



Austin Police Retirement System

UPDATE TO MEMBERSHIP
8/2/2021

RE: PURCHASE COST OF PERMISSIVE SERVICE CREDIT

The Austin Police Retirement System (APRS) is in the process of re-evaluating the cost for members purchasing additional years of service credit. The APRS actuary briefed the Board of Trustees in July, and the Board will again take up the topic for consideration within the next couple of months. Questions may be directed to the APRS Executive Director, Pattie Featherston, at pfeatherston@ausprs.org.

Please note the following pertinent points:

- State law governing APRS allows the Board of Trustees to provide an opportunity for members to purchase additional service credit, the requirements and details of which are determined by the Board.
- Currently, members with at least 20 years of service can buy up to three years to reach retirement eligibility, and a total of five years can be purchased in accordance with federal law.
- APRS state law and Board policy require that the purchase cost completely pay the actuarial present value of the additional benefit.
- Purchases are strictly voluntary, cannot occur until at the time of retirement, and about 35% of retirees utilize this option.
- Current purchase rates originally built in a risk premium (7-10%) to guard against any potential adverse experience developing with a resulting cost to the System, but that premium has eroded due to mortality updates and assumption changes. Current purchase prices are now less than the actuarial cost to the System according to a recent study by the System actuary of data as of 12/31/2020.

The actuary identified two potential options for the APRS Board's consideration but also identified their recommended option. Both options would increase the purchase cost to mitigate the adverse impact to the System. The actuary also recommended an implementation date of January 1, 2022, which would allow timely APRS communication with its membership.

- Option 1: Increase the cost using a risk premium of 6-9% (varies depending on member age)
- Option 2: Increase the cost using a risk premium of 18-25%, which is the recommendation of the System actuary.
 - The actuary's report stated, "APRS is assuming a financial risk by allowing permissive service purchases. Currently this option is only being utilized by a relatively small group of members. It would seem appropriate for these members to bear the risk of this transaction rather than APRS since the decision to purchase service is completely voluntary for the member. Therefore, we are recommending Option 2 above. We believe this should provide adequate protection from adverse experience for APRS while still providing the member with a very reasonable price when compared to their other available commercial options."

The full report by the APRS actuary, Gabriel Roeder Smith & Co., is posted on the APRS website under News at: <https://www.ausprs.org/articles/Actuary-Study-of-Permissive-Service-Credit-Purchase>