GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

May 28, 2009

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, 2008

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, 2008, 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. While the significant asset losses from the early 2000s have been fully recognized, the significant asset loss in 2008 has only been partially recognized and the plan's contribution rate is still 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 provides for a City contribution rate subsidy. The subsidy will occur in 1% increments annually over the next several years until the City subsidy reaches a maximum of 4.0%. Any contribution rate subsidy increase occurs on October 1st of each year. The increase in the City subsidy can be delayed by a year if the System earns 12.0% on its assets during the previous calendar year. The System earned less than 12.0% in calendar year 2008, and therefore the City subsidy will increase to 3.0% effective October 1, 2009. The subsidy is 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 contribution subsidy 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.

GRS provided COAERS with the information used in preparing the following trend schedules in the financial section of the CAFR: Required Supplementary Information Schedule of Funding Progress, Required Supplementary Information Schedule of Employer Contributions, and Notes to Required Supplementary Information. GRS provided no additional assistance in the preparation of any other schedules in the financial section of the CAFR.

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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 that study, revised assumptions were adopted by the Board to be effective with the valuation as of December 31, 2006. We believe the assumptions are internally consistent, reasonable, and where appropriate based on the actual experience of COA ERS.

A method change has been incorporated into this valuation. The method for calculating the present value of future pay for an employee has been modified to reflect the probability the employee will leave active employment during the year. Prior to this year, if a member was active at the beginning of the year then his or her pay for the entire year was included in the present value. This change has a significant impact on the normal cost calculation.

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, 2008, 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 last actuarial valuation of the City of Austin Employees' Retirement System was prepared as of December 31, 2007 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

The undersigned are independent actuaries and consultants. Mr. Newton 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. Both Mr. Newton and Mr. Ward are experienced in performing valuations for large public retirement systems.

We would like to thank you and your staff for your assistance in providing all necessary information to complete this valuation. Your 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

Joseph P. Newton, F.S.A
Senior Consultant

Gabriel Roeder Smith & Company

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EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2008 may be summarized as follows:

	December 31, 2008	December 31, 2007
	(1)	(2)
• Members		
— Actives	8,643	8,358
— Retirees and beneficiaries	3,835	3,633
— Vested - terminated	870	828
— Total	13,348	12,819
• Covered payroll	$ 448,740,469	$ 417,450,797
• Normal cost	$ 70,079,264	$ 62,664,083
— As % of payroll	16.24%	14.60%
• Actuarial accrued liability	$ 2,246,903,861	$ 2,112,811,292
• Present actuarial value of assets	$ 1,481,377,439	$ 1,653,533,484
• Unfunded actuarial accrued liability (UAAL)	$ 765,526,422	$ 459,277,808
• Estimated yield on assets		
— Actuarial value basis	-8.91%	12.09%
— Market value basis	-25.98%	7.09%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	11.00% *	10.00% *
• Benefit and refund payments	$ 107,890,245	$ 100,314,570
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	170.6%	110.0%
— GASB funded ratio	65.9%	78.3%
— GASB Annual Required Contribution (ARC)	18.20%	13.18%

* Employer rate increased to 10.0% effective October 1, 2008 and to 11% effective October 1, 2009.

INTRODUCTION

This December 31, 2008 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, 2008, determine the funding period of any unfunded liability for the plan year beginning January 1, 2009, 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.

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.

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, 2008, is 16.24% of pay. This compares with 14.60% of pay as of the last valuation of December 31, 2007. 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 11.45% of pay. The normal cost for the deferred termination benefits is 1.89% and 2.18% for refunds of terminated employees (both vested and non-vested). The normal cost for disability benefits is 0.27%, and the normal cost for death benefits is 0.45%. The significant increase in the normal cost over last year is due to the method change previously discussed in the certification letter.

Table 1 illustrates a number of the key actuarial items for the 2008 valuation. As mentioned above, the employer normal cost rate is 16.24% of covered payroll. The actuarial accrued liability is $2,246.9 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,481.4 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $765.5 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2007), the System was underfunded by $459.3 million.

Beginning October 1, 2009, the City will be contributing 11% of payroll (including subsidy) and the employees will be contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 19% of payroll to fund benefits. The current normal cost of the plan is 16.24%, which means that the System is currently receiving contributions in excess of the normal cost equal to 2.76% of pay (19.00% less 16.24%). 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)

Under the Supplemental Funding Plan (SFP) it is anticipated that the total City contribution rate (including the subsidy) will gradually increase to 12.0% of pay (this is the maximum City rate under the SFP). Each calendar year in which the System earns at least 12.0%, on the market value of assets, will delay the scheduled increase in the subsidy by one year.

Because of the large increase in the unfunded liabilities of the System due to the 2008 investment losses (which have only been partially recognized), it is no longer expected that the SFP as it is currently constructed will be sufficient to amortize the unfunded liabilities of the System in the future.

The GASB annual required contribution (ARC) is also developed in Item 10 on Table 1. The ARC for the 2009 plan year, as determined by the 2008 valuation, is 18.20%.

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, 2008 is $1,481.4 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 2.e.) is (($433.0)) million. A preliminary actuarial asset value is determined by subtracting the total deferral from the end of year market value of assets. This produced a preliminary actuarial value of assets of $1,667.9 million (Item 4). This preliminary value is then tested to determine if it is within 20% of the end of year market value of assets. If it is not within this corridor (80% to 120% of market value) then the actuarial value of assets is increased/decreased until the value is within the corridor. The corridor limits as of December 31, 2008 are shown in Item 5 of Table 4. Because the preliminary actuarial value of assets is not within the corridor, the final actuarial value of assets is set equal to the nearest corridor value. Table 5 shows the development of the Excess (Shortfall) of investment income for the past five 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, 2008, assuming that income, revenue, and expenditures are evenly distributed throughout the year is -25.98% on a market value of assets basis. The rate of return for the year ending December 31, 2008, on an actuarial value basis was -8.91%. 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 loss on an actuarial asset basis of ($273.7) million in 2008. This compares to the $64.2 million gain in 2007.

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, 2007.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2008, is an underfunded position of $481.4 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 2008.

Since the actual unfunded actuarial accrued liability as of December 31, 2008 is $765.5 million, it represents a total net loss for the period of $284.1 million, as shown in Item 9 of Table 8. That is, the unfunded actuarial accrued liability is greater than expected. The net actuarial loss includes an asset loss of $273.7 million as shown in Table 7 and a loss on the liability side equal to $10.4 million. The liability loss is comprised of a $10.2 million loss due to experience and a $0.2 million loss due to the method change previously discussed. The experience 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 new entrants 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.

There have been no changes to the actuarial assumptions since the prior year. There has been a method change since the prior year. As previously discussed the method for determining present value of future pay was modified. This had a very small impact on the accrued liabilities of the System. Please see Table 14 for a more detailed description of the assumptions and methods.

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 retirees and beneficiaries added to and removed from payment 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. 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 provides for a contribution rate subsidy from the City which will gradually increase the City's total contribution rate to the System to 12.0%. This contribution subsidy 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 subsidy to a rate that produces a 30-year funding period.

The overall funded position of the System decreased from 78.3% at the prior valuation to 65.9% at this valuation. In the absence of any other actuarial gains or a dramatic recovery in the financial markets, the funded position of the System will most probably decrease in the future even with the full implementation of the SFP. In other words, once the remainder of the asset loss from 2008 is fully recognized, the anticipated employer ARC will be significantly larger than the 12.0% total contribution rate to the System by the City under the SFP.

In the absence of significant actuarial gains, the current SFP will not be sufficient to enable the System to return to a position in the 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 if all assumptions are exactly met, if the benefits of the System are not changed, and if the SFP remains unchanged, then the funding period for amortizing the System's unfunded actuarial accrued liability will continue to be infinite and the funded status will continue to worsen in the future.

Since the SFP is no longer expected to be sufficient, we recommend that the Board be proactive with the City in discussions about restoring the System to a condition where the benefit structure is supported by the anticipated contributions. It is possible this may be achieved through increased contributions and/or benefit modifications.

ACTUARIAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 1

SUMMARY OF COST ITEMS

	December 31, 2008		December 31, 2007	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,643		8,358	
b. Terminated vested	870		828	
c. Retired participants and beneficiaries	3,753		3,560	
d. Disabled	82		73	
e. Total	13,348		12,819	
2. Covered Payroll	$ 448,740,469		$ 417,450,797	
3. Averages for Active Participants				
a. Average age	43.9		43.7	
b. Average years of service	8.9		8.9	
c. Average pay	$ 51,920		$ 49,946	
4. Total Normal Cost	$ 70,079,264	16.24% *	$ 62,664,083	14.60% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,165,675,442		$ 1,092,553,374	
b. Terminated vested participants	48,579,405		44,966,370	
c. Refunds of terminated nonvested participants	7,241,539		6,797,551	
d. Retired participants and beneficiaries	1,013,759,641		958,596,286	
e. Disabled participants	11,647,834		9,897,711	
f. Total	$ 2,246,903,861	500.71%	$ 2,112,811,292	506.12%
6. Present Actuarial Assets	$ 1,481,377,439	330.12%	$ 1,653,533,484	396.10%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 765,526,422	170.59%	$ 459,277,808	110.02%
8. Relative Size of UAAL				
a. As percent of actuarial assets	51.68%		27.78%	
b. As percent of covered payroll	170.59%		110.02%	
9. 30-year amortization of UAAL as % of covered payroll	9.96%		6.58%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	26.20%		21.18%	
b. Employee contribution rate	8.00%		8.00%	
c. ARC (10a. - 10b.)	18.20%		13.18%	

* as % of expected payroll

ANALYSIS OF NORMAL COST BY COMPONENT

	Cost as % of Pay	
Benefit Component	December 31, 2008	December 31, 2007
(1)	(2)	(3)
1. Retirement Benefits	11.45%	10.27%
2. Termination - Deferred Benefits	1.89%	1.69%
3. Termination - Refund Benefits	2.18%	2.00%
4. Disability Benefits	0.27%	0.24%
5. Death Benefits	0.45%	0.40%
6. Normal Cost	16.24%	14.60%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 3

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

	December 31, 2008 (1)	December 31, 2007 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,427,033,772	$ 1,334,804,565
b. Deferred termination benefits	124,990,201	118,121,957
c. Refund of nonvested terminations	42,317,901	39,224,710
d. Disability benefits	15,940,218	15,026,072
e. Death benefits	35,847,267	33,105,957
f. Total	$ 1,646,129,359	$ 1,540,283,261
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,013,759,641	$ 958,596,286
b. Disability retirements	11,647,834	9,897,711
c. Total	$ 1,025,407,475	$ 968,493,997
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 48,579,405	$ 44,966,370
b. Nonvested terminations with refunds payable	7,241,539	6,797,551
c. Total	$ 55,820,944	$ 51,763,921
4. Total actuarial present value of future benefits	$ 2,727,357,778	$ 2,560,541,179
B. Present Value of Future Pay	$ 2,958,460,079	$ 3,070,393,028
C. Normal Cost Rate	16.24%	14.60%
D. Present Value of Future Normal Costs	$ 480,453,917	$ 447,729,887
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,646,129,359	$ 1,540,283,261
2. Less present value of future normal costs (Item D)	480,453,917	447,729,887
3. Actuarial accrued liability	$ 1,165,675,442	$ 1,092,553,374
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item E.3)	$ 2,246,903,861	$ 2,112,811,292

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 4

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item	Valuation as of December 31, 2008
(1)	(2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	$ (568,702,657)
b. Current year -1	(10,936,062)
c. Current year -2	65,927,379
d. Current year -3	10,996,163
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	$ (454,962,126)
b. Current year - 1 (60% deferral)	(6,561,637)
c. Current year - 2 (40% deferral)	26,370,952
d. Current year - 3 (20% deferral)	2,199,233
e. Total deferred for year	$ (432,953,578)
3. Market value of plan assets, end of year	$ 1,234,481,199
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.e)	$ 1,667,434,777
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	$ 987,584,959
b. 120% of market value of assets, end of year	$ 1,481,377,439
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.)	$ 1,481,377,439

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31,				
	2008	2007	2006	2005	2004
(1)	(2)	(3)	(4)	(5)	(6)
1. Net Investment Income					
a. Interest and Dividends	$ 43,788,389	$ 46,831,701	$ 41,758,402	$ 35,680,424	$ 32,165,731
b. Realized and unrealized gains and losses*	(479,655,717)	68,099,136	138,193,429	82,473,867	113,465,673
c. Administrative expenses	(1,882,839)	(1,776,035)	(1,670,792)	(1,497,461)	(1,554,864)
d. Total	$ (437,750,166)	$ 113,154,802	$ 178,281,039	$ 116,656,830	$ 144,076,540
2. Market value of assets, beginning of year	$ 1,698,196,892	$ 1,608,943,244	$ 1,460,751,603	$ 1,375,016,657	$ 1,259,556,169
3. Contributions during year	$ 81,924,719	$ 76,413,416	$ 66,336,402	$ 60,463,857	$ 59,213,119
4. Benefits and refunds paid during year	$ (107,890,245)	$ (100,314,570)	$ (96,425,800)	$ (91,385,741)	$ (87,814,171)
5. Other	$ -	$ -	$ -	$ -	$ (15,000)
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	$ 131,610,259	$ 124,693,101	$ 113,208,249	$ 106,563,791	$ 97,615,603
b. Contributions	3,174,583	2,961,020	2,570,536	2,342,974	2,294,508
c. Benefits and refunds	(3,832,351)	(3,563,257)	(3,425,125)	(3,246,098)	(3,119,233)
d. Other	-	-	-	-	(1,163)
e. Total	$ 130,952,491	$ 124,090,864	$ 112,353,660	$ 105,660,667	$ 96,789,715
7. Excess investment income for year (Item 1.d. - Item 6.e.)	$ (568,702,657)	$ (10,936,062)	$ 65,927,379	$ 10,996,163	$ 47,286,825

*Includes investment expenses

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 6

CHANGE IN NET ASSETS

		Valuation Period Ending December 31, 2008 (1)	Valuation Period Ending December 31, 2007 (2)
1.	Assets in plan at beginning of year **(A)**	$ 1,698,196,892	$ 1,608,943,244
2.	Employer contributions	40,661,542	36,442,325
3.	Employee contributions	41,263,177	39,971,091
4.	Benefit payments made*	103,605,014	95,876,601
5.	Refunds of contributions	4,285,231	4,437,968
6.	Expenses paid from trust	1,882,839	1,776,035
7.	Investment return	(435,867,327)	114,930,837
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,234,481,199	$ 1,698,196,892
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ (437,750,166)	$ 113,154,802
	b. Estimated yield based on **(2I/(A + B - I))**	-25.98%	7.09%

* Note: Benefit payments exclude any distributions from the 415 Restoration Plan
Note: Columns may not add due to rounding

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending December 31, 2008	Plan Year Ending December 31, 2007
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 1,653,533,484	$ 1,497,783,958
2. Contributions during year	$ 81,924,719	$ 76,413,416
3. Benefits paid during year	$ (103,605,014)	$ (95,876,601)
4. Refunds paid during year	$ (4,285,231)	$ (4,437,968)
5. Other	$ 0	$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 128,148,845	$ 116,078,257
b. Contributions	3,174,583	2,961,020
c. Benefits	(3,680,136)	(3,405,617)
d. Refunds	(152,215)	(157,640)
e. Other	0	0
f. Total	$ 127,491,077	$ 115,476,020
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,755,059,034	$ 1,589,358,824
8. Actuarial assets, end of year	$ 1,481,377,439	$ 1,653,533,484
9. Asset gain/(loss) (Item 8 - Item 7)	$ (273,681,595)	$ 64,174,660

City of Austin Employees' Retirement System **TABLE 8**
Actuarial Valuation - December 31, 2008

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2008

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2008	2007
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 459,277,808	$ 476,226,660
2.	Actual normal cost paid during year	68,989,338	66,139,714
3.	Subtotal (1 + 2)	$ 528,267,146	$ 542,366,374
4.	Interest at prior valuation's rate of 7.75%	38,267,367	42,033,394
5.	Contributions during year	(81,924,719)	(76,413,416)
6.	Interest on contributions for one-half year	(3,174,583)	(2,961,020)
7.	Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 481,435,211	$ 505,025,332
8.	Actual UAAL as of December 31st	765,526,422	459,277,808
9.	Actuarial gain/(loss) for the period (7 - 8)	$ (284,091,211)	$ 45,747,524
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 7)	$ (273,681,595)	$ 64,174,660
11.	Total liability gain/(loss) for the period (9-10)	(10,409,616)	(18,427,136)
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 & method changes	(159,297)	0
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ (10,250,319)	$ (18,427,136)
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ 1,774,051	$ 704,391
17.	Service Retirement	5,634,892	3,433,567
18.	Withdrawal	(5,893,143)	(11,413,562)
19.	Disability Retirement	8,900	(569,483)
20.	Active Mortality	(342,219)	(437,146)
21.	Retiree Mortality	1,939,252	852,706
22.	New Entrants	(12,001,713)	(9,210,351)
23.	Other (Data)	(1,370,339)	(1,787,258)
24.	Total Liability Experience Gain/(Loss)	$ (10,250,319)	$ (18,427,136)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 9

RELATIVE SIZE OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

		Relative to Covered Payroll		Relative to Actuarial Value of Present Assets		Relative to Total Actuarial Accrued Liability	
Valuation as of 31-Dec	Unfunded/ (Overfunded) 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)
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%
2007	459,277,808	417,450,797	110.0%	1,653,533,484	27.8%	2,112,811,292	21.7%
2008	765,526,422	448,740,469	170.6%	1,481,377,439	51.7%	2,246,903,861	34.1%

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 10

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending 31-Dec	Active Participants	Covered Payroll	Average Salary	Percent Increase
(1)	(2)	(3)	(4)	(5)
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%
2007	8,358	417,450,797	49,946	2.9%
2008	8,643	448,740,469	51,920	4.0%

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 11

SCHEDULE OF RETIREES 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	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
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
2007	289	8,523,459	123	2,262,126	3,633	96,071,149	6.4%	26,444
2008	290	8,299,468	88	2,056,217	3,835	101,840,870	6.0%	26,556

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 12

SOLVENCY TEST

	Aggregated Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active and Inactive Members Contributions	Retirees and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Reported Assets	(5)/(2)	[(5)-(2)]/3	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
December 31, 1997	$ 157,311,099	$ 385,407,128	$ 289,422,057	$ 856,422,516	100.0%	100.0%	100.0%
December 31, 1998	178,757,374	442,732,833	256,327,461	952,634,480	100.0%	100.0%	100.0%
December 31, 1999	230,542,295	536,835,240	277,111,325	1,105,121,657	100.0%	100.0%	100.0%
December 31, 2000	221,908,346	629,257,941	361,452,258	1,230,971,746	100.0%	100.0%	100.0%
December 31, 2001	248,579,180	654,307,118	457,383,311	1,311,288,668	100.0%	100.0%	89.3%
December 31, 2002	265,812,595	718,187,586	456,198,465	1,250,851,348	100.0%	100.0%	58.5%
December 31, 2003	252,182,701	777,100,825	522,547,276	1,348,790,502	100.0%	100.0%	61.1%
December 31, 2004	261,905,526	812,266,336	604,009,381	1,356,797,448	100.0%	100.0%	46.8%
December 31, 2005	280,994,642	848,185,652	665,001,381	1,398,798,722	100.0%	100.0%	40.5%
December 31, 2006	295,166,238	904,166,079	774,678,301	1,497,783,958	100.0%	100.0%	38.5%
December 31, 2007	333,340,167	968,493,997	810,977,128	1,653,533,484	100.0%	100.0%	43.4%
December 31, 2008	357,423,035	1,025,407,475	864,073,351	1,481,377,439	100.0%	100.0%	11.4%

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 13a

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

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
December 31, 2007	1,653.5	2,112.8	459.3	78.3%	417.5	110.0%
December 31, 2008	1,481.4	2,246.9	765.5	65.9%	448.7	170.6%

Note: Dollar amount in millions.

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 13b

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

Fiscal Year (1)	Annual Required Contribution (2)	Percentage Contributed (3)
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%
2007	$56,080,689	64.98%
2008	$57,937,202	70.18%

Gabriel Roeder Smith & Company

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, 2008
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, 2008)

A. ACTUARIAL ASSUMPTIONS

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

   7.75% per annum, compounded annually (net of expenses).

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.

	Rates of Mortality					
	Nondisabled					
	Rate of Decrement		Post-Retirement		Disabled	
Age	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

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2008)
(Continued)

3. Retirement Rates: (adopted effective December 31, 2006)
   The following rates of retirement are assumed for members eligible to retire.

Age	Rates of Retirement	
	Males	Females
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, 2008) (Continued)

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

	Males					
	Years of Service					
Age	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

	Females					
	Years of Service					
Age	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, 2008)
(Continued)

5. Disability Rates* (adopted effective December 31, 2006)

Sample rates are shown below:

Age	Rates of Decrement Due to Disability Males	 Females
20	.000039	.000016
25	.000048	.000023
30	.000101	.000050
35	.000304	.000152
40	.000837	.000419
45	.001759	.000880
50	.003109	.001554
55	.005079	.002542
60	.007497	.003726

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

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

Years of Service	Promotional Rate of Increase	Total Annual Rate of Increase Including 3.25% Inflation Component and 1.75% Productivity Component
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, 2008)
(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. It is assumed that all members who Back Drop will elect to DROP back to the date that would provide the greatest actuarial value to the member.

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 with a guaranteed return of accumulated employee contributions.

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. The expected investment return each year is calculated based on the market value of assets with the difference from actual income smoothed in over five years in 20% increments.

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 and 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, 2008

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 for the 36 calendar months of highest compensation during the last 120 months prior to termination. The monthly compensation used in the determination of benefits cannot exceed the compensation limits of Internal Revenue Code §401(a)(17) for the applicable period. The limit for 2009 is up to $20,416.67 for persons who first become members after 1995 (members hired prior to 1995 have no limit on their compensation).

E. CITY AND MEMBER CONTRIBUTION RATES

The City currently contributes a statutory 8.00% of pay for each active member. Under the Supplemental Funding Plan, the City is providing an additional contribution subsidy for each active member. Beginning October 1, 2009, this additional subsidy will be 3% of pay. Each active member contributes 8.00% of pay. These employee 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 any age with 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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.

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. The maximum period a member may retroactively elect under the DROP is 60 months.

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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 employment duties. 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.

H. VESTING OF BENEFITS

1. Vesting

An employee is vested according to the following schedule:

Years of Vesting Service	Vested Percentage
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.

SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008
(Continued)

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

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

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

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 adjustment for those retirees who retired on or before December 31 of the previous year. The maximum adjustment which can be approved is 6%. The amount of the adjustment is set by the Board upon recommendation by the System’s actuary that such an adjustment will not make the Fund financially unsound, and the adjustment is not inconsistent with the Code. The adjustment 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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 and beneficiaries 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.

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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.

5. Employer Purchase of Creditable Service

   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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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.

5. LUMP-SUM ADDITIONAL BENEFIT PAYMENT

   The Board was given the ability to make an additional payment to members and beneficiaries 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%.

6. EMPLOYER PURCHASE OF CREDITABLE SERVICE

   Limitations on employer purchases of Creditable Service for a Member before actual retirement were removed.

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.

SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008
(Continued)

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

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 benefit 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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2008 (Continued)

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.

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

W. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2007

None

X. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2008

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.

DEFINITION OF TERMS
(Continued)

8. ***Actuarial Gain or Loss***

   From one valuation to the next, if the experience of the plan differs from that anticipated by the actuarial assumptions, an actuarial gain or loss occurs. For example, an actuarial gain would occur if the assets in the trust had a yield of 12% based on actuarial value, while the assumed yield on the actuarial value of assets was 7.75%.

The Statistical Section provides additional historical perspective, context, and detail to assist the reader in using the information in the financial statements and note disclosures to understand and assess the economic condition of the City of Austin Employees' Retirement System (COA ERS). In compliance with *GASB Statement No. 44, Economic Condition Reporting: The Statistical Section*, schedules are classified into the following categories: Demographic and Economic Information, Operating Information, and Financial Trends.

STATISTICAL TABLES

Sources: *Schedules and data are provided by the consulting actuary, Gabriel Roeder Smith & Company, unless otherwise noted.*

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2008

Attained Age	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Number of Employees	Average Annual Salary
Under 25	85	60	31	12	7	1	0	0	0	0	0	0	196	$ 30,316
25-29	175	191	139	79	42	84	1	0	0	0	0	0	711	36,844
30-34	156	157	154	93	58	287	60	0	0	0	0	0	965	43,759
35-39	146	133	115	95	74	366	191	80	0	0	0	0	1,200	48,618
40-44	130	105	90	78	68	298	258	182	69	2	0	0	1,280	52,887
45-49	88	111	85	61	54	332	273	244	196	50	2	0	1,496	57,722
50-54	82	71	79	48	56	254	223	242	196	66	9	0	1,326	57,978
55-59	42	35	43	37	46	182	162	165	109	51	15	3	890	58,504
60-64	15	22	26	18	19	120	77	88	55	21	5	2	468	57,520
65 & Over	0	8	3	4	5	22	26	23	14	5	1	0	111	55,115
All Ages	919	893	765	525	429	1,946	1,271	1,024	639	195	32	5	8,643	$ 51,920

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2008

Completed Years of Service	Number of Employees	Total Average Salary
0	919	$ 42,804
1	893	42,738
2	765	44,227
3	525	45,283
4	429	47,254
5-9	1,946	51,599
10-14	1,271	56,193
15-19	1,024	62,067
20-24	639	66,401
25-29	195	66,237
30-34	32	72,533
35+	5	60,432
All Years	8,643	$ 51,920

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 19

SCHEDULE OF AVERAGE BENEFIT PAYMENTS, LAST TEN YEARS

Retirement Effective Dates January 1, 2006 to December 31, 2008	Years Creditable Service 0-4	5-9	10-14	15-19	20-24	25-29	30+
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 Salary	$46,003	$39,609	$53,356	$49,024	$55,322	$61,669	$64,402
Number of Active Retirees	10	41	15	29	101	24	8
Period 01/01/2007 to 12/31/2007							
Average Monthly Benefit	$236	$873	$1,343	$2,543	$3,317	$4,477	$6,268
Average Final Salary	$32,326	$45,231	$43,699	$57,605	$57,877	$65,793	$78,161
Number of Active Retirees	13	23	24	31	117	20	8
Period 01/01/2008 to 12/31/2008							
Average Monthly Benefit	$347	$827	$1,529	$2,461	$3,110	$3,641	$4,677
Average Final Salary	$42,430	$43,523	$55,998	$59,644	$58,147	$60,404	$62,389
Number of Active Retirees	17	36	34	20	113	27	13

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT AS OF DECEMBER 31, 2008

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a] 1	2	3	4	Option Selected[b] Unmod.	1	2	3	4	5	6	7	8	9
Deferred						870									
$1-250	92	70	9	3	10	53	29	5	2				3		
251-500	177	137	22	9	9	71	69	12	6	4		1	14		
501-750	212	153	34	12	13	96	69	19	10	1	6		9		2
751-1,000	240	183	36	14	7	96	70	21	19	7	6	12	5	1	3
1,001-1,250	232	179	38	11	4	69	72	15	16	8	14	12	8		18
1,251-1,500	312	257	41	12	2	84	109	27	20	5	25	18	11		13
1,501-1,750	348	306	35	6	1	94	121	27	22	3	27	27	14	2	11
1,751-2,000	339	296	35	6	2	92	118	24	22	3	26	27	5	1	21
Over $2,000	1,883	1,786	85	9	3	467	691	144	136	28	119	111	62	9	116
Total	**3,835**	**3,367**	**335**	**82**	**51**	**1,992**	**1,348**	**294**	**253**	**59**	**223**	**208**	**131**	**13**	**184**

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 guaranteed
Option 8 - Other participant created actuarial equivalent forms of payment
Option 9 - Level income option, beneficiary receives 100 percent of member's monthly benefit

*The number of Retired Members and the number of options selected are not equal due to the inclusion of 870 deferred vested members in the Unmodified option selection.

Gabriel Roeder Smith & Company

SCHEDULE OF PARTICIPATING EMPLOYERS

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 22

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Additions										
Member Contributions	$20,052	$23,414	$26,238	$33,794	$30,449	$32,272	$33,334	$35,791	$39,971	$41,263
Employer Contributions	18,225	21,532	24,831	26,375	24,907	27,008	27,168	30,610	36,521	40,786
Investment Income (net of expenses)	259,255	(20,509)	(78,888)	(112,995)	246,069	145,631	118,154	179,952	114,931	(435,867)
Total additions to plan net assets	297,531	24,437	(27,819)	(52,826)	301,426	204,911	178,656	246,353	191,423	(353,818)
Deductions										
Benefit Payments	49,825	59,312	66,013	71,023	77,187	81,426	85,851	90,116	94,627	100,707
Refunds	4,867	4,945	3,991	3,958	4,477	5,112	3,775	4,196	4,438	4,285
Administrative Expenses	1,133	1,220	1,305	1,642	1,553	1,555	1,497	1,671	1,776	1,883
Lump-sum Payments				266	1,029	1,343	1,798	2,178	1,328	3,022
Total deductions from plan net assets	55,826	65,477	71,310	76,888	84,246	89,436	92,921	98,161	102,169	109,897
Change in net assets	$241,706	($41,039)	($99,129)	($129,715)	$217,180	$115,475	$85,735	$148,192	$89,254	($463,715)

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2008

TABLE 23

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

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Type of Benefit										
Age and service benefits:										
Retirees [a]	$48,074	$58,128	$64,598	$70,094	$75,527	$80,152	$84,003	$88,513	$93,049	$99,219
Beneficiaries [a]										
Lump-sum payments				$266	$1,029	$1,343	$1,798	$2,178	$1,328	$3,022
In service death benefits: [b]	$1,752	$1,184	$1,416	$929	$1,660	$1,274	$1,848	$1,603	$1,578	$1,489
Disability benefits: [c]										
Total benefits	$49,826	$59,312	$66,014	$71,289	$78,216	$82,769	$87,649	$92,294	$95,955	$103,730
Type of Refund										
Death [b]										
Separation	$4,867	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285
Total refunds	$4,867	$4,945	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285

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