

Retirement News Update

A Newsletter for Members of the City of Austin Employees' Retirement System

Financial Summary for Members of the City of Austin Employees' Retirement System at 12/31/2006

Introduction

This edition of *Retirement News Update* provides summary financial information about the City of Austin Employees' Retirement System (COA ERS) based on the 2006 *Comprehensive Annual Financial Report* (CAFR). The complete report provides in-depth information about the financial, investment and actuarial aspects of the retirement plan. To obtain a copy of the entire 2006 CAFR, contact the Retirement Office by phone at (512) 458-2551, or, by email at info@coaers.org. You may also download a copy of the report from our website at www.coaers.org.

About COA ERS

The City of Austin Employees' Retirement System is a public employee retirement system established in 1941 by City ordinance and governed since 1991 by the State of Texas. The purpose of COA ERS is to provide retirement, disability, and death benefits for its Members.

As of December 31, 2006, COA ERS has assets totaling \$1.603 billion and its future obligations were 75.9% funded.

Membership

City of Austin regular employees working 30 or more hours per week become Members of COA ERS on their date of employment. Members employed on October 1, 1995 are given service credit for one prior probationary period of up to six months. Members do not include:

- * *Temporary employees*
- * *Part-time employees working less than 30 hours per week*
- * *Civil service employees of the Fire Department and the Police Department*
- * *The Mayor and Members of the City Council*

As of December 31, 2006, COA ERS had 8,055 Active Members, 3,467 Retired Members and 714 Inactive Vested Members.

Contributions

Members of COA ERS currently contribute 8% of their base pay, calculated on a 40-hour work week. Contributions are made through payroll deduction each pay period; the City of Austin currently contributes an amount equal to the amount contributed by Member employees plus a contribution subsidy, presently at 1%, pursuant to the Supplemental Funding Plan.

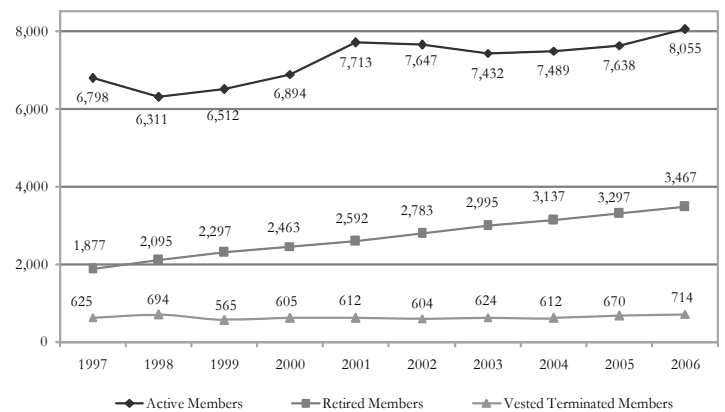
Retirement Eligibility

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

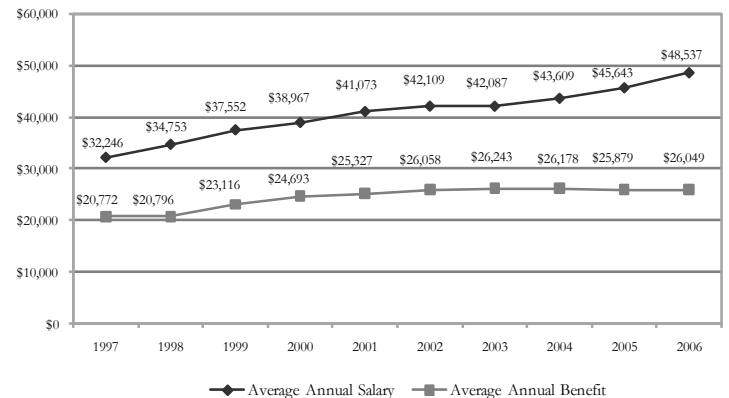
- * *An active Member having any number of years creditable service at age 62*
- * *20 years creditable service at age 55*
- * *23 years creditable service at any age*

For more information about specific retirement benefits, please refer to your COA ERS Member Handbook or contact the Retirement Office at (512) 458-2551.

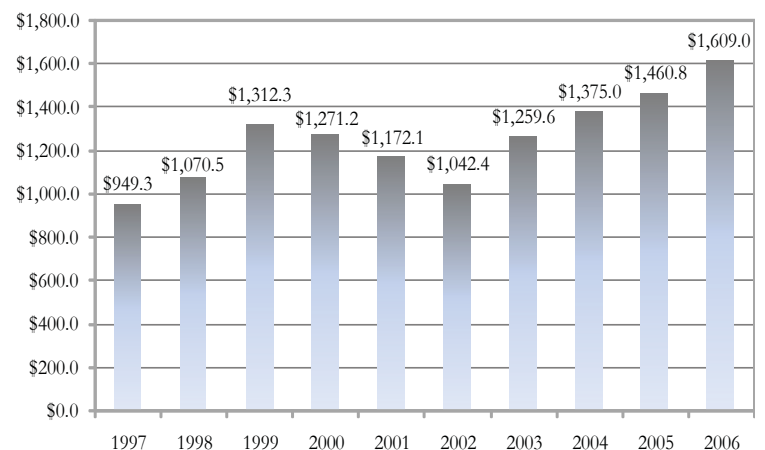
Membership Profile



Average Salary and Average Benefit

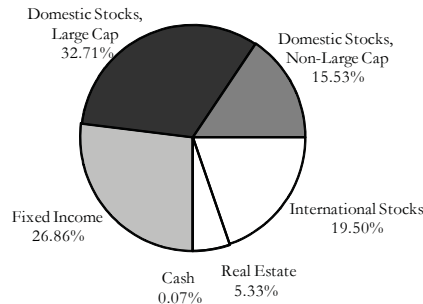


Total Plan Net Assets (Expressed in millions)



Investments

COA ERS is responsible for the prudent management of funds held in trust for the exclusive benefit of our Members' pension benefits. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. The Board of Trustees has retained eleven professional investment managers to help maximize returns and control risk for the fund. In determining an appropriate asset allocation and selection of investment managers, the Board is assisted by an independent investment consultant. At December 31, 2006, the asset allocation for the portfolio was as follows:



Investment performance for the year ending 2006 was 12.5% net of fees. For actuarial purposes, the System's annual investment performance is measured over a five-year period, thereby smoothing annual variations in return.

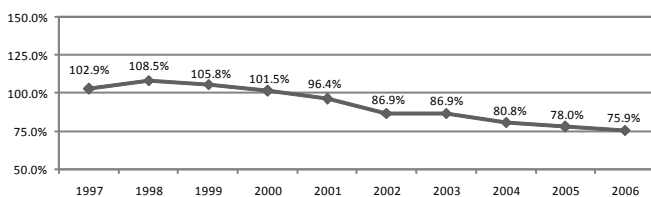
Funding Status

The Actuarial Valuation for the plan year ending December 31, 2006, reports an increase in the Plan's unfunded liability. COA ERS' unfunded accrued actuarial liability increased from \$395 million for 2005 to \$476 million for 2006. Current contributions are not sufficient to amortize the System's liabilities over a 30-year period as prescribed by standards of the Governmental Accounting Standards Board. To address this issue, the Austin City Council approved a supplemental funding plan for COA ERS in May 2005.

Supplemental Funding Plan

The Supplemental Funding Plan is expected to eventually accomplish a 30-year amortization of the unfunded liability of the System. The initial funding subsidy under the plan started in October 2006 at one percent of covered payroll. Subject to certain conditions, the subsidy will increase by one percent each year up to a total subsidy of four percent. If in any year the investment earnings are 12 percent or greater, the increase in the subsidy will be delayed by a year. Because of this provision, the subsidy will not increase in October 2007. The subsidy (up to four percent) will stay in effect as long as it is needed to attain or keep a 30-year amortization period. As part of the plan, the City Manager and City Council become a part of the process for consideration of future benefit enhancements, including cost-of-living increases. The Supplemental Funding Plan *does not* require additional contributions from employees. The adoption of this plan by the Austin City Council will help ensure a financially sound retirement system.

Funded Ratio



Summary of Plan Net Assets December 31, 2006 and 2005

	2006 Total	2005 Total	\$ Change	% Change
Assets:				
Cash, receivables and prepaids	\$ 9,981,192	\$ 8,711,486	\$ 1,269,706	14.6%
Investments	1,600,703,760	1,454,399,446	146,304,314	10.1%
Invested securities lending collateral	183,981,546	165,721,413	18,260,133	11.0%
Capital assets, net	1,181,333	1,236,529	(55,196)	-4.5%
Total assets	1,795,847,831	1,630,068,874	165,778,957	10.2%
Liabilities:				
Total liabilities	186,889,587	169,302,271	(17,587,316)	-10.4%
Net assets held in trust for pension benefits	\$ 1,608,958,244	\$ 1,460,766,603	148,191,641	10.1%

Summary of Changes in Plan Net Assets Years Ended December 31, 2006 and 2005

	2006 Total	2005 Total	\$ Change	% Change
Additions:				
Contributions	\$ 66,400,877	\$ 60,502,121	\$ 5,898,756	9.7%
Investment income	183,803,163	121,766,026	62,037,137	50.9%
Investment expenses	3,852,986	3,613,695	(239,291)	-6.6%
Net investment income	179,950,177	118,152,331	61,797,846	52.3%
Other income	1,654	1,960	(306)	-15.6%
Total additions	246,352,708	178,656,412	67,696,296	37.9%
Deductions:				
Benefit payments and contribution refunds	96,490,275	91,424,005	(5,066,270)	-5.5%
General & administrative expenses	1,670,792	1,497,461	(173,331)	-11.6%
Total deductions	98,161,067	92,921,466	(5,239,601)	-5.6%
Net increase	148,191,641	85,734,946	62,456,695	72.8%
Net assets held in trust for pension benefits, beginning of year	1,460,766,603	1,375,031,657	85,734,946	6.2%
Net assets held in trust for pension benefits, end of year	\$ 1,608,958,244	\$ 1,460,766,603	\$ 148,191,641	10.1%

Retirement News Update is a publication of the City of Austin Employees' Retirement System and is distributed for the information of COA ERS active, vested, and retired members, and their beneficiaries.