

Austin Police Retirement System News

Summer 2021

this issue:

Letter from Executive Director P.2
2020 Actuarial Valuation P.2
Passage of Legislation P.3
2020 Annual Financial Report P.4

Board of Trustees

Police Member

Det. Tyler Link, Chair

Retired Police Member

Ret. Sgt. Keith Harrison,
Vice Chair

Police Member

Sgt. Scott Askew

Police Member

Ret. Sgt. Michael Cowden

Police Member

Ret. Sgt. Thomas Hugonnett

Police Member

Cpl. Nicholas Moore

City Member

Council Member

Honorable Kathie Tovo

City Member

City Deputy CFO

Ms. Diana Thomas

City Member

Treasurer

Ms. Belinda Weaver

Citizen Member

Mr. Chesley Wood

Retired Police Member

Ret. Lt. Carl Zimmerman



Letter From Board Chair Tyler Link

It is with great excitement that we can announce having restored funding soundness to the retirement system. Last September the APRS Board of Trustees unanimously adopted basic parameters for changing the plan document in state law. These included a new tier of benefits for officers that are employed on/after January 1, 2022. This coupled with increases in the active member contributions and the City's contributions result in a period to amortize unfunded liabilities of 30 years.



It was no small feat getting the APRS bill passed by the 87th Legislature. The Board is very grateful to staff and consultants that worked diligently in drafting, testifying, and working through the process. Please see other articles in this newsletter for more details about the legislation and the most recent actuarial valuation.

APRS also recently accomplished another milestone in 2021 when the market value of System assets climbed to over \$1 Billion. Although this asset value is not reflected in the 2020 Annual Report, the report does show returns have been above the actuarial assumption for the last two years, almost 12% in 2020 and over 21% in 2019. Please see the article that recaps the 2020 Annual Report. As always, please do not hesitate to contact me or any other Trustee with questions or concerns.

Keep Your Death Benefit Beneficiary Form Updated

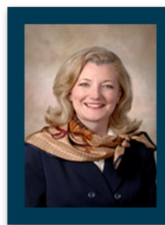
We see a continuing need to emphasize the importance of keeping beneficiary forms current.

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>.

Letter From Executive Director Pattie Featherston

APRS staff have remained diligent in providing customer service as remote working continued through 2021. Plans have begun for reopening the office, but with the pandemic situation worsening as we write this it is still an uncertainty. Once reopened we will likely have reduced hours that the physical office is open, but of course we will continue to provide services in a virtual environment for all normal business hours as we have for over 17 months. Also please keep in mind that appointments are essential. The only thing we can do to assist walk-in officers is make you a future appointment at a set scheduled time.



Thank you for your patience as staff has been very busy with the growing increase in retirements. At this writing we know we have 93 retirements signed so far this year. The full year total in 2020 was 97, up from an annual average of about 50.

We are also very consumed with launching a new benefit software system that we hope will be in place by approximately Spring 2024. We will provide more details as the project progresses, but it should allow members the opportunity to do a lot more for themselves in a secure member portal such as changing basic personal information and running certain calculations. We are very excited about the prospects.

All of this has been happening in a year we also successfully passed significant legislation to restore the sound actuarial funding of the System. Please see related articles in this newsletter. Let us know if you need anything. We are here to be at your service.

Actuarial Valuation as of December 31, 2020

On July 21, 2021, the Board of Trustees received the annual actuarial valuation for data as of December 31, 2020. It shows the value of total actuarial assets is \$904,436,131, and the total actuarial liability is \$1,542,174,418. The unfunded actuarial accrued liability (UAAL) is \$637,738,287, bringing the funded ratio to 58.6%.

Thanks to the passage of legislation to address the funding shortfall, the unfunded liability can now be amortized over a 30-year funding period. The funding components of the revised statute should keep up with any adverse experience. One element we are constantly watching is the diminishing number of active contributing members versus the growing number of annuitants. From 2019 to 2020, active contributing members declined from 1,872 to 1,775, while annuitants increased from 950 to 1,045. Since this is based on data as of December 31, 2020, it does not reflect the entrance of new members due to the current cadet class, but it also does not include the record number of 2021 retirements that have already been processed at the time of this printing. The Board of Trustees, APRS staff and consulting actuaries will continue to monitor the changes in membership composition.

Virtual Retirement Education Seminar

In-person seminars have been postponed for an uncertain time-frame, however, the System has created a virtual retirement education seminar that can be found here: <https://www.ausprs.org/articles/Virtual-Retirement-Education-Seminar>. We hope this presentation can provide members with basic information about the APRS benefit plan.

Model QDRO Available

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.



Passage of Legislation Restores Pension Funding

To almost everyone's surprise, APRS was able to initiate and secure passage of legislation that results in significant improvement to the actuarial funding. Many hurdles existed at the outset, not the least of which was the environment of trying to navigate the unusual reality of a legislative session during a worldwide pandemic. In September 2020, the APRS Board of Trustees unanimously adopted the potential basic parameters of changes to the plan document in state law, and later provided the enhanced budget resources to launch a serious attempt for the session starting in January 2021.

House Bill 4368 by State Representative Eddie Rodriguez and State Senator Dawn Buckingham made it successfully through the 87th Legislature, and it was signed by Governor Greg Abbott on June 15, 2021. The final provisions include:

Key provisions include the basic provisions adopted unanimously by the APRS Board in September:

- Lower benefits for new hires beginning 1/1/2022
 - 2.5% multiplier
 - Retirement eligibility at age 50 and 25 years of service
 - Average salary calculated on the highest 60 months
- Member contributions increase from 13% to 15% of pay beginning 1/1/2022
- City contributions increase with two components:
 - Carve out of the legacy unfunded liability existing as of 12/31/2020, with a separate City payment plan beginning 1/1/2022, to pay off this amount in a 30-year period
 - Contribution rate based on an ADEC (Actuarially Determined Employer Contribution) keeping the rate within a certain corridor to ensure long-term funding but moderating volatility

Other key changes made to the APRS statute by the 87th Legislature include:

- APRS Board composition: One active member seat will be replaced with a citizen appointed by the City Council; requires experience in finance and/or investments.
- Board authority to change plan provisions such as benefits and eligibility, including an ad hoc COLA, is eliminated; as well as Board authority to recommend a change in the contribution rate paid by members. Future changes would have to be done by the legislature.
- Determination of actuarial assumptions remains the Constitutional duty of the Board. However, the bill adds a process by which the city can provide input to the Board.
- If the ADEC corridor is breached and the city rate is therefore capped, member contributions increase as needed up to a maximum rate of 17%. At that point, the member rate is capped, and the city and Board must enter discussions about how to resolve funding.
- City contribution increases required by the legislation are phased in over three years.

The improved funding status of APRS is reflected in the annual actuarial valuation of data as of December 31, 2020, which was presented and approved at the July 21st meeting of the Board of Trustees. The unfunded liability can now be amortized over a 30-year funding period.

Austin Police Retirement System

Kendall Thomas
Chesley Wood

Building:

2520 S. IH-35, Ste.100
Austin, TX 78704

Mailing Address:

P.O. Box 40609
Austin, TX 78704

Phone: (512) 416-7672

Fax: (512) 416-7138

www.ausprs.org

Office Hours:

M-F / 8:00 am-5:00 pm
(closed for City and Federal
Holidays)

APRS Staff Members:

Pattie Featherston
Executive Director

Stephanie Willie
Deputy Director

Michelle Ruland
Director, Benefits

John Poth
Director, Finance

Deborah Esparza
Benefits Specialist

Jennifer Grahmann
Office Administrator

2020 Annual Financial Report

The APRS Board adopted and published the final 2020 audited Annual Financial Report, which is posted on the website at <https://www.ausprs.org/reports>. 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 2020, 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 2020 Annual Financial Report include:

The total market value of assets increased from \$858 million as of December 31, 2019 to \$938 million as of December 31, 2020. The increase of \$80.4 million in 2020 is primarily the result of strong economic growth indicators, government stimulus measures and the Fed's action to lower interest rates.

Total contributions increased from \$59.2 million to \$60.7 million, primarily due service credit purchases.

Membership grew from 2,934 in December 2019 to 2,935 in December 2020; Active Members Declined, Annuitants Increased:

	<u>2020</u>	<u>2019</u>
Current active contributing members	1,775	1,872
Retirees and beneficiaries currently receiving benefits (1,045) and terminated employees entitled to future monthly benefits (115)	<u>1,160</u>	<u>1,062</u>
Total Membership	2,935	2,934

Investment Returns and Assumptions

The System's rate of return in 2020 reflects a gain of 11.65 percent net of expenses. The long-term net return since inception of the fund is 8.28%, the 10-year return is 6.40%, and the 3-year return is 8.20%. 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.

