



**City of Austin Employees' Retirement System
Board Approved Policy**


Policy: F-2

Subject: Funding Policy and Guidelines

Review Committee: Benefits & Services Committee

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Date Updated:

Signature of Chair: 
Sam Jones

City of Austin Employees' Retirement System Funding Policy and Guidelines

I. PURPOSE AND SCOPE

This Funding Policy establishes appropriate actuarial methodologies and memorializes the long-term funding goals for COAERS. COAERS is formally adopting certain baseline actuarial measurements to provide guidance for actuarial valuations performed on and after December 31, 2013. The Board of Trustees has also used this opportunity to establish guidelines to ensure that the Plan is well funded into the future and specifies under what conditions benefit enhancements will be considered by the Board of Trustees.

II. DEFINITIONS

"Board of Trustees" means the Board of Trustees of the City of Austin Employees Retirement System as defined by Vernon's Ann.Texas Civ.St. Art. 6243n.

"Funding period" means the length of time required to eliminate the Plan's unfunded liability.

"Cost of living adjustment" means an adjustment which is added to the current monthly payment of the retirement annuities, pensions, or allowances of each retired member and beneficiary to help counteract the erosion of purchasing power caused by inflation.

"Funded ratio" means the value of a Plan's assets, expressed as a percentage of the plan's actuarial liability

"Actuarial value of plan assets" means the Plan's assets determined in accordance with the Asset Valuation Method outlined in Section III of this Policy.

"Actuarial liability" means the actuarial accrued liability determined in accordance with the Actuarial Cost Method outlined in Section III of this Policy.

"Unfunded liability" means the actuarial liability in excess of the actuarial value of plan assets.

"Plan" means the City of Austin Employees' Retirement System and the provisions found in Vernon's Ann.Texas Civ.St. Art. 6243n.

"Actuarially determined employer contribution rate" means the employer's periodic contribution to the Plan which is required to properly fund the Plan, which should be sufficient to eliminate the unfunded liability over a period not to exceed 25 years (based on the Texas Pension Review Board's Guidelines for Actuarial Soundness).

“Statutory employer contribution rate” means the employer contribution rate as defined by Vernon's Ann.Texas Civ.St. Art. 6243n, which is currently eight percent (8%) of base compensation.

“Actual employer contribution rate” means the actual employer contribution paid by the City of Austin currently under the Amended Supplemental Funding Plan or by agreement.

“Benefit enhancement” means any change to the promised benefits for retired, active, vested, and nonvested members of the City of Austin Employees Retirement System which increases the actuarially determined employer contribution rate, or increases the amortization period, or decreases the funded ratio of the Plan. Examples include, but are not limited to: benefit formula multiplier increases; reductions in eligibility for benefits, or lump-sum additional benefit payments to retired members or beneficiaries.

III. ACTUARIAL METHODS FOR VALUATIONS

The Board of Trustees has adopted the following actuarial methods for the purposes of actuarial valuations occurring on and after December 31, 2013 and for plan funding purposes:

- A. Asset Valuation Method - Five year Smoothing with Direct Offset of Gains/(Losses) and 20% Soft Corridor,
- B. Actuarial Cost Method – Entry Age Normal (Individual), and
- C. Funding Period – Determined based on an open group projection.

IV. STATEMENT OF PRIORITIES

The first obligation of the Board of Trustees is to fund the Plan sufficiently to preserve the ability to reliably pay benefits promised under the Plan to current and future generations. However, the Board believes that an ideal benefit design should include annual cost of living adjustments to help counteract the erosion of purchasing power caused by inflation. Other benefit enhancements should be considered only after cost-of-living adjustments have been incorporated and only if the actuarially determined employer contribution rate is less than or equal to the statutory employer contribution rate.

V. GUIDELINES FOR FUTURE COST OF LIVING ADJUSTMENTS

The Board of Trustees believes that it is best to consider supporting cost of living adjustments only when the following conditions exist:

- A. The adjustment can be financially supported on a regular, periodic basis preferably on an annual basis but no less frequently than every five years.

- B. The funded ratio of the Plan is greater than or equal to 80% after incorporating the cost of living adjustment, assuming it to be regular and periodic; and
- C. The amortization period for unfunded liabilities is less than or equal to 20 years after incorporating the cost of living adjustments, assuming it to be regular and periodic; and
- D. The actual employer contribution rate is greater than or equal to the actuarially determined contribution rate but not more than 18% after incorporating the cost of living adjustments, assuming it to be regular and periodic.

VI. GUIDELINES FOR FUTURE REDUCTIONS IN EMPLOYER CONTRIBUTION RATES

The Board of Trustees believes that it is best to consider supporting a reduction in the actual employer contribution rate only when the following conditions exist:

- A. Annual cost of living adjustments are built into funding assumptions; and
- B. The funded ratio will remain greater than or equal to 105% subsequent to any reduction in the actual employer contribution rate.

The actual employer contribution rate should not go down by more than 1% of pay per year.

VII. GUIDELINES FOR FUTURE BENEFIT ENHANCEMENTS

For all other benefit enhancements not specifically mentioned above, the Board of Trustees believes that it is best to support such enhancements only when the following conditions exist:

- A. Annual cost of living adjustments are built into funding assumptions; and
- B. The funded ratio is equal to or greater than 120% after incorporating the benefit enhancement, and
- C. The actuarially determined employer contribution rate is less than or equal to the statutory employer contribution rate.

VIII. AMENDED SUPPLEMENTAL FUNDING PLAN

- A. This Policy is to be implemented consistently with City of Austin Resolution No. 20100913-008 as known as the Amended Supplemental Funding Plan.
- B. So long as the Amended Supplemental Funding Plan remains in effect, any future benefit enhancements or cost of living adjustments otherwise permitted under the Plan'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 COAERS and its actuaries of the effect of the requested enhancement or adjustment on the Plan and the level of employer contributions to the Plan, including projections under scenarios simulating volatile market returns.

IX. EMPLOYEE CONTRIBUTIONS

In order to fund the Plan, regular full-time employee members may increase the employee contribution rate by a majority vote of all such members voting at an election to consider an increase in contributions.

X. MONITORING AND EVALUATION

- A. The Board of Trustees and its actuary will monitor the Plan's progress towards the guidelines in this Policy.
- B. If a cost of living adjustment is provided, future cost of living adjustments are not necessarily guaranteed and are subject to meeting the guidelines in this Policy, the process for reviewing cost of living adjustments established by the Amended Supplemental Funding Plan, and other factors that the Board of Trustees and the City of Austin may choose to consider.