

Amended Supplemental Funding Plan for the City of Austin Employees Retirement System

I. Background

An actuarial analysis for the City of Austin Employees' Retirement System (the "System") determined that the funded ratio of the System was 71.8% as of December 31, 2009. This "funded ratio" is the ratio of the actuarial value of the System's current and projected assets as compared to the actuarial accrued liability for all current and projected benefits. Thus, if a pension system's current and projected assets are less than its current and projected liabilities, the funded ratio will be less than 100%. In calculating the funded ratio, investment returns are smoothed over a rolling five-year period to provide a more reliable analysis of long-term funding status.

While a funded ratio of 100% or more is desirable, a pension system with a funded ratio lower than 100% can be sound if there is an adequate financing arrangement to amortize the unfunded actuarial accrued liability ("UAAL") over an acceptable period of time. The System's Board of Trustees, its actuaries, and City management have all concluded that there is not currently such an adequate financing arrangement in place for the System. As of December 31, 2009 the System had a UAAL of \$658 million, and the amortization period for that UAAL was infinite. At current contribution rates, and using the actuarial assumptions adopted by the System, the UAAL will continue to grow over time, making this issue even more acute in the future.

The City Council adopted a Supplemental Funding Plan on May 12, 2005 (the "2005 Supplemental Plan") to provide an interim increase in employer contributions to the System above the 8% contribution rate in effect in 2005. The current additional contribution under the 2005 Supplemental Plan is 4% annually, for a total employer contribution of 12%. However, even taking into account the increased employer contribution under the 2005 Supplemental Plan, the funded ratio of the System decreased from 80.8% as of December 31, 2004, to the current funded ratio of 71.8%. The most recent analysis by the actuaries for the System (Gabriel, Roeder, Smith & Company) concludes that the current combined level of employer and employee contributions is not sufficient over time to fund the anticipated future benefits that the System will be called upon to pay at current benefit levels.

In light of these concerns, the City Council adopts this Amended Supplemental Funding Plan (the "Amended Supplemental Plan") to protect and preserve the financial soundness of the System. This Amended Supplemental Plan supersedes, repeals, and replaces the 2005 Supplemental Plan, and becomes effective upon adoption by the City Council. This Amended Supplemental Plan will remain in effect until modified or repealed by action of the City Council.

II. The Amended Supplemental Plan

A. Supplemental Employer Contributions. The City of Austin will provide employer contributions to the System above the employer contribution level set out in Art. 6243n, Tex. Rev. Civ. Stat., beginning in fiscal year 2010-11. The City's total employer contribution will be:

- 14% of compensation effective October 1, 2010 for fiscal year 2010-11;
- 16% of compensation effective October 1, 2011 for fiscal year 2011-12; and
- 18% of compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

The contribution levels will remain in effect until this Amended Supplemental Funding Plan is amended or repealed.

B. Consideration of Benefit Enhancements. So long as this Amended Supplemental Plan remains in effect, any future benefit enhancements or cost of living adjustments otherwise permitted under the System's governing documents will require recommendation from the City Manager and approval by the City Council. Any such recommendation by the City Manager should include a projection and actuarial analysis by the System and its actuaries of the effect of the requested enhancement or adjustment on the System and the level of employer contributions to the System, including projections under scenarios simulating volatile market returns.

C. Legislation and New Members of the System. The City and the System intend to seek legislative amendments in 2010 to Art. 6243n Tex. Rev. Civ. Stat. to address upcoming changes in federal law and plan provision changes. The amendments will be designed to improve the overall financial condition of the System, and will establish reasonable but different benefit levels for employees of the City who become members of the System on or after January 1, 2012.