

Retirement News Update

A Publication of the City of Austin Employees' Retirement System

Available online at www.coaers.org

3rd Quarter 2018

2017 Financial Summary

Introduction

This edition of Retirement News Update provides a financial overview of the City of Austin Employees' Retirement System (COAERS or the System) based on the 2017 Comprehensive Annual Financial Report (CAFR). The complete report provides information about the financial, investment and actuarial aspects of the System. To obtain a copy of the complete 2017 CAFR, contact the retirement office by phone at (512) 458-2551, or download a copy from our website at www.coaers.org.

As of December 31, 2017, COAERS' net position totaled \$2.65 billion.

Summary of Fiduciary Net Position December 31, 2017 and 2016

	2017	2016
Assets		
Cash and receivables	\$ 21,968,064	\$ 87,126,461
Investments	2,629,928,427	2,274,600,237
Invested securities		
lending collateral	148,922,849	102,574,024
Capital assets, net	4,347,529	3,370,047
Total assets	<u>2,805,166,869</u>	<u>2,467,670,769</u>
Liabilities		
Total liabilities	<u>154,708,753</u>	<u>167,962,383</u>
Net position restricted for pensions	<u>\$ 2,650,458,116</u>	<u>\$ 2,299,708,386</u>

Summary of Changes in Fiduciary Net Position December 31, 2017 and 2016

	2017	2016
Additions:		
Contributions	\$ 167,251,257	\$ 165,289,544
Investment income	382,719,865	176,689,033
Investment expenses	5,899,840	5,050,013
Net investment income	<u>376,820,025</u>	<u>171,639,020</u>
Other income	—	995
Total additions	<u>544,071,282</u>	<u>336,929,559</u>
Deductions:		
Benefit payments and contribution refunds	190,543,262	179,344,379
General and administrative expenses	2,778,290	2,700,916
Total deductions	<u>193,321,552</u>	<u>182,045,295</u>
Net increase in net position	<u>350,749,730</u>	<u>154,884,264</u>
Net position restricted for pensions:		
Beginning of year	2,299,708,386	2,144,824,122
End of year	<u>\$ 2,650,458,116</u>	<u>\$ 2,299,708,386</u>

Actuarial Overview and Funding Status

Each year, the COAERS actuary presents the results of the actuarial valuation to the Board of Trustees (Board). The actuarial valuation provides the costs of the System's liabilities, assesses the adequacy of contributions paid to the System, and provides a snapshot of the System's funded status as of December 31st of the previous year.

The Actuarial Valuation for the year ending December 31, 2017, reports an unfunded liability of \$1.205 billion, an increase from \$1.168 billion in 2016. The funding period was 30 years, compared to 31 years at the end of 2016, and COAERS current obligations were 68.3% funded.

Key Actuarial Valuation Results

	December 31, 2017 (1)	December 31, 2016 (2)
• Members		
— Actives	9,612	9,364
— Retirees (including disabled) and beneficiaries	6,225	5,934
— Vested - terminated	<u>964</u>	<u>981</u>
— Total	16,801	16,279
• Covered payroll	\$ 629,943,122	\$ 599,574,934
• Normal cost as % of payroll*	17.73%	18.01%
• Actuarial accrued liability	\$ 3,797,823,303	\$ 3,591,376,306
• Actuarial value of assets	\$ 2,592,460,631	\$ 2,423,269,015
• Unfunded actuarial accrued liability (UAAL)	\$ 1,205,362,672	\$ 1,168,107,291
• Estimated yield on assets		
— Actuarial value basis	8.10%	5.74%
— Market value basis	16.48%	8.03%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	18.00%	18.00%
• Benefit and refund payments	\$ 190,332,179	\$ 179,128,881
• Amortization period of unfunded actuarial accrued liability	30 years	31 years
• Funding Policy employer contribution rate	19.33%	19.61%
• Funded ratio	68.3%	67.5%
• Funded ratio using market value of assets	69.8%	64.0%

* Includes 0.51% of payroll for administrative expenses beginning in December 31, 2015 valuation.

The actuarial valuation results for COAERS this year reflect the strong market returns in 2017 and new active membership growth. Both of these factors have had a positive impact in decreasing the System's amortization period of unfunded actuarial accrued liability (UAAL) from 31 to 30 years. While the UAAL did increase this year, the overall funded position of COAERS improved from 67.5% to 68.3%. The current financial condition does not pose any threats to the benefits of current retirees.

The Board is conducting an Asset/Liability Study in 2018 to ensure that the System is in the best position to meet all of its responsibilities in the long-term.

Active & Retired Member News

2017 Financial Summary (cont'd)

The purpose of Fund investments is to accumulate the long-term financial reserves necessary to provide benefits to COAERS members and their beneficiaries. The Board of Trustees has the fiduciary duty of overseeing investments and relies upon consultation, advice and assistance from the System's staff and investment consultant to do so. Diversification is the primary focus of the Fund's design, and strategic asset allocation is the primary tool used to achieve long-term targets for return and risk. The portfolio is allocated across a wide range of geographies and asset classes, and the Board has retained 13 professional investment firms to manage these portfolios. During 2017, the Fund delivered a 16.6% return net of fees, its best performance since 2009, with an asset allocation at year-end that is depicted in the chart.

