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May 22, 2007

Mr. Stephen Edmonds
Executive Director
City of Austin Employees' Retirement System
418 E. Highland Mall Blvd.
Austin, TX 78752

Dear Mr. Edmonds:

Subject: Actuarial Valuation as of December 31, 2006

We are pleased to present our report on the actuarial valuation of the City of Austin Employees' Retirement System. Based upon this actuarial valuation as of December 31, 2006, it is our opinion that these results reasonably reflect the funded status of the System.

As you know, the employee and employer contribution rates are set by statute. It is expected that these contribution rates will remain level as a percentage of payroll. The funding objective of the plan is for the contribution rates to be sufficient to cover the normal cost of the plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years. Due to continued recognition of the significant asset losses from 2000, 2001 and 2002, the plan's contribution rate is not sufficient to amortize the System's unfunded liabilities. Therefore, the funding objective is not currently being met.

In 2005 the City of Austin adopted the Supplemental Funding Plan (SFP). The SFP will increase the City contribution rate in 1% increments annually over the next several years until the rate reaches a maximum of 12.0%. The rates increase on October 1st of each year, therefore the City contribution rate increased to 9.0% effective October 1, 2006. The increase in the City rate can be delayed by a year if the System earns 12.0% on its assets during the previous calendar year. In fact, the System earned more than 12.0% in calendar year 2006, and therefore the City rate will not increase on October 1, 2007. The increases in the City rate are intended to stay in place until the funding period of the System is less than 30 years. Once the funding period reaches 30 years, the City has the option to reduce the additional contributions to a rate that would produce a 30-year funding period.

In addition to the actuarial valuation results, various accounting and statistical tables are also included which should help you compare the results of this plan year with prior years. The information presented in the trend data schedules of this report has been prepared by Gabriel, Roeder, Smith & Company. The information for years 1993 through 2000 was prepared by Watson Wyatt & Company. Information in these schedules prior to 1993 was determined by another actuarial firm.

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Actuarial Section

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Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2006. As a result of this study, revised assumptions were adopted by the Board to be effective with this valuation. We believe the assumptions are internally consistent, reasonable, and where appropriate based on the actual experience of COA ERS.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

Member data for retired, active and inactive participants was supplied as of December 31, 2006, by the City of Austin Employees' Retirement System staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the City of Austin Employees' Retirement System staff.

The undersigned are independent actuaries and consultants. Mr. Carter is an Enrolled Actuary and a Member of the American Academy of Actuaries and he meets the Qualification Standards of the American Academy of Actuaries, and both are experienced in performing valuations for large public retirement systems.

We would like to thank you and your staff for their assistance in providing all necessary information to complete this valuation. Their courteous help is very much appreciated. We look forward to discussing this actuarial valuation report with you at your convenience. Please do not hesitate to let us know if you have any questions or need additional information.

Sincerely,



Lewis Ward
Consultant



W. Michael Carter, F.S.A.
Senior Consultant

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Actuarial Section

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EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2006, may be summarized as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
	(1)	(2)
• Members		
— Actives	8,055	7,638
— Retirees and beneficiaries	3,467	3,297
— Vested - terminated	<u>714</u>	<u>670</u>
— Total	12,236	11,605
• Covered payroll	\$ 390,963,991	\$ 348,619,141
• Normal cost	\$ 58,561,801	\$ 52,387,124
— As % of payroll	14.57%	14.56%
• Actuarial accrued liability	\$ 1,974,010,618	\$ 1,794,181,675
• Present actuarial value of assets	\$ 1,497,783,958	\$ 1,398,798,722
• Unfunded actuarial accrued liability (UAAL)	\$ 476,226,660	\$ 395,382,953
• Estimated yield on assets		
— Actuarial value basis	9.33%	5.44%
— Market value basis	12.33%	8.58%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	9.00% *	8.00%
• Benefit and refund payments	\$ 96,425,800	\$ 91,385,741
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	121.8%	113.4%
— GASB funded ratio	75.9%	78.0%
— GASB Annual Required Contribution (ARC)	13.85%	13.34%

* Employer rate increased to 9.0% effective October 1, 2006.

INTRODUCTION

This December 31, 2006, actuarial valuation of the City of Austin Employees' Retirement System has been prepared by Gabriel, Roeder, Smith & Company. The primary purpose of the valuation is to value the liabilities of the System as of December 31, 2006, determine the funding period of any unfunded liability for the plan year beginning January 1, 2007, and to provide certain required disclosure information. We are pleased to have the privilege of working for the Board, and look forward to discussing the results with you at your convenience.

The last actuarial valuation of the City of Austin Employees' Retirement System was prepared as of December 31, 2005 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

This valuation reflects the assumption changes adopted by the Board in March of 2007, as a result of the December 31, 2006 Experience Study.

Section C of this report provides the current funded status of the plan and reviews the valuation results. Assets are discussed in Section D, while Section E contains an analysis of the actuarial gains and losses during the past year.

Section F discusses some of the historical comparisons and statistical summaries for the plan. Governmental Accounting Standards Board Statement No. 25 (GASB No. 25) information in the report is discussed in Section G, and Section H provides a summary of the valuation results along with other comments.

Various tables supporting the report are contained in Sections I and J, including any change in benefit provisions since the last valuation.

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Actuarial Section

FUNDED STATUS OF THE PLAN

The funded status of the plan is shown in Table 1, Table 2, and Table 3. Table 1 summarizes the various cost items from the current year's and prior year's actuarial valuations, while Table 2 provides an allocation of the normal cost by its various components. Table 3 shows the components of the actuarial liability.

Reviewing the composition of normal cost of the System, Table 2 indicates that the employer normal cost as of December 31, 2006, is 14.57% of pay. This compares with 14.56% of pay as of the last valuation of December 31, 2005. This normal cost is developed based on the entry-age-normal (EAN) actuarial cost method. As may be seen in Item 1, the normal cost for the retirement benefits is 10.24% of pay. The normal cost for the vested termination benefits is 1.68% and 2.01% for refunds of nonvested terminated employees. The normal cost for disability benefits is 0.24%, and the normal cost for death benefits is 0.40%.

Table 1 illustrates a number of the key actuarial items for the 2006 valuation. As mentioned above, the employer normal cost rate is 14.57% of covered payroll. The actuarial accrued liability is \$1,974.0 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals \$1,497.8 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a \$476.2 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2005), the System was underfunded by \$395.4 million.

Currently, the City is contributing 9.00% of payroll and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System has 17% of payroll to fund benefits. The current normal cost of the plan is 14.57%, which means that the System is currently receiving contributions in excess of the normal cost equal to 2.43% of pay (17.00% less 14.57%). These excess contributions are available to amortize any unfunded actuarial accrued liability. Based on these contribution rates, if all assumptions are exactly met then the current unfunded liability will never be fully amortized.

**FUNDED STATUS OF THE PLAN
(Continued)**

Effective October 1, 2006, the City contribution rate increased to 9.0% as part of the Supplemental Funding Plan (SFP). Under the SFP it is anticipated that the City contribution rate will gradually increase to 12.0%. Each calendar year in which the System earns at least 12.0%, on the market value of assets will delay the scheduled increase by one year. These additional contributions will help to reduce the unfunded liability of the System over time. The GASB annual required contribution (ARC) is also shown on Table 1. The ARC for the 2007 plan year, as determined by the 2006 valuation, is 13.85%.

CHANGE IN ASSETS

Table 4 and Table 5 show the development of the actuarial value of assets. Item 6 of Table 4, shows that the actuarial value of assets as of December 31, 2006, is \$1,497.8 million.

Table 4 develops the actuarial value of assets under the actuarial asset valuation method adopted by the Board in conjunction with the change to reporting the System's disclosure information under GASB No. 25. This method begins with the market value of assets and is modified by the "Excess (Shortfall)" between expected investment return and actual income. Only 20% of this Excess (Shortfall) is recognized in the valuation immediately following the year in which the Excess (Shortfall) occurs. The remaining 80% of the Excess (Shortfall) is deferred until future years, with an additional 20% recognized in each subsequent year until 100% of the difference is recognized in the fifth year.

The total deferral of all Excess (Shortfall) investment income for the year (shown in Item 2f) is \$111.2 million. Table 5 shows the development of the Excess (Shortfall) of investment income for the past four years.

An analysis of the change in the System's market value of assets for the last two plan years and an estimate of the return on assets for the System are included in Table 6. The estimated average annual rate of return for the year ending December 31, 2006, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 12.33% on a market value of assets basis. The rate of return for the year ending December 31, 2006, on an actuarial value basis was 9.33%. This compares with the actuarial assumed investment return of 7.75%.

Table 7 shows the development of the gain/(loss) on the actuarial value of assets for the prior plan year. As may be seen in Item 9, the System had a gain on an actuarial asset basis of \$22 million in 2006. This compares to the (\$31) million loss in 2005.

ACTUARIAL GAINS AND LOSSES

An important part of the change in unfunded actuarial accrued liability from year to year is due to the impact of actuarial gains and losses of the System. This section summarizes the combined asset and liability experience changes since the prior valuation on December 31, 2005.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2006, is an underfunded position of \$413.1 million. This expected value reflects an assumed investment return assumption of 7.75% on the beginning of year unfunded actuarial accrued liability, normal cost, and contributions during 2006.

Since the actual unfunded actuarial accrued liability as of December 31, 2006 is \$476.2 million, it represents a total net loss for the period of \$63.1 million, as shown in Item 9 of Table 8. That is, the funded status is less than expected. The net actuarial loss includes an asset gain of \$21.5 million as shown in Table 7 and a loss on the liability side equal to \$84.6 million. The liability loss can be separated into the loss due to the change in the actuarial assumptions of (\$22.5) million and a liability experience loss of (\$62.1) million. The liability loss is broken out by source in Items 16-23 of Table 8. As can be seen on Table 8, the largest portion of the liability loss was due to higher than expected salary increases and lower than expected turnover.

There have been no changes to the plan provisions since the prior year. Please see Table 15 for a more detailed description of the plan provisions.

The actuarial assumptions used in this valuation have been modified since the prior year. Revised assumptions were adopted by the Board in March 2007 based on the recommendations from the December 31, 2006 experience investigation. These assumptions are detailed in Table 14.

HISTORICAL COMPARISONS AND STATISTICAL SUMMARIES

Various statistical data on the System is shown in the tables contained in Section J. In addition, Tables 9 through 12 of Section I contain certain actuarial trend information which may be of interest.

Table 9 relates the size of the unfunded actuarial accrued liability (UAAL) to three different measurements. In Columns 3 and 4 the UAAL is related to the covered payroll of the System. Columns 5 and 6 relate the UAAL to the actuarial value of assets, while Columns 7 and 8 relate the UAAL to the total actuarial liabilities of the System.

Tables 10 through 12 provide information which should be included in your annual report. Table 10 provides a schedule of active member valuation data. Table 11 provides a schedule of retirants and beneficiaries added to and removed from payments rolls. Solvency test results are presented in Table 12.

GASB NO. 25 DISCLOSURE

The Governmental Accounting Standards Board (GASB) has issued Statement No. 25 which provides the manner in which the actuarial condition of a public sector retirement plan is to be disclosed. COA ERS was required to comply with GASB No. 25 beginning January 1, 1997.

The required schedule of funding progress is shown in Table 13a. Table 13b is the schedule of annual required contributions required by GASB No. 25. Table 13c provides notes to the required supplementary information.

Assets used for GASB No. 25 disclosure are based on the actuarial value used for this valuation. Plan liabilities are based on the Entry Age Normal (EAN) funding method which is the same method used for determining plan liabilities for valuation purposes, as required by GASB No. 25.

SUMMARY AND CLOSING COMMENTS

It is our opinion that the results of this valuation provide a reasonable reflection of the funded status of the System. Due to the significant asset losses that occurred in 2000-2002, the System's contributions are not currently sufficient to amortize the unfunded liability of the System. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan.

As previously mentioned, in 2005 the City of Austin adopted a Supplemental Funding Plan (SFP) which will gradually increase the City's contribution rate to the System to 12.0%. This additional contribution is intended to remain in place until the funding period of the System is reduced to below 30 years. Once this occurs, the City, at its discretion, may reduce the SFP contribution rate to a rate that produces a 30-year funding period.

The overall funded position of the System decreased from 78.0% at the prior valuation to 75.9% at this valuation.

It should also be noted that while the System's funded position declined since the prior valuation, the large asset losses (on a market value basis) from 2000, 2001 and 2002 have been fully recognized and the asset gains from the last four years have generated a net deferred investment gain. In the absence of any other actuarial losses or another turn-around in the financial markets, and with the addition of the SFP, the funded position of the System will most probably increase gradually in the future.

In the absence of significant actuarial losses, the SFP should enable the System to return to a position in the not too distant future where the contributions to the System produce a funding period over which the unfunded liabilities can be amortized. Based on deterministic projections it is expected that the System may be able to reduce its funding period to 30 years by the December 31, 2013 valuation.

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**City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006**

TABLE 1**SUMMARY OF COST ITEMS**

	December 31, 2006		December 31, 2005	
	Cost Item (1)	Cost as % of Pay (2)	Cost Item (3)	Cost as % of Pay (4)
1. Participants				
a. Active	8,055		7,638	
b. Terminated vested	714		670	
c. Retired participants and beneficiaries	3,402		3,233	
d. Disabled	<u>65</u>		<u>64</u>	
e. Total	12,236		11,605	
2. Covered Payroll	\$ 390,963,991		\$ 348,619,141	
3. Averages for Active Participants				
a. Average age	43.5		43.5	
b. Average years of service	8.9		9.1	
c. Average pay	\$ 48,537		\$ 45,643	
4. Employer Normal Cost	\$ 58,561,801	14.57% *	\$ 52,387,124	14.56% *
5. Actuarial Accrued Liability				
a. Active participants	\$ 1,023,110,623		\$ 899,281,397	
b. Terminated vested participants	39,696,189		39,547,196	
c. Refunds of terminated nonvested participants	7,037,727		7,167,430	
d. Retired participants and beneficiaries	896,205,243		839,612,626	
e. Disabled participants	<u>7,960,836</u>		<u>8,573,026</u>	
f. Total	\$ 1,974,010,618	504.91%	\$ 1,794,181,675	514.65%
6. Present Actuarial Assets	\$ 1,497,783,958	383.10%	\$ 1,398,798,722	401.24%
7. Unfunded Actuarial Accrued Liability (UAAL)	\$ 476,226,660	121.81%	\$ 395,382,953	113.41%
8. Relative Size of UAAL				
a. As percent of actuarial assets	31.80%		28.27%	
b. As percent of covered payroll	121.81%		113.41%	
9. GASB Annual Required Contribution (ARC)	13.85%		13.34%	

* as % of expected payroll

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Actuarial Valuation - December 31, 2006

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

<u>Benefit Component</u> (1)	<u>Cost as % of Pay</u>	
	<u>December 31, 2006</u> (2)	<u>December 31, 2005</u> (3)
1. Retirement Benefits	10.24%	10.19%
2. Termination - Deferred Benefits	1.68%	1.75%
3. Terminations - Refund Benefits	2.01%	1.96%
4. Disability Benefits	0.24%	0.30%
5. Death Benefits	<u>0.40%</u>	<u>0.36%</u>
6. Normal Cost	14.57%	14.56%

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Actuarial Valuation - December 31, 2006

TABLE 3

**ACTUARIAL PRESENT VALUE OF FUTURE BENEFITS
AND CALCULATION OF ACTUARIAL ACCRUED LIABILITY**

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
	(1)	(2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	\$ 1,251,241,155	\$ 1,091,723,069
b. Terminations - deferred benefits	114,871,984	104,892,781
c. Terminations - refund benefits	34,764,396	32,722,568
d. Disability benefits	14,357,652	17,189,445
e. Death benefits	<u>30,766,689</u>	<u>23,256,166</u>
f. Total	\$ 1,446,001,876	\$ 1,269,784,029
2. Retired participants		
a. Service retirements and beneficiaries	\$ 896,205,243	\$ 839,612,626
b. Disability retirements	<u>7,960,836</u>	<u>8,573,026</u>
c. Total	\$ 904,166,079	\$ 848,185,652
3. Inactive participants		
a. Vested terminations with deferred benefits	\$ 39,696,189	\$ 39,547,196
b. Nonvested terminations with refunds payable	<u>7,037,727</u>	<u>7,167,430</u>
c. Total	\$ 46,733,916	\$ 46,714,626
4. Total actuarial present value of future benefits	\$ 2,396,901,871	\$ 2,164,684,307
B. Present Value of Future Pay	\$ 2,903,695,664	\$ 2,549,479,041
C. Normal Cost Rate	14.57%	14.56%
D. Present Value of Future Normal Costs	\$ 422,891,253	\$ 370,502,632
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	\$ 1,446,001,876	\$ 1,269,784,029
2. Less present value of future normal costs (Item D)	<u>422,891,253</u>	<u>370,502,632</u>
3. Actuarial accrued liability	\$ 1,023,110,623	\$ 899,281,397
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item E.3)	\$ 1,974,010,618	\$ 1,794,181,675

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 4

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item (1)	Valuation as of December 31, 2006 (2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	\$ 65,927,379
b. Current year - 1	10,996,163
c. Current year - 2	47,286,825
d. Current year - 3	164,524,777
e. Current year - 4	(205,130,274)
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	\$ 52,741,903
b. Current year - 1 (60% deferral)	6,597,698
c. Current year - 2 (40% deferral)	18,914,730
d. Current year - 3 (20% deferral)	32,904,955
e. Current year - 4 (0% deferral)	<u>0</u>
f. Total deferred for year	\$ 111,159,286
3. Market value of plan assets, end of year	\$ 1,608,943,244
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.f)	\$ 1,497,783,958
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	\$ 1,287,154,595
b. 120% of market value of assets, end of year	\$ 1,930,731,893
6. Final actuarial value of plan assets, end of year (Item 4, but not less than Item 5.a., or greater than Item 5.b.)	\$ 1,497,783,958

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31,					
	2006 (2)	2005 (3)	2004 (4)	2003 (5)	2002 (6)	
1. Net Investment Income						
a. Interest and Dividends	\$ 41,758,402	\$ 35,680,424	\$ 32,165,731	\$ 30,655,364	\$ 32,348,029	
b. Realized and unrealized gains and losses*	138,193,429	82,473,867	113,465,673	215,414,069	(145,341,052)	
c. Administrative expenses	<u>(1,670,792)</u>	<u>(1,497,461)</u>	<u>(1,554,864)</u>	<u>(1,552,770)</u>	<u>(1,641,675)</u>	
d. Total	\$ 178,281,039	\$ 116,656,830	\$ 144,076,540	\$ 244,516,663	\$ (114,634,698)	
2. Market value of assets, beginning of year	\$ 1,460,751,603	\$ 1,375,016,657	\$ 1,259,556,169	\$ 1,042,376,123	\$ 1,172,088,538	
3. Contributions during year	\$ 66,336,402	\$ 60,463,857	\$ 59,213,119	\$ 55,356,622	\$ 60,166,320	
4. Benefits and refunds paid during year	\$ (96,425,800)	\$ (91,385,741)	\$ (87,814,171)	\$ (82,693,239)	\$ (75,244,037)	
5. Other	\$ -	\$ -	\$ (15,000)	\$ -	\$ -	
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	\$ 113,208,249	\$ 106,563,791	\$ 97,615,603	\$ 80,784,150	\$ 90,836,862	
b. Contributions	2,570,536	2,342,974	2,294,508	2,145,069	2,331,445	
c. Benefits and refunds	(3,425,125)	(3,246,098)	(3,119,233)	(2,937,333)	(2,672,731)	
d. Other	-	-	<u>(1,163)</u>	-	-	
e. Total	\$ 112,353,660	\$ 105,660,667	\$ 96,789,715	\$ 79,991,886	\$ 90,495,576	
7. Excess investment income for year (Item 1.d. - Item 6.e.)	\$ 65,927,379	\$ 10,996,163	\$ 47,286,825	\$ 164,524,777	\$ (205,130,274)	

*Includes investment expenses

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 6

CHANGE IN NET ASSETS

	Valuation Period Ending December 31,	
	2006 (1)	2005 (2)
1. Assets in plan at beginning of year (A)	\$ 1,460,751,603	\$ 1,375,016,657
2. Employer contributions	30,545,197	27,129,891
3. Employee contributions	35,791,205	33,333,966
4. Benefit payments made*	92,229,469	87,610,699
5. Refunds of contributions	4,196,331	3,775,042
6. Expenses paid from trust	1,670,792	1,497,461
7. Investment return	179,951,831	118,154,291
8. Other	_____ -	_____ 0
9. Assets in plan at end of year (B) (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	\$ 1,608,943,244	\$ 1,460,751,603
10. Approximate rate of return on average invested assets		
a. Net investment income (7 - 6 = I)	\$ 178,281,039	\$ 116,656,830
b. Estimated yield based on (2I/(A + B - I))	12.33%	8.58%

*Note: Benefit payments exclude any distributions from the 415 Restoration Plan

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item (1)	Plan Year Ending	
	December 31, 2006 (2)	December 31, 2005 (3)
1. Actuarial assets, beginning of year	\$ 1,398,798,722	\$ 1,356,797,448
2. Contributions during year	\$ 66,336,402	\$ 60,463,857
3. Benefits paid during year	\$ (92,229,469)	\$ (87,610,699)
4. Refunds paid during year	\$ (4,196,331)	\$ (3,775,042)
5. Other	\$ 0	\$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	\$ 108,406,901	\$ 105,151,802
b. Contributions	2,570,536	2,342,974
c. Benefits	(3,276,068)	(3,112,005)
d. Refunds	(149,057)	(134,093)
e. Other	0	0
f. Total	\$ 107,552,312	\$ 104,248,678
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	\$ 1,476,261,636	\$ 1,430,124,242
8. Actuarial assets, end of year	\$ 1,497,783,958	\$ 1,398,798,722
9. Asset gain/(loss) (Item 8 - Item 7)	\$ 21,522,322	\$ (31,325,520)

GABRIEL ROEDER SMITH & COMPANY

Actuarial Section

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 8

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2006

<u>CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS</u>	<u>2006</u>	<u>2005</u>
1. Unfunded actuarial accrued liability (UAAL) as of prior year	\$ 395,382,953	\$ 321,383,795
2. Actual normal cost paid during year	53,907,645	48,799,891
3. Subtotal (1 + 2)	\$ 449,290,598	\$ 370,183,686
4. Interest at prior valuation's rate of 7.75%	32,731,100	26,798,240
5. Contributions during year	(66,336,402)	(60,463,857)
6. Interest on contributions for one-half year	(2,570,536)	(2,342,974)
7. Expected UAAL as of December 31st, (3 + 4 + 5 + 6)	\$ 413,114,760	\$ 334,175,095
8. Actual UAAL as of December 31st	476,226,660	395,382,953
9. Actuarial gain/(loss) for the period (7 - 8)	\$ (63,111,900)	\$ (61,207,858)
 <u>SOURCE OF GAINS AND LOSSES</u>		
10. Asset gain/(loss) (See Table 7)	\$ 21,522,322	\$ (31,325,520)
11. Total liability gain/(loss) for the period (9-10)	(84,634,222)	(29,882,338)
12. Gain/(loss) due to benefit enhancements	0	0
13. Gain/(loss) due to retiree ad hoc increases	0	0
14. Gain/(loss) due to assumption changes	(22,494,462)	0
15. Liability experience gain/(loss) (11 - 12 - 13 - 14)	\$ (62,139,760)	\$ (29,882,338)
 <u>SOURCE OF LIABILITY GAINS AND LOSSES</u>		
16. Salary Increases	\$ (42,803,967)	\$ (10,557,053)
17. Service Retirement	3,116,296	(1,827,746)
18. Withdrawal	(9,889,569)	(11,211,947)
19. Disability Retirement	(374,341)	(305,147)
20. Active Mortality	(32,757)	195,910
21. Retiree Mortality	1,647,599	4,002,949
22. New Entrants	(6,740,544)	(7,026,336)
23. Other (Data)	(7,062,477)	(3,152,968)
24. Total Liability Experience Gain/(Loss)	\$ (62,139,760)	\$ (29,882,338)

GABRIEL ROEDER SMITH & COMPANY

Actuarial Section

**City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006**

TABLE 9

RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

Valuation as of December 31	Unfunded/ (Overfunded) Actuarial Accrued Liability	Relative to Covered Payroll		Relative to Actuarial Value of Present Assets		Relative to Total Actuarial Accrued Liability	
		Covered Payroll	Percent of Covered Payroll	Present Assets	Percent of Present Assets	Actuarial Accrued Liability	Percent of Actuarial Accrued Liability
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1990	(38,568,183)	\$ 171,738,189	(22.5%)	\$ 410,546,517	(9.6%)	\$ 362,978,334	(10.6%)
1991	(66,275,489)	194,588,280	(34.1%)	470,664,195	(14.1%)	404,388,706	(16.4%)
1993	(37,919,161)	235,227,565	(16.1%)	579,092,507	(6.5%)	541,173,346	(7.0%)
1995	(84,343,636)	221,001,903	(38.2%)	707,317,679	(11.9%)	622,974,043	(13.5%)
1997	(24,282,232)	219,207,826	(11.1%)	856,422,516	(2.8%)	832,140,284	(2.9%)
1998	(74,816,812)	219,326,742	(34.1%)	952,634,480	(7.9%)	877,817,668	(8.5%)
1999	(60,632,797)	244,538,110	(24.8%)	1,105,121,657	(5.5%)	1,044,488,860	(5.8%)
2000	(18,353,201)	268,635,564	(6.8%)	1,230,971,746	(1.5%)	1,212,618,545	(1.5%)
2001	48,980,941	316,793,390	15.5%	1,311,288,668	3.7%	1,360,269,609	3.6%
2002	189,347,298	322,007,672	58.8%	1,250,851,348	15.1%	1,440,198,646	13.1%
2003	203,040,300	312,790,966	64.9%	1,348,790,502	15.1%	1,551,830,802	13.1%
2004	321,383,795	326,590,164	98.4%	1,356,797,448	23.7%	1,678,181,243	19.2%
2005	395,382,953	348,619,141	113.4%	1,398,798,722	28.3%	1,794,181,675	22.0%
2006	476,226,660	390,963,991	121.8%	1,497,783,958	31.8%	1,974,010,618	24.1%

GABRIEL ROEDER SMITH & COMPANY

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 10

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending December 31	Active Participants	Covered Payroll	Average Salary	Percent Increase
(1)	(2)	(3)	(4)	(5)
1990	6,626	\$171,738,189	\$25,918	4.9%*
1991	6,968	194,588,280	27,926	7.7%
1993	7,761	235,227,565	30,309	4.2%*
1995	7,190	221,001,903	30,737	0.7%*
1997	6,798	219,207,826	32,246	2.4%*
1998	6,311	219,326,742	34,753	7.8%
1999	6,512	244,538,110	37,552	8.1%
2000	6,894	268,635,564	38,967	3.8%
2001	7,713	316,793,390	41,073	5.4%
2002	7,647	322,007,672	42,109	2.5%
2003	7,432	312,790,966	42,087	-0.1%
2004	7,489	326,590,164	43,609	3.6%
2005	7,638	348,619,141	45,643	4.7%
2006	8,055	390,963,991	48,537	6.3%

* Average annual increase/(decrease) over two-year period.

GABRIEL ROEDER SMITH & COMPANY

Actuarial Section

TABLE 11

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ending December 31	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number (2)	Annual Allowances (3)	Number (4)	Annual Allowances (5)	Number (6)	Annual Allowances (7)		
1995	279	\$ 4,787,640	88	\$ 1,214,255	1,654	\$ 27,032,976	16.4%*	\$ 16,344
1997	328	7,714,560	105	1,192,120	1,877	38,989,044	20.1%*	20,772
1998	243	5,409,180	25	830,604	2,095	43,567,620	11.7%	20,796
1999	259	10,757,697	57	1,152,275	2,297	53,097,238	21.9%	23,116
2000	241	5,552,629	75	1,403,412	2,463	60,817,825	14.5%	24,693
2001	224	5,278,490	95	2,046,233	2,592	65,647,094	7.9%	25,327
2002	309	7,754,803	118	2,534,050	2,783	72,520,159	10.5%	26,058
2003	271	7,706,066	59	1,502,757	2,995	78,596,302	8.4%	26,243
2004	227	5,619,478	85	1,741,624	3,137	82,121,249	4.5%	26,178
2005	258	6,699,023	98	2,438,555	3,297	85,324,686	3.9%	25,879
2006	259	6,788,190	89	1,883,938	3,467	90,312,037	5.8%	26,049

* Average annual increase/(decrease) over two-year period.

GABRIEL ROEDER SMITH & COMPANY

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 12

SOLVENCY TEST

Valuation Date	Aggregated Accrued Liabilities for				Reported Assets (5)	Portions of Accrued Liabilities Covered by Reported Assets		
	Active and Inactive Members		Retirees and Beneficiaries (3)	Active and Inactive Members (Employer Financed Portion) (4)		(5)/(2)	[(5)-(2)]/3 (7)	[(5)-(2)-(3)]/(4) (8)
	Active and Inactive Members Contributions (2)	Inactive Members (1)						
December 31, 1995	169,715,854	171,400,737	281,857,452	171,400,737	707,317,679	100.0%	100.0%	100.0%
December 31, 1997	157,311,099	289,422,057	385,407,128	289,422,057	856,422,516	100.0%	100.0%	100.0%
December 31, 1998	178,757,374	256,327,461	442,732,833	256,327,461	952,634,480	100.0%	100.0%	100.0%
December 31, 1999	230,542,295	277,111,325	536,835,240	277,111,325	1,105,121,657	100.0%	100.0%	100.0%
December 31, 2000	221,908,346	361,452,258	629,257,941	361,452,258	1,230,971,746	100.0%	100.0%	100.0%
December 31, 2001	248,579,180	457,383,311	654,307,118	457,383,311	1,311,288,668	100.0%	100.0%	89.3%
December 31, 2002	265,812,595	456,198,465	718,187,586	456,198,465	1,250,851,348	100.0%	100.0%	58.5%
December 31, 2003	252,182,701	522,547,276	777,100,825	522,547,276	1,348,790,502	100.0%	100.0%	61.1%
December 31, 2004	261,905,526	604,009,381	812,266,336	604,009,381	1,356,797,448	100.0%	100.0%	46.8%
December 31, 2005	280,994,642	665,001,381	848,185,652	665,001,381	1,398,798,722	100.0%	100.0%	40.5%
December 31, 2006	295,166,238	774,678,301	904,166,079	774,678,301	1,497,783,958	100.0%	100.0%	38.5%

GABRIEL ROEDER SMITH & COMPANY

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 13a

SCHEDULE OF FUNDING PROGRESS
(As required by GASB #25)

Valuation Date (1)	Actuarial Value of Assets (AVA) (2)	Actuarial Liability (AAL) (3)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as % of Payroll (4)/(6) (7)
December 31, 1990	\$ 410.5	\$ 363.0	\$ (38.6)	113.1%	\$ 171.7	(22.5%)
December 31, 1991	470.7	404.4	(66.3)	116.4%	194.6	(34.1%)
December 31, 1993	579.1	541.2	(37.9)	107.0%	235.2	(16.1%)
December 31, 1995	707.3	623.0	(84.3)	113.5%	221.0	(38.2%)
December 31, 1997	856.4	832.1	(24.3)	102.9%	219.2	(11.1%)
December 31, 1998	952.6	877.8	(74.8)	108.5%	219.3	(34.1%)
December 31, 1999	1,105.1	1,044.5	(60.6)	105.8%	244.5	(24.8%)
December 31, 2000	1,231.0	1,212.6	(18.4)	101.5%	268.6	(6.8%)
December 31, 2001	1,311.3	1,360.3	49.0	96.4%	316.8	15.5%
December 31, 2002	1,250.9	1,440.2	189.3	86.9%	322.0	58.8%
December 31, 2003	1,348.8	1,551.8	203.0	86.9%	312.8	64.9%
December 31, 2004	1,356.8	1,678.2	321.4	80.8%	326.6	98.4%
December 31, 2005	1,398.8	1,794.2	395.4	78.0%	348.6	113.4%
December 31, 2006	1,497.8	1,974.0	476.2	75.9%	391.0	121.8%

Note: Dollar amount in millions.

GABRIEL ROEDER SMITH & COMPANY

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(as required by GASB #25)

<u>Fiscal Year</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
(1)	(2)	(3)
1992	\$14,266,156	100.00%
1993	\$15,653,339	100.00%
1994	\$17,005,695	100.00%
1995	\$16,983,178	100.00%
1996	\$15,738,068	100.00%
1997	\$15,313,819	100.00%
1998	\$16,126,014	100.00%
1999	\$18,224,558	100.00%
2000	\$21,531,859	100.00%
2001	\$24,831,016	100.00%
2002	\$26,375,274	100.00%
2003	\$30,660,538	81.05%
2004	\$32,733,243	82.30%
2005	\$41,610,470	65.20%
2006	\$49,390,658	61.84%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	5.00% to 6.00%
*Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(Effective as of December 31, 2006)

A. ACTUARIAL ASSUMPTIONS

1. Investment Return Rate (adopted effective December 31, 2002)

7.75% per annum, compounded annually.

2. Mortality

a. Nondisabled (adopted effective December 31, 1997)

Rate of Decrement: 1994 Group Annuity Mortality Table for males and females. No age setbacks.

b. Disabled (adopted effective December 31, 2002)

Mortality tables from Revenue Ruling 96-7 for males and females disabled after December 31, 1994. No age setbacks.

Age	Rates of Mortality					
	Nondisabled				Disabled	
	Rate of Decrement		Post-Retirement		Male	Female
	Male	Female	Male	Female		
20	.000507	.000284	.000507	.000284	.024583	.009650
25	.000661	.000291	.000661	.000291	.027457	.011974
30	.000801	.000351	.000801	.000351	.030661	.014843
35	.000851	.000478	.000851	.000478	.034184	.017654
40	.001072	.000709	.001072	.000709	.038373	.020579
45	.001578	.000973	.001578	.000973	.043033	.023988
50	.002579	.001428	.002579	.001428	.048004	.027961
55	.004425	.002294	.004425	.002294	.053120	.032594
60	.007976	.004439	.007976	.004439	.058118	.037993
65	.014535	.008636	.014535	.008636	.063669	.044287
70	.023730	.013730	.023730	.013730	.073284	.051331

GABRIEL ROEDER SMITH & COMPANY

Actuarial Section

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2006)
(Continued)

3. Retirement Rates: (adopted effective December 31, 2006)

The following rates of retirement are assumed for members eligible to retire.

<u>Age</u>	<u>Rates of Retirement</u>	
	<u>Males</u>	<u>Females</u>
45 & under	35.0%	35.0%
46	35.0%	27.5%
47	35.0%	27.5%
48	40.0%	27.5%
49	40.0%	27.5%
50	40.0%	27.5%
51	40.0%	27.5%
52	35.0%	27.5%
53	35.0%	27.5%
54	35.0%	27.5%
55	35.0%	35.0%
56	27.5%	35.0%
57	27.5%	35.0%
58	27.5%	35.0%
59	27.5%	35.0%
60	27.5%	40.0%
61	27.5%	25.0%
62	30.0%	40.0%
63	25.0%	32.5%
64	25.0%	25.0%
65	40.0%	30.0%
66	25.0%	25.0%
67	25.0%	20.0%
68	20.0%	20.0%
69	20.0%	20.0%
70 & older	100.0%	100.0%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2006)
(Continued)

4. Rates of Decrement Due to Withdrawal (adopted effective December 31, 1997)

Age	Males					
	Years of Service					
	0	1	2	3	4	5+
25	0.2214	0.1936	0.1860	0.1568	0.1402	0.0923
30	0.2013	0.1760	0.1691	0.1425	0.1274	0.0839
35	0.1915	0.1674	0.1491	0.1171	0.1002	0.0680
40	0.1736	0.1518	0.1296	0.1008	0.0883	0.0529
45	0.1570	0.1372	0.1158	0.0925	0.0844	0.0385
50	0.1444	0.1263	0.1100	0.0912	0.0837	0.0268
55	0.1368	0.1196	0.1123	0.0958	0.0835	0.0208
60	0.1406	0.1229	0.1216	0.1053	0.0835	0.0233

Age	Females					
	Years of Service					
	0	1	2	3	4	5+
25	0.2181	0.2038	0.1956	0.1873	0.1281	0.1256
30	0.2118	0.1980	0.1899	0.1818	0.1233	0.1130
35	0.2105	0.1968	0.1837	0.1567	0.1079	0.0827
40	0.1939	0.1812	0.1649	0.1394	0.0990	0.0649
45	0.1728	0.1615	0.1495	0.1309	0.0990	0.0594
50	0.1454	0.1359	0.1341	0.1251	0.1004	0.0546
55	0.1399	0.1333	0.1269	0.1168	0.1067	0.0560
60	0.1478	0.1408	0.1340	0.1289	0.1238	0.0596

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2006)
(Continued)

5. Disability Rates* (adopted effective December 31, 1997)

Sample rates are shown below:

<u>Age</u>	<u>Rates of Decrement Due to Disability All Participants</u>
20	.00014
25	.00019
30	.00031
35	.00052
40	.00092
45	.00209
50	.00379
55	.00490
60	.00911

* Rates are for disability due to all causes, occupational disability rates are assumed to be 10% of all causes rates.

6. Rates of Salary Increase (adopted effective December 31, 2006)

<u>Years of Service</u>	<u>Promotional Rate of Increase</u>	<u>Total Annual Rate of Increase Including 3.25% Inflation Component and 1.75% Productivity Component</u>
1 – 8	1.00%	6.00%
9	0.75%	5.75%
10	0.50%	5.50%
11 - 19	0.25%	5.25%
20 or more	0.00%	5.00%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2006)
(Continued)

7. DROP Participation: (adopted effective December 31, 2002)

It was assumed that 20% of retiring active members with at least 20 years of service would elect a "Back-end" DROP.

8. Married Percentage: (adopted effective December 31, 1997)

100% of the active members are assumed to be married. Spouses are assumed to be the same age as the member.

9. Normal Form of Payment: (adopted effective December 31, 1997)

It is assumed that all retiring members will elect the Life only form of payment.

10. Interest Crediting Rate on Employee Contributions: (adopted effective December 31, 2002)

It is assumed that the interest credit rate on employee contributions will be 6.0%.

11. Payroll Growth Rate: (adopted December 31, 2002)

It is assumed that payroll will grow at 3.50% annually.

B. ACTUARIAL VALUE OF ASSETS

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the Excess (Shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets.

C. ACTUARIAL FUNDING METHOD

The funding period required to amortize the unfunded actuarial accrued liability is determined using the entry-age normal actuarial cost method. This method assigns the System's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost is determined on an individual basis. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006**

A. EFFECTIVE DATE

January 1, 1941.

B. ELIGIBILITY AND PARTICIPATION

Any regular and permanent employee of the City of Austin, excluding all civil service commissioned police officers and firefighters, the Mayor and members of the City Council and all part-time employees who work less than 75 percent of a normal work week.

C. MEMBERSHIP SERVICE

The period of time during which an eligible employee pays into and keeps on deposit the contribution prescribed to be paid by the employee into the System.

D. AVERAGE FINAL COMPENSATION

The average of the monthly compensation up to \$16,666 (\$12,500 for persons who first become members after 1995), for the 36 calendar months of highest compensation during the last 120 months prior to termination.

E. MEMBER AND EMPLOYEE CONTRIBUTION RATES:

The City currently contributes 8.00% of pay for each active member. Each active member contributes 8.00% of pay. These contributions are made under a pre-tax 401(h) pick-up arrangement.

F. RETIREMENT BENEFITS

1. Normal Retirement

- a. Eligibility: A participant may retire upon attaining age 62, or 23 years of service, or attaining age 55 with 20 years of service.
- b. Monthly Benefit: 3.00% of average final compensation times years of service.
- c. Payment Form: Benefits are paid as a monthly life annuity to the participant, with a provision that should the participant die prior to receiving monthly payments whose sum is greater than or equal to the participant's accumulated employee contributions, then the participant's beneficiary shall receive a lump-sum equal to the excess of the participant's accumulated employee contributions with interest over the sum of the monthly payments received.

GABRIEL ROEDER SMITH & COMPANY

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

d. Optional Forms of Payment:

- i) Joint and contingent annuity with either 100%, 66 2/3%, or 50% of the reduced retirement income payable for the life of the contingent annuitant upon the death of the retiring participant, with the provision that, should the contingent annuitant predecease the participant, the monthly annuity will revert to the amount that would have been payable under the normal form of payment,
- ii) Joint and 66 2/3% last survivor provides a reduced retirement income payable as long as both the member and the joint annuitant are alive, and upon the death of either the member or the joint annuitant, the benefit reduces to 2/3 of such amount for the remainder of the life of the last survivor,
- iii) Period certain and life annuity with 15 years of payments guaranteed, or
- iv) Life annuity with modified cash refund.

- e. Deferred Retirement Option Program (DROP): A member may elect to retroactively participate in the System's DROP (i.e. a Back End DROP). The member would receive a lump-sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. No COLAs are included but changes in the benefit multiplier are reflected.

2. Early Retirement: Currently there are no reduced retirement benefits under the plan. See Normal Retirement.

G. DISABILITY RETIREMENT

- 1. Eligibility: If the employee is terminated by reason of a total and permanent disability which prevents the employee from engaging in any substantial gainful employment. If the employee has less than five years of service, the disability must be job related.
- 2. Monthly Benefit: Same as Normal Retirement benefit using pay and service at date of disability.
- 3. Form of Payment: The normal form of payment that is available to a member taking normal retirement and the optional forms of payments described in F.1.d.i) and F.1.d.ii) above.

GABRIEL ROEDER SMITH & COMPANY

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

H. VESTING OF BENEFITS

1. Vesting

An employee is vested according to the following schedule:

<u>Years of Vesting Service</u>	<u>Vested Percentage</u>
Less than 5	0%
5 or more	100%

2. Benefits Upon Vesting

A vested participant is entitled to the retirement benefit payable at normal retirement earned to the date of participant's termination multiplied by his/her vested percentage, or a refund of the employee's accumulated employee contributions with interest.

I. DEATH IN SERVICE

1. Eligibility: All active members.

2. Benefit: The amount of the benefit payable to the beneficiary is:

a. Employee eligible for retirement at date of death:

The surviving spouse if any may elect to receive an annuity equal to the monthly benefit as if the member had retired under any retirement option that would have been available to the member at the end of the month in which the member died. If there is no surviving spouse, then the beneficiary may elect to receive a 15 years certain and life annuity. The surviving spouse or beneficiary instead of electing the annuity may elect to receive a benefit equal to twice the member's accumulated employee contributions with interest.

b. Employee not eligible for retirement at date of death:

A benefit equal to twice the member's accumulated employee contributions with interest.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

J. RETIREE LUMP-SUM DEATH BENEFIT

Upon death of a retired member, a \$10,000 lump-sum death benefit is payable. This benefit is also payable upon the death of an active member eligible for retirement whose surviving spouse or beneficiary elects to receive an annuity.

K. COST-OF-LIVING ADJUSTMENT (COLA)

On January 1 of each year the Board may approve a cost-of-living increase for those retirees who retired on or before December 31 of the previous year. The maximum increase which can be approved is 6%. The amount of the increase is set by the Board upon recommendation by the System's actuary that such an increase will not make the Fund financially unsound, and the adjustment is not inconsistent with the Code. The increase is prorated for any benefit which has been in effect for less than a year, with the proration being 1/12 for each monthly payment received during the prior year.

L. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

Once each year the Board may approve a lump-sum additional benefit payment to be paid to those members currently in payment status. The additional payment would be equal to a percentage of the member's monthly annuity with a maximum percentage of 100%.

M. LEGISLATED PLAN CHANGES ENACTED BY 1995 LEGISLATURE

1. 2.3% Multiplier

The benefit multiplier was increased from 2.2% per year of service to 2.3% per year of service effective October 1995.

2. 2.3% Retiree Gross-up

Effective October 1995, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.3% multiplier.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

3. \$10,000 Retiree Lump-Sum Death Benefit

The lump-sum death benefit payable upon the death of a retiree was increased from \$2,000 to \$10,000.

4. Plan Participation Begins at Date of Hire

The six-month service requirement for participation was eliminated. Current active members were granted service for the period between their date of hire and their date of participation, up to six months.

N. LEGISLATED PLAN CHANGES ENACTED BY 1997 LEGISLATURE

1. 2.6% Multiplier

The benefit multiplier was increased from 2.3% per year of service to 2.6% per year of service effective October 1997.

2. 2.6% Retiree Gross-up

Effective October 1997, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.6% multiplier.

3. Military Service Purchase

Increased the number of months of military service that may be purchased from 24 to 48.

4. Noncontributory Service Purchase

Allowed an employee to purchase noncontributory service for the following periods of time: (1) while employee was on workers' compensation leave, (2) while employee was on an authorized leave of absence, and (3) while employee performed service for the employer in a position for which the service was not otherwise creditable. The employee pays the full actuarial cost of the service purchase.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

5. Employer Purchase of Unreduced Retirement Eligibility

Allowed the employer to purchase the amount of service required to qualify an employee for an unreduced retirement benefit at age 55. To be eligible for the purchase, the employee must never have been a highly compensated employee within the meaning of IRC Section 414(q). The cost of the service purchase is the full actuarial cost of both the benefit and the retirement eligibility.

O. LEGISLATED PLAN CHANGES ENACTED BY 1999 LEGISLATURE

1. 2.7% Multiplier

The benefit multiplier was increased from 2.6% per year of service to 2.7% per year of service effective October 1999.

2. 2.7% Retiree Gross-up

Effective October 1999, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.7% multiplier.

3. 23 & Out Provision

The service requirement at which a participant may retire with an unreduced retirement benefit was decreased from 25 years of creditable service to 23 years of creditable service.

4. Pop-Up Provisions for Certain Joint and Survivor Payment Options

Certain optional forms of payment which extend coverage to a joint annuitant (Options I, II, and III) were amended so that, should the contingent annuitant predecease the participant, the monthly annuity will revert to the amount that would have been payable under the normal form of payment.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

5. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

The Board was given the ability to make an additional payment to members in payment status in the form of a lump-sum additional benefit payment. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

P. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2000

1. "415 Restoration of Retirement Income Plan"

Certain highly compensated members may have their retirement annuity limited because of Section 415(b)(1) of the Internal Revenue Code. A plan amendment effective January 1, 2000, provides for COA ERS to pay a benefit payment that exceeds the maximum benefit limitation imposed by the Internal Revenue Code from a separate, non-qualified, pay-as-you-go "Restoration of Retirement Income Plan".

2. 2.98% Multiplier

The benefit multiplier was increased from 2.7% per year of service to 2.98% per year of service effective April 2000.

3. 2.98% Retiree Gross-up

Effective April 2000, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 2.98% multiplier.

4. "Pop-up" Benefit Amendment

The "pop-up" benefit is extended to retirees who selected the actuarial equivalent of Life Annuity option with underlying options of I, II, or III.

Q. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2001

None

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

R. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2002

1. 3.00% Multiplier

Benefit multiplier was increased from 2.98% per year of service to 3.00% per year of service effective January 2002.

2. 3.00% Retiree Gross-up

Effective January 2002, current retirees received an increase in their benefit amount to bring their retirement benefit amount up to what it would be currently if they had retired under the 3.00% multiplier.

3. Deferred Retirement Option Program

A "Back End" DROP was added as an optional form of retirement effective in 2002. The retiring member may elect to retroactively participate in a DROP. The member would receive a lump-sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. No COLAs are included but changes in the benefit multiplier are reflected.

4. Purchase of Permissive Time

A member may purchase up to five years of Permissive Time. The purchase price charged to the member is the anticipated actuarial cost to the System for the additional service. Minimum purchase is one month with a maximum of 60 months (5 years) or the number of months needed to reach first eligibility for retirement whichever is less.

5. Conversion of Unused Sick Leave

At retirement an employee may elect to purchase Creditable Service for unused sick leave. The Board requires payment by the Member, and then by the City of the equivalent amount of retirement contributions that would have been made had the sick hours been exercised as sick hours. An employee must already be eligible for retirement to purchase the service.

**SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2006
(Continued)**

S. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2003

1. "Pop-up" Benefit Amendment

"Pop-up" benefit was extended to any Joint and Survivor option (including level income options), other than Joint and Last Survivor.

2. Permissive Time Amendment

Permissive Time resolution was amended removing the provision that restricts members from purchasing Permissive Time in excess of the amount needed to reach first retirement eligibility.

T. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2004

None

U. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2005

None

V. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2006

None

DEFINITION OF TERMS**1. Actuarial Cost Method**

A method for determining the actuarial present value of future benefits and allocating such value to time periods in the form of a normal cost and an actuarial accrued liability.

2. Present Value of Future Benefits

This is computed by projecting the total future benefit cash flow from the System, using actuarial assumptions, and then discounting the cash flow to the valuation date.

3. Normal Cost

Computed differently under different actuarial cost methods, the normal cost generally represents the value of the portion of the participant's anticipated retirement, termination, and/or death and disability benefits accrued during a year.

4. Actuarial Accrued Liability

Computed differently under different actuarial cost methods. Generally actuarial accrued liability represents the value of the portion of the participant's anticipated retirement, termination, and/or death and disability benefits accrued as of the valuation date.

5. Entry Age Actuarial Cost Method

A method under which a participant's actuarial present value of future benefits is allocated on a level basis over the earnings of the participant between his/her entry into the System and his/her assumed exit.

6. Unfunded Actuarial Accrued Liability

The difference between total actuarial present value of future benefits over the sum of the tangible assets of the System and the actuarial present value of the members' future normal costs. The System is underfunded if the difference is positive and overfunded if the difference is negative.

7. Actuarial Value of Assets

The value of cash, investments, and other property belonging to the System, as valued by the actuary for purposes of the actuarial valuation.

STATISTICAL TABLES

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2006

Attained Age	Length of Service											Number of Employees	Average Annual Salary		
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34			35+	
Under 25	114	51	22	10	1	8	0	0	0	0	0	0	0	206	29,032
25-29	230	136	64	32	45	129	1	0	0	0	0	0	0	637	34,293
30-34	181	125	88	53	83	307	64	0	0	0	0	0	0	901	40,454
35-39	142	105	86	56	77	391	200	70	5	0	0	0	0	1,132	45,577
40-44	105	80	72	47	56	375	258	155	114	2	0	0	0	1,264	49,918
45-49	102	76	75	45	51	365	260	241	256	24	1	0	0	1,496	53,382
50-54	87	51	57	28	46	280	194	187	192	61	4	0	0	1,187	54,384
55-59	48	33	35	16	30	210	153	140	103	36	13	2	2	819	55,558
60-64	17	11	9	6	13	102	61	58	39	12	5	2	2	335	53,222
65 & Over	3	4	5	1	0	15	22	16	8	3	1	0	0	78	54,552
All Ages	1,029	672	513	294	402	2,182	1,213	867	717	138	24	4	4	8,055	48,537

GABRIEL, ROEDER, SMITH & COMPANY

**DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND
CURRENT RATE OF PAY AS OF DECEMBER 31, 2006**

<u>Completed Years of Service</u>	<u>Number of Employees</u>	<u>Total Average Salary</u>
0	1,029	\$ 37,878
1	672	38,986
2	513	40,735
3	294	43,627
4	402	44,810
5-9	2,182	47,604
10-14	1,213	53,633
15-19	867	58,242
20-24	717	61,805
25-29	138	60,554
30-34	24	70,561
35+	<u>4</u>	<u>65,770</u>
All Years	8,055	\$ 48,537

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

TABLE 19**SCHEDULE OF AVERAGE BENEFIT PAYMENTS, LAST TEN YEARS**

Retirement Effective Dates	Years Creditable Service						
	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30+</u>
Period 01/01/06 to 12/31/06							
Average monthly benefit	\$289	\$620	\$1,413	\$1,826	\$2,939	\$3,720	\$4,854
Average final average salary	\$46,003	\$39,609	\$53,356	\$49,024	\$55,322	\$61,669	\$64,402
Number of retired members	10	41	15	29	101	24	8

Prior year information not available.

TABLE 20
City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2006)

Amount of Monthly Benefit	Number of Retired Members				Option Selected ^b								
	Type of Retirement ^a				Unmod.								
	1	2	3	4	1	2	3	4	5	6	7	8	9
Deferred													
\$ 1 - \$ 250	74	57	7	1	9	4	2	0	0	0	3	0	0
251 - 500	154	117	22	10	5	7	8	4	0	1	13	0	0
501 - 750	201	143	32	11	15	17	11	1	5	0	9	0	2
751 - 1,000	231	175	37	11	8	21	18	7	6	11	5	0	5
1,001 - 1,250	210	161	37	8	4	15	13	7	11	10	10	0	18
1,251 - 1,500	301	249	40	10	2	26	21	3	22	17	10	0	13
1,501 - 1,750	320	286	28	5	1	27	21	5	21	17	13	2	17
1,751 - 2,000	315	277	33	5	0	21	25	3	30	21	5	1	24
Over 2,000	1,661	1,577	78	4	2	119	117	31	141	133	55	8	106
Total	3,467	3,042	314	65	46	257	236	61	236	210	123	11	185

Notes:

^a Type of retirement:

- 1-Normal retirement for age and service
- 2-Beneficiary payment, normal retirement or death in service
- 3-Disability retirement
- 4-QDRO - alternate payee

^b Option selected:

- Unmodified Plan: life annuity
- The following options reduce the retired member's monthly benefit:
 - Option 1 - Beneficiary receives 100 percent of member's reduced monthly benefit
 - Option 2 - Beneficiary receives 50 percent of member's reduced monthly benefit
 - Option 3 - Beneficiary receives 66-2/3 percent of member's reduced monthly benefit
 - Option 4 - Survivor receives 66-2/3 percent of member's reduced monthly benefit upon first death
 - Option 5 - Level income option payable for life of retiree
 - Option 6 - Level income option, beneficiary receives 66-2/3 percent of member's monthly benefit
 - Option 7 - Life annuity with 15 years guarantee
 - Option 8 - Other participant created actuarial equivalent forms of payment
 - Option 9 - Level income option, beneficiary receives 100 percent of member's monthly benefit

SCHEDULE OF PARTICIPATING EMPLOYERS

The City of Austin and the City of Austin Employees' Retirement System are the only participating employers in the plan.

TABLE 22

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additions										
Member Contributions	\$ 16,119	\$ 17,121	\$ 20,052	\$ 23,414	\$ 26,238	\$ 33,794	\$ 30,449	\$ 32,272	\$ 33,334	\$ 35,791
Employer Contributions	15,323	16,126	18,225	21,532	24,831	26,375	24,907	27,008	27,168	30,610
Investment Income (net of expenses)	129,814	138,464	259,255	(20,509)	(78,888)	(112,995)	246,069	145,631	118,154	179,952
Total additions to plan net assets	161,256	171,712	297,531	24,437	(27,819)	(52,826)	301,426	204,911	178,656	246,353
Deductions										
Benefit Payments	33,745	42,908	49,825	59,312	66,013	71,023	77,187	81,426	85,851	90,116
Refunds	6,123	6,423	4,867	4,945	3,991	3,958	4,477	5,112	3,775	4,196
Administrative Expenses	936	1,105	1,133	1,220	1,305	1,642	1,553	1,555	1,497	1,671
Lump-sum Payments						266	1,029	1,343	1,798	2,178
Total deductions from plan net assets	40,805	50,436	55,826	65,477	71,310	76,888	84,246	89,436	92,921	98,161
Change in net assets	\$ 120,451	\$ 121,275	\$ 241,706	\$ (41,039)	\$ (99,129)	\$ (129,715)	\$ 217,180	\$ 115,475	\$ 85,735	\$ 148,192

Notes: Dollar amounts in thousands

Columns may not add due to rounding

Includes contributions to and benefit payments from 415 Restoration Plan

GABRIEL, ROEDER, SMITH & COMPANY

Statistical Section

TABLE 23
City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2006

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE, LAST TEN FISCAL YEARS

Type of Benefit	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Age and service benefits:										
Retirees ^a	\$32,515	\$42,094	\$48,074	\$58,128	\$64,598	\$70,094	\$75,527	\$80,152	\$84,003	\$88,513
Beneficiaries ^a										
Lump-sum payments						\$266	\$1,029	\$1,343	\$1,798	\$2,178
In service death benefits: ^b	\$1,230	\$814	\$1,752	\$1,184	\$1,416	\$929	\$1,660	\$1,274	\$1,848	\$1,603
Disability benefits: ^c										
Type of Refund										
Death ^b										
Separation	\$6,123	\$6,423	\$4,867	\$4,945	\$3,991	\$3,958	\$4,477	\$5,112	\$3,775	\$4,196
Total refunds	\$6,123	\$6,423	\$4,867	\$4,945	\$3,991	\$3,958	\$4,477	\$5,112	\$3,775	\$4,196

Notes: Dollar amounts in thousands

^a Segregation of age benefits for beneficiaries not currently available

^b Segregation of death benefits between refunds and in service death benefits not currently available

^c Segregation of disability benefits from age and service benefits not currently available

Includes benefit payments from 415 Restoration Plan

Excludes administrative expenses

GABRIEL, ROEDER, SMITH & COMPANY