

## AGENDA



Thursday, October 14, 2010

**Financial and Administrative Services  
RECOMMENDATION FOR COUNCIL ACTION****Item No. 15**

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**Subject:** Approve a resolution supporting as part of the City's legislative agenda for the 2011 session of the Texas State Legislature an amendment to Vernon's Civil Statutes, Title 109, Article 6243n to provide a separate tier of benefits under the City of Austin Employees' Retirement System for future employees only, and directing the City Manager to investigate and recommend additional changes to Article 6243n that may be included as part of the City's legislative agenda for the 2011 session of the Texas State Legislature.

**For More Information:** Jeff Knodel 974-2589, Mark Washington 974-3202

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The City of Austin is the plan sponsor to the City of Austin Employees' Retirement System (ERS), which is governed by state law and administered by an eleven-member board of trustees. ERS provides retirement benefits to eligible City of Austin employees, which consist of all non-civil service employees. ERS currently has approximately 9,000 members and 4,000 retirees.

While ERS remains able to pay benefits to retirees on an ongoing basis and is not at serious risk of insolvency within the near future at the current funding and benefit levels, there are two serious, long term problems that must be addressed to ensure the future health and sustainability of ERS:

1. **Funded Ratio.** An actuarial analysis for the City of Austin Employees' Retirement System (ERS) determined that the funded ratio of ERS was 71.8% as of December 31, 2009. The funded ratio is the value of actuarial assets compared to the actuarial accrued liability for all current and projected benefits. Although other factors are also relevant in evaluating the funded ratio of a pension system, most pension experts generally recommend a minimum funded ratio of 80%.

2. **Amortization Period.** A pension system with a funded ratio lower than 100% can be considered financially sound if there is an adequate funding arrangement to amortize the unfunded actuarial accrued liability (known as the "UAAL") over an acceptable period of time. The UAAL represents the difference between the benefits the pension system will be obligated to pay in the future and the projected funding available to pay those benefits.

The projected period of time needed to fund a pension system's UAAL, called the "amortization period", is also a measure of the health of a pension system. As a benchmark, the State of Texas Pension Review Board, the entity responsible for oversight of State and local government pension systems, recommends an amortization period of 25-30 years. Currently, the amortization period for ERS is infinite. This means that the current rate of contributions will never be sufficient to fund the UAAL at the current benefit level. It is highly likely that the UAAL will continue to increase in the future at the current contribution and benefit levels assuming the actuarial assumptions of future investment returns and retirement trends.

The ERS Board of Trustees, its actuaries, and City management have concluded that an adequate financing arrangement does not exist and the UAAL will continue to grow worse in the future.

City management, in collaboration with the ERS Board of Trustees, has developed a plan to improve the financial health of ERS. The three primary objectives of the plan are to:

- Achieve a 30-year amortization period for the UAAL in the near future
- Improve the funded ratio to at least 80% over the long-term; and
- Continue providing an attractive retirement benefit for City employees that will support our recruitment and retention goals and reward a full career of service to the citizens of Austin

In order to accomplish these objectives, the plan addresses both sides of the retirement system equation – contributions to ERS and the benefits paid out by the system – as follows:

1. Employer Contributions. On September 13, 2010, City Council approved an amendment to the supplemental funding plan for ERS. The initial supplemental funding plan was approved by City Council in 2005. This amendment increased the rate of the employer contribution to ERS from 12% in FY 2010 to 14% in FY 2011, 16% in FY 2012, and 18 % thereafter beginning FY 2013.

2. New Benefit Structure for Future Employees. The second component of the plan is a new benefit tier for future City employees. This component is essential to protect the financial soundness of ERS by creating a benefit formula that more closely resemble the average service career in the workforce and life expectancy trends in the current population.

Members currently qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Vesting occurs at five years of creditable service. Benefits are determined at 3% of the final average earnings multiplied by the number of years of creditable service. The proposed new benefit tier for new employees changes the normal retirement qualifications for normal retirement benefits to age 62 with 30 years of creditable service or age 65 with 5 years of creditable service. The vesting period will remain at 5 years. In addition, benefits will be determined at 2.5% of final average earnings multiplied by the number of years of creditable service. An option will exist for early retirement, with an actuarial reduction, at age 55 with 10 years of creditable service. Attachment A provides a detail of all benefit changes considered under this plan.

The proposed benefits for the new tier will not affect current City employees or retirees and will be effective for new employees hired on or after January 1, 2012. It will also not affect City of Austin civil service employees.