

2c Funding & Benefit Structure Talks

The City of Austin is considering ways to improve the long-term financial soundness of COA ERS. The options under consideration will not impact the benefits of current City of Austin employees nor will it affect current retirees. A summary of the discussions that have occurred is provided below.

June 30, 2009

The City's Deputy City Chief Financial Officer first briefed the Benefits & Services Committee on preliminary discussions to look at options to improve the financial health of ERS. At that meeting, the Committee agreed to proceed jointly with the City to obtain actuarial analysis of various possible avenues for restructuring future benefits. A number of actuarial studies were subsequently conducted by the actuary on a cost-sharing basis with the City based on discussions at the meeting.

July 28, 2009

The COA ERS Board received various actuarial studies and focused on what would be a reasonable design for a new tier of participation by future employees. Specifically, the focus was on two issues:

1. What should be considered a full-career employee (in terms of years of service); and
2. What level of benefit (in terms of percentage replacement of income) is reasonable for a full-career employee?

The Board discussed maintaining the 69% replacement ratio but refining the full service career to be 30 years. There was also discussion regarding the Normal Retirement Age for future employees.

March 9, 2010

The City's Deputy Chief Financial Officer briefed the Benefits & Services Committee on the status of the Finance Department's study of alternatives for ensuring long-term financial stability for the retirement system. Primary objectives are to reduce the amortization period to 25-30 years and achieve at least an 80% funded ratio.

March 23, 2010

A formal presentation to the City's Audit & Finance Committee was made by City Management and PFM Advisors, the consulting firm hired by the City. The basic suggestions were as follows:

1. Increase City contributions to COA ERS by 2% each year for three consecutive years, resulting in an eventual 18% City contribution by 2013, and
2. Establish a new benefit structure for new employees in the future.

April 6, 2010

The Benefits & Services Committee met with City officials to discuss various eligibility requirements for normal retirement for future employees. The scenarios discussed included the following:

- Scenario 1: Age 62 with 5 years; Age 55 with 30 years
- Scenario 2: Age 62 with 5 years; Age 57 with 28 years
- Scenario 3: Age 65 with 5 years; Age 62 with 30 years; Actuarially Reduced Early Retirement at least Age 55 with 10 years
- Scenario 4: Rule of 80 at Age 55; Age 62 with 5 years
- Scenario 5: Rule of 85 at Age 55; Age 62 with 5 years

The Committee discussed options with respect to the benefit calculation formula for new employees. The Committee discussed a 2.5% and 2.3% multiplier. The Committee also discussed the Final Average Earnings calculations and vesting eligibility requirements.

The Committee instructed the COA ERS actuary to provide financial projections for all the aforementioned benefit design scenarios. The projections were to show results with a 2.3% and 2.5% benefit multiplier using the current Final Average Earnings calculation. No changes to the vesting eligibility requirements were discussed.

The Committee recognized that the following issues needed discussion at a future meeting:

1. Purchases of service credit, and the
2. Reinstatement of previous membership service.

The Committee also recognized a need to discuss retirees working for the City of Austin - an issue not directly related to a new benefit tier.

April 21, 2010

City's Chief Financial Officer presented the 2010 Economic Outlook and General Fund Financial Forecast to the City Council. The Forecast included a statement about focusing on funding retirement costs. The presentation discussed a 2% annual increase in City Contributions for COA ERS from 2011 through 2013. The forecast can be found on the City of Austin's website at http://www.ci.austin.tx.us/budget/10-11/downloads/2011_forecast.pdf.

May 6, 2010

The COA ERS actuary provided actuarial projections to the COA ERS Benefits & Services Committee for the plan design alternatives identified on April 6, 2010. City officials were in attendance. There was general consensus that the Committee would consider any one of the following benefit design changes as part of an overall plan proposed by the City for future employees. The chart below describes the benefit formula multiplier, the eligibility requirements for normal retirement, the underlying full career assumption, the income replacement ratio for a full career, and the estimated dates to reach certain funding milestones.

| | Multiplier | Normal 1 | Normal 2 | Career | Ratio | ARC @ 30 | 80% | 100% |
|---|------------|----------|--|--------|-------|----------|------|------|
| A | 2.3% | 65/5 | 62/30 | 30 | 69% | 2012 | 2030 | 2039 |
| B | 2.3% | 62/5 | 55/30 | 30 | 69% | 2012 | 2033 | 2042 |
| C | 2.3% | 62/5 | Rule of 85 Must be at least age 55 | 30 | 69% | 2012 | 2033 | 2042 |
| D | 2.5% | 62/5 | 57/28 | 28 | 70% | 2014 | 2035 | 2045 |
| E | 2.5% | 65/5 | 62/30 | 30 | 75% | 2012 | 2032 | 2040 |
| F | 2.5% | 62/5 | 55/30 | 30 | 75% | 2014 | 2035 | 2045 |
| G | 2.5% | 62/5 | Rule of 85 Must be at least age 55 | 30 | 75% | 2014 | 2036 | 2045 |

Each plan design alternative above would also include provisions for early retirement for those at least age 55 who have 10 years of service. Early retirement benefits would be actuarially reduced to be cost neutral to the plan. City officials asked the actuary to determine if and how an additional subsidy could be added to these early retirement provisions.

May 18, 2010

The COA ERS Benefits & Services committee met with City officials to focus on the effective date of plan changes for new hires, service purchases for new hires, and retirees working for the City of Austin. There was general consensus that the Committee would support an effective date of January 1, 2012 for plan design changes for new hires and allowing those reinstating prior membership service after January 1, 2012 to receive the same benefits as those employed prior to January 1, 2012.

June 22, 2010

The City Council's Audit & Finance Committee heard a presentation from City staff regarding COA ERS funding and benefit structure for future employees.

July 13, 2010

City officials briefed the Benefits & Services Committee on the presentation made to the City Council's Audit & Finance Committee meeting June 22, 2010. After the briefing, City Officials discussed two additional benefit eligibility structures for future employees shown below.

| Multiplier | Norm 1 | Norm 2 | Early Ret | Career | Replacement Ratio | Arc @30 | @100% |
|------------|--------|--------|-----------|--------|-------------------|---------|-------|
| 2.3% | 62/5 | 60/30 | 55/10 | 30 | 69% | 2011 | 2041 |
| 2.5% | 62/5 | 60/30 | 55/10 | 30 | 75% | 2011 | 2044 |

The Committee supported the consideration of these additional options but expressed a preference for the option with a 2.5% multiplier. City Officials will consider this input and return back to the COAERS Board in August 2010.

The Committee also heard a report from City Officials about retirees working for the City of Austin - an issue not directly related to a new benefit tier. City officials discussed extending the separation period from 45 days to 90 days for retirees wishing to return to work. The City will also conduct more analysis regarding the hiring of retirees.

September 10, 2010

The Benefits & Services Committee met to hear an update from City Officials regarding possible alternatives for a new benefit structure for future members. City officials reported progress on this issue while noting that the City Council has not yet taken any formal action to incorporate any proposed changes into its legislative agenda for the 2011 session of the Texas State Legislature.

Here are some key points of the discussion:

1. Effective Date of all Changes: January 1, 2012 (no impact on current employees or retirees)
2. After reviewing nine possible combinations of retirement ages and benefits multipliers, the City's staff recommended the following:
 - i. Normal Retirement eligibility at 65/5 or 62/30
 - ii. Multiplier of 2.5%
 - iii. Full career at 30 years
 - iv. Vesting period remains at 5 years and no change to final average earnings formula (average of the highest 36 months over last 120 months)
3. Early Retirement Option: Tier 2 members may elect an early retirement option beginning at age 55 with 10 years service. Benefit levels will be actuarially reduced to be cost-neutral (reduction formula to be determined).
4. Purchases of Permissive Service Time by Tier 2 Members: Apply to annuity calculation only (not to calculation of retirement eligibility).
5. Re-Employment with the City: Former COA employees who have membership service in the System prior to January 1, 2012, and who return to work after that date will be covered by the current benefit design not the Tier 2 design.
6. Retirees Returning to Work:

The Benefits & Services Committee also discussed Retirees returning to work for the City of Austin. Finally, the Benefits & Services Committee reviewed a draft Amended Supplemental Funding Plan which, when adopted by the City Council, would increase City of Austin employer contributions to the System as follows:

- i. 14% of compensation effective October 1, 2010 for fiscal year 2010-11;
- ii. 16% of compensation effective October 1, 2011 for fiscal year 2011-12; and
- iii. 18% of compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

The Benefits & Services Committee voted to send the Amended Supplemental Funding Plan to the full COAERS Board for a vote of support.

The full COAERS Board of Trustees convened after the Benefits & Services Committee meeting to address the Amended Supplemental Funding Plan. After a discussion, the COAERS Board voted unanimously to support the Amended Supplemental Funding Plan. A letter of transmittal from the COAERS Chair was drafted and delivered to the Mayor and City Manager on September 10, 2010.

September 13, 2010

The Austin City Council approved the [Amended Supplemental Funding Plan](#).

October 14, 2010

The Austin City Council approved a [resolution](#), supporting, as part of its legislative agenda, a new tier of benefits for employees hired on or after January 1, 2012.

April 18, 2011

The City and the System sought legislative amendments to state law which establish different benefit levels for employees of the City who become members of the System on or after January 1, 2012. These amendments were contained in House Bill 3033 and in Senate Bill 1536. The new benefit design under consideration at the State Legislature will not impact the benefits of current City of Austin employees nor will it affect current retirees.

May 25, 2011

The Texas Legislature passed House Bill 3033 which establishes a new benefit tier for future employees. This bill will now go to the Governor for final action. June 19, 2011 will be the last day for the Governor to sign or veto the bill. If he does neither, it becomes law without his signature.

June 17, 2011

House Bill 3033, establishing a new benefit tier for future employees, was enacted. [Click here](#) to see a copy of the enrolled bill.