

Benefits and Services Committee Meeting

Schedule	Thursday, June 2, 2022 2:00 PM — 3:00 PM CDT
Venue	6850 Austin Center Blvd., Suite 320, Austin, TX 78731
Organizer	Sarah McCleary

Agenda

1. Call roll of Committee members

Presented by Chair Noak

 [Item #1 Summary.docx](#)

2. Review order of business and establish meeting objectives

Presented by Chair Noak

 [Item #2 Summary.docx](#)

3. Consider approval of the March 10, 2022 Benefits and Services Committee minutes

Presented by Chair Noak

 [Item #3 Summary.docx](#)

 [2022 03 10 Benefits & Services Committee Minutes.docx](#)

4. Discuss and consider long-term plan sustainability including benefits policy and funding report

Presented by Christopher Hanson

 [Item #4 Summary.docx](#)

 [04A COAERS Long-Term Plan Sustainability.pptx](#)

 [04B 2022 COAERS Funding Report .pptx](#)

5. Receive report on annual IRS compliance

Presented by Russell Nash

 [Item #5 Summary.docx](#)

 [2022 Annual IRC Compliance Memo 06022022 Committee.pdf](#)

6. Discuss and consider disability retirement application

A. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref. #2201

B. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref. #2201

Presented by Chair Noak

 Item #6 Summary.docx

 2022-6-2 Confidential Disab pkt- FINAL_Redacted.pdf

7. Review key meeting takeaways and call for future agenda items

Presented by Chair Noak

 Item #7 Summary.docx

 2022 Benefits and Services Committee Work Plan.docx

1. Call roll of Committee members

Presented by Chair Noak

AGENDA ITEM 1:
Call roll of Committee members

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

Each Trustee should respond to the roll call, and it will be noted which Trustees are present in person and which Trustees have joined via video conference.

2. Review order of business and establish meeting objectives

Presented by Chair Noak

AGENDA ITEM 2:

Review order of business and establish meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

MEETING OBJECTIVES

1. The Committee will continue discussion regarding COAERS' long-term plan sustainability, including benefits policy and funding.
2. The Committee will receive a report on annual IRS compliance.
3. The Committee will consider one disability retirement application.

3. Consider approval of the March 10,
2022 Benefits and Services Committee
minutes

Presented by Chair Noak

AGENDA ITEM 3:

Consider approval of the March 10, 2022 Benefits and Services Committee minutes

AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Benefits and Services Committee meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the March 10, 2022 Benefits and Services Committee meeting.

ATTACHMENT

1. Draft minutes of March 10, 2022 Benefits and Services Committee meeting



MINUTES

Benefits and Services Committee

Public Meeting held via videoconference on March 10, 2022 at 11:00 a.m. CT
Pursuant to Texas Govt. Code 551.127 – COVID-19 circumstances

Committee Members Present/(Absent)

Chris Noak, ex officio†
Anthony Ross
Brad Sinclair
Diana Thomas
Leslie Pool

Guests:

Paige Saenz, General
Counsel
Lewis Ward, GRS
Eddie Solis
Ed Van Eenoo
Mike Nadol, PFM*
Eddie Solis, Hillco*
Belinda Weaver*
Flick Fornia
(512) 480-8962

Other Board Trustees Present/(Absent)

Mike Benson
Kelly Crook
(Amy Hunter)
Yuejiao Liu
Michael Granof
Dick Lavine

Others Present

Staff:

Christopher Hanson
Sarah McCleary
Russell Nash
Mehrin Rahman
Michelle Mahaini*
Teresa Cantu*
Jenni Bonds*
Amy Kelley*

*Present telephonically

† present via videoconference

1 Call roll of Committee members

Yuejiao Liu notified the Committee that she has been designated to chair the meeting by Chair Chris Noak pursuant to Section 3.3.5 of the Bylaws. Committee Chair Lui called the meeting to order at 11:25 a.m. Committee members were present in person: Ross, Sinclair, Thomas, and Pool.

Committee Chair Liu asked if there were any members of the public who wished to speak, either now or during an agenda item. There were no comments.

2 Review order of business and establish meeting objectives

Committee Chair Liu reviewed the order of business and objectives with the Committee. No changes were made to the order of business.

3 Review 2022 Benefits and Services Committee Work Plan

Mr. Christopher Hanson presented the Work Plan for 2022. Trustees discussed it and gave general approval.

4 Consider approval of the August 31, 2021 Benefits and Services Committee meeting minutes

Committee Chair Liu asked Trustees to review the minutes. Ms. Leslie Pool moved to approve the August 31, 2021 Benefits and Services Committee minutes as presented. Mr. Anthony Ross seconded, and the motion passed 3-0 with Ms. Thomas abstaining.

5 Discuss and consider the December 31, 2021 actuarial valuation results

Mr. Lewis Ward presented the results of the actuarial valuation as of December 31, 2021. Mr. Ward explained that the main purpose of the valuation is to measure the actuarial liabilities, funding status, and determine the adequacy of current contributions.

Mr. Ward reported on the funding period, funded ratio, actuarial gains and losses, as well as analysis of possible risks to the actuarial health of the System. Mr. Ward also discussed the positive actuarial impact from the City's contribution rate increase and the strong investment performance in calendar year 2021.

Mr. Noak joined the meeting virtually at 12:18 p.m.

The Committee received a report from Mr. Hanson that the Investment Committee had recently reviewed forward looking long-term capital market projections and all showed expected returns for the System lower than the current assumed rate of return of 7.0%. Mr. Hanson also reported that this information had been discussed by the COAERS and City of Austin working group. The Committee then discussed lowering the investment rate of return assumption and reviewed actuarial information provided by Mr. Ward comparing the draft valuation results under the current 7.0% assumption as well as under a 6.75% assumption.

Mr. Anthony Ross moved to recommend that the Board accept the December 31, 2021 actuarial valuation results with the investment rate of return assumption of 6.75% composed of an inflation component of 2.5% and real rate of return component of 4.25%. Ms. Leslie Pool seconded. After a discussion, the motion passed unanimously.

6 Discuss and consider long-term plan sustainability including contributions and benefits

Mr. Hanson reviewed with the Committee a timeframe for work related to the System's long-term sustainability with the goals of passing legislation during the 88th Legislative Session. Mr. Hanson then reported on the efforts of a COAERS and City of Austin working group tasked with developing a framework for possible pension legislation. Mr. Hanson discussed with the Committee several recommendations of the working group related to contribution and benefit policies of the System. The first recommendation is to adopt an actuarial determined employer contribution (ADEC) model, similar to the contribution model recently enacted through legislation for the Austin Police Retirement System. Mr. Hanson noted that the approach establishes a midpoint for future employer contributions each year with a range in how the employer contribution could change to no more than 5% above and no more than 5% below the midpoint. Next, Mr. Hanson reported the working group recommendation for the creation of a "Legacy Liability" for the City to pay the existing actuarial accrued liability over a fixed period, not to exceed 30 years, through a separate payment made annually by the City in addition to the ADEC contribution rate. Next, Mr. Hanson reported the working group recommendation for an increase in employee contributions of 2%. Mr. Hanson also discussed a second component of the employee contribution related to the ADEC model in the event the ADEC increased by more than 5%, which would trigger additional employee contributions up to a maximum of an additional 2%. Finally, Mr. Hanson discussed the working group's recommendation to maintain existing service purchase options but mitigate any future unfavorable actuarial experience by modifying certain purchases. Mr. Hanson reported that modifications would include eliminating subsidies, rethinking how costs are calculated, and making certain purchases at retirement. Mr. Ed Van Eenoo, Chief Financial Officer for the City, discussed the similarities in the approach established by the COAERS and City of Austin working group to the City's approach with the Austin Police Retirement System.

Ms. Diana Thomas left the meeting at 12:42 p.m.

In addition to the working group recommendations, Mr. Van Eenoo discussed the possibility of adding a separate, optional defined contribution plan provided that the addition of such a plan had no adverse impact to COAERS. Several Committee members questioned the idea of a separate defined contribution plan. Mr. Van Eenoo commented that the City would continue to consider if such a plan was feasible, and the working group would review the concept in more detail during its second quarter meetings.

Mr. Brad Sinclair moved to refer the working group recommendations related to benefit and contribution policies to the Board for consideration. Mr. Ross seconded, and the motion passed 4-0.

7 Review key meeting takeaways and call for future agenda items

Committee Chair Liu summarized the actions taken and the information discussed during the meeting and asked for any future agenda items.

As there were no further items to address, the meeting adjourned at 1:10 p.m.

4. Discuss and consider long-term plan sustainability including benefits policy and funding report

Presented by Christopher Hanson

AGENDA ITEM 4:

Discuss and consider long-term plan sustainability including benefits policy and funding report

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to review additional recommendations from the COAERS and City of Austin working group as well as receive a funding report in accordance with COAERS funding policy.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.** This agenda item is a Strategic Plan action item for 2022 and supports the actuarial funding objectives for Goal 1.

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

BACKGROUND

At the March 2022 Board meeting, the Board approved several elements of a pension funding framework that will eventually be drafted into pension legislation for the 88th Legislative Session. Staff will quickly review the items previously approved by the Board, as well as report on additional recommendations from the working group and on-going matters related to benefit policy. Finally, the Committee will receive a funding report in accordance with the Board's Funding Policy.

ATTACHMENTS

1. COAERS Long-Term Plan Sustainability
2. COAERS Funding Report



Long-Term Plan Sustainability

Benefits and Services Committee

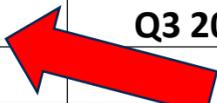
June 2, 2022

Working Group



Timeline and Action Items

TIMELINE AND ACTION ITEMS FOR 88TH SESSION PENSION LEGISLATION - CONVENES JANUARY 10, 2023							
DESCRIPTION	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Define Roles and Responsibilities	█						
Establish Goals	█	█					
Establish Timeline and Action Items	█	█					
Discuss and Consider Policy Options							
Benefit		█	█	█			
Contribution		█	█	█			
Governance		█	█	█			
Administration			█	█	█		
Governmental Relations Communication							
Austin Delegation	█	█	█	█	█	█	█
House and Senate Pension committees	█	█	█	█	█	█	█
Pension Review Board			█	█	█	█	
Development and Adoption of Funding Policy				█	█	█	
COAERS Board Final Approval				█			
Presentation at Member Meeting					█		
Bill Drafting						█	
Bill Sponsor						█	
Bill Filing							█



You are here!

PENSION
REFORM
FRAMEWORK
APPROVED
MARCH 2022

Contributions

Benefits

Governance



Contributions

Employer Contributions: Move to an actuarially determined employer contribution rate (ADEC)

1. Annual contributions by City comprised of normal costs plus future amortization layers of gains and losses of not more than 30-years; and
2. Carve out the UAAL as the “Legacy Liability” and pay off on a schedule of not more than 30-years with phase-in over three years.
3. Base the total employer contribution on a 6.75% discount rate.

Employee Contributions

Increase the employee contribution rate by 2% from 8% to 10%.

ADEC Corridor and Corrective Steps

Structure the ADEC with corridors and built-in corrective actions: 5% corridor bands around the ADEC with automatic employee contribution increase of up to 2% if corridor ceiling is breached; COAERS and City develop further modifications problems persist thereafter.



Benefits

Maintain service purchase options but modify the cost methodologies to mitigate the risk of actuarial losses:

Military Service Purchase: Remove the 75% subsidy, allow purchase only at retirement

Supplemental Service Purchase: Allow purchase only at retirement

Non-contributory Service Purchase: Allow purchase only at retirement

Governance

Convert one active member board position to a city-appointed position

Require citizen appointed positions to have finance or investment expertise

Establish a risk-sharing valuation study (RSVS) process

Future cost-of-living adjustments (COLA) require both COAERS and City of Austin support before seeking legislative approval

Report from Working Group

Recommendations:

- Set the amortization period for gain and loss layers at 20-years to prevent future negative amortization
- Establish a funded ratio at 90% where the City would be allowed to contribute the less than the corridor midpoint if the ADEC calculated rate is less than the midpoint

Items Still Being Discussed:

1. Sick Leave Conversion:

- Present value or keep consistent with current purchase practice
- Consider including employer present value cost in the normal cost calculation

2. Prior Service Buyback

- Change the interest rate from the current statutory rate (interest credit rate divided by .75) to the assumed rate of return
- Limit time for buybacks to possibly three or five years after re-establishing membership in COAERS

Next Steps

- COAERS Staff and City Staff continue working on last remaining service purchase issues
- Report final pension framework agreement to Board of Trustees at the June 23 meeting for approval and referral to the Legislative Committee





COAERS Funding Report

Christopher Hanson

Executive Director

June 2, 2022

Funding Metrics and Trajectory

Funding Summary as of December 31, 2021

- The Board approved a reduction in the assumed rate of return (discount rate) from 7.0% to 6.75%, which increased the System's liabilities by \$142 million.
- Amortization period increased from 32 years to 33 years and funded ratio increased from 65.3% to 66.0%.
- The System benefitted from continued strong investment performance and the increase in City Contribution rate.
- System has \$220 million in deferred gains to be recognized over the next few years.
- Funding period still extends beyond Board Funding Policy and COAERS consulting actuary recommends continued work on long-term sustainability.

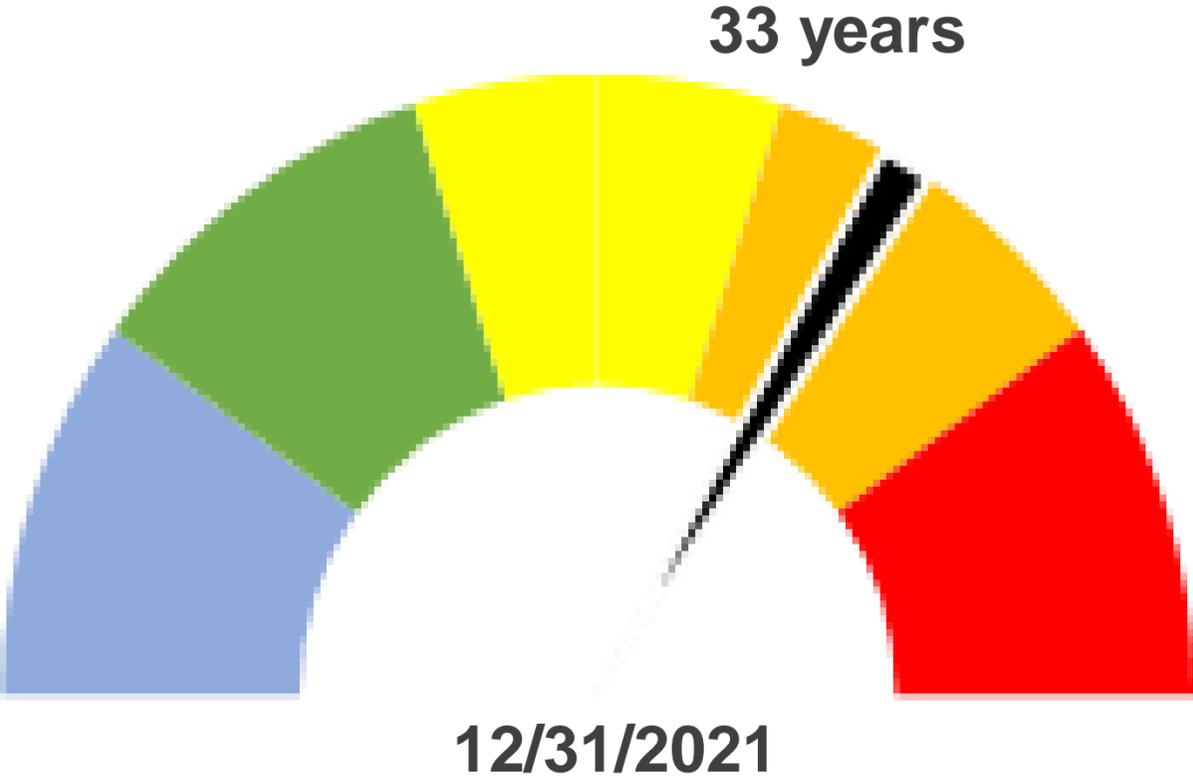
Key Risks as of December 31, 2021

- The System's investment performance and ability to meet the investment return assumption given current capital market outlooks remain the greatest risk to COAERS long-term sustainability.
- Any reduction in contributions would extend the funding period and a material reduction of 8%-10% would lead to insolvency.
- Without additional gains, the unfunded actuarial accrued liability is expected to continue growing until 2030 meaning a large market drawdown soon could materially impact funding trajectory.
- A significant reduction in the active population (1000-2000 employees) would be expected to extend the funding period.

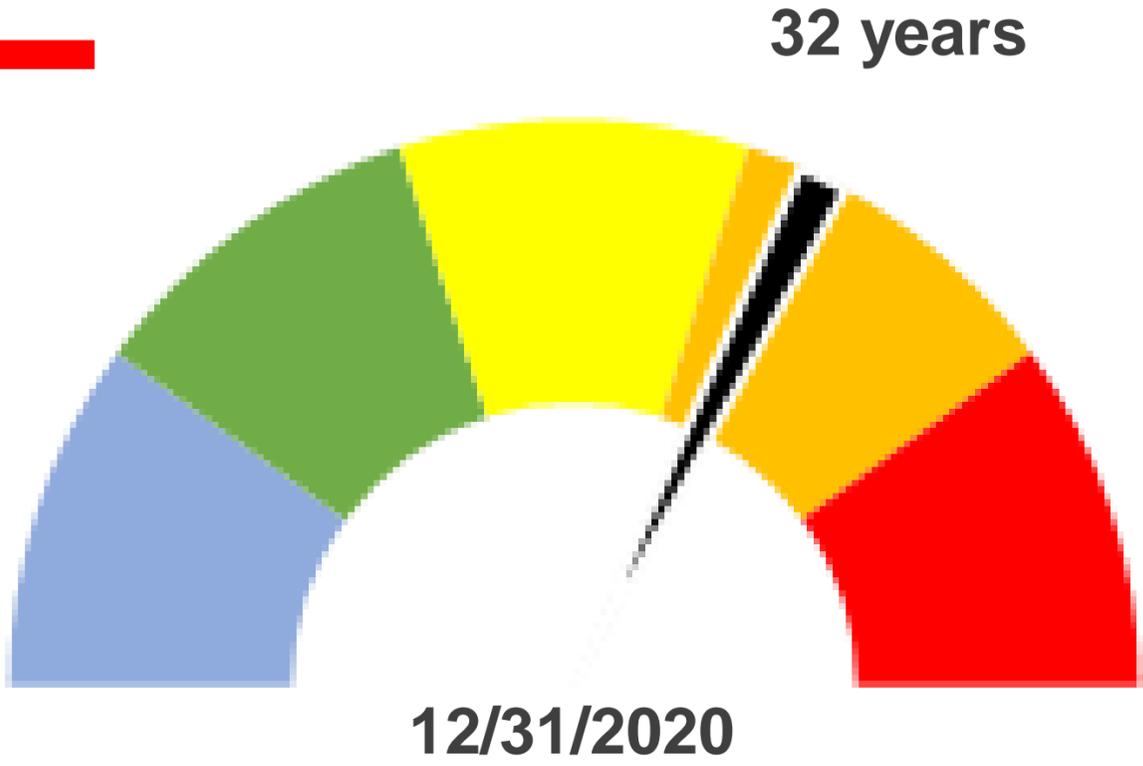
Amortization Period

- Funding period increased from 32 years to 33 years
- 33-year funding period exceeds Board Funding Policy
- Currently over the maximum period set by PRB

Funding Period
Between 0 and 10 years
Greater than 10 years but less than or equal to 25 years
Greater than 25 years but less than or equal to 30 years
Greater than 30 years but less than or equal to 40 years
Greater than 40 years



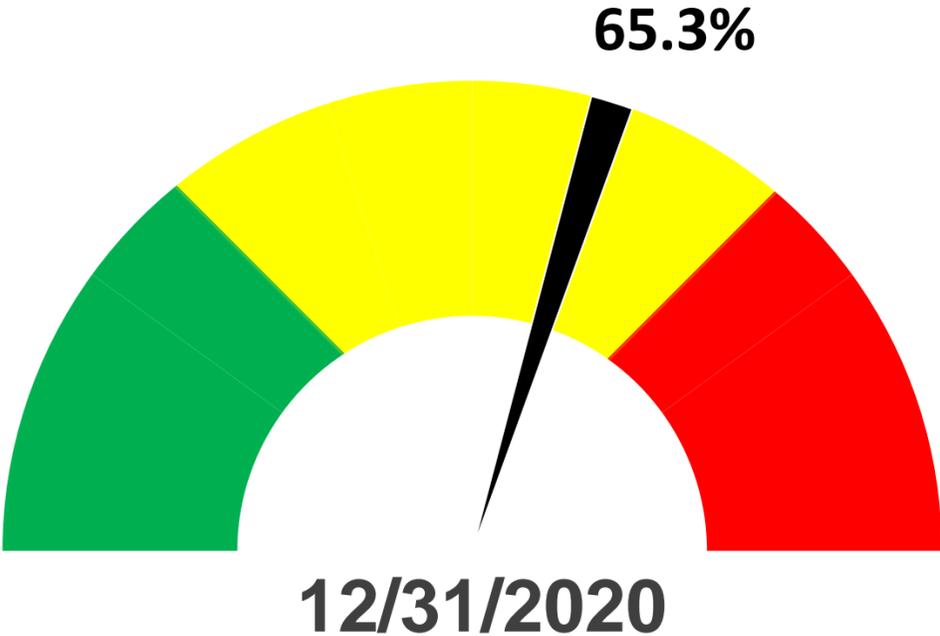
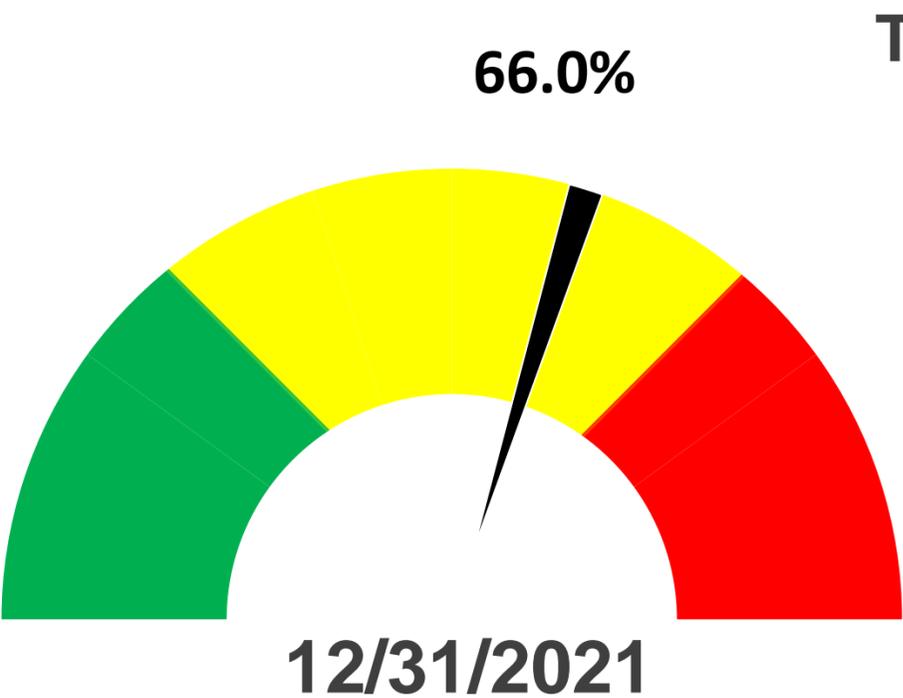
TREND: █



Funded Ratio

- Funding ratio improved from 65.3% to 66.0%
- Ratio of 66.0% is lower than the Funding Policy's 80% target
- Ratio is trending in the right direction over last few years

Funded Ratio
Greater than 80%
Greater than 60% but less than 80%
Below 60%

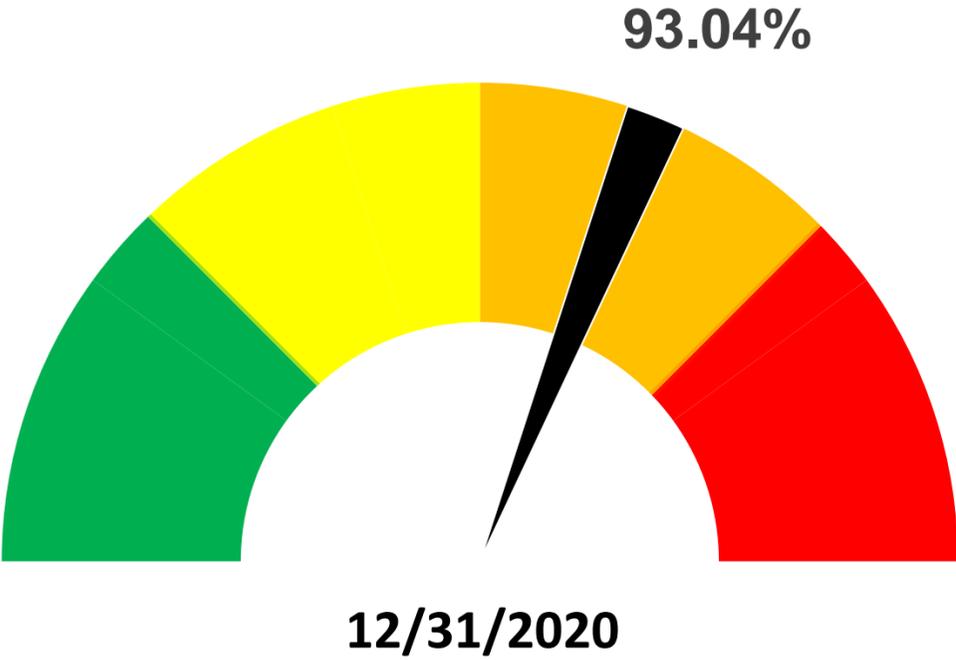
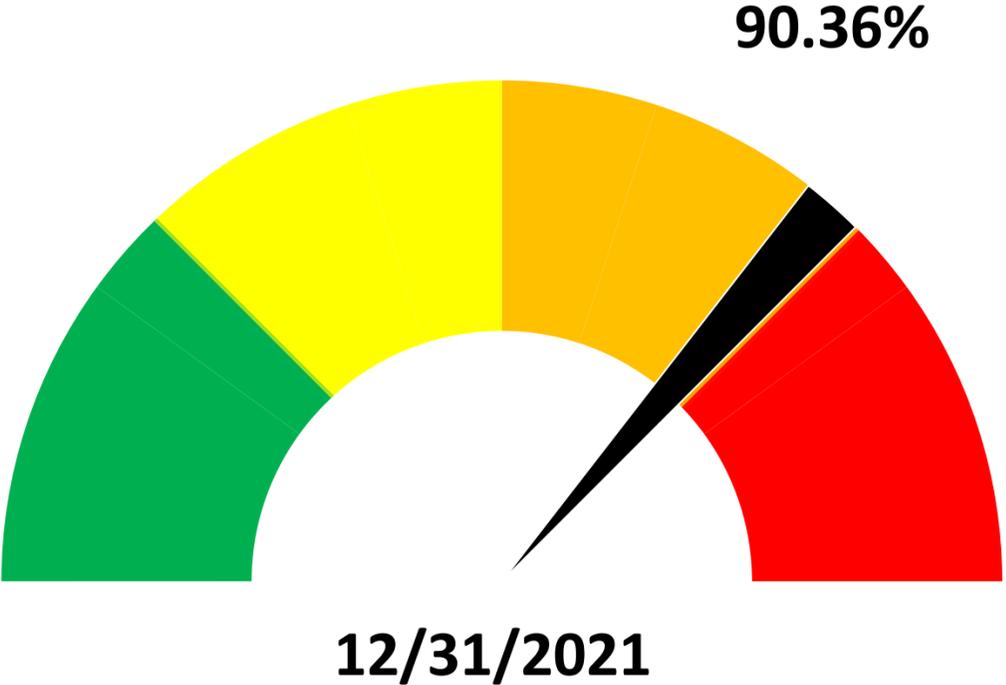


Percent of Actuarially Determined Contribution (ADC) Funded

- Rate is still below ADC target by 2.88% of pay
- Reduction of discount rate contributed to the increase in the calculated ADC

Percent of ADC Funded
Equal to or greater than 100%
Greater than 95% but less than 100%
Greater than 90% but less than or equal to 95%
Less than 90%

TREND: █

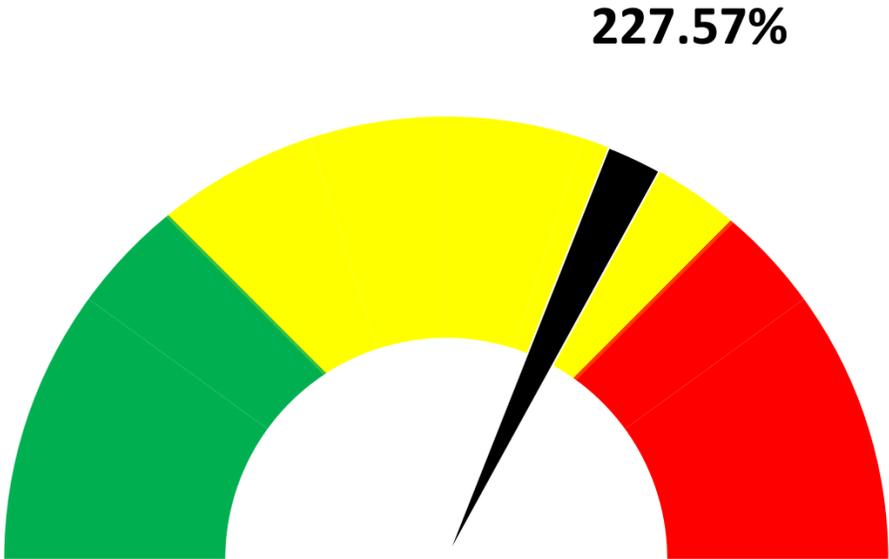


Unfunded Actuarial Accrued Liability (UAAL) Percent of Payroll

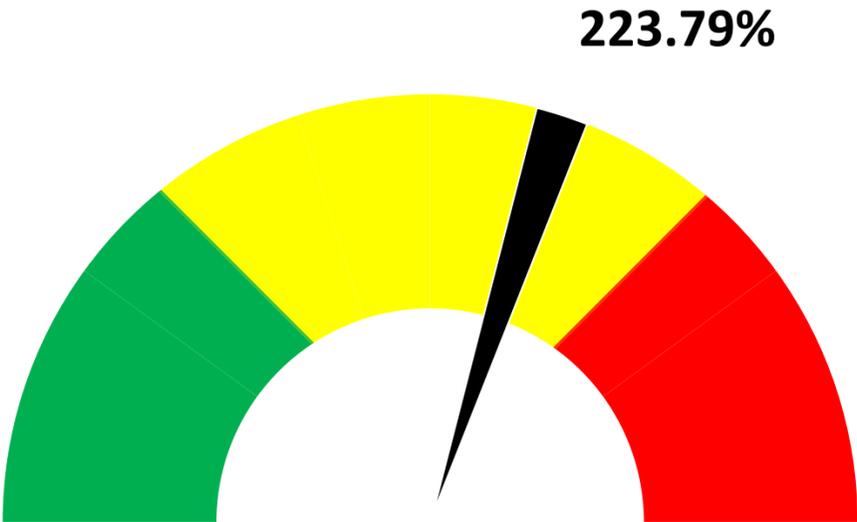
- Metric declined slightly from 2020 to 2021 valuation
- Reduction in the discount rate increased the UAAL
- Risk remains elevated, but not above 250% threshold

UAAL Percent of Payroll
Equal to or less than 100%
Greater than 100% but less than or equal to 250%
Greater than 250%

TREND: █



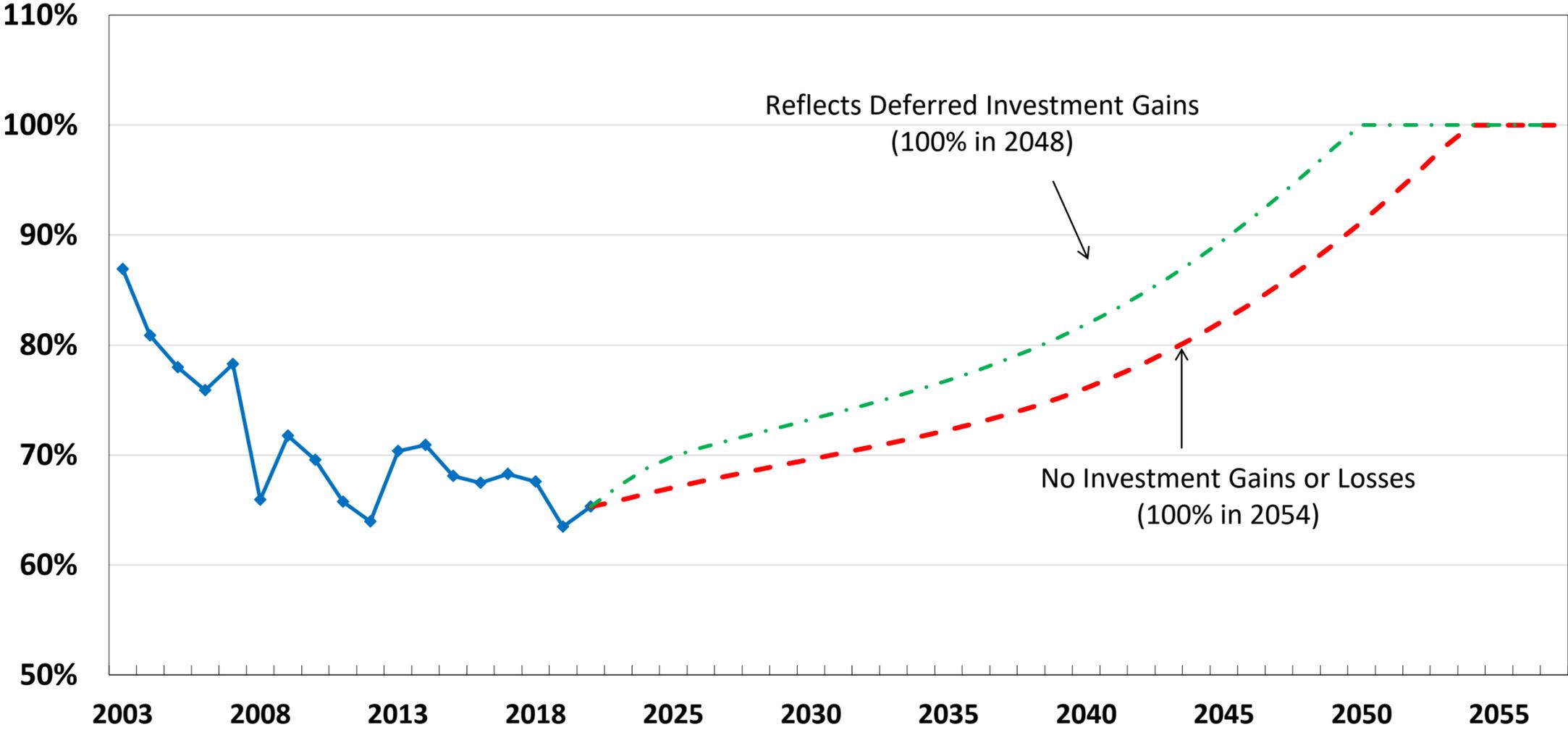
12/31/2021



12/31/2020

Projected Funding Trajectory

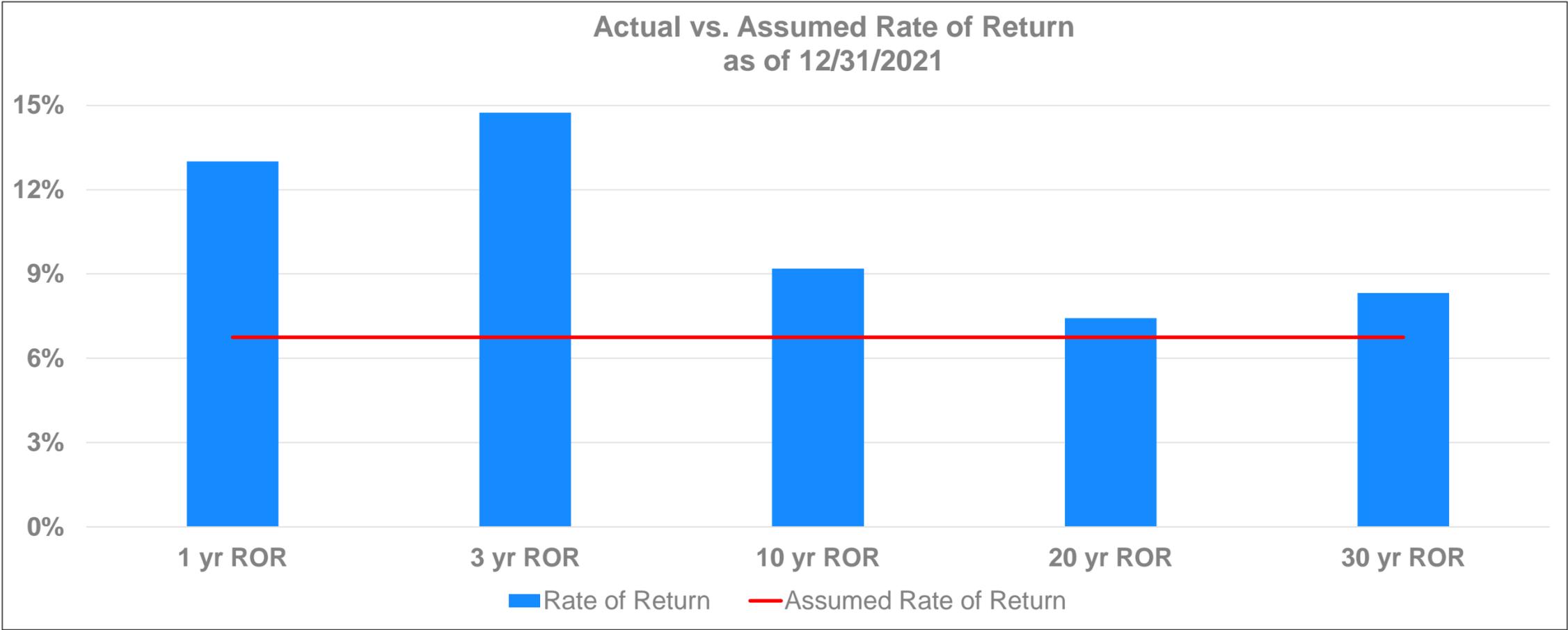
- The System’s funding trajectory shows a slow, gradual increase over the next two decades as Group A members retire.
- Once Group A members are almost all retired, the funded ratio is expected to rapidly increase (under current assumptions) beginning in the mid-2040’s.



Investment Returns and Cash Flow

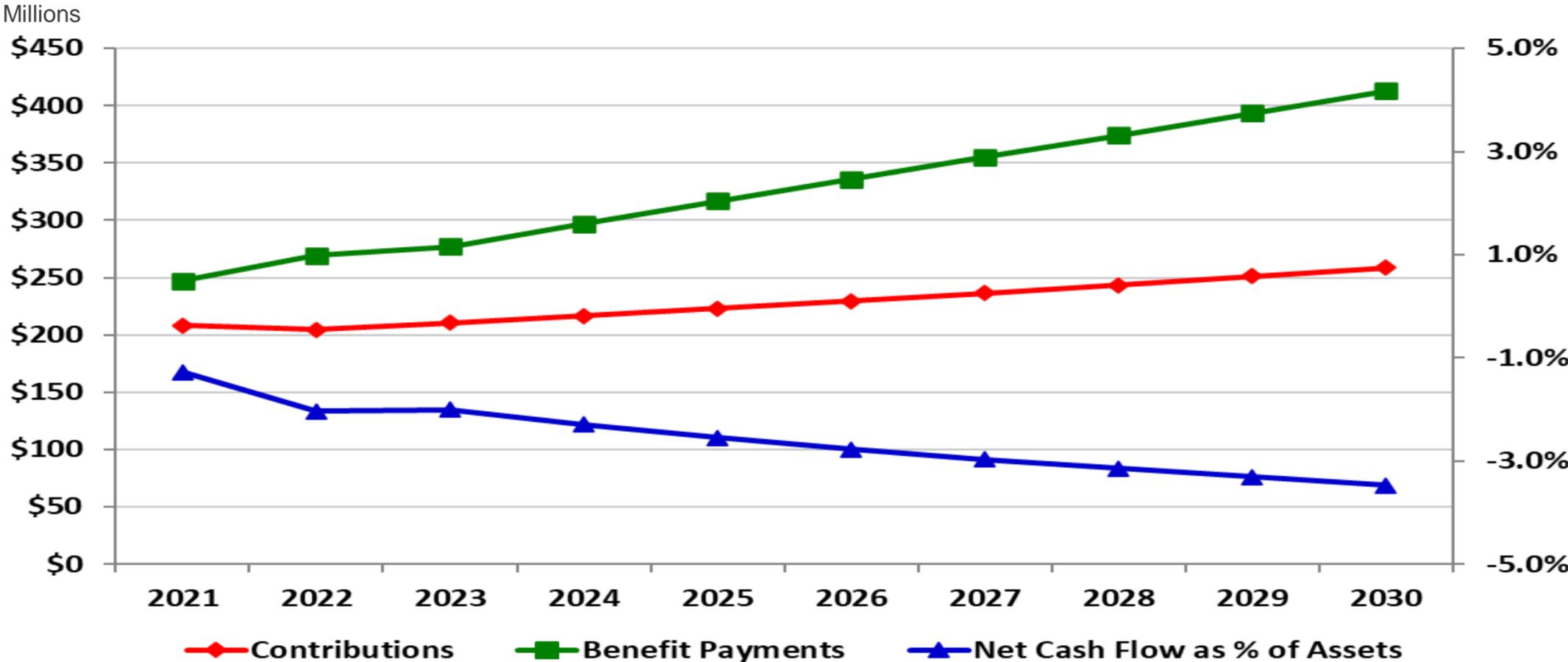
Investment Returns

- Fund net returns for 2021 were 13%. The Fund's returns over all time periods are above the 6.75% assumed rate of return.
- System currently has \$220 million in deferred investment gains, which would currently not be enough to offset market losses year-to-date in 2022.



Projected Cash Flow

- The projected cash flow shows an increase in expected benefit payments as Group A members continue to retire, drawing a larger percentage of assets from the Trust.
- The increase in the City contribution rate materially improves the projected future cash flow, though the figure is expected to get close to -4% by 2030.
- The current cash flow projections are not expected to cross the -5% threshold; however, a significant market drawdown before cash flow improves is a significant risk to the System.



Funding Policy Goals

Funding Policy Goals

Funding Policy Goals	Compliance
1. Contributions/Assets Sufficient to Pay Benefits	YES
2. Achieve long-term full funding (100% or better)	NO
3. Ensure each generation incurs the costs of benefits, rather than defer cost to future	NO
4. Manage and control contribution rate volatility to the extent reasonably possible	NO
5. Provide a reasonable margin for adverse experience to help offset the risks inherent in managing COAERS	YES
6. Eliminate negative amortization as quickly as possible and maintain contribution rate above threshold that results in negative amortization	NO
7. Support transparency and accountability to the stakeholders of COAERS	YES

5. Receive report on annual IRS compliance

Presented by Russell Nash

AGENDA ITEM 5:
Receive report on annual IRS compliance

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to receive a report from the COAERS Tax Counsel about the results of the annual review of COAERS compliance with the Internal Revenue Code (“Code”) and regulations.

RELEVANCE TO STRATEGIC PLAN

This agenda item aligns with one of the five core competencies of **COAERS Strategic Plan** “*Dependable Operations: Managing the financial and operation commitments of the system appropriate measurable standards.*” The COAERS statutes authorize the Board to adopt any amendment necessary for the retirement system to maintain its status as a qualified plan under the Code.

RECOMMENDATION FOR COMMITTEE ACTION

No action recommended.

BACKGROUND

The Board’s Benefits Administration policy provides that the COAERS General Counsel and Tax Counsel provide advice on tax-related matters. Accordingly, COAERS has retained Brad Oxford, from the firm Clark Hill, to annually review federal tax legislation that affects the Plan and suggest changes necessary to maintain COAERS’ tax-favored qualified plan status.

Mr. Oxford has reviewed the plan and recent legislative changes and has no recommended changes to our plan documents.

A full review of our Benefits Operating Procedures is scheduled later this year. Staff and General Counsel will consult with Mr. Oxford during that process to identify and address any items from an operational federal tax compliance perspective. A complete report of that review will be presented to the Benefits & Services Committee in August.

Mr. Oxford’s report is attached.

ATTACHMENT

1. 2022 Annual Compliance Review

TO: Mr. Russell Nash
City of Austin Employees' Retirement System

FROM: Brad Oxford

DATE: May 25, 2022

CLIENT: A8221
MATTER: A28261

SUBJECT: Annual Compliance Review

As part of our annual compliance review, please be advised of the following.

1. Required Plan Amendments. We have reviewed the IRS Required Amendments List for 2018-2021 (Notice 2018-91, 2019-64, 2020-83 and 2021-64), and there are not any required plan amendments at this time. The only possible required amendments that might apply are described below. However, neither of these required amendments applies to COAERS.

- a. Notice 2019-64 provides that plans that permit hardship distributions must be amended to comply with the final regulations relating to hardship distributions. However, the plan does not permit hardship distributions, so this does not apply.
- b. Notice 2020-83 provides that if the employer provides difficulty of care payments under the SECURE Act, the plan must be amended to provide that a participant's compensation for purposes of the Section 415 limits will be increased by the amount of the difficulty of care payments. However, the City of Austin has not provided difficulty of care payments under the SECURE Act, and therefore the plan is not required to be amended to comply with this requirement.

2. Change in Required Minimum Distribution Rules. As a reminder, as we have discussed previously, the SECURE Act enacted changes to the required minimum distribution rules. Under the new rules, minimum distributions are not required to be made until April 1 of the year following the year in which the participant attains age 72 or, if later, terminates employment. Under prior law, minimum distributions were required to be made by April 1 of the year following the year in which the participant attained age 70 ½ or, if later, terminated employment. The new rules are effective with respect to participants who attain age 70 ½ on or after January 1, 2020. For governmental plans, plan amendments to comply with this change are not required until the last day of the first plan year beginning on or after January 1, 2024 (e.g., by December 31, 2024 for a calendar year plan), but the plan is nevertheless required to comply with this change operationally beginning on January 1, 2020.

6. Discuss and consider disability retirement application

A. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref. #2201

B. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref. #2201

Presented by Chair Noak

AGENDA ITEM 6:

Discuss and consider disability retirement application

- A. Convene into Executive Session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to deliberate on disability retirement application ref.#2201
- B. Reconvene into public session and make recommendations as determined appropriate by the Committee regarding disability retirement application ref.# 2201

AGENDA ITEM OBJECTIVE

The objective of this agenda item is designed to provide a hearing for a COAERS member's initial application for disability retirement benefits.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets with the core competency established in the **COAERS Strategic Plan** "Dependable operations: Managing the financial and operational commitments of the system within appropriate measurable standards" as this item fulfills the Trustee's statutory duty to hear initial applications for disability retirement benefits.

RECOMMENDATION FOR COMMITTEE ACTION

No action is allowed while in Executive Session; action may be considered upon reconvening into public session. The Medical Consultant opinion is included in confidential packet material.

ATTACHMENT

1. Medical opinion and selected disability application information (CONFIDENTIAL)

7. Review key meeting takeaways and call for future agenda items

Presented by Chair Noak

AGENDA ITEM 7:

Review key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.

ATTACHMENT

1. 2022 Benefits and Services Committee Work Plan

2022 Benefits and Services Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting (3/10/22)
 - ✓ 12/31/2021 Actuarial Valuation
 - ✓ Plan sustainability work with City of Austin
 - ✓ Disability applications TBD

2. June meeting (6/2/22)
 - Plan sustainability work with City of Austin
 - Adopt Benefits Resolution for IRS compliance
 - Disability applications TBD

3. August meeting (8/25/22)
 - Funding Policy with City of Austin
 - Benefits operating procedure review results
 - Actuarial service provider review
 - Disability applications TBD

4. November meeting (11/10/22)
 - Funding Policy with City of Austin
 - Medical consultant provider review
 - Disability continuation review
 - Disability applications TBD
 - 2023 Committee Work Plan