

Benefits and Services Committee March Meeting

Schedule	Thursday, March 10, 2022 11:00 AM — 12:30 PM CST
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. Review 2022 Benefits and Services Committee Work Plan

Presented by Christopher Hanson

 [Item #3 Summary.docx](#)

 [Draft 2022 Benefits and Services Committee Work Plan.docx](#)

4. Consider approval of the August 31, 2021 Benefits and Services Committee minutes

Presented by Chair Noak

 [Item #4 Summary.docx](#)

 [2021 08 31 Benefits & Services Committee Minutes.docx](#)

5. Discuss and consider the December 31, 2021 actuarial valuation results

Presented by Lewis Ward

 [Item #5 Summary.docx](#)

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6. Discuss and consider long-term plan sustainability including contribution and benefit policies

Presented by Christopher Hanson

-  Item #6 Summary.docx
 -  06 COAERS Long-Term Plan Sustainability.pptx
 -  COAERS Presentation.pdf
 -  APRS Legislation Summary_revised.pdf
 -  Austin Retiree Benefits PFM DC Considerations 2.17.2022.pdf
-

7. Review key meeting takeaways and call for future agenda items
Presented by Chair Noak

-  Item #7 Summary.docx
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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 review the draft Committee 2022 work plan.
2. The Committee will review the 12/31/21 actuarial valuation results from GRS Consulting and consider recommending adoption to the Board of Trustees.
3. The Committee will continue discussion regarding COAERS' long-term plan sustainability, including contribution, benefits, and governance proposals.

3. Review 2022 Benefits and Services Committee Work Plan

Presented by Christopher Hanson

AGENDA ITEM 3:
Review 2022 Benefits and Services Committee Work Plan

AGENDA ITEM OBJECTIVE

This agenda item is for discussion and consideration of the 2022 Committee Work Plan.

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 and review Committee work plans.

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

ATTACHMENT

1. Draft 2022 Committee Work Plan

2022 Draft 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

4. Consider approval of the August 31,
2021 Benefits and Services Committee
minutes

Presented by Chair Noak

AGENDA ITEM 4:

Consider approval of the August 31, 2021 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 August 31, 2021 Benefits and Services Committee meeting.

ATTACHMENT

1. Draft minutes of August 31, 2021 Benefits and Services Committee meeting

MINUTES

Benefits and Services Committee

Public Meeting held via videoconference on August 31, 2021 at 1:30 p.m. CT

Pursuant to Texas Govt. Code 551.125 – COVID-19 circumstances

Committee Members

Present/(Absent)

Frank Merriman,
Committee Chair
(Leslie Pool)
(Anthony B. Ross, Sr.)
Brad Sinclair
Chris Noak, ex officio

Guests:

Paige Saenz, General
Counsel
Lewis Ward, GRS
Eddie Solis
Ed Van Eenoo
Sandy Halim, CEM
Benchmarking
Yvette von Velsen, CEM
Will Mixon, CEM

Other Board Trustees

Present/(Absent)

Michael Benson
(Kelly Crook)
(Amy Hunter)
(Yuejiao Liu)
(Randy Spencer)
(Diana Thomas)

Others Present

Staff:

Christopher Hanson
Sarah McCleary
Russell Nash
Michelle Mahaini
Donna Boykin
Teresa Cantu
Jenni Bonds
Yun Quintanilla
Amy Kelley
Mehrin Rahman

Committee Chair Frank Merriman called the meeting to order at 1:30 p.m. Committee members present were Merriman, Noak, and Sinclair.

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

1 Review order of business and establish meeting objectives

Committee Chair Merriman reviewed the order of business and objectives with the Committee. No changes were made to the order of business.

2 Consider approval of the June 15, 2021 Benefits and Services Committee meeting minutes

Committee Chair Merriman asked the Committee to review the minutes. Mr. Chris Noak moved approval of the June 15, 2021 minutes. Mr. Brad Sinclair seconded, and the motion passed 3-0.

3 Discuss and consider long-term plan sustainability

The Committee discussed the long-term sustainability of the System. The discussion included a review of the process to-date, as well as the review of the traditional roles and responsibilities of the plan sponsor and plan administrator. The Committee and representatives from the City of Austin discussed the process of developing legislation for the 88th legislative session and the potential roles of the plan sponsor and plan administrator related to benefit and contribution policy, as well as governance and administration. The Committee also reviewed an initial timeline and directed Staff to draft a summary of the meeting to be distributed to the Committee and representatives of the City of Austin for the next Committee meeting. The Committee also reviewed a new Funding Policy report and provided feedback to Staff.

4. Receive CEM Administrative Benchmarking results

Mr. Russell Nash reported on the results of the December 31, 2020 CEM pension administration benchmarking study, noting the significant improvements since the last study. Ms. Sandy Halim from CEM Benchmarking outlined the methodology and the peer group used for comparison, as well as discussed COAERS' scores compared to peers and the entire plan universe. Ms. Halim also discussed global pension administration trends including the impact of the COVID-19 pandemic and the trend among pension plans to increase information technology spending.

5. Receive report on actuarial service provider

Mr. Nash shared a report of COAERS' actuarial consulting firm, GRS Retirement Consulting. Mr. Nash noted that Mr. Lewis Ward has served as the lead consultant for this engagement for more than 25 years. The Committee had previously discussed issuing a Request for Proposal (RFP) for actuarial consulting services; however, Staff recommended retaining GRS until the current work on plan sustainability is completed. The Committee agreed and Staff noted it would bring an engagement letter with GRS for review at the November Committee meeting.

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

Committee Chair Merriman summarized the actions taken and information discussed during the meeting and provided an opportunity to add future agenda items.

As there were no other items to address, the meeting adjourned at 2:46 p.m.

5. Discuss and consider the December 31, 2021 actuarial valuation results

Presented by Lewis Ward

AGENDA ITEM 5:

Discuss and consider the December 31, 2021 actuarial valuation results

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to hear the preliminary results of the December 31, 2021 actuarial valuation. Trustees will review the results and discuss recommending final adoption by the Board.

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 as well as the System's progress in meeting the Board's Funding Policy.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends the Committee refer the actuarial valuation results to the Board of Trustees for adoption.

BACKGROUND

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, 2021 actuarial valuation results.

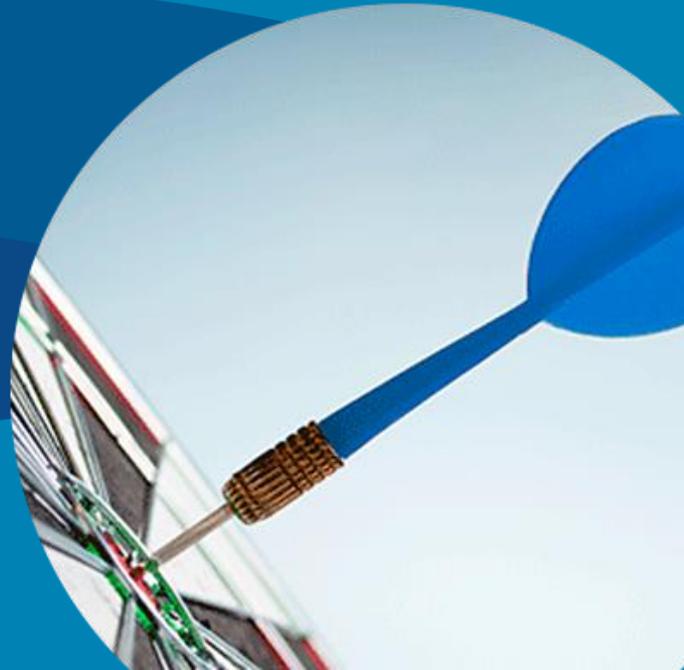
ATTACHMENT

1. 2021 Actuarial Valuation Results, GRS Consulting



City of Austin Employees' Retirement System

Actuarial Valuation as of
December 31, 2021



Actuarial Valuation

- Prepared as of December 31, 2021, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods as in effect on that date
- Purposes:
 - Measure the actuarial liabilities
 - Determine adequacy of current contributions

Actuarial Valuation

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

Actuarial Valuation – Key Changes and Issues

- City increased its contribution rate by 1% of pay to a total of 19.0% effective January 1, 2021
- COAERS exceeded its 7.00% return on assets assumption
 - 12.9% return on market value of assets
 - Dollar-weighted, net of investment expenses
 - Earnings on market value of assets over \$188 million more than expected
 - \$109 million net gain on actuarial value of assets
 - \$220 million in deferred gains still to be recognized
- Liability experience gain of more than \$18 million
 - Largest gain was due to lower than expected salary increases

Actuarial Valuation – Key Results

- Funding period is now 28 years (32 last year)
 - Good investment returns resulted in actuarial gain on assets and increased deferred investment gains
- UAAL is \$1.54 billion
 - UAAL is \$1.63 billion last year
- Funded Ratio is 68.4%
- City contribution rate does not satisfy Board Funding Policy
 - Funding policy employer rate is 19.60% of payroll
 - Last year policy rate was 21.02%
 - Reflects closed 25-year funding period from 12-31-2020 and 15 year layer amortization of gains and losses

Actuarial Results – Key Results

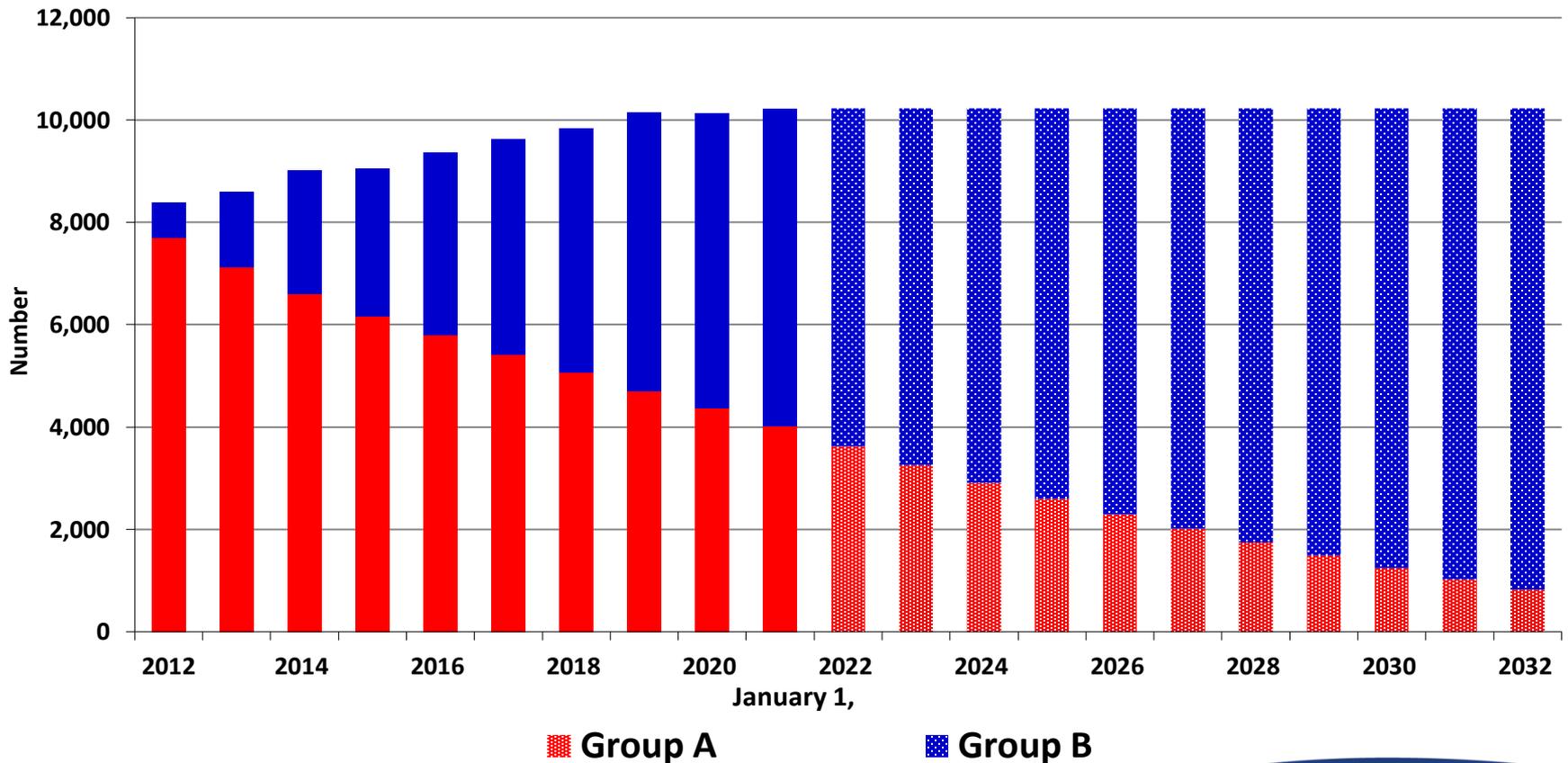
- \$220 million in deferred gains in AVA
 - \$130 million last year
- Key Results based on MVA
 - Funding period is 22 years (28 years last year)
 - UAAL is \$1.32 billion
 - Funded ratio is 72.9%

Other Key Results

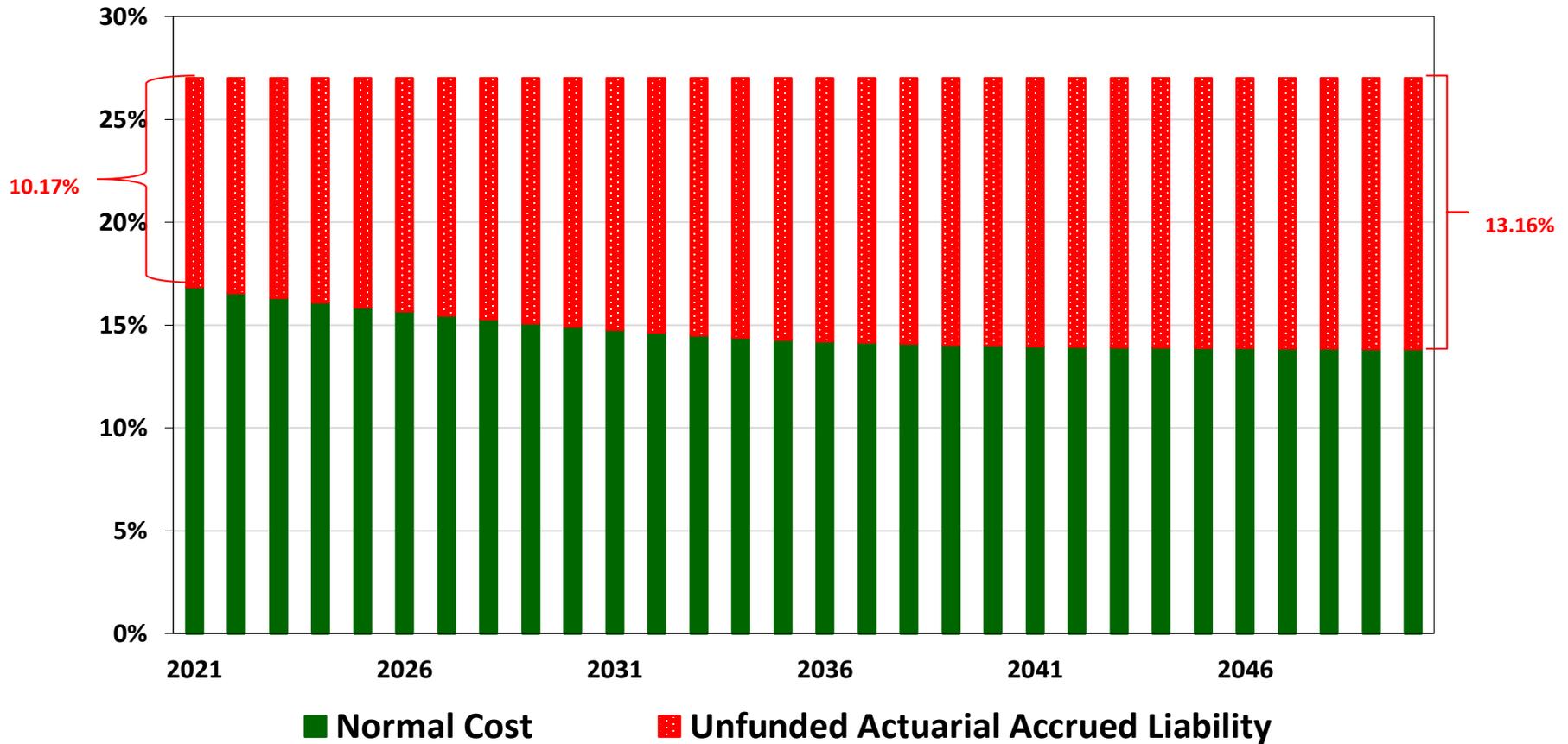
- City increased its contribution by 1% of pay
 - Total City contribution rate is 19%
- 2021 normal cost % = 16.83% (17.04% in 2020)
 - Rate expected to decrease as Plan B members replace Plan A members
 - Group A NC% = 20.15%
 - Group B NC% = 14.23%
- Total contribution rate = 27.00%
- Contributions towards UAAL
 - For 2021: 9.96%
 - For 2022: 10.17%
 - For 2050: 13.25%

Projected Active Membership

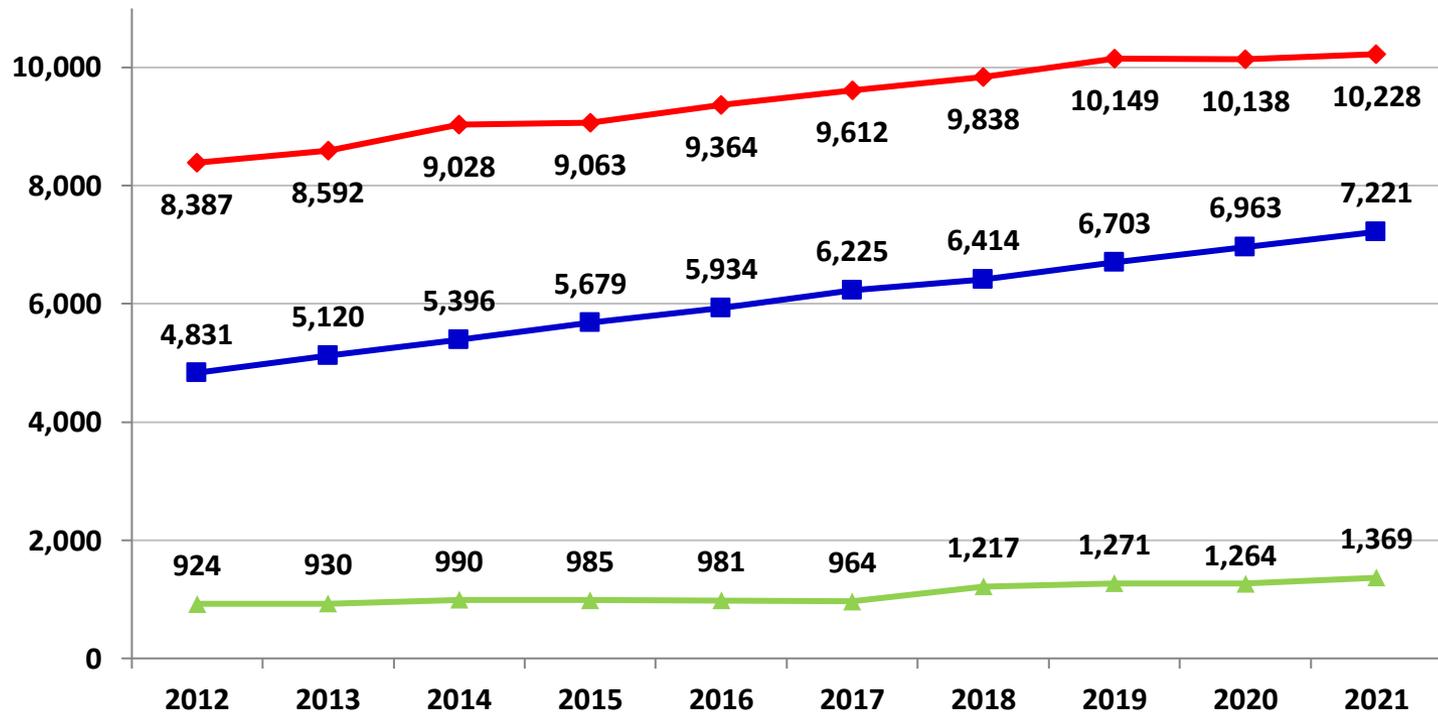
Projected Number of Group A and Group B Employees



Allocation of Contribution Rate – to Normal Cost and UAAL



Active Members And Inactive Members

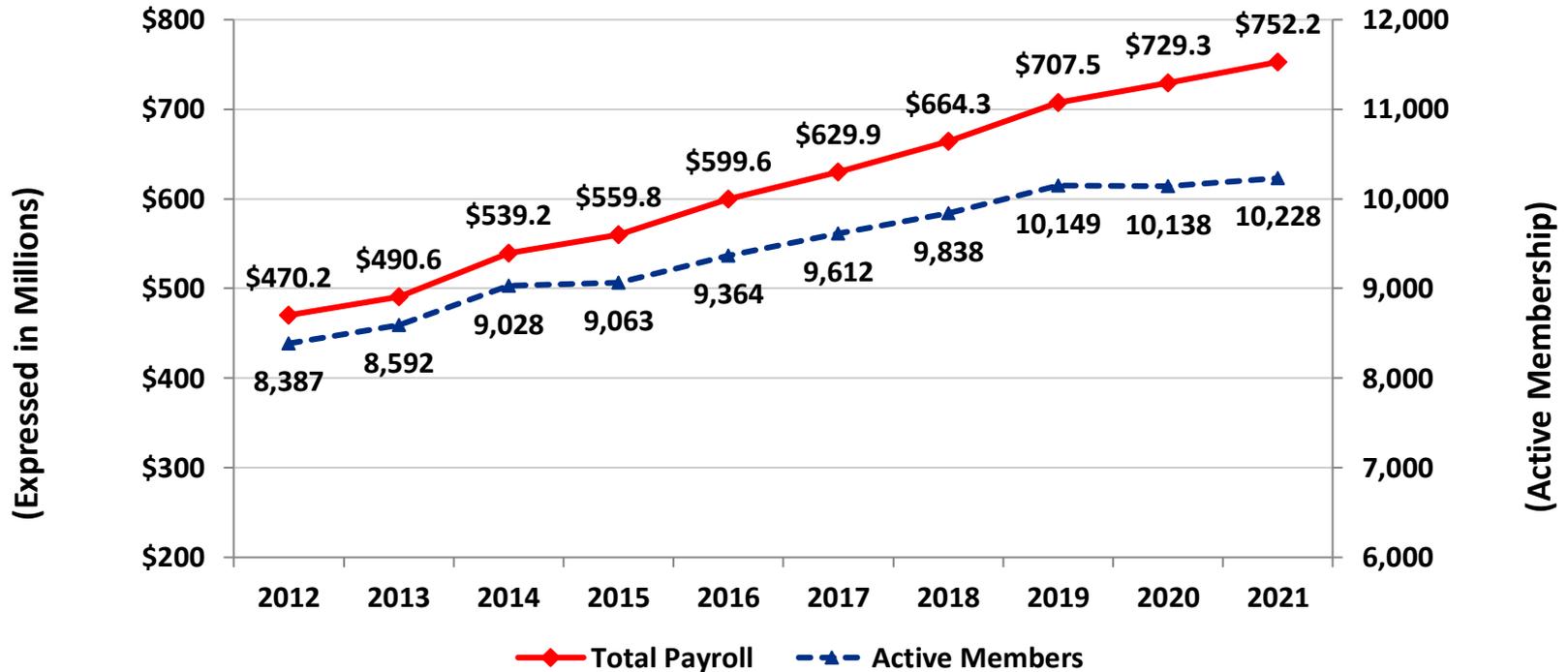


◆ Active Members ■ Retired Members ▲ Vested Terminated Members*

*Beginning 2018, includes additional members who have proportionate time now reported with new software. Does not materially impact the valuation results.



Active Payroll

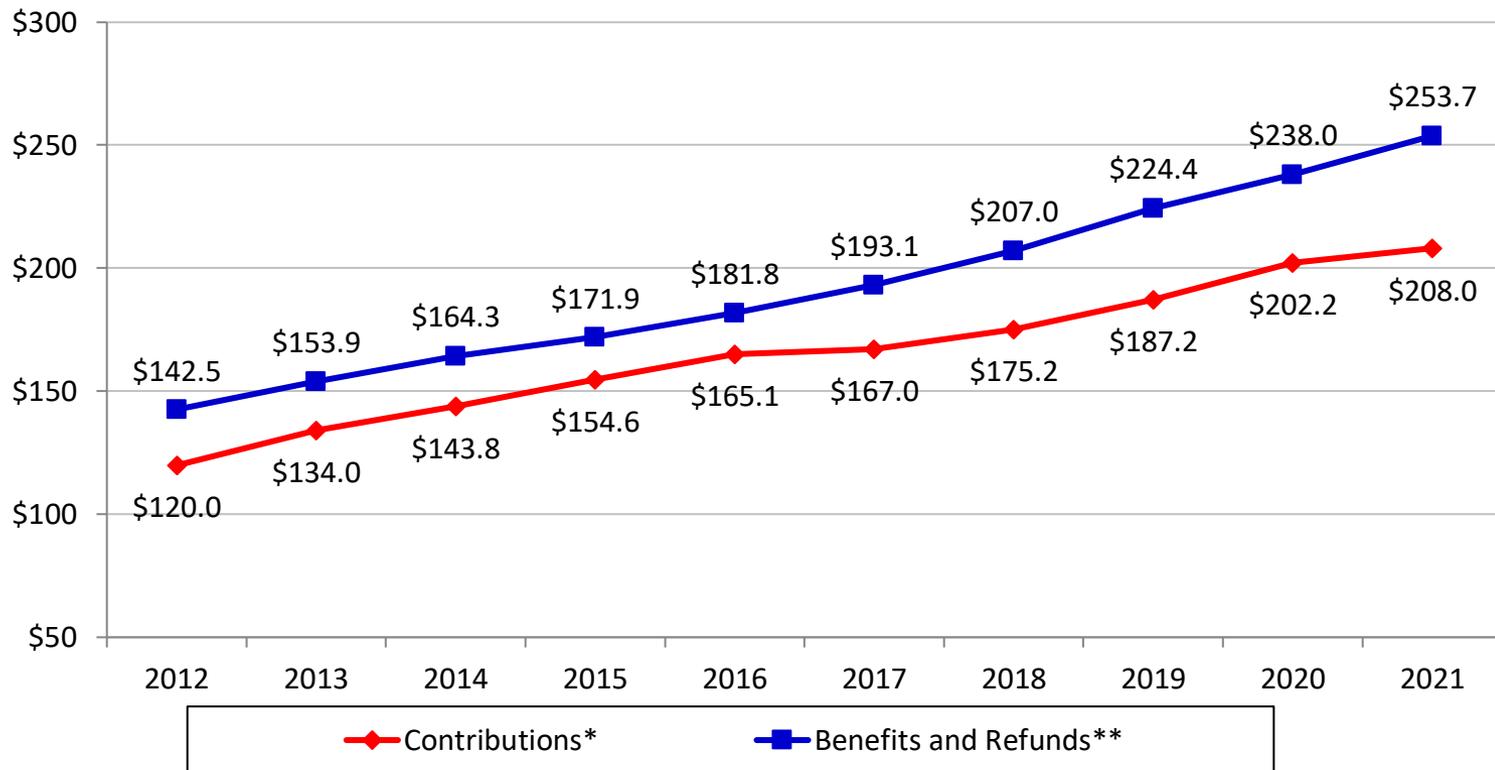


3.1% increase in payroll since prior year

Payroll has increased on average 4.6% per year over past five years

Active membership has increased 1.8% per year over past five years

Contributions vs. Benefits and Refunds



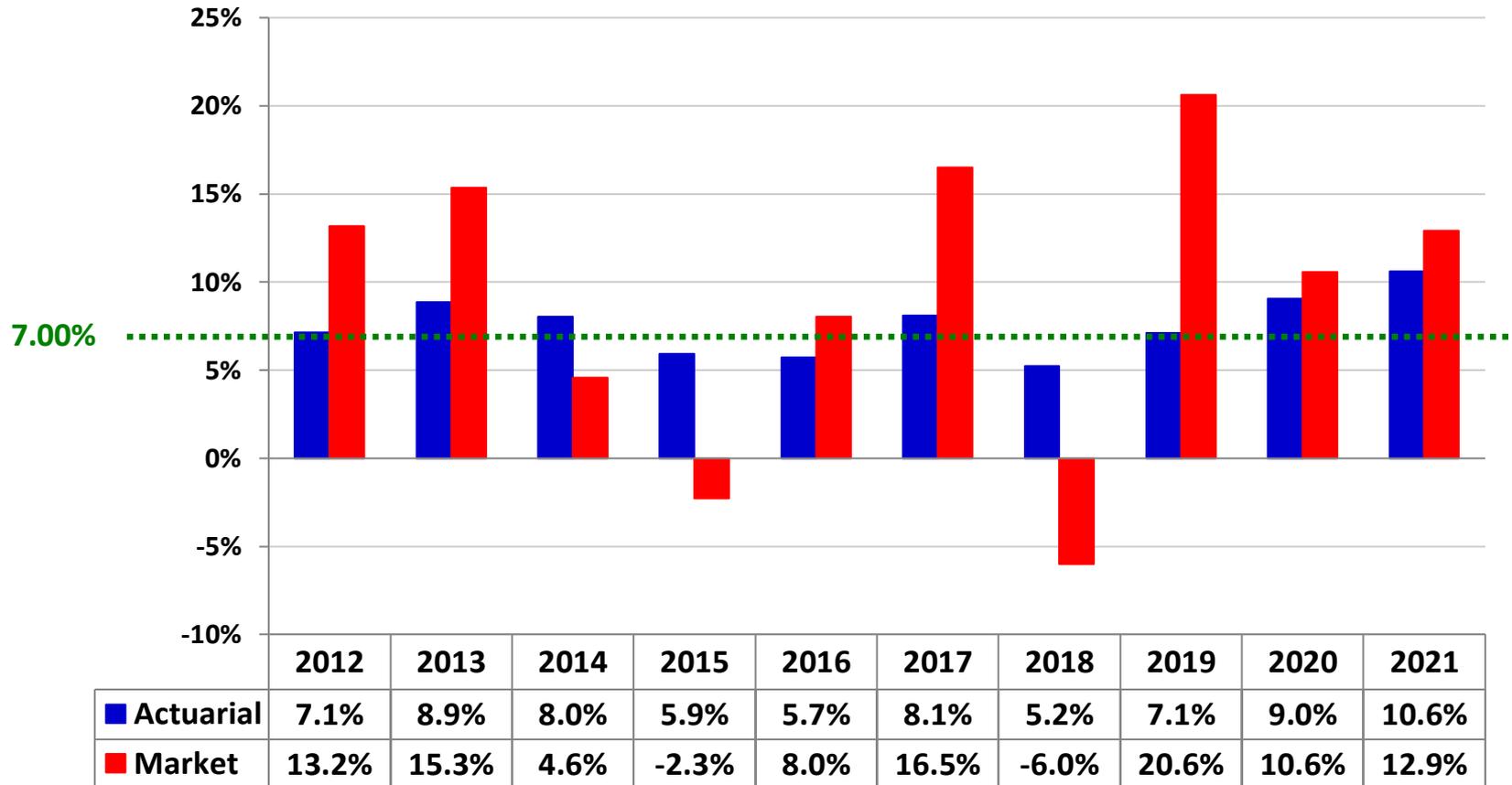
* Includes member and employer contributions

** Includes administrative expenses

Net cash flow for 2021 was -1.3% of the end of year market value of assets



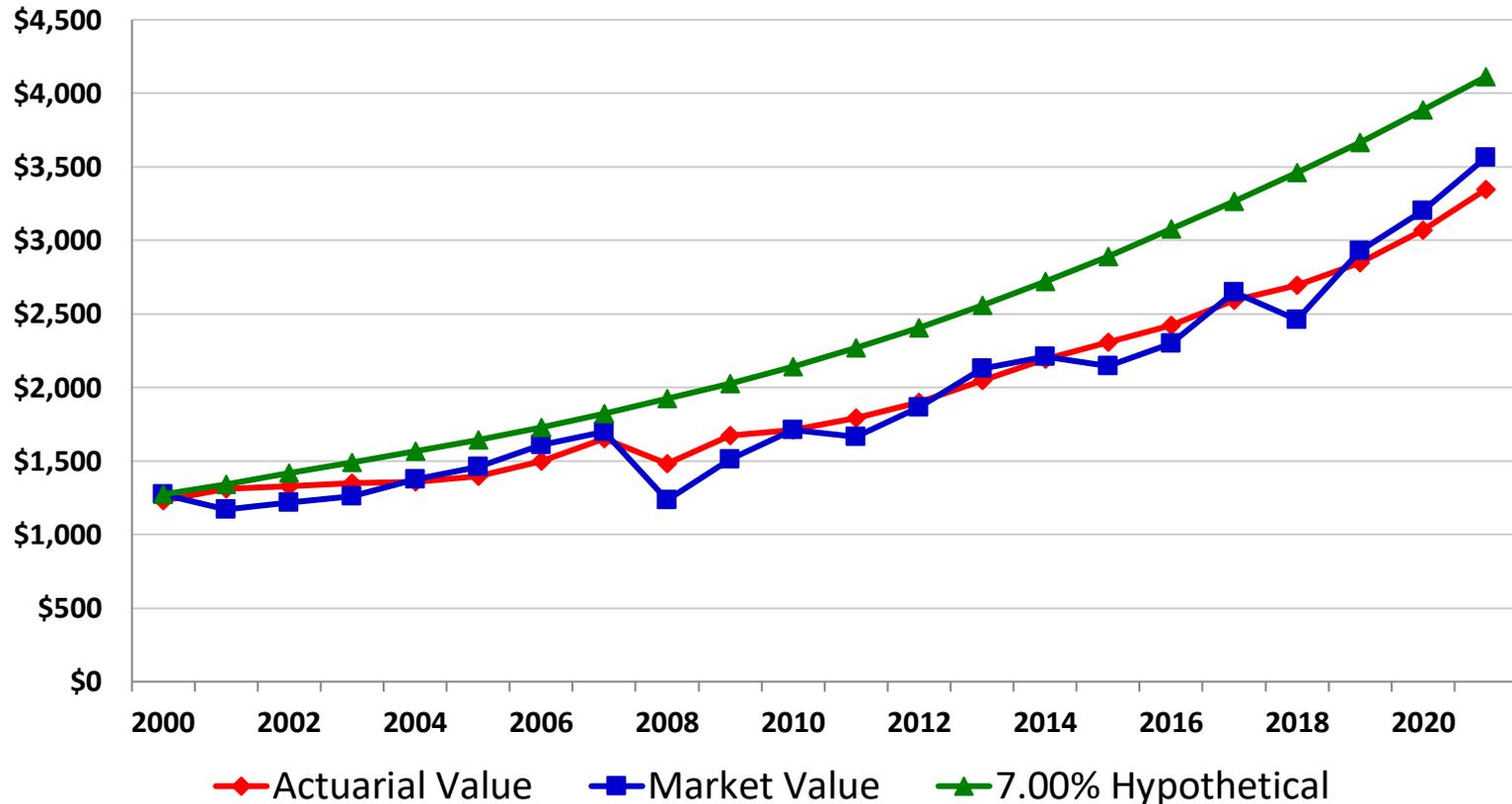
Estimated Yields on Assets



Assets (Actuarial Value)

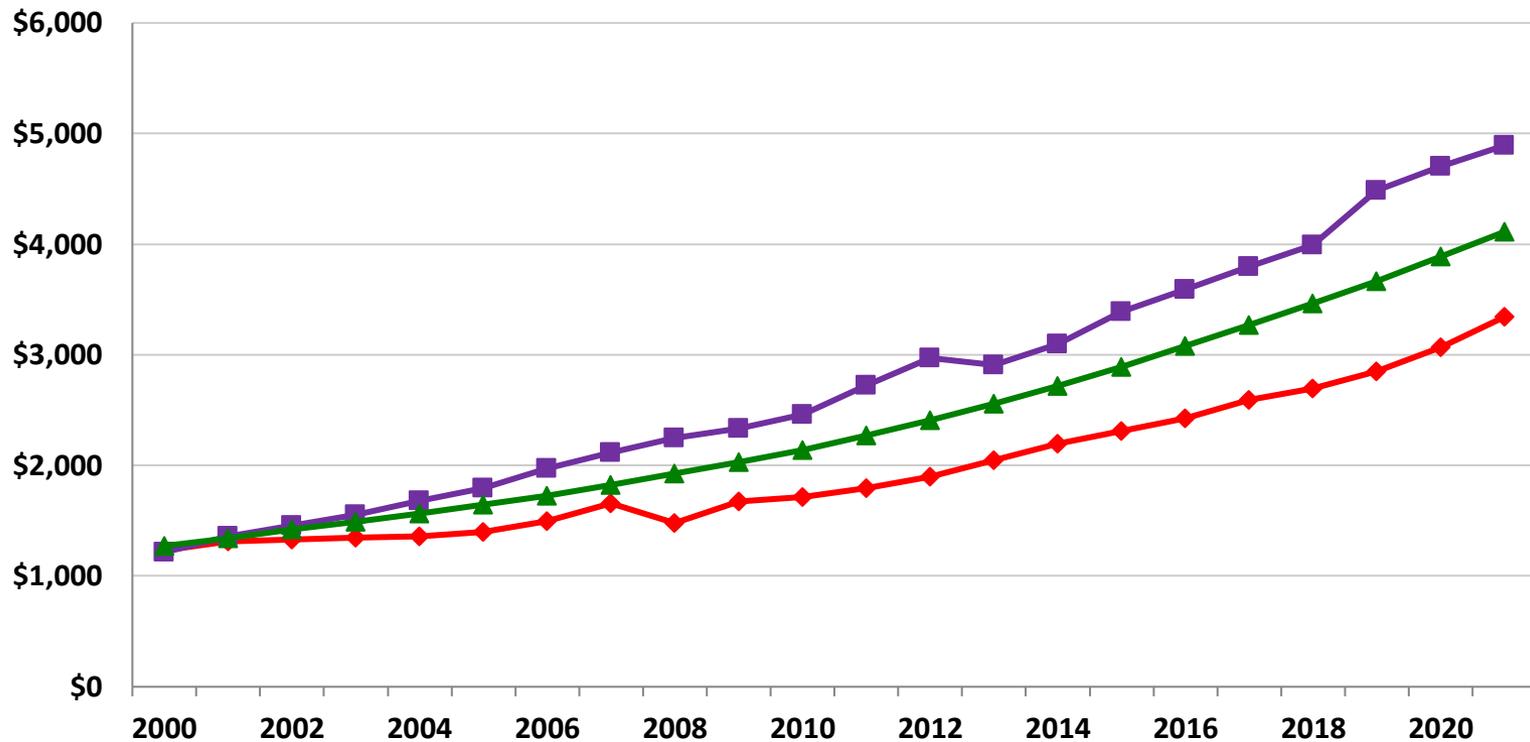
- Actuarial calculations are primarily based on actuarial value of assets, not market value
- Must remember that expectation is 7.00%, not zero
 - Fund had positive 12.9% return on market in 2021
 - \$189 million of new investment gains this year
 - \$130 million deferred gains from prior years
 - Total investment gains of \$319 million in gains split between recognition now and in future
 - \$99 million recognized immediately in actuarial value of assets
 - \$220 million in deferred gains remaining for future years

Market and Actuarial Value of Assets



7.00% Hypothetical assumes 7.00% had been earned on the market value every year since 2000, all cash flows unchanged.
Actuarial value of assets is 93.8% of market value of assets for 2021

Accrued Liability vs. Actuarial Assets



◆ Actuarial Value of Assets ■ Actuarial Accrued Liability (AAL) ▲ 7.00% Hypothetical Assets

7.00% Hypothetical Assets assumes 7.00% had been earned on the market value of assets every year since 2000, all cash flows unchanged.

Source of Actuarial Gain\ (Loss)

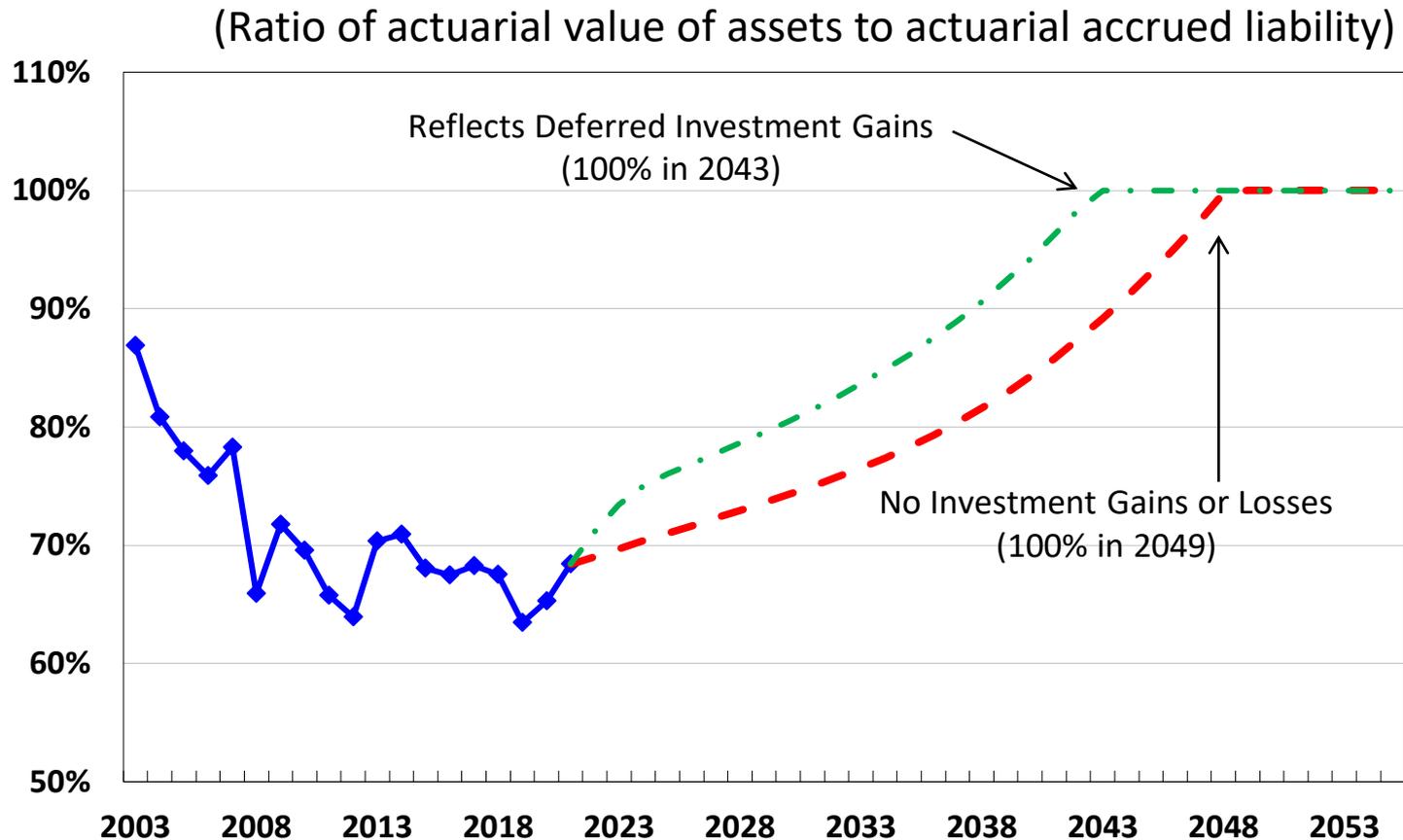
(\$ in Millions)

	<u>2021</u>	<u>2020</u>
1. Asset Gain/(Loss)	\$ 108.5	\$ 57.9
2. Liability Experience Gain/(Loss)	18.5	(1.5)
3. Assumptions & Methods	0.0	0.0
4. Benefit Enhancements	<u>0.0</u>	<u>0.0</u>
5. Total Actuarial Gain/(Loss)	\$ 127.0	\$ 56.4

Analysis of Liability Experience Gain\ (Loss) by Source

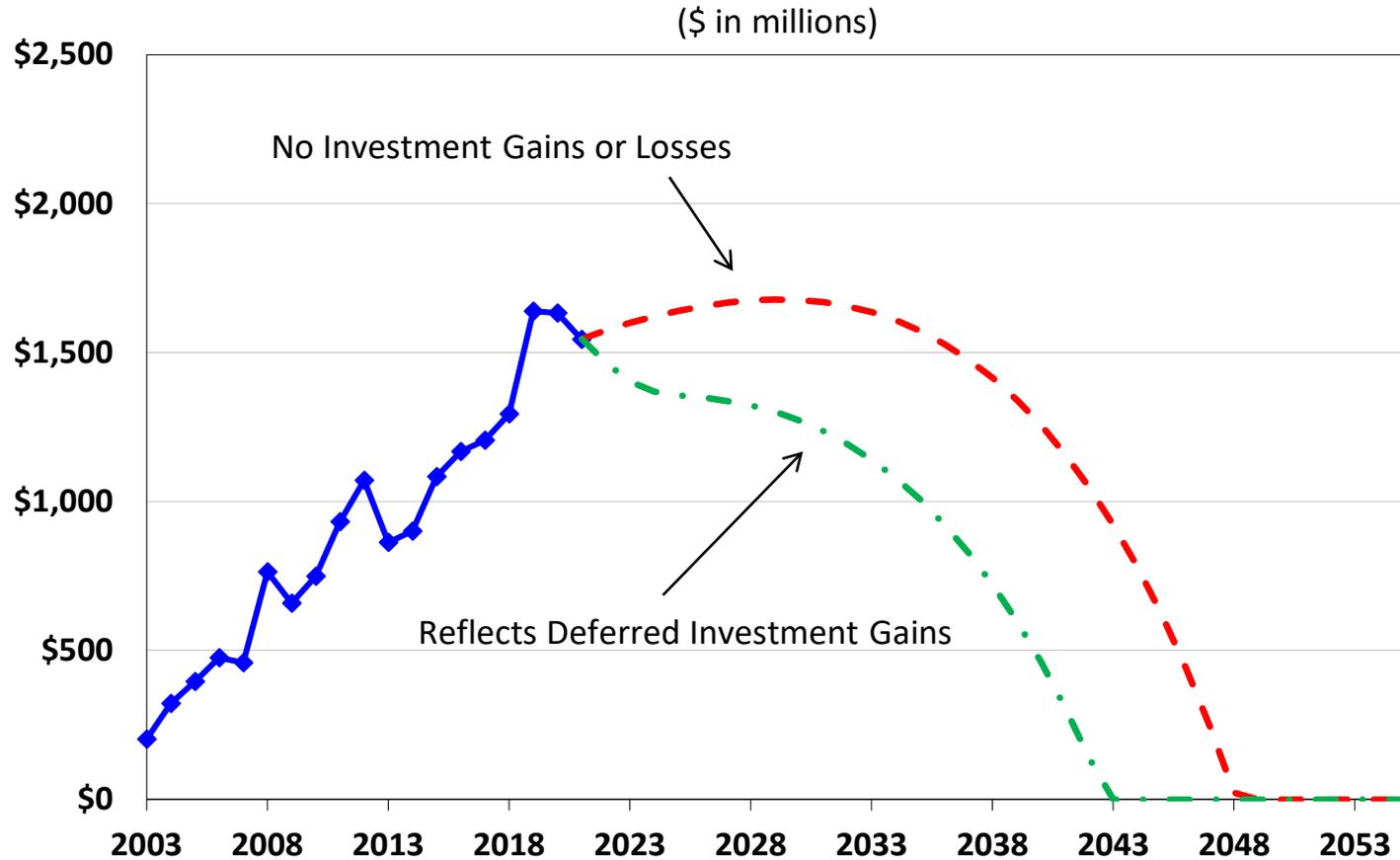
	(\$ in Millions)			
		<u>2021</u>		<u>2020</u>
1. Salary Increases	\$	13.7	\$	0.5
2. Service Retirement		8.2		9.0
3. Withdrawal		1.6		(8.5)
4. Disability Retirement		0.0		(0.1)
5. Active Mortality		0.0		0.1
6. Retiree Mortality		3.4		6.4
7. Rehires		(1.7)		(1.0)
8. Other (Mil. and S.L. purchases, proportionate service)		<u>(6.6)</u>		<u>(7.9)</u>
9. Liability Experience Gain/(Loss)	\$	18.5	\$	(1.5)
10. Gain/(loss) as percent of total AAL		0.4%		0.0%

Funded Ratio (Historical and Projected)

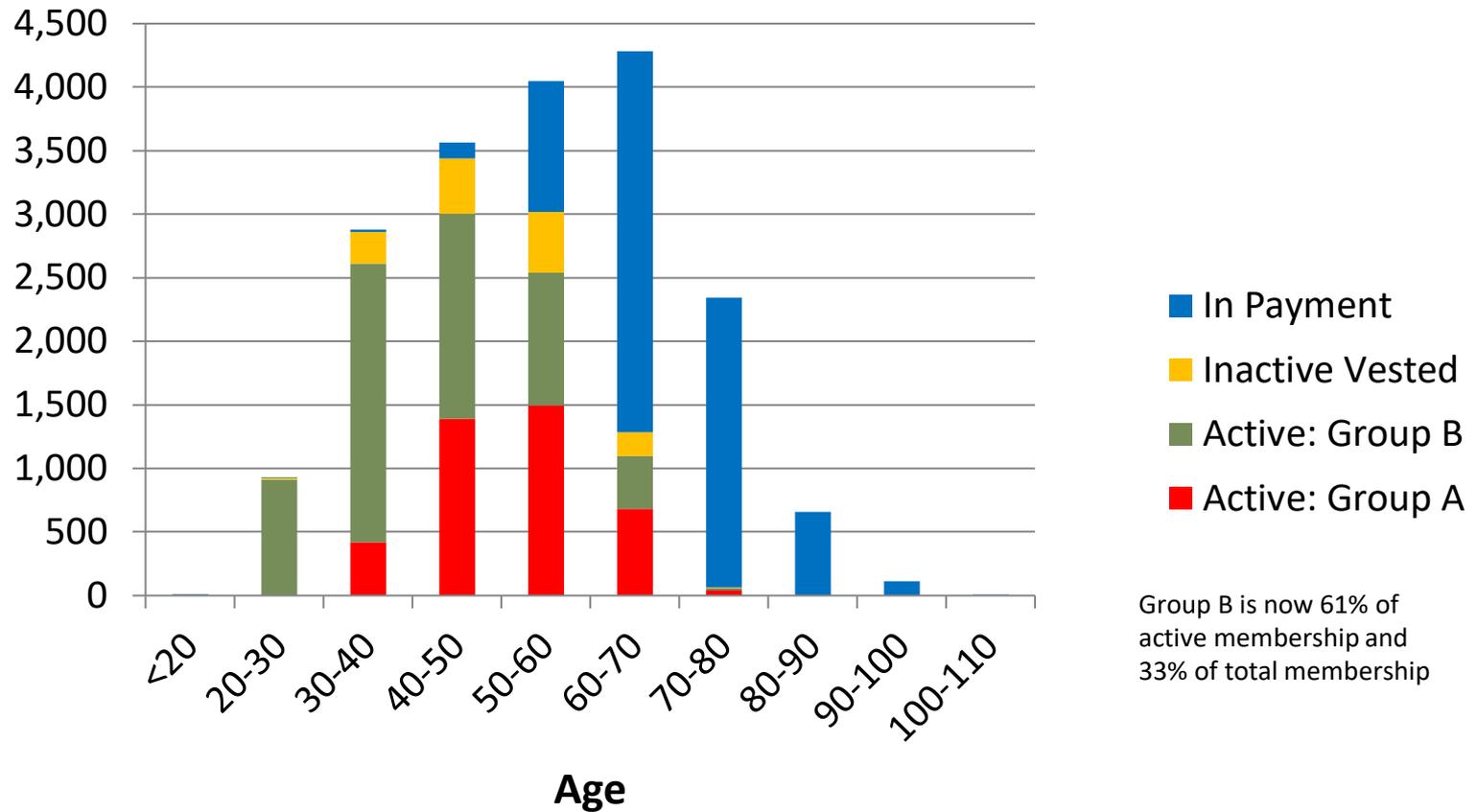


Projections assume contribution rate of 19.0% by the City and 8.0% by the members

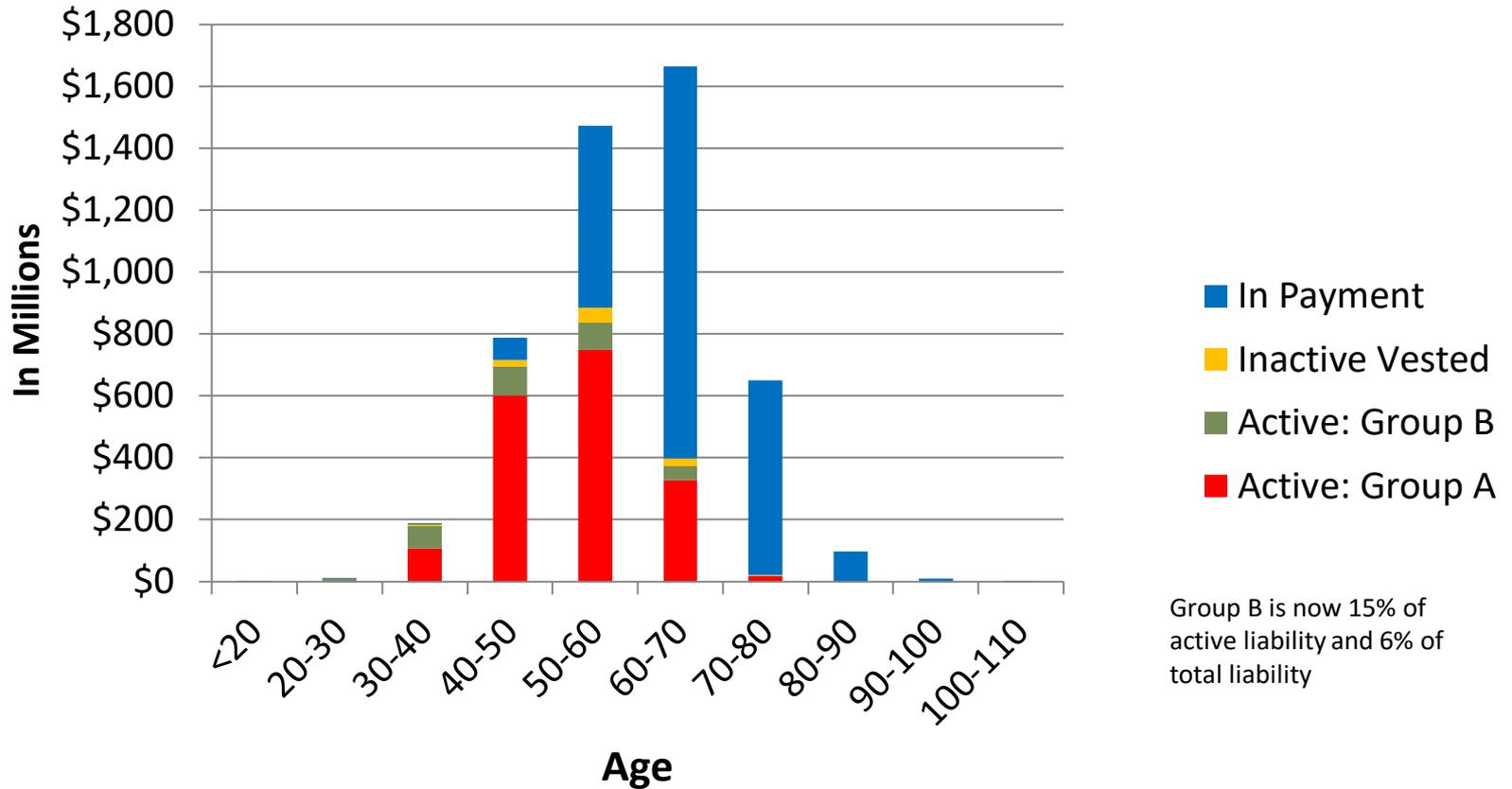
UAAL (Historical and Projected)



Counts by Group and by Age



Liability by Group and by Age



Group B is now 15% of active liability and 6% of total liability

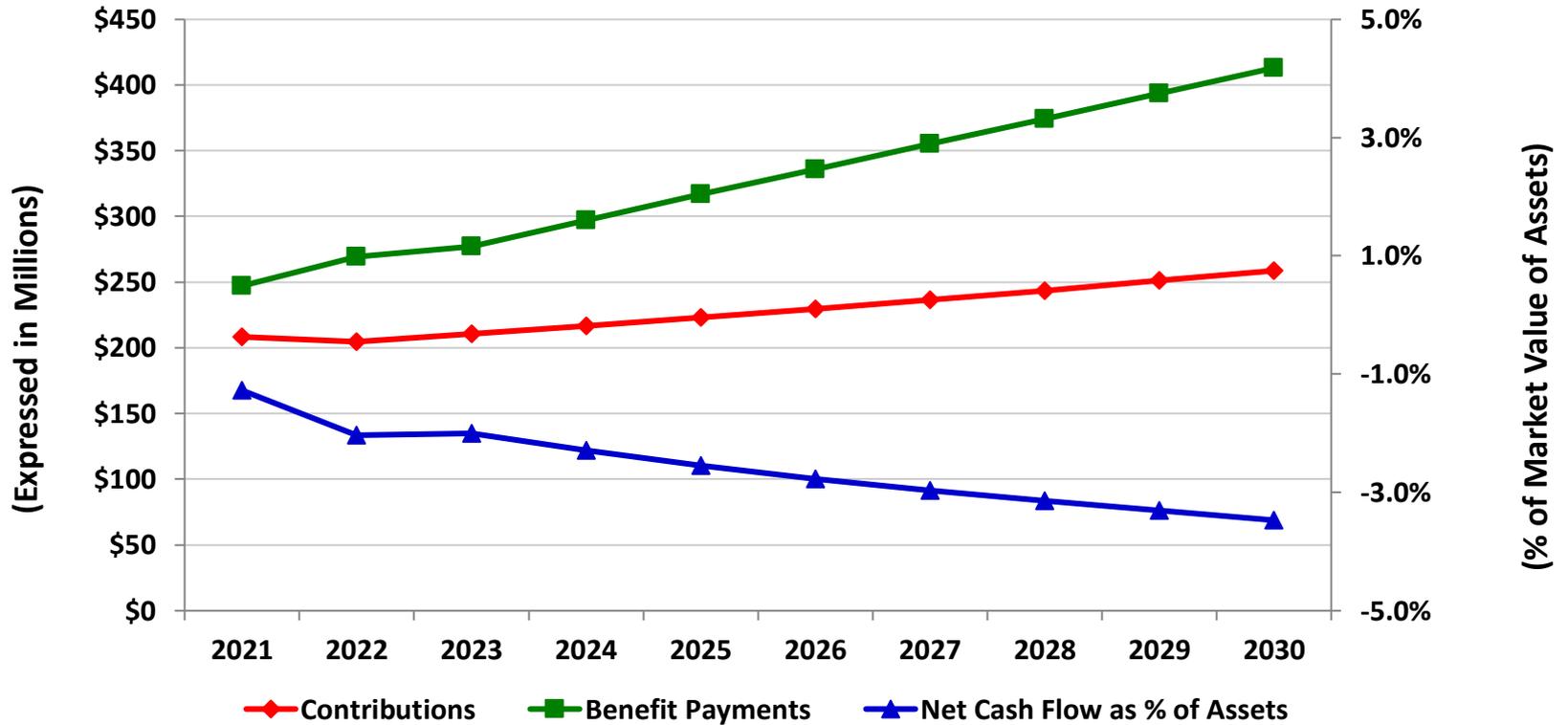
What This Valuation Means

- Positive returns on investments the prior three years have decreased the UAAL
 - UAAL was expected to increase and instead decreased significantly
- Positive investment performance reduced the funding period
 - UAAL is now expected to be eliminated in 28 years
- While these are positive outcomes, the funding period is still above the maximum period in the Board's funding policy
- Without additional gains the UAAL is expected to grow for the next 8 years
- We recommend that the Board continue discussions with the City about improving the sustainability of the System with additional funding and/or other changes to the System

Outlook – Assuming no future gains or losses

- Projections show that the System is expected to be fully funded in 2049
 - Funding period of 28 years
 - Based on 7.00% earnings on actuarial assets
 - No anticipation of membership growth
- Funded status expected to increase slowly
 - 80% in 2037
- UAAL expected to grow until 2030

Projected Cash Flows

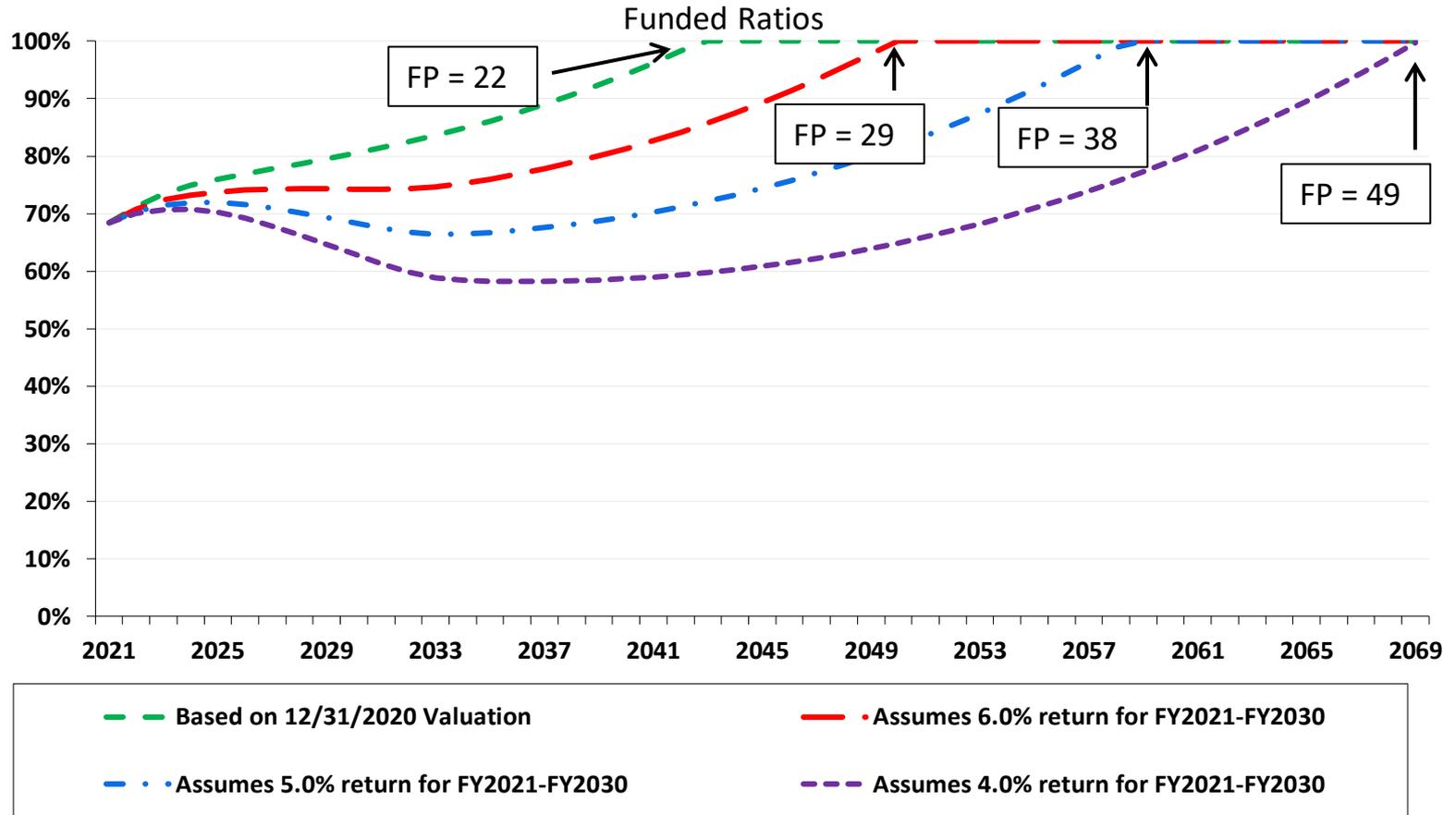


Negative cash flow reaches -3.6% in 2034 and slowly starts trending less negative through the end of the funding period

Risk Analysis

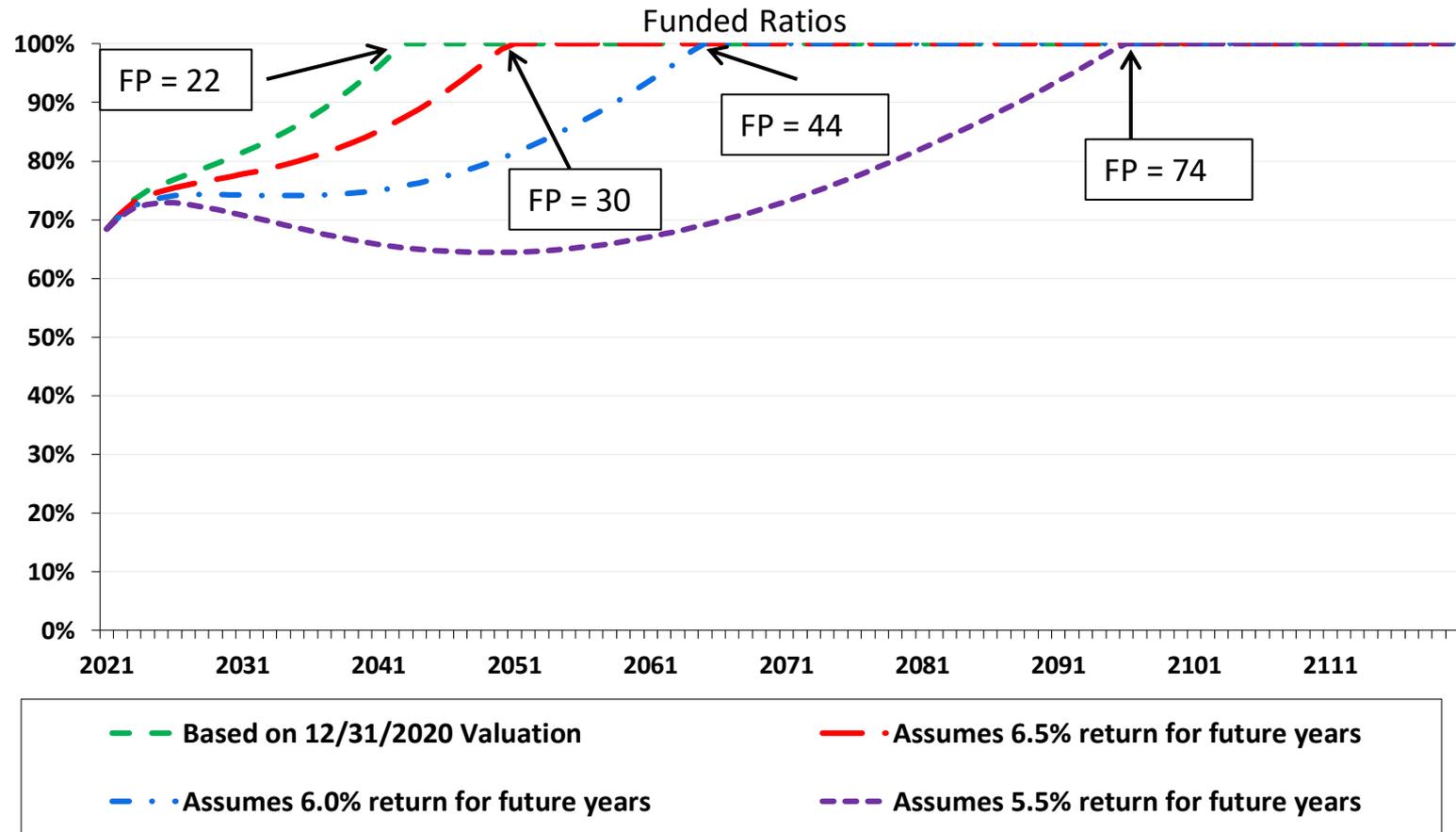
- COAERS' largest risks going forward
 - Actual Investment Performance
 - Ability to meet investment return assumption given capital markets outlooks

Risk – Short Term Lower Returns



12/31/2021 Valuation assume 7.00% return on market value for all years.
 7.00% return after FY2031 in all scenarios. FP = funding period.

Risk – Long Term Lower Returns



12/31/2021 Valuation assumes 7.00% return on market for all years. FP = funding period.

Impact of Lowering Rate of Return Assumption to 6.75%

Rate of Return Assumption	7.0%	6.75%
Normal Cost %	16.83%	17.69%
Actuarial Accrued Liability (\$ in billions)	\$4,890	\$5,032
Unfunded Actuarial Accrued Liability (\$ in billions)	\$1.544	\$1.693
Funding Period	28 years	33 years
City Rate for Board Funding Policy*	19.60%	21.99%

*This is the City rate necessary to meet the Board's Funding Policy

Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuation report issued in April 2022. 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.

6. Discuss and consider long-term plan sustainability including contribution and benefit policies

Presented by Christopher Hanson

AGENDA ITEM 6:

Discuss and consider long-term plan sustainability including contribution and benefit policies

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to consider possible changes to contribution and benefits policies as part of the efforts to ensure the System's long-term financial sustainability.

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

At the December 2021 Board meeting, COAERS and City Staff discussed forming a working group to develop a framework that would be the basis for pension legislation during the 88th Legislative Session. The Board supported the working group approach and directed COAERS Staff to report back to the Committee in the first quarter of 2022.

COAERS and City Staff, along with their actuarial consultants, have met regularly in 2022 to discuss benefit, contribution, and governance policy options which would strengthen the System's long-term financial sustainability. The respective members of the working group will present their work related to benefit, contribution, and governance policy recommendations.

ATTACHMENTS

1. COAERS Staff Presentation: "Long-Term Plan Sustainability"
2. City of Austin Staff Presentation: "COAERS Plan Sponsor Reform Recommendations"
3. City of Austin Staff Report: "Summary of Austin Police Retirement System (APRS) Legislation"
4. City of Austin Report: "Defined Contribution Plan Design Considerations for an Optional Offering"



Long-Term Plan Sustainability

Benefits and Services Committee

March 10, 2022

Plan Sustainability Activities

2017

- Board begins review of plan sustainability.
- Board adopts 2018-2020 Strategic Plan with “Goal one: Maintain a sustainable retirement system.”

2018

- IC receives initial results of Asset Liability Study.
- B&S begins review of Funding Policy.
- IC receives final Asset Liability Study and reviews potential changes to Strategic Asset Allocation (SAA).
- B&S discusses potential changes to Funding Policy to add guidelines for long-term sustainability and funding deterioration.
- IC recommends and Board approves changes to SAA and Investment Policy Statement.

2019

- B&S establishes timeline for experience study, benefit and contribution policy review, and education.
- Presentation of long-term plan sustainability at Member Meeting.
- City Manager hires PFM to assist City with retirement system study. Report provided and discussed.

Plan Sustainability Activities

2020

- Board adopts revisions to its Funding Policy.
- COAERS and City of Austin working group analyze future contribution and benefits policies.
- City of Austin budgets a 1% increase in employer contributions for Calendar Year 2021.
- Board recommends an approach to pension related legislation considered during the 87th Legislature: “COAERS’ highest priority is preserving its ability to fulfill its fiduciary duty for its members. Thus, COAERS will oppose legislation that would, in any way, erode or impair its fiduciary duty, authority, or otherwise negatively affect the System and its members.”

2021

- Review and assess the 12/31/2020 Actuarial Valuation.
- Review Funding Policy and develop funding dashboard.
- Continue review of long-term plan sustainability and collaboration with City on retirement study.

Board Action for Long-Term Plan Sustainability

May 2020

The Board of Trustees recommended the City consider the following as part of its retirement study to achieve long-term sustainability of COAERS:

- Enact a more flexible contribution policy to manage the risks to 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.

Board Action for Long-Term Plan Sustainability

September 2020

The Board passes by acclamation the following:

1. Establish the 88th Legislative Session (beginning January 2023) as the goal for comprehensive pension reform legislation.
2. Increase the City's contribution during the period leading up to the 88th Legislative Session to bring immediate short-term relief to COAERS funding needs contingent on the agreement between the City and COAERS to engage in a productive, meaningful, and collaborative effort to develop a long-term solution which encompasses possible reforms to contribution, benefit, and governance policies.

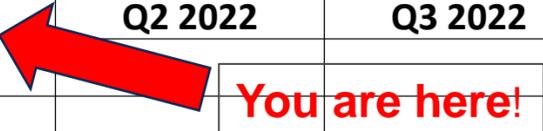
**The City increased employer contributions to COAERS from 18% to 19% effective January 2021.*

Working Group

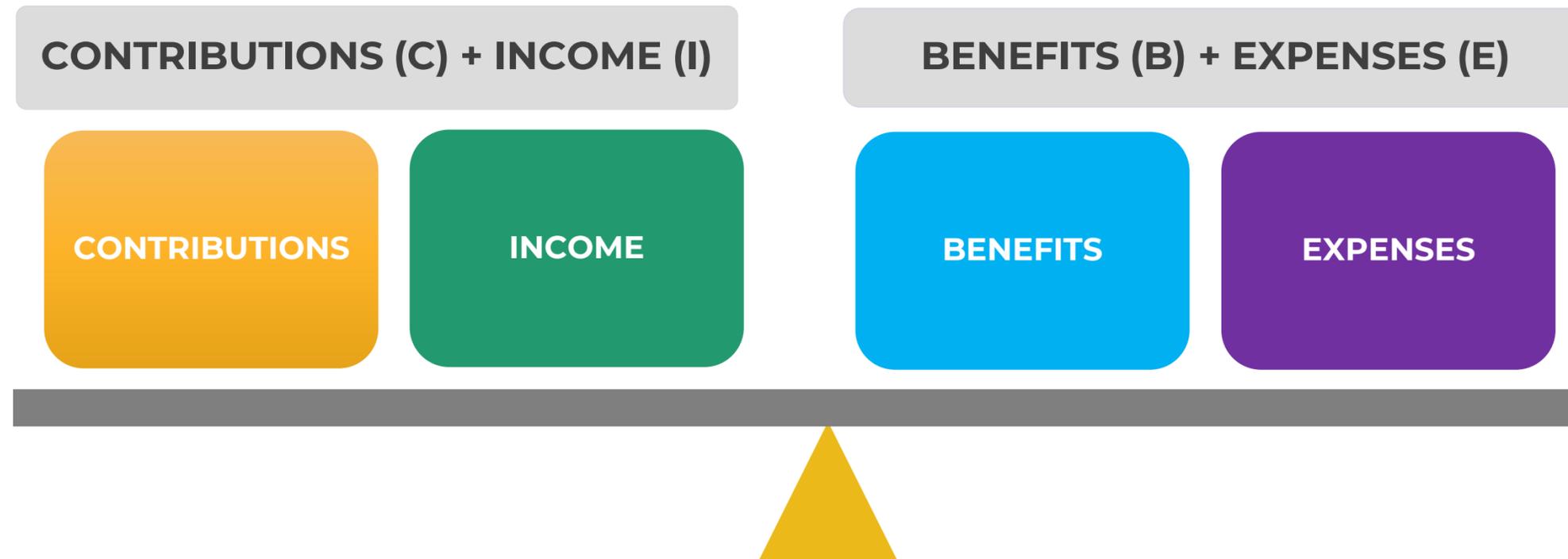


Timeline and Action Items

TIMELINE AND ACTION ITEMS FOR 88TH SESSION PENSION LEGISLATION - CONVENES JANUARY 10, 2023							
DESCRIPTION	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Define Roles and Responsibilities							
Establish Goals							
Establish Timeline and Action Items							
Discuss and Consider Policy Options							
Benefit							
Contribution							
Governance							
Administration							
Governmental Relations Communication							
Austin Delegation							
House and Senate Pension committees							
Pension Review Board							
Development and Adoption of Funding Policy							
COAERS Board Final Approval							
Presentation at Member Meeting							
Bill Drafting							
Bill Sponsor							
Bill Filing							



Pension Plan Financing

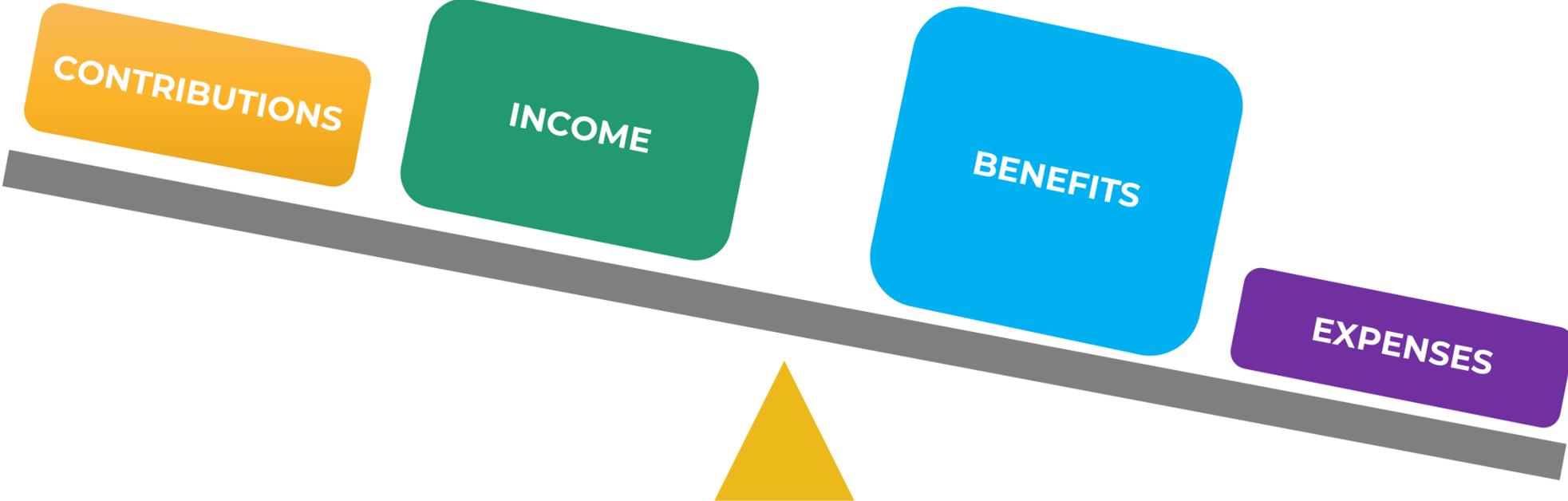


more simply put
 $C + I = B + E$

COAERS Long-Term Sustainability Tilt

CONTRIBUTIONS (C) + INCOME (I)

BENEFITS (B) + EXPENSES (E)

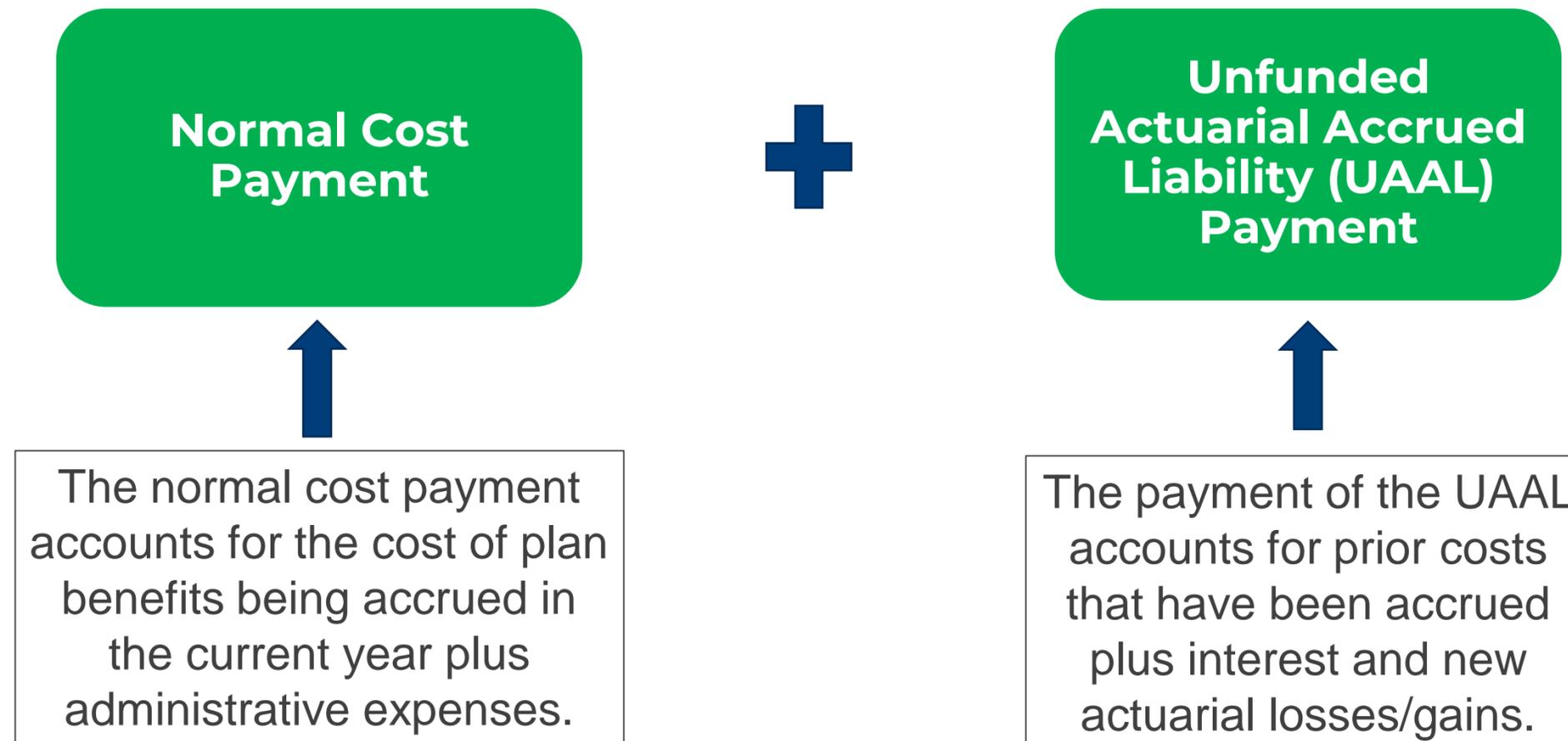


Working Group: Framework for Long-Term Sustainability

- Move from a fixed employer contribution rate to an actuarially determined employer contribution rate (ADEC)
- Structure the ADEC in a similar manner to Austin Police Retirement System (APRS) with corridors and built-in corrective actions
- Increase the employee contribution rate by 2%
- Modify existing benefit provisions related to service purchase options such as supplemental, prior service, non-contributory, military, and sick leave conversion to mitigate the risk of actuarial losses
- Governance-related: convert one active member board position to a city-appointed position, require citizen appointed positions to have finance or investment expertise, establish a risk-sharing valuation study (RSVS) process, future cost-of-living adjustments (COLA) require legislative approval
- Provide an option for employees to select to participate in a defined contribution plan instead of the defined benefit plan

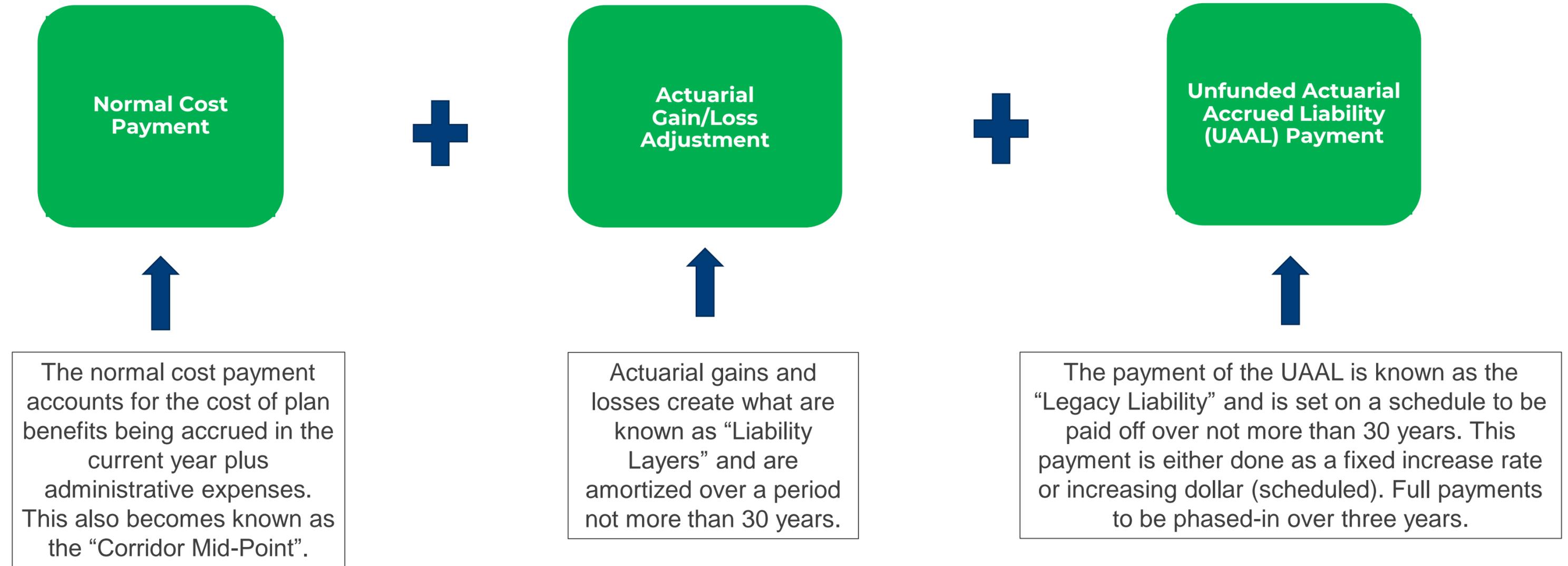
Actuarially Determined Employer Contribution (ADEC)

The traditional calculation of an Actuarially Determined Employer Contribution (ADEC):



APRS-Style Actuarially Determined Contribution (Employer)

The calculation of an Actuarially Determined Employer Contribution (ADEC) for APRS:



APRS-Style Actuarially Determined Contribution (Employer)

How the Corridor calculation works:



- If the calculated rate for the ADEC increases by more than 5% of the corridor midpoint (original normal cost), then the employee contribution rate increases to make up the difference up to a maximum of 2%.
- If after the employee rate is increased as noted above, if the ADEC is still above the corridor maximum of 5%, then the City and COAERS must work together to develop further reforms.
- The lower end of the calculated ADEC serves as a floor for the City contribution rate until the System achieves a certain funded ratio (possibly 80% or 90%).

Modify Service Purchase Options

Concept: Keep the benefit options available to the members but modify provisions to mitigate future actuarial losses to the System.

Working Group Suggested Modifications:

1. Military Service Purchase: Remove the 75% subsidy, allow purchase only at retirement
2. Supplemental Service Purchase: Allow purchase only at retirement
3. Non-contributory Service Purchase: Allow purchase only at retirement
4. Prior Service Purchase: Consider limiting window for purchase
5. Sick Leave Conversion: Continue to review for most appropriate method to mitigate future actuarial losses

Reducing future actuarial losses will help minimize the liability layers that increase the City's ADEC. This also reduces the likelihood that the corridor cap is breached leading to further employee contribution increases.

City of Austin Proposed Governance Modifications

- Convert one active member board position to a city-appointed position
- Require citizen appointed positions to have finance or investment expertise
- Establish a risk-sharing valuation study (RSVS) process
- Future cost-of-living adjustments (COLA) require legislative approval
- Provide an option for employees to select to participate in a defined contribution plan instead of the defined benefit plan

The City considers the proposed Governance modifications as part of the package of pension reforms.

Discount Rate Consideration

The working group has reviewed the APRS-style ADEC model under two different discount rate scenarios:

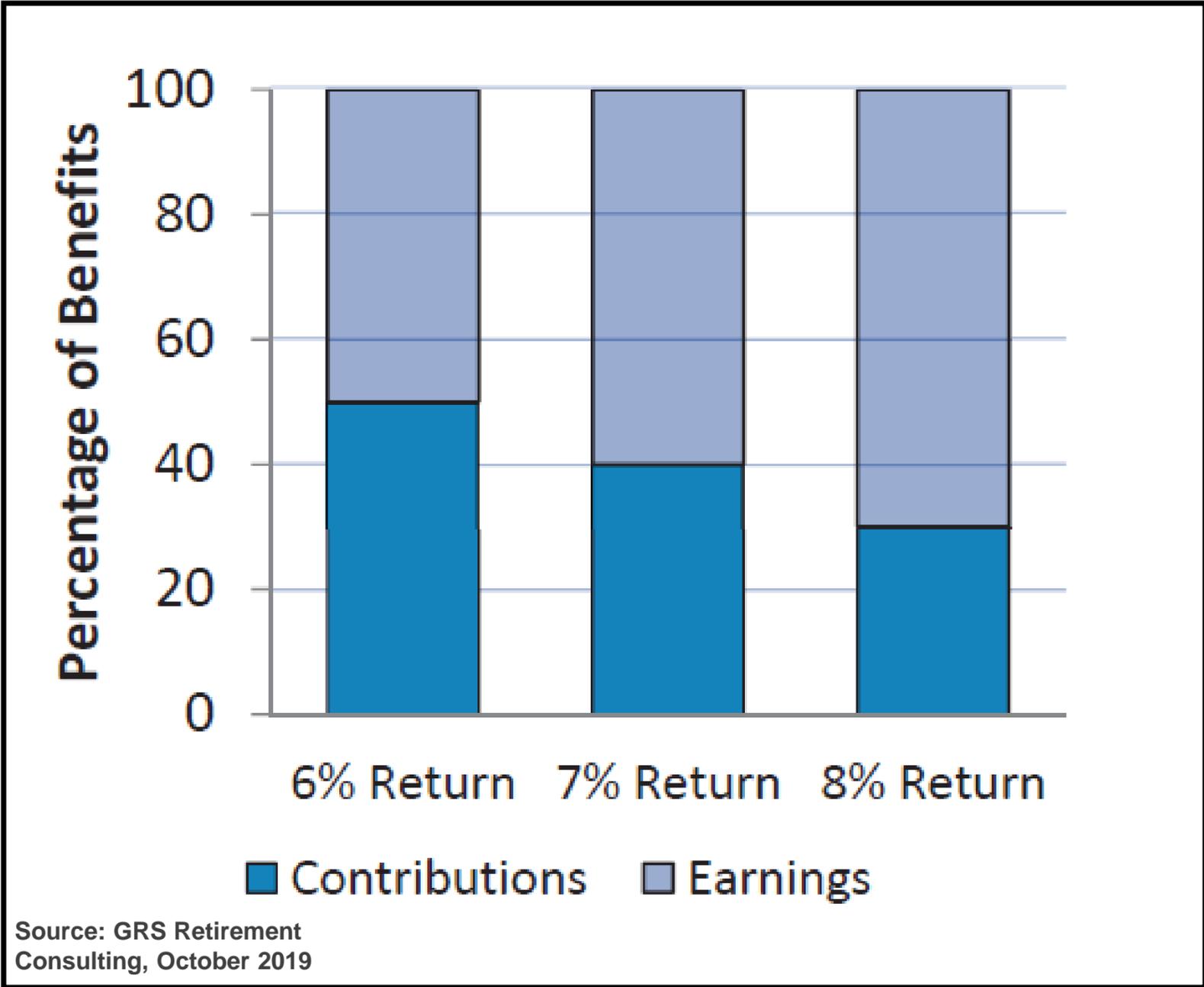
- 1. The current 7% rate, and
- 2. A reduced discount rate of 6.75%

	<u>7.0% Rate of Return</u>		<u>6.75% Rate of Return</u>	
	<u>8% EE Rate</u>	<u>10% EE Rate</u>	<u>8% EE Rate</u>	<u>10% EE Rate</u>
30 years	20.21%	18.57%	21.77%	20.11%
25 years	21.55%	19.90%	23.25%	21.58%
20 years	23.61%	21.94%	25.52%	23.83%

The resulting employer contribution rates are shown above

Discount Rate Consideration

Reducing the discount rate takes long-term risk off the investment portfolio as a smaller percentage of benefits are paid from investment earnings



Discount Rate Consideration

COAERS Investment Consultant, RVK Inc., conducted Monte Carlo comparisons of the current Board-approved Strategic Asset Allocation using 2022 Capital Market Assumption



The analysis indicates a decreasing likelihood of achieving the current 7% discount rate (assumed rate of return)

1 Year	Current Target
Target 6.50%	49
Target 6.75%	48
Target 7.00%	47

3 Years	Current Target
Target 6.50%	44
Target 6.75%	43
Target 7.00%	42

5 Years	Current Target
Target 6.50%	42
Target 6.75%	40
Target 7.00%	38

10 Years	Current Target
Target 6.50%	37
Target 6.75%	35
Target 7.00%	33

Topics for Committee Review

Working Group Funding Framework

Contribution Policy

- Move from employer fixed contribution rate to ADEC of not more than 30 years with corridors and corrective action steps
- Create a payment schedule for the unfunded actuarial accrued liability of not more than 30 years
- Increase to Employee Contribution Rate by 2%

Benefit Policy

- Continue service purchase options but modify to mitigate actuarial losses to system

City Governance Proposals

- The City considers these part of the overall framework

Topics for Committee Review

Discount Rate

- Current capital market assumptions imply a low probability of the current Strategic Asset Allocation achieving the 7% discount rate
- Reducing the discount rate prior to the adoption of the ADEC would lower the risk of long-term investment underperformance – this would reduce the volatility of the ADEC, and the likelihood of corrective action measures being triggered in the future
- The Board is charged with setting the actuarial assumptions; however, it may be prudent to seek input from the City with the possibility of moving towards an ADEC

Committee Discussion

- COAERS Staff and City Staff on the working group are seeking feedback from the Committee regarding the matters and items presented.
- The Committee could refer items to the Board for consideration at its March 31 meeting.





City of Austin Employees' Retirement System

Plan Sponsor Reform Recommendations

*Ed Van Eenoo, Chief Financial Officer, City of Austin
March 10, 2022*



City of Austin Reform Principles

- Honor benefit promises to the greatest extent possible
 - Benefit reductions should apply only to new employees
 - Alternatives to defined benefit plans should be considered only as an employee option
- Maintain prudent actuarial assumptions and long-term affordability
- Employees and plan sponsor share in system sustainability efforts
- Actuarially determined funding approach for City contributions with a strong preference for the model approved in the 87th Legislature for APRS
 - Actuarially sound model developed by GRS
 - Proven support from Legislature

City of Austin Reform Principles



- Enact more restrictive requirements for implementing future COLAs and benefit enhancements
- Establish more balanced board composition
- To the extent reforms are implemented, they should be implemented equitably across the systems

Reform Equity – Lower Benefit Tier & Funding Model



	APRS	COAERS: City Staff Recommendation
Lower Benefit Tier for New Hires	<ul style="list-style-type: none"> ○ 2.5% multiplier for members hired on or after January 2022 ○ Increase in retirement eligibility age ○ Reduction in normal cost from 25.1% to 19% 	<ul style="list-style-type: none"> ○ 2.5% multiplier for members hired on or after January 2012 ○ Increase in retirement eligibility age ○ Reduction in normal cost from 20.2% to 14.2%
ADEC Model	<ul style="list-style-type: none"> ○ City contributions to legacy liability paid on a fixed 30-year repayment schedule ○ Remaining City contribution rate actuarially determined within $\pm 5\%$ corridor ○ 30-year funding period with 7.25% rate of return for future liability layers ○ Contribution increase phased in over 3 years ○ Aggregate City contribution rate of approximately 33.6% of pay once fully implemented (prior statutory rate 21.7%) 	<ul style="list-style-type: none"> ○ City contributions to legacy liability paid on a fixed 30-year <i>or less</i> repayment schedule ○ Remaining City contribution rate actuarially determined within $\pm 5\%$ corridor ○ 30-year <i>or less</i> funding period for future liability layers (<i>rate of return tbd</i>) ○ Contribution increase phased in over 3 years ○ Aggregate City contribution rate of approximately 20% of pay once fully implemented (prior statutory rate 8%)
Employee Contributions	<ul style="list-style-type: none"> ○ Increased from 13% to 15% ○ Additional 2% contribution if upper corridor breached 	<ul style="list-style-type: none"> ○ Increase from 8% to 10% ○ Additional 2% contribution if upper corridor breached

- Blue font represents new changes approved for APRS by the 87th Legislature and City recommendations for COAERS changes to be implemented in the 88th Legislature.

Reform Equity – Service Purchases



	APRS	COAERS: City Staff Recommendation
Service Purchases	<ul style="list-style-type: none"> ○ <u>Military service purchase</u>: No subsidy, made only at retirement ○ <u>Prior service purchase</u>: Repurchased at contributions plus 8% ○ <u>Sick leave conversion</u>: None (paid out for unused sick leave upon termination) ○ <u>Supplementary Service Purchase</u>: Up to 5 years; made at retirement ○ <u>Employer Purchase of Service Credit</u>: None ○ <u>Noncontributory Service Purchases</u>: Repurchased at contributions plus 8% 	<ul style="list-style-type: none"> ○ <u>Military service purchase</u>: Remove 75% subsidy; Allow purchase only at retirement; Calculate at actuarially neutral cost ○ <u>Prior service purchase</u>: Calculate at actuarially neutral cost ○ <u>Sick leave conversion</u>: Allow purchase only at retirement; Continue to review with focus on minimizing future actuarial losses ○ <u>Supplementary Service Purchase</u>: Up to 5 years; Price at 200 basis point premium; Allow purchase only at retirement ○ <u>Employer Purchase of Service Credit</u>: No change ○ <u>Noncontributory Service Purchases</u>: Allow purchase only at retirement; Calculate at actuarially neutral cost

- Blue font represents new changes approved for APRS by the 87th Legislature and City recommendations for COAERS changes to be implemented in the 88th Legislature.

Reform Equity – DC Option and System Governance



	APRS	COAERS: City Staff Recommendation
Actuarial Review	<ul style="list-style-type: none"> Established an actuarial review and reconciliation process allowing the City to provide input on actuarial assumptions and methods 	<ul style="list-style-type: none"> Establish an actuarial review and reconciliation process allowing the City to provide input on actuarial assumptions and methods
Benefit Increases	<ul style="list-style-type: none"> Future benefit increases and COLAs require legislative approval 	<ul style="list-style-type: none"> Future COLAs and lump-sum payments require legislative approval
Board Composition	<ul style="list-style-type: none"> Removed one active member seat and replaced with one citizen seat 	<ul style="list-style-type: none"> Remove one active member seat and replace with one City-appointed seat
Employee Option DC Plan	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Member-option to participate in City-sponsored DC plan in lieu of DB Plan Must be established in a manner that is actuarially neutral to the DB plan

- Blue font represents new changes approved for APRS by the 87th Legislature and City recommendations for COAERS changes to be implemented in the 88th Legislature.

Summary of Austin Police Retirement System (APRS) Legislation

- **New Group B Benefit Tier**
 - Applies only to members hired on or after January 1, 2022
 - Benefit multiplier reduced from 3.2% to 2.5%
 - Retirement eligibility increased from 23 years of service at any age to 25 years of service at age 50
 - Average final compensation for benefit calculations increased from highest 36 months to highest 60 months of salary

- **Member Contributions**
 - Member contributions increase from 13% to 15% of earnings
 - Member contributions may increase to a maximum of 17% if City contributions reach the corridor maximum (see more below under ADC Funding model-ADC Corridor)

- **ADC Funding Model**
 - Actuarial Determined Contributions (ADC): Variable City contribution rate for future liabilities as required to achieve a funding period of 30 years or less.
 - ADC Corridor: City contributions may not increase or decrease by more than 5% from a corridor midpoint established by the APRS actuary using actuarial assumptions in place as of the December 31, 2020 valuation.
 - If the ADC rate exceeds 5% above the corridor midpoint, member contributions will increase by up to an additional 2% of earnings (to a maximum of 17% total member contribution rate)
 - Legacy Liability Contributions: Fixed schedule of City contributions over a 30-year closed period to pay off the existing unfunded actuarial accrued liability of the System. The Legacy Liability is carved out of the ADC calculation and increases at a rate of 3% annually.
 - City Contribution Phase In: City contribution increases relating to initial risk sharing valuation and legacy liability will be phased in over 3 years.

- **Governance**
 - Replaces one active member seat with one citizen seat that will be appointed by the City Council, effective January 1, 2022.
 - Requires citizen appointed seats have finance and/or investment expertise.
 - Removes the authority of the APRS Board of Trustees to provide cost of living adjustments or to change member benefits
 - APRS Board of Trustees does not have authority to modify member eligibility requirements
 - Establishes an actuarial review and reconciliation process to allow the City to provide input to the APRS on actuarial assumptions and methods

DRAFT



City of Austin, TX

Defined Contribution Plan Design *Considerations for an Optional Offering*

February 2022

PFM Group Consulting LLC



Goals for Public Sector Retirement Plan Design

- **Affordability** within current/near-term budget constraints
- **Sustainability** of benefit funding requirements over the long-term
- **Retirement security** for career employees
- **Competitive benefits** for effective recruitment and retention



Traditional Three-Legged Stool of Retirement Planning (+1)

- **Employer Pension** – traditionally using a Defined Benefit (DB) model
- **Social Security**
- **Employee Savings** - often through a tax advantaged Defined Contribution (DC) plan such as a 401(k) or 403(b)
- Retiree Healthcare can also be a component of the overall structure



But... one size may not fit all



Employee Choice

- A growing number of public employers now offer multiple retirement plan options to meet varying employee needs
- For example:
 - City of Baltimore (non-safety) – Hybrid or DC
 - State of Michigan (non-safety) – Hybrid or DC
 - State of Colorado – DB or DC
 - State of Florida – DB or DC
 - University of Texas – DB or DC
- The portability of a DC option may be particularly attractive for employees who anticipate a shorter tenure, for example:
 - An early-career hire who expects to work for other employers in future years
 - A lateral, late-career hire who does not plan many more years of full-time work and/or who is already vested in another system



General DC Plan Considerations

Positive Factors

- Portability feature may be attractive to particular employee groups that anticipate shorter average tenures
- Some employees value control over investment decisions
- Eliminates all investment risk for the employer. By definition, there will never be unfunded liabilities
- Stabilizes cost for new hires as a fixed percentage of salary (with the potential for slight variations based on how any employer matching contributions are structured)

Negative Factors

- Investment decisions and market performance will affect the predictability and risk of the benefit for employees/retirees
- Members with little experience in the market will be faced with challenge of directing their own investments; while tools such as balanced default-investment options and target-date funds can mitigate this challenge, DC plans still generally require more member education
- Without pooled risk, individuals cannot benefit from the longer-term investment horizon of a group plan
- Portability may weaken the incentive for retention relative to a traditional DB plan
- DC plans remain less prevalent in the public sector, particularly for public safety, which may create a recruitment disadvantage with some candidates when provided as the only plan option
- Does not necessarily include the death and disability benefits often included within a pension, which may require separate new programs
- If the existing legacy DB plan is closed, changes to cash flow and potentially actuarial assumptions could increase near-term costs



Austin-Specific Considerations

- Austin provides Social Security to civilian employees, requiring employer (and employee) contributions of 6.2% of pay (up to an annual maximum: \$147,000 in 2022)
 - From a “three-legged stool” plan design perspective, Social Security not only provides meaningful base retirement income, but it also features an annual cost-of-living adjustment (COLA) not otherwise available under a DC-only approach
 - From a competitiveness perspective, not every public employer provides Social Security. Among major Texas cities, Dallas and Fort Worth do not for civilian employees (El Paso, Houston, and San Antonio do)
- Like all employers and employees (even where Social Security is not provided), Austin also contributes 1.45% of pay toward Medicare benefits with no cap
 - Austin also provides relatively generous City retiree healthcare benefits, although the level of City contributions is reduced for retirees with <20 years of retiree service
 - Austin also offers access to a voluntary 457(b) deferred compensation plan, on either a pre-tax or Roth after-tax basis, with no City contribution or match – subject to program and tax code requirements (e.g., minimum contribution of \$10 per pay or 1% of pay; and 2021 maximum contribution of the lesser of \$19,500 or 70% of pay + catch-up provisions)

COAERS contributions (as of 12/31/2021):

- Total “normal cost” for current service: 17.04%
- Members: 8.0%
- Employer normal cost: 9.04%
- Total employer contribution: 19.0%
- Employer funding policy rate: 21.02%



DC Plan Design Issues

- City/Employee contributions:
 - Base
 - Match
- Window to opt in/out; irrevocability
- Vesting
- Disability benefits
- Survivor/Death benefits
- Plan administration



Case Study: University of Texas

- The University of Texas offers certain employees (including most faculty, administrators, and librarians) a choice between participation in the DB Teacher Retirement System (TRS) or the DC Optional Retirement Program (ORP) tax-deferred 403(b) program
- Key features of the ORP include:
 - One-time, irrevocable opportunity to choose within first 90 days (DB TRS is default option)
 - 36,049 ORP participants statewide as of FY2021
 - No provisions for purchase of service credit
 - Contributions:
 - Employee: 6.65%
 - Employer: Maximum of 8.5% (UT Austin is at 8.5%); base state contribution of 6.6% before individual employer supplement
 - Vesting after one (1) year and one day for employer contributions
 - Menu of employee-directed investment options
 - Payout options include annuities and systematic payouts; withdrawals subject to IRS provisions (e.g., generally age 59.5 or 10% penalty); no provisions for loans or hardship withdrawals
 - Administered by the Texas Higher Education Coordinating Board, not the TRS
 - No survivor or disability benefits



Benchmarks: City DC Plans (Civilian)

	Primary or Optional	Other Options	Window to Select	Administration
Atlanta	Primary for employees at pay grade 19 or higher as of FY2021, pay grade 19 = \$41,000 - \$68,300); not available to employees at lower pay grades	Employees below pay grade 19 are in a hybrid DB/DC plan	NA	Third-party administrator
Baltimore	Optional	Hybrid, Closed DB	150 days (default to Hybrid)	Separate Board from pensions
Jacksonville	Primary (hires after 10/1/2017)	NA (Closed DB Plan)	NA	Administered by City
Orlando	Primary (hires after 9/30/1988)	NA (Closed DB Plan)	NA	Third-party administrator
Richmond	Primary (hires after June 30, 2006)	NA (Closed DB Plan)	NA	Richmond Retirement System (contracts with third-party administrator as record keeper)
Washington, DC	Primary (hires after October 1, 1987)	457(b), Closed DB Plan	NA	Office of Finance and Treasury and third-party administrator



Benchmarks: City DC Plans (Civilian)

	Employee Contribution	Employer Contribution	Vesting Requirement (Employer Share)
Atlanta	6% required + voluntary additional contributions	6%	5 years
Baltimore	5% required 401(a) + voluntary additional 457(b)	4% to 401(a) + 50% match on 457(b) up to additional 1% of pay [Maximum 5%]	5 years, or age 65 or death
Jacksonville	8% (0.3% funds disability and survivor benefits)	12% (plus additional amount, as necessary, to fund survivor and disability benefits)	25% after two years and 25% each year after (100% after five years)
Orlando	0% + voluntary up to 10%	7% regardless of employee contribution + up to 3% match on voluntary employee contributions	25% per year (fully vested after 4 years)
Richmond	0% + voluntary 457(b) contributions	Varies based on employee's years of service: Less than 5 years: 5% 5 to 9 years: 6% 10 to 14 years: 8% 15 or more years: 10%	5 years
Washington, DC	0% toward 401(a) + voluntary 457(b) contributions	5.5% toward 401(a) + up to 3% match on 457(b)	20% per year starting after two years; 100% vested after five years



Benchmarks: State DC Plans (Civilian)

	Primary or Optional	Other Options	Window to Select	Administration
Colorado	Optional	DB Plan, Voluntary 401(k) and 457(b) plans	60 days (default to DB)	Colorado Public Employees' Retirement Association
Florida	Primary	DB Plan, Hybrid Plan available for those with 8 years in the DB Plan	8 months (default to DC)	Florida State Board of Administration
Indiana	Optional	Hybrid Plan	60 days	Indiana Public Retirement System
Michigan	Primary	NA	NA	Office of Retirement Services, partnered with third-party administrator
Montana	Optional	DB Plan, 457(b)	12 months	Montana Public Employee Retirement Administration
Ohio	Optional	DB Plan, Hybrid Plan	180 days	Ohio Public Employees Retirement System
North Dakota	Optional	Hybrid Plan, 457(b) Plan	6 months	North Dakota Public Employees' Retirement System
South Carolina	Optional	DB Plan, voluntary 401(k) and 457(b) plans	30 days	Third-party administrator
Utah	Optional	Hybrid Plan, voluntary 457(b) and IRAs (pre- or post-tax)	12 months	Utah Retirement Systems



Benchmarks: State DC Plans (Civilian)

	Employee Contribution	Employer Contribution	Vesting Requirement
Colorado	10.5% + voluntary 401(k) or 457(b) contributions	10.4%	50% vested upon enrollment with 10% increases each year thereafter; 100% vested after five years
Florida	3%	3.3%	Completion of 1 year of service
Indiana	3% + voluntary, post-tax contributions up to an additional 10%	3.2%	20% per year 100% vested after five years
Michigan	No minimum contribution	Mandatory 4% + up to 3% match (1:1) of employee contribution	50% after two years and 25% per year thereafter
Montana	7.9% + voluntary 457(b) contributions	8.97% (8.63% toward DC account; 0.04% toward PERS education programs; 0.3% toward disability benefit)	After 5 years
Ohio	10%	14% (6.5% funds a Retiree Medical Account for retiree health expense offsets)	20% per year
North Dakota	7% (includes 4% Section 414(h) pick up) + voluntary 457(b) contributions	8.26%	50% after two years and 25% per year thereafter
South Carolina	9% + voluntary contributions	5%	Immediate vesting
Utah	No minimum required contribution	10%	After 4 years



Survivor and Disability Benefits

- DC plans generally provide for vested assets to be withdrawn upon death or disability – but these funds may be minimal for an employee early in their career
- Some employers provide additional survivor and/or disability benefits, often through a separate, supplemental plan. For example:
 - For survivors, some cities provide life insurance coverage/options or other added benefits. For example, Atlanta provides base life insurance of \$40,000 with employee options to buy up for additional coverage, while Richmond provides 2X annual salary as a minimum benefit with additional buy-up options
 - For disabilities, Florida provides coverage under the State DB plan, Montana has a separate long-term disability trust fund toward which the State contributes 0.3% of salary for DC plan participants, and Orlando provides long-term disability coverage through a third-party provider



Case Study: Texas Municipal Retirement System (TMRS)

- Unlike a true DC plan, TMRS is a cash balance plan – which means that contributions grow at a guaranteed rate of interest (with greater funding risk for the plan sponsor)
- At the same time, because the TMRS structure mirrors some elements of DC plan design and is a common offering across Texas (890 cities, including San Antonio), the elements below are presented as an additional reference point
- Selected TMRS features:
 - Depending on the participating City's plan, employees contribute 5.0 – 7.0% of gross compensation (e.g., San Antonio employees contribute 6.0%)
 - Again, depending on the plan, the City matches at a rate of 1 to 1, 1,5 to 1, or 2 to 1 (e.g., San Antonio matches at a 2:1 rate or 12.0%)
 - Vesting generally requires 5 years (Cities can opt for 10 years)
 - Eligibility for retirement is commonly age 60 with 5 years of service or 20-25 years of service at any age
 - Some cities have opted to provide a supplemental death benefit, and TMRS offers occupational disability benefits based on contributions made



Appendices



Retiree Health Benefits

Austin	Retirees with 20 or more years of service contribute 20% of premium for single coverage, 50% for dependent coverage; 30% (25% if pre-Medicare) for surviving spouses. City subsidy is reduced with fewer years of service.
Corpus Christi	Retirees contribute 100% of the blended cost of healthcare coverage (implicit subsidy)
Dallas	Post-1/1/2010 hires contribute 100% of the blended cost of healthcare coverage (implicit subsidy); for earlier hires, the City subsidy for retirees is approximately 50% pre-Medicare (dependents are not subsidized)
El Paso	Retirees contribute 45% of the cost of retiree healthcare coverage, with the same coverage as provided to active City employees. Established by ordinance and may be amended.
Fort Worth	Post-1/1/2009 hires contribute 100% of the blended cost of healthcare coverage (implicit subsidy); for earlier hires, retirees with 25 or more years of service or those hired before 10/1988 receive one plan option with no retiree premium contribution (may buy up for other plans); for hires between 1988 and 2009 with <25 years, City determines the subsidy (which is lower). Generally, the City pays only 30-50% of the cost for dependents.
Houston	Retiree contributions vary by coverage level, plan selection, and smoker status. For non-smokers, pre-Medicare retirees contribute between 43% and 76% of cost for single coverage, and higher percentages with dependents. Medicare cost-sharing levels are similar, also varying by plan, coverage level, and smoker status.
San Antonio	Police and firefighters receive full retiree and spousal coverage through the Fire and Police Retiree Health Care Fund. For civilians, subsidized benefits are covered only once Medicare-eligible, with the City targeting 2/3 of the cost for retirees hired prior to 2007 and 1/2 of the cost for subsequent hires with 10 or more years of service.



U.S. Private Industry

- In private industry, DB pensions and retiree healthcare are no longer prevalent
 - Just 18% of full-time U.S. workers in private industry have access to DB pensions, and many of those are in plans closed to new entrants (vs. 94% with access in state and local government)
 - Only 14% of full-time U.S workers in private industry have access to retiree healthcare (vs. 75% in state and local government)

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

Presented by Chair Noak

AGENDA ITEM 7:

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.