

Austin Police Retirement System News

Summer 2019

this issue:

Actuarial Valuation **P.2**

Actuarial Experience Study **P.3**

2018 Annual Financial Report **P.4**

Letter from Executive Director **P.5**

Board of Trustees

Elected by Active members:

Sgt. Jim Beck,
Chair

Sgt. Andrew Romero,
Vice Chair

Asst. Chief Todd Smith

Det. Tyler Link

Sgt. Tom Hugonnett

Elected by Retired Members:

Ret. Lt. Carl
Zimmerman

Ret. Sgt. Keith Harrison

Statutory Trustee

Positions:

Ms. Kathie Tovo,
City Council Member

Ms. Elaine Hart,
*Deputy City Manager
and Chief Financial
Officer*

Ms. Belinda Weaver,
Interim City Treasurer
Chesley Wood,
Citizen Representative



Letter from Board Chair, Jim Beck

It has been an honor to serve on the Board of Trustees for the last five years and to serve as Chair. Although eligible for retirement, I intend to continue service with APD for years to come.



Much progress has been made for APRS in the last five years and I'm proud to have been a part of it: changes in leadership on the Board; changes in staffing; changes in external professionals used by the Board, specifically the legal counsel and actuary. All of which compliments the transitions the System has incurred for the last decade and moves us closer to implementing best practices in every aspect of governance and management of our pension system.

At this time and plainly put, the retirement system is experiencing growing pains. Those receiving retirement annuity benefits have more than doubled in the last decade. Fortunately assets have also steadily increased, reaching over \$800 million at this time.

However, the recent actuarial experience study and latest valuation revealed that the System is facing funding problems. Those details are described in separate articles of this newsletter. Quickly after receiving the 2018 Actuarial Valuation, we held a series of member briefings to share the results. We received input from members and talked about what we can and cannot yet answer. We explained the funding status, historical changes in plan design and membership, and described the process we will use to address the current funding issue.

What we cannot yet answer is what may change, when there will be changes, and who will be impacted. However, we are getting to work on it. I want to assure the APRS membership, though, that I will encourage the Board to take a well measured and thoroughly researched approach to designing what changes should be made. Toward that end I proposed and the Board adopted a resolution at its August meeting to ensure adequate due diligence and guard against overly quick action by the Board that could catch the membership by surprise. Input

Continued on next page

Letter from Board Chair, Jim Beck con't

will be broadly sought from all stakeholders. Consideration of ideas will be first vetted by the Board's Actuarial Review Committee, which cannot take action but merely makes recommendations to the full Board. The Board resolution also prevents the Board from taking action sooner than 30 days after committee recommendations are received.

The process to our funding resolution will take time, and it should take time. APRS will work diligently with its plan sponsor, the City of Austin, to achieve long-term solutions. Immediately after receiving the latest actuarial valuation results in July, we notified the City Manager of the funding status. The Executive Director met with the City Manager within a few days afterward. He expressed the City's historical commitment to all of its retirement systems. In addition, during his August 5 budget presentation to the City

Council, Manager Cronk indicated among new initiatives he will pursue is to, "Seek assistance from outside experts and work closely with our partners at the police and employees retirement systems to develop long-term strategies for ensuring their financial health." A final resolution could take one to three years, because of where the City is in its budget schedule, as well as if it is determined we need to go to the Legislature in 2021.

As always, please do not hesitate to contact me or other Trustees if you have questions or ideas you would like to submit.

Actuarial Valuation as of December 31, 2018

On July 17, 2019, the Board of Trustees received the annual actuarial valuation for data as of December 31, 2018. It shows the value of total actuarial assets is \$807,978,988, and the total actuarial liability is \$1,389,660,616. That leaves an unfunded actuarial accrued liability (UAAL) of \$581,681,628, bringing the funded ratio to 58.1%. While this stretches the amortization period to "infinite," keep in mind that the unfunded liability is not owed immediately or even in the near years. There is time to improve the situation. By planning sensible long-term solutions, the System is in a position to chart a better course ahead. Your APRS Board is committed to addressing the System's funding status transparently with all stakeholders.

The System will also work diligently with the City of Austin (our plan sponsor) to consider a variety of options for improving our actuarial funding status. No benefit changes and no contribution increases are under consideration at this time; however, all options will be discussed as we work through determining what may be the best solutions. It is the System's intention that no changes to the way the fund operates today will be made without thoughtful discussion, expert-generated options and recommendations, and continued transparent communications to APRS membership.

For members faced with divorce, a model Qualified Domestic Relations Orders (QDRO) is available on the APRS website. It is a document in addition to a divorce decree that specifies if a former spouse is awarded any portion of the APRS member's retirement benefit and how much. Please note the model was last updated and approved in July 2017. Always check the website for the current version. Any updates, however, do not impact any QDROs already adopted by the court. If this situation applies to you, please submit a draft QDRO to APRS for legal review and approval before it is finalized with the court. Once the QDRO has been finally acted upon by the court, you will need to submit the final copy to APRS. The QDRO award is calculated only on the employment years that coincide with the time period of the marriage. Benefit distributions are impacted by the QDRO in various ways. APRS can provide further details about how this works.

Board Approves PROP and 5 Year DROP Interest Rate

At the Regular Board Meeting on August 21, 2019, the APRS Board of Trustees adopted a continued interest rate of 2.25% on participating accounts in the Post Retirement Option Plan (PROP) and the Five Year Forward DROP program for those who are subject to the variable interest rate due to entering the Five Year Forward DROP after July 31, 2015.

Results of the Actuarial Experience Study

Long considered best practice among pension professionals, state law was amended in 2013 to require all public retirement systems having assets of at least \$100 million to conduct an experience study every five years. An actuarial experience study is a review of the actuarial assumptions and methods used in valuations as compared to the real experience of the plan, which can be used to assess the adequacy of the existing funding policy. Sound actuarial assumptions need to reflect new information, best practices, mortality rate improvements, actual investment returns and projections, salary and payroll growth experience, inflation rates, and changing data patterns of member departures from the system.

The first APRS experience study was launched last fall, and upon initial findings by the actuary, Board Chair Beck named a new Actuarial Review Committee chaired by Trustee Tyler Link. Following further analysis and due diligence by the Actuarial Review Committee, the study was concluded and presented to the Board on May 15.

Key actuary-recommended revised assumptions adopted by the Board include:

- Lower the inflation rate from 3% to 2.5%
- Lower the assumed rate of return from 7.70% to 7.25%
- Decrease the assumed payroll growth rate from 4% to 3%
- Update the mortality tables to the newest projections for public safety employees published by the Society of Actuaries

Retiree COLA Not Possible At This Time

APRS is currently in a recovery mode in order to place the System on a more secure financial footing. (See separate article on the 2018 Actuarial Valuation.) Under the APRS state law, the Board of Trustees is only authorized to grant an annual Cost of Living Adjustment (COLA) subject to certain conditions. Before the Board may grant a COLA there must be a recommendation by its actuary for approval certified in writing to the Board, "based on the sound application of actuarial assumptions and methods consistent with sound actuarial principles and standards," that the system "has and will continue to have the ability to pay such an amount out of its realized income after all other obligations of the system have been paid."

Unlike the period before the Great Recession that hit in 2008 when APRS was able to provide a series of increases, a COLA for retirees will not be possible at this time. As many of you know, the severe reversal of investment markets in 2008 adversely impacted all institutional funds, and APRS was no exception. We hope that with diligent ongoing management we will one day see the opportunity to increase retiree annuities, hopefully sooner than later.

2018 Annual Financial Report

The APRS Board adopted and published the final 2018 audited Annual Financial Report, which is posted on the website at www.ausprs.org. The System's independent auditor, Montemayor Britton Bender PC, issued an unqualified opinion on the System's financial statements. The opinion is the best report an independent auditor may issue. It indicates the APRS financial statements are presented fairly and are prepared in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP).

The Annual Report includes the Public Pension Standards Award for Administration 2018, as presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and National Council on Teacher Retirement (NCTR).

Highlights of the 2018 Annual Financial Report include:

The total market value of assets decreased from \$769 million as of December 31, 2017, to \$719 million as of December 31, 2018, primarily due to a sizable drop in investment markets during the month of December. Market value was back up to \$779 million by the end of the first quarter 2019 and rose to almost \$799 million by the end of June.

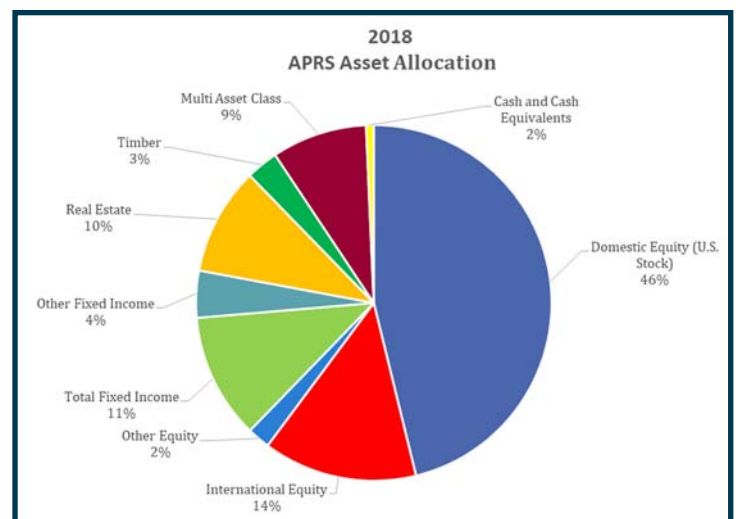
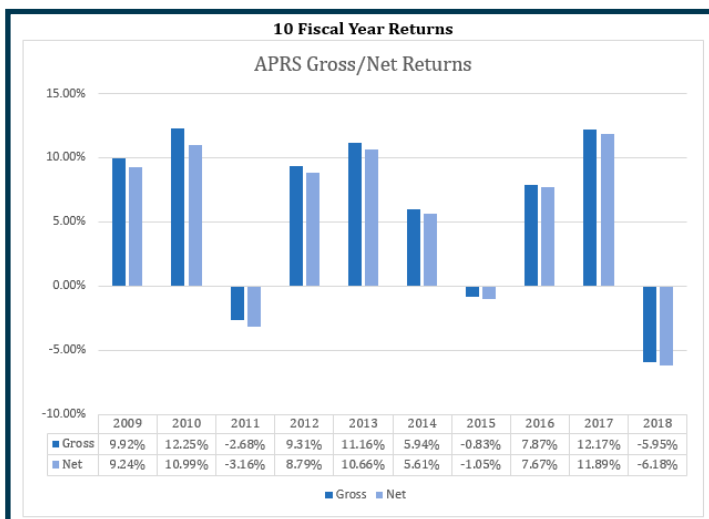
Total contributions decreased from \$59.5 million to \$57.8 million, primarily due to the expiration of the police contract at the end of December 2017 and its impact to payroll, as well as the related uptick in retirements that month.

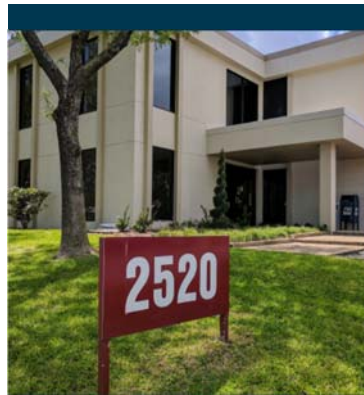
Membership grew from 2,831 in December 2017 to 2,909 in December 2018:

Current active participating members	1,892
Retirees and beneficiaries currently receiving benefits (906) and terminated employees entitled to future monthly benefits (111)	<u>1,017</u>
Total Membership on December 31, 2018	2,909

Investment Returns and Assumptions

The System's rate of return in 2018 reflects a loss at -6.18 percent net of expenses, reflective of a significant downturn in the December markets as mentioned above. The long-term net return since inception of the fund is 7.70%, the 10-year return is 5.26%, and the 3-year return is 4.17%. The charts below exhibit the gross and net gains and losses each year for the last ten years, as well as the asset allocation for the fund's investment strategy.





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(closed for City and Federal
Holidays)

APRS Staff Members:

Pattie Featherston,
Executive Director

Stephanie Willie,
Deputy Director

Janis Reinken,
Executive Advisor

Michelle Ruland,
Benefits Manager

John Poth,
Finance Manager

Deborah Esparza,
Benefits Specialist

Jennifer Grahmann,
Office Administrator

Keep Your Death Benefit Beneficiary Form Updated

We see a continuing need to emphasize the importance of keeping beneficiary forms current. State law allows a member to designate a spouse or non-spouse to receive a death benefit, which is different from a chosen survivor selected to receive the member's continued annuity upon death.

It is very important for APRS members to be aware that failure to have a valid APRS beneficiary form on file with the System, and to keep it current, can complicate the management of the final affairs of a deceased officer. Members should especially review death benefit beneficiary designations any time you have a change in life circumstance, such as marriage, divorce, death of a spouse or other designated beneficiary, or birth of a child.

The beneficiary form for death benefits can be submitted online: see https://www.ausprs.org/designation_form_for_death_benefits. Multiple beneficiaries can be named, and this designation may be changed during the member's career or during retirement. The death benefit paid for an active member's account is paid in the amount of two times the balance of the deceased member's contribution account balance, with a minimum of \$10,000. The benefit paid for a deceased retiree is \$10,000.

Letter From The Executive Director

We are pleased to announce the addition of new staff. Janis Reinken has been hired as Executive Advisor. She spent many years practicing law and served over a decade as Chief of Staff and General Counsel to one of the members of the Texas House of Representatives who served on the House Pensions Committee. Jennifer Grahmann joins us in the position of Office Administrator, and will be stationed at our lobby front desk. She served in a similar position with UTIMCO which oversees investments for UT and A&M. She also had a previous career as a realtor. Both ladies bring a wealth of knowledge and experience to our team.



I am also delighted to inform that Deborah Esparza has been promoted to Benefits Specialist. Deborah started with APRS as an intern, and when she finished her degree at UT-Austin two years ago we brought her into a full-time position as Administrative Assistant. As now Benefits Specialist she will work closely with our Benefits Manager in serving the daily needs of our members.

Thank you for your continued support of APRS staff. Please let us know how we can serve you better.

Please Make An Appointment

We love to see our members, and it is a sincere pleasure to serve you. We strongly encourage you, though, to make an appointment for us to be prepared to meet your needs. No matter how simple or quick your question seems, please call first. Our staff is very small and every day is quite full. Please help us serve you best, and give us a call so we can set an appointment if needed. You also have the convenience of emailing us your questions or to request an appointment through the APRS website at www.ausprs.org. Under the Contact tab there is a fillable form you can submit and you will receive a response from the System via e-mail.