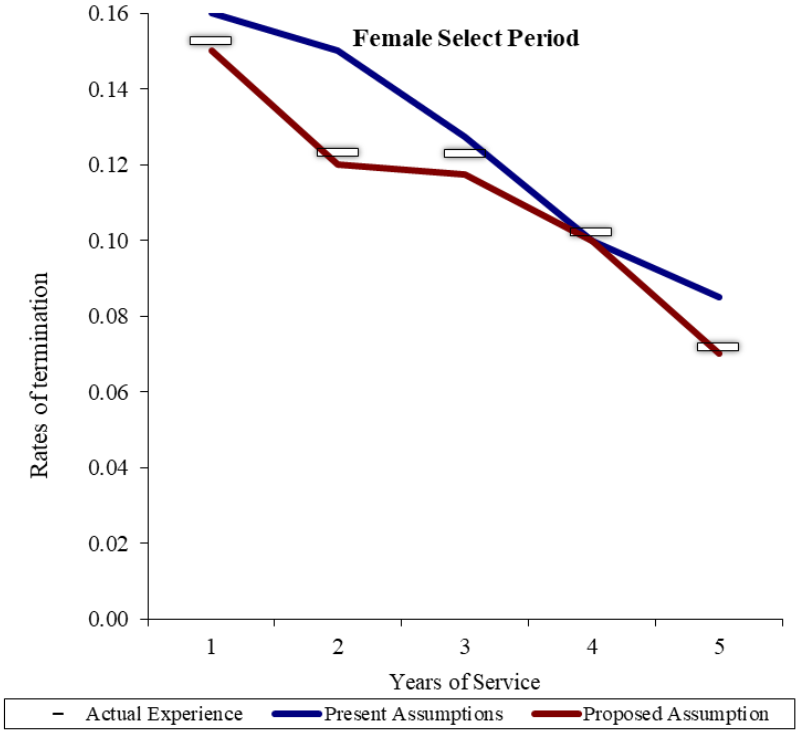
- There is very limited data for pre-retirement deaths and disabled deaths
- These assumptions have very minimal impact on the overall results of the valuation
- We recommended no change to current base mortality tables
  - Pre-retirement Mortality - PubG-2010 for employees
  - Disabled Mortality - same base mortality tables as healthy retirees set forward 3 years with a minimum rate of 3%
- We recommend updating the mortality projection improvement scale to the Ultimate rates of the MP 2020 scales to be consistent with post-retirement healthy lives assumption

Termination Assumption

- Used 10 years of experience to reflect full economic cycles (also dampens the impact of COVID)
- Current assumption is broken in two 2 pieces
  - 5 year select period (first 5 years of service)
  - Years from normal retirement age (after select period ends)
- Actual terminations have been lower than expected for males after the select period, and for females both during and after the select period
- Adjust the rates to recognize some of the experience

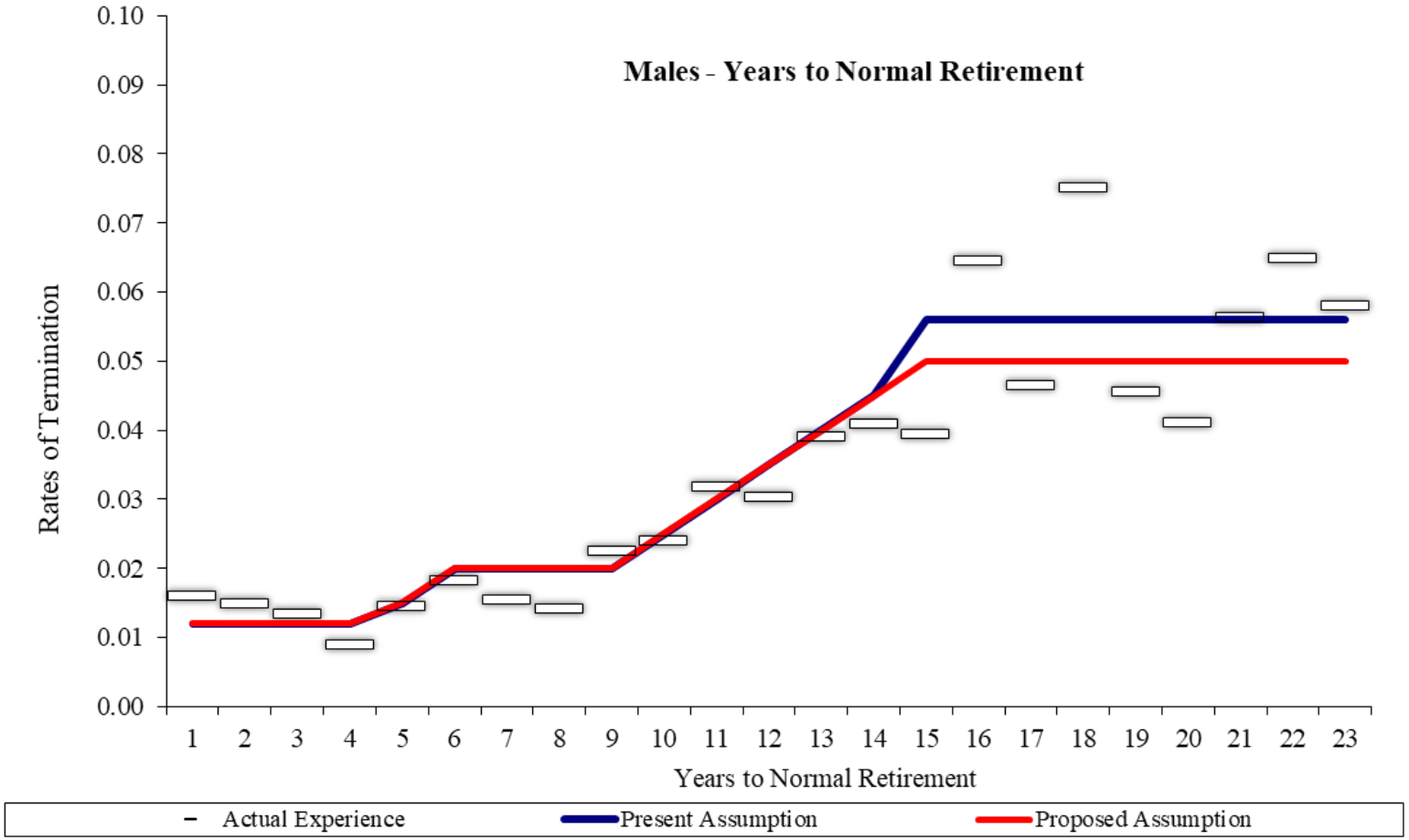
Termination Assumption (Select Period)



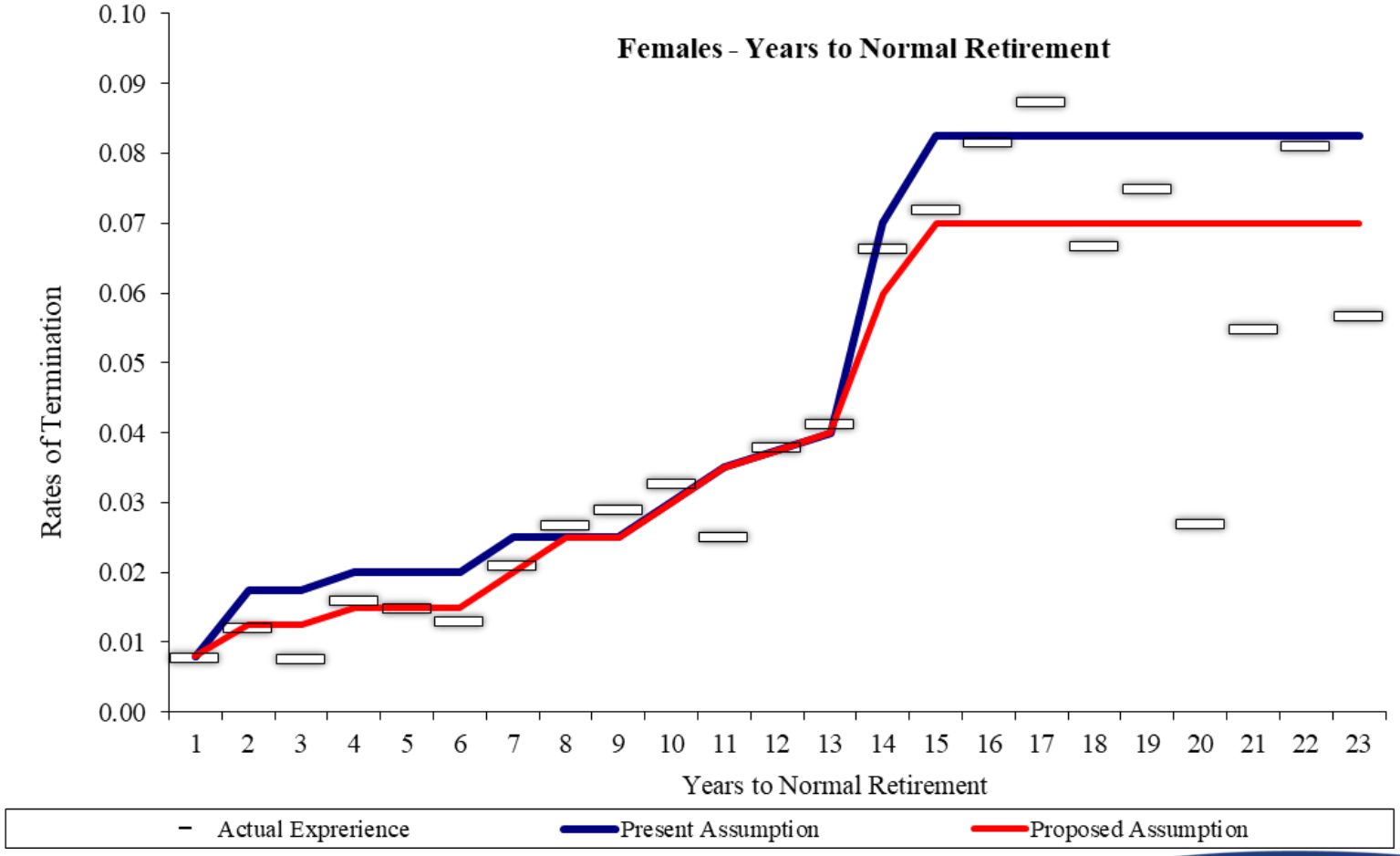


Present Assumptions and Proposed Assumptions for males select period are identical

Termination Assumption (Cont'd)



Termination Assumption (Cont'd)



Disability Assumption

- Very few disabilities are expected to occur and very few did occur during study period
- 17 total disabilities during the study period
- Function of plan design
  - Members eligible for normal retirement do not show up as disabilities even if disabled
- Current assumption based on TMRS experience
- Update assumption to be consistent with newly adopted TMRS assumption
  - Minimal impact on valuation

DROP Assumption

- DROP design is a “Back DROP”
  - It is designed to be cost neutral to the System
  - Partial lump sum option also serves as a lump sum payment vehicle
- Currently 15% of retirees who have at least 20 years of service are assumed to Back DROP
- Actual experience is less than 10%
- Recommend decreasing assumption to 10%
  - Not material assumption due to DROP design

Other Assumptions

- **Cost-of-Living Adjustments (COLA):** Cost of living adjustments must bet approved at the Legislature and are only granted on an ad hoc basis. No future COLAs are assumed. **– No Change**
- **Marital Assumptions:** 100% of active members are assumed to be married. Male spouses are assumed to be three years older than female spouses. 67% of males and 41% of females have joint beneficiaries. Male spouses are approximately 2 years older and female spouses are approximately 0.6 years younger. This assumption is only used to value the active death benefit for members eligible to retire. It is conservative to assume 100% and not material to the overall cost of the System. **– No Change**
- **Normal Form of Payment:** retiring members are assumed to elect the Life only form of payment. Last 5 years experience shows 41% of retiring members elect life only. 56% electing a Joint and Survivor annuity and the remaining 3 % electing something else. Optional forms of payment are designed to be actuarially neutral at retirement. Assuming a range of options would not materially impact the results. Actual options are valued after retirement. **– No change**
- **Decrement Timing**: All decrements – mortality, service retirement, disability retirement, and termination of employment for reasons other than death or retirement – are assumed to occur at the middle of the valuation year. **– No Change**
- **Crediting Rate on Employee Contributions:** 6% crediting rate is assumed. The crediting rate is based on the average of the 10-year treasuries. This assumption continues to be conservative **– No Change**

Actuarial Methods and Procedures

- **Census Data and Assets – No Change**
  - The valuation was based on members of COAERS as of the valuation date and does not take into account future members.
  - All census data was supplied by COAERS and was subject to reasonable consistency checks.
  - There were data elements that were modified for some members as part of the valuation in order to make the data complete. However, the number of missing data items was immaterial.
  - Asset data was supplied by COAERS.
- **Other Actuarial Valuation Procedures – No Change**
  - No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Sections 415 or 401(a)17.
  - Annualized Payroll on Valuation Date is the annualized payroll of active members on the valuation date. Projected Contributory Payroll for the upcoming fiscal year (used in determining the amortization period) is the estimated pensionable earnings received by all plan members for the just completed calendar year (including earnings for members who are no longer active employees on the valuation date) increased by the assumed payroll growth rate.
- **Actuarial cost Method – No Change**
  - The actuarial cost method is the Individual Entry Age cost method. It is the most commonly used method (over 80%) for valuing public sector pension plans.
- **Actuarial Asset Method – No Change**
  - The actuarial asset method smooths differences between the expected investment return (on a market value of asset basis) and the actual return over a maximum of 5 years by recognizing any outstanding gain or loss bases equally over the remaining period. Gains and losses are offset against each other with the oldest bases being offset first.
- **Option Factors and Service Purchase Factors – No Change**
  - The option factors and most service purchase factors are based on the actuarial assumptions. Since the investment return assumption and the base mortality tables were not changed it is not necessary to adjust the factors at this time.

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 7:
Discuss and consider actuarial matters including:

B. 12/31/2024 Risk Sharing Valuation Study

AGENDA ITEM OBJECTIVE
This agenda item is intended for the Committee to hear the preliminary results of the December 31, 2024 actuarial valuation.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
Each year, GRS Retirement Consulting conducts an actuarial valuation of the System. The results are presented to the Benefits and Services Committee, discussed, and a recommendation is given to the Board of Trustees. Mr. Lewis Ward from GRS Retirement Consulting will present the initial December 31, 2024 actuarial valuation results.

Noted below are a list of key initial results from the December 31, 2024 valuation.

1. The amortization period is 29 years. This is the result of the legislation passed during the 88th Legislative Session (SB 1444).
2. While COAERS investment returns in 2024 surpassed the assumed rate of return of 6.75%, deferred investment losses from 2022, $51 million in total, are recognized in this actuarial valuation. COAERS still has $73 million in deferred losses yet to be recognized.
3. Due to higher-than-expected salary increases, the System incurred a liability loss of approximately $85 million.
4. Proposed actuarial assumption changes would increase the normal cost and the actuarially determined contribution rate.
5. In 2026, the liability loss layer amortization payment is projected to be 1.81% of payroll and the normal cost to be 8.24% of payroll. This would lead to an actuarially determined contribution rate of 10.05% for 2026.

RELEVANCE TO STRATEGIC PLAN
This agenda item is an action item in **COAERS Strategic Plan Goal 1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.** The valuation results presented by the COAERS consulting actuary provide Trustees with information on the actuarial status and health of COAERS

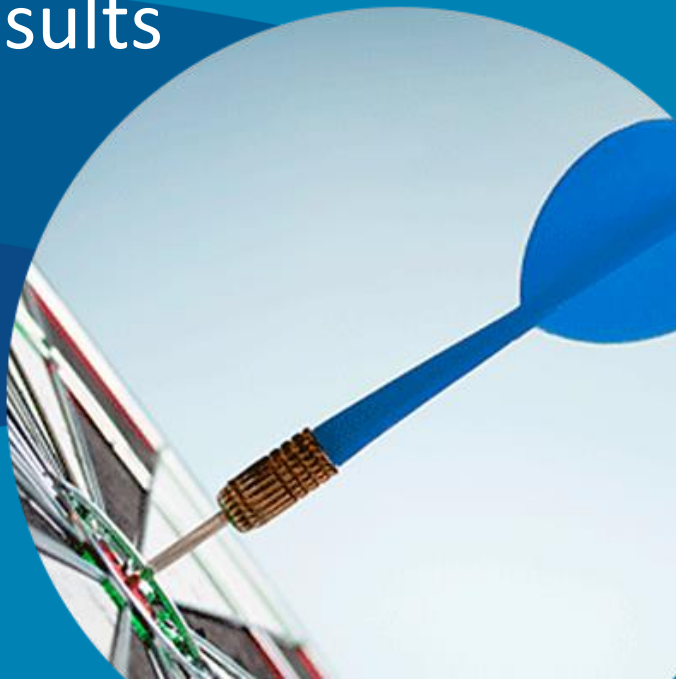
ATTACHMENT
1. Preliminary Actuarial Valuation Results as of 12/31/2024, GRS Consulting

City of Austin Employees' Retirement System

Preliminary Actuarial Valuation Results as of December 31, 2024

Lewis Ward and Janie Shaw

March 5th 2025



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Actuarial Valuation

- Prepared as of December 31, 2024, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods in effect on that date
- Purposes:
  - Measure the actuarial liabilities
  - Determine City and Member contribution rates
- Reflects proposed actuarial assumptions
  - Assumes assumptions are approved by the Board

Actuarial Valuation

- Purposes (Continued):
  - Provide other information for reporting
    - GASB #67
    - ACFR
    - Risk Analysis
  - Explain changes in actuarial condition of COAERS
  - Track changes over time
  - Alert to possible future issues

Actuarial Valuation – Key Changes and Issues

- COAERS exceeded its 6.75% return on assets assumption in 2024 on a market value basis
  - 9.7% return on market value of assets
    - Dollar-weighted, net of investment expenses
    - Earnings on market value of assets $98 million more than expected
- However, continued recognition of large deferred loss from 2022 created a $51 million loss on actuarial value of assets
  - $73 million in deferred losses still to be recognized
- Liability experience loss of approximately $85 million
  - Primarily due to higher than expected salary increases

Actuarial Valuation – Key Changes and Issues

- New actuarial assumptions from experience study
  - Small impact on UAAL
  - Large impact on Normal Cost as % of payroll
  - Large impact on the Actuarially Determined Contribution (ADC)
- Normal Cost for benefits increased by 1.00% of payroll
- Load for administrative expenses increased by 0.19% of payroll
- These two changes increased the ADC by 1.19% of pay

Actuarial Valuation – Key Results

- Funding period is 29 years from valuation date
  - New liability layer has 28 payments that begin one year after the valuation date
  - New liability layer (loss) amortization period is same as Legacy Liability (until Legacy Liability amortization period is <20)
- UAAL is $2.31 billion
  - UAAL was $2.13 billion last year
- Funded Ratio is 61.2%
  - 62.1% last year

Actuarial Valuation – Key Results

- 2026 Calculated Contribution Rates
  - Liability Layer amortization payment is 1.81% of pay (1.16% last year)
  - NC% for CY 2026 estimated to be 8.24% of pay (7.31% for CY 2025)
  - Total City Contribution Rate for CY 2026 is 10.05% of pay (8.47% for CY 2025)
  - Corridor midpoint for CY 2026 is 7.21% of pay
    - City Contribution Rate is 2.84% of pay higher than midpoint
- 2025 Contributions (Reflecting updated payroll)
  - Member Contribution Rate is 10% (expected to be $101 million)
  - City Contribution Rate is 8.47% (expected to be $85 million)
  - City Legacy Liability Payment is $111 million (approx. 11.05% of payroll)
    - 2nd year of phase-in of increased contribution rates in Legacy Liability payment
- Key Results based on MVA
  - Funding period is 29 years
  - UAAL is $2.39 billion ($2.34 billion last year)
  - Funded ratio is 59.9% (58.4% last year)

What This Valuation Means

- UAAL increased $182 million to $2.31 billion
  - The continued recognition of the significant downturn in the financial markets in 2022 caused a loss on the actuarial value of assets ($51 million)
  - Larger than anticipated salary increases caused a liability experience loss ($85 million)
  - Already expected to increase due to negative amortization
- City Contribution Rate is 10.05%
  - New assumptions significantly increased the NC% and ADC
  - Was expected to be 8.24%
    - if no gains or losses or assumption changes
- The System is still deferring $73 million in investment losses
- However, funding period did decrease by 1 year to 29 years due to funding on an actuarial basis

Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuation report to be issued in April 2025. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- Readers are cautioned to examine original source materials and to consult with subject matter experts before making decisions related to the subject matter of this presentation.

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

Presented by Michael Benson

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

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.

RECOMMENDATION FOR COMMITTEE ACTION
Trustees will review key meeting takeaways and delineate next steps.

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.

2025 Benefits and Services Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
   - ✓ 12/31/2024 Risk Sharing Valuation Study
   - ✓ 2025 Actuarial Experience Study – Preliminary Fundings
   - ✓ Disability applications TBD

2. June meeting
   - Adopt Benefits Resolution for IRS compliance
   - Disability applications TBD
   - Benefits Administration Policy
   - Actuarial Consultant RFP - Release

3. August meeting
   - Actuarial service provider review
   - Disability applications TBD
   - Actuarial Consultant RFP – Bid Review

4. November meeting
   - Actuarial Consultant Contract
   - Administrative Implementation of Assumption Changes
   - Medical consultant provider review
   - Disability continuation report
   - Disability applications TBD
   - 2026 Committee Work Plan

DRAFT