2008 Annual Report

Comprehensive Annual Financial Report

City of Austin

Employees' Retirement System

For the Year Ended December 31, 2008

Austin, Texas

City of Austin
Employees' Retirement System
2008 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2008

Prepared by: City of Austin Employees' Retirement System, 418 E. Highland Mall Blvd., Austin, Texas 78752-3720

Our Mission

The mission of the
City of Austin Employees' Retirement System
is to provide reliable retirement benefits.

We Value:

Accessibility
Accountability
Cooperation
Ethical Behavior
Fairness
Innovation
Integrity
Open Communication
Respect
Responsiveness

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INTRODUCTORY SECTION

City of Austin Employees' Retirement System

June 3, 2009

Board of Trustees
City of Austin Employees' Retirement System
Austin, Texas

Ladies and Gentlemen:

It is our pleasure to submit to you the Comprehensive Annual Financial Report of the City of Austin Employees' Retirement System (COA ERS or System) for the year ended December 31, 2008. The content of this report is designed to provide a complete and accurate review of operations during the year and is the responsibility of COA ERS management. It has been prepared by management in accordance with generally accepted principles for accounting and reporting as established by the Governmental Accounting Standards Board (GASB) for governmental organizations and public employee retirement systems.

Plan Profile and Demographic Highlights

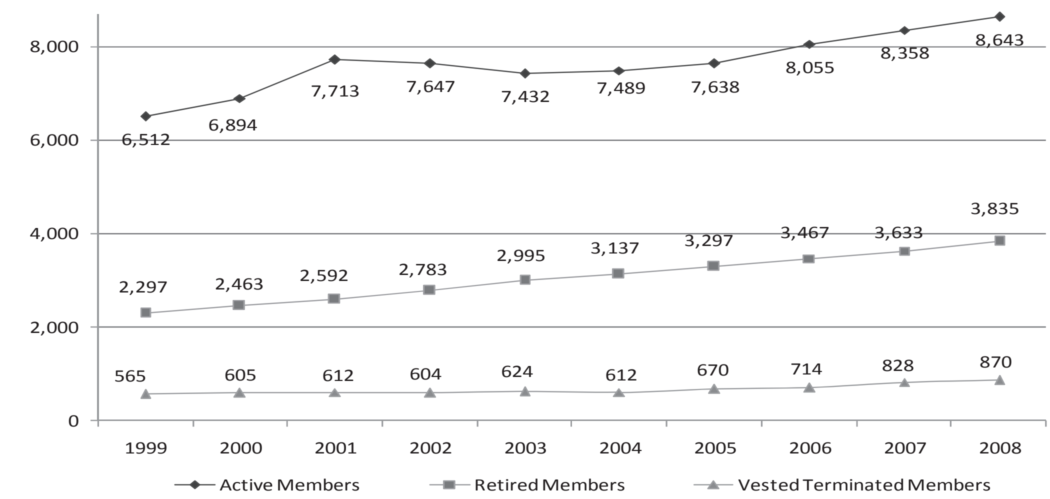
COA ERS was established in 1941 and has provided retirement benefits to eligible City of Austin employees since that time. Though originally created by city ordinance, the System is now governed by state law and administered by an eleven-member board of trustees.

The Plan provides retirement, disability and death benefits to eligible employees of the City of Austin. Both employees and the City of Austin make contributions to the System. Members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Vesting occurs at five years of creditable service. Generally, benefits are determined at 3% of the final average earnings, as defined, multiplied by the number of years of creditable service. Disability retirement is also available pursuant to specific criteria established by statute. A death benefit of $10,000 is payable upon the death of a retired member of the System.

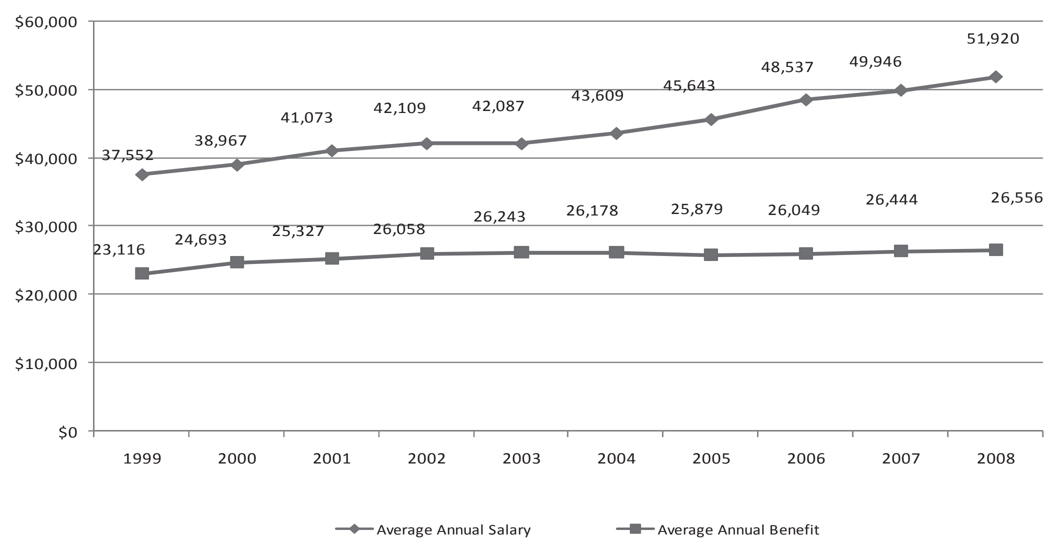
Additional information concerning COA ERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

The following charts depict System membership and changes in average salaries and benefits.

Membership Profile



Average Salary and Average Benefit



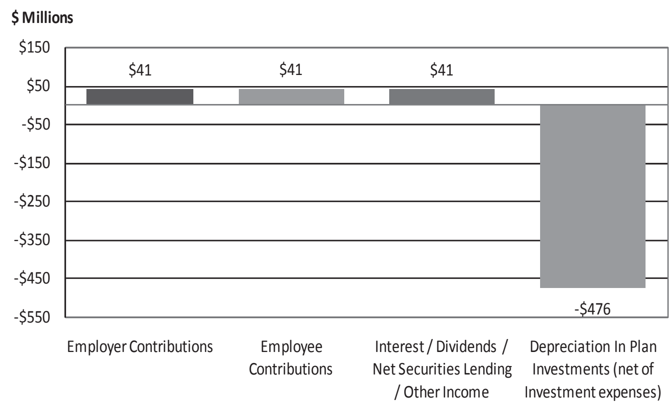
Financial Summary

Internal controls have been established by COA ERS management to provide reasonable assurance that the assets are properly safeguarded, the financial records are fairly and accurately maintained, and the governing statute and policies are correctly followed. The governing statute requires an annual audit of the System's accounts by a Certified Public Accountant. The Board of Trustees has retained KPMG LLP as independent external auditor since 1997. KPMG's 2008 financial audit was conducted in accordance with generally accepted auditing standards and resulted in an unqualified opinion on the financial statements. The Financial Section contains KPMG's audit opinion letter and additional information including Management's Discussion and Analysis (MD&A) that provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

The ***Additions to Plan Net Assets*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2008, employer and employee contributions totaled $82.0 million; investment, securities lending, and other income was $40.5 million; and net depreciation of plan investments totaled $476.3 million, resulting in a net reduction of Plan Net Assets of $353.8 million. The ***Deductions from Plan Net Assets*****,** totaling $109.9 million, consist of $99.2 million in annuity payments, refunds of $4.3 million, Deferred Retirement Option Program (DROP) disbursements of $2.1 million, retiree lump-sum annuity disbursements of $0.9 million, death benefits of $1.5 million, and administrative expenses of $1.9 million. The net decrease of $463.7 million results in total assets held in trust of $1.2 billion.

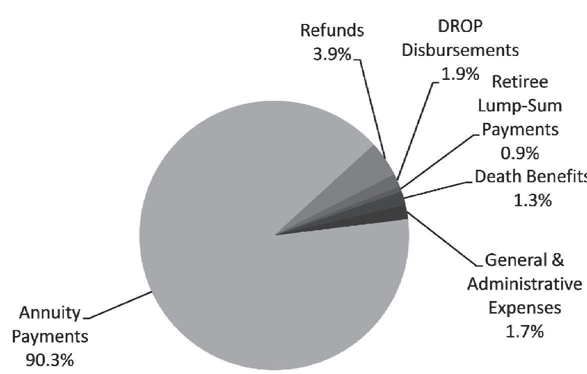
Additions to Plan Net Assets

Employer Contributions	$	40,785,987
Employee Contributions		41,263,177
Interest / Dividends / Net Securities Lending / Other Income		40,502,363
Depreciation in Plan Investments (net of investment expenses)		(476,369,691)
Total Additions (deductions)	**$**	**(353,818,164)**



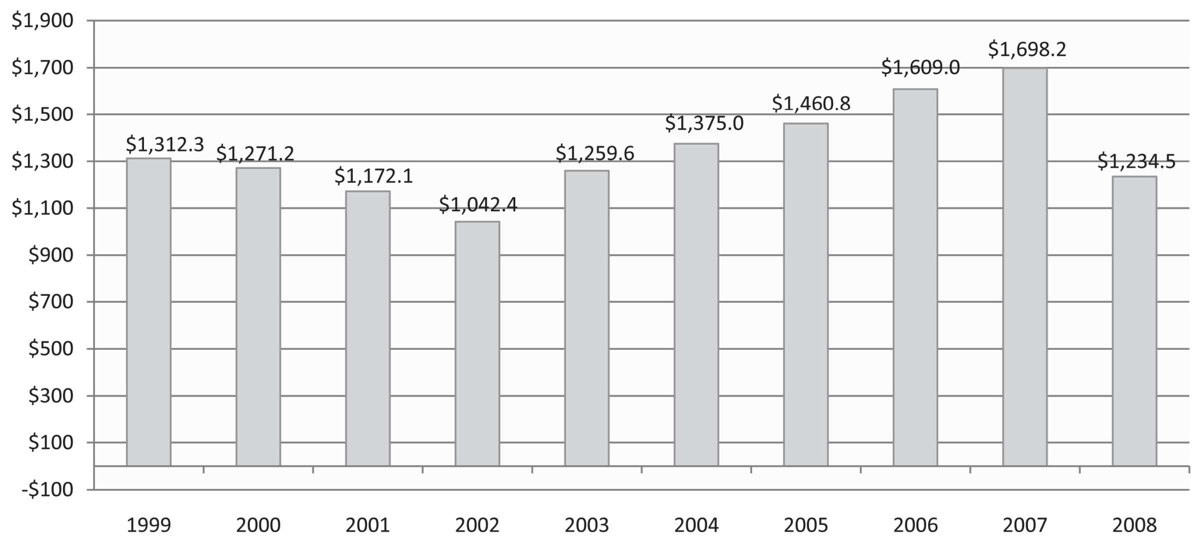
Deductions From Plan Net Assets

Annuity Payments	$	99,218,951
Refunds		4,285,231
DROP Disbursements		2,080,734
Retiree Lump-Sum Payments		941,266
Death Benefits		1,488,508
General & Administrative Expenses		1,882,839
Total Deductions	**$**	**109,897,529**



The following chart shows the ***Total Plan Net Assets*** at the end of each year since 1999. Net Assets decreased by $463.7 million during 2008, resulting in Total Plan Net Assets of $1,234,496,199 at December 31, 2008. The trend of consistent growth since 2002, was ended in 2008, as a result of turmoil in the capital markets.

Total Plan Net Assets



Investments

Essential to COA ERS' mission is the responsibility to ensure long-term assets will meet long-term liabilities. This ensures retirement and other benefits will be available for both current and future members. Investments are made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Funds of COA ERS are invested solely in the interest of the membership and their beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries and defraying reasonable expenses of administering COA ERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors.

COA ERS' assets are strategically allocated to maximize income and reduce risk by using diverse and complementary portfolio structures. The COA ERS Board has consistently followed a long-range, conservative investment philosophy. The Board employs Summit Strategies Group for independent investment consulting and long-range asset liability analysis. In October 2008, COA ERS filled the newly created position of Chief Investment Officer.

At December 31, 2008, the investment portfolio of COA ERS was managed by 14 investment managers. Three investment managers were added during the year. A non-large cap value manager was hired for the allocation held in Exchange-Traded Funds (ETFs) since terminating the previous manager in 2007 for its management practices. Pursuant to recommendations from the Asset/Liability Study performed in December 2006, the Board modified the asset allocation strategy to provide greater allocation to international equities by reducing the domestic allocation. In a phased transition, 6.5% was reallocated from U.S. Equities - Non-Large Cap to International Equities, in February 2007. The second step, completed in 2008, was to transfer 6.5% from Domestic Large Cap to two managers in International Emerging Markets. The following chart illustrates the portfolio transition to the newly approved allocation targets:

Portfolio Allocation

Investment Style	Prior Year	In Transition 12/31/2008	Target
Domestic Fixed Income	30.00%	30.00%	30.00%
International Equities	22.75%	29.25%	32.50%
U.S. Equities - Large Cap	32.50%	26.00%	22.75%
U.S. Equities - Non-Large Cap	9.75%	9.75%	9.75%
Real Estate	5.00%	5.00%	5.00%
	100.00%	100.00%	100.00%

Also during 2008, the Board explored opportunities in alternative investments, for the purpose of increasing portfolio returns to meet long-term pension obligations. Prior to making a foray into new areas of investing, the severe financial crisis dramatically altered the economic landscape. The Board continues to evaluate different asset classes in the context of this new environment.

Most investment markets declined sharply in 2008. Global equity markets experienced the worst declines since the Great Depression. Selling prompted more selling as leveraged investors and speculators dumped assets in an indiscriminate fashion in order to raise cash. Across asset classes, from equities to non government bonds to real estate to commodities to private markets, there were no safe havens for long-term investors. Many fixed income categories once considered to be liquid became illiquid as dealers went out of business or dramatically reduced their capital committed to market-making activities. The collapse in liquidity of previously liquid investments greatly impacted investors who had made large allocations to illiquid asset classes as they became forced sellers in order to raise liquidity. While COA ERS was impacted by declines in the market, the operational impact was felt only at the margin in the form of an extension of the period to perform portfolio rebalancing activities. Investment performance for the year ending December 31, 2008 was -25.98%, net of fees, compared to a Policy Benchmark of -26.11%. For the three-year period, COA ERS' portfolio returned -3.70%, net of fees, compared to -3.40% for the Policy Benchmark. For the five-year period, COA ERS' portfolio returned 1.67%, net of fees, compared to 1.39% for the Policy Benchmark. For actuarial purposes, the System's annual investment performance is measured over a five-year period subject to certain limitations, thereby smoothing annual variations in return. The smoothed value of assets is limited by a "corridor" of plus or minus 20% of the market value of assets. COA ERS is a long-term investor with a permanent fund, so it is performance over longer periods of time that is the focus.

Funding and Actuarial Overview

In addition to investment income, the System is funded by regular contributions equal to eight percent of basic compensation by the City of Austin employees and eight percent of basic compensation by the City of Austin. The City of Austin currently also provides a funding subsidy. State law requires that any change to the plan of benefits adopted by the System be approved by a qualified actuary. The actuary certifies whether or not the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability (UAAL), if any, and the number of years needed to amortize the System's UAAL is determined using a level percentage of payroll method.

As certified in this report by Gabriel Roeder Smith & Company, COA ERS contributions, including the funding subsidy, are not currently sufficient to amortize the unfunded liability of the System. Remedy could be achieved through contribution increases and/or benefit structure modifications.

The overall funded position of the System is 65.9%, down from 78.3% in 2007. The actuarial accrued liability and the actuarial value of assets of COA ERS as of December 31, 2008, amounted to $2.247 billion and $1.481 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

The supplemental funding plan adopted by the Austin City Council in 2005 was expected to eventually accomplish a 30-year amortization of the unfunded liability of the System. The initial funding subsidy under the plan started in October 2006 at one percent of covered payroll. Subject to certain conditions, the subsidy increases by one percent each year up to a total subsidy of four percent. For any year that investment earnings are 12 percent or greater, the increase in the subsidy will be delayed by a year. Because of this provision, the subsidy did not increase in October 2007; however, it increased to 2% in October 2008 and will increase to 3% in October 2009. The subsidy (up to four percent) will stay in effect as long as it is needed to reach or maintain a 30-year amortization period. As part of the plan, the City Manager and City Council become part of the process for consideration of future benefit enhancements, including cost-of-living adjustments. Given the dramatic drop in the value of assets, there is growing recognition that the Supplemental Funding Plan will likely not attain its objective of a 30-year amortization of unfunded liabilities. We anticipate continuing discussions with City management to develop strategies to ensure the financial stability of the retirement system.

Awards

For the tenth consecutive year, COA ERS was awarded a *Certificate of Achievement for Excellence in Financial Reporting* for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2007, by the Government Finance Officers' Association of the United States and Canada (GFOA). COA ERS is pleased to have achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

For 2008, COA ERS earned the *Public Pension Coordinating Council Recognition Award for Administration*. This award is in recognition of meeting professional standards for plan administration as set forth by the Council. The standards reflect minimum expectations for public retirement system management and administration and serve as a benchmark by which to measure public defined benefit plans.

Acknowledgments

This report reflects the combined effort of the COA ERS staff under the leadership of the Board of Trustees. We express our gratitude to the staff, advisors, and members of the Board who have contributed to the preparation of this report and to the continued successful operation of the City of Austin Employees' Retirement System.

Respectfully Submitted,

Mark Monteith	Stephen C. Edmonds	Donna Durow Boykin, CPA
2008 Board Chair	Executive Director	Finance Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Austin

Employees' Retirement System

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

PPC

Public Pension Coordinating Council

Recognition Award for Administration 2008

Presented to

City of Austin Employees' Retirement System

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

COA ERS 2008 BOARD OF TRUSTEES

Mark Monteith
Board Chair

Elizabeth S. Gonzales
Board Vice Chair

Art Alfaro
Trustee

Janet Bartles
Trustee

Eyna Canales-Zarate
Trustee

Reagan David
Trustee

Francine Gertz
Trustee

Ed Golden
Trustee

Anthony B. Ross, Sr.
Trustee

Ronnie Wilson
Trustee

Will Wynn
Trustee

COA ERS STAFF

Stephen C. Edmonds
Executive Director

Rhonda Helm
Operations Manager

Donna Durow Boykin
Finance Manager

Kirk Stebbins
Chief Investment Officer

Rosaree Koepsel
Supervisor Administrative
and Support Services

Melissa Adams
Member Services Specialist

Teresa Cantu
Member Services Specialist

Bertie Corsentino
Financial Analyst

Craig Finkelstein
Member Services Coordinator

Laura L. Fugate
Member Services Specialist

Korrie Hoskins
Accounting Technician

Lovie Robinson-Laurant
Member Services Coordinator

Bobbie Simpson
Office Coordinator





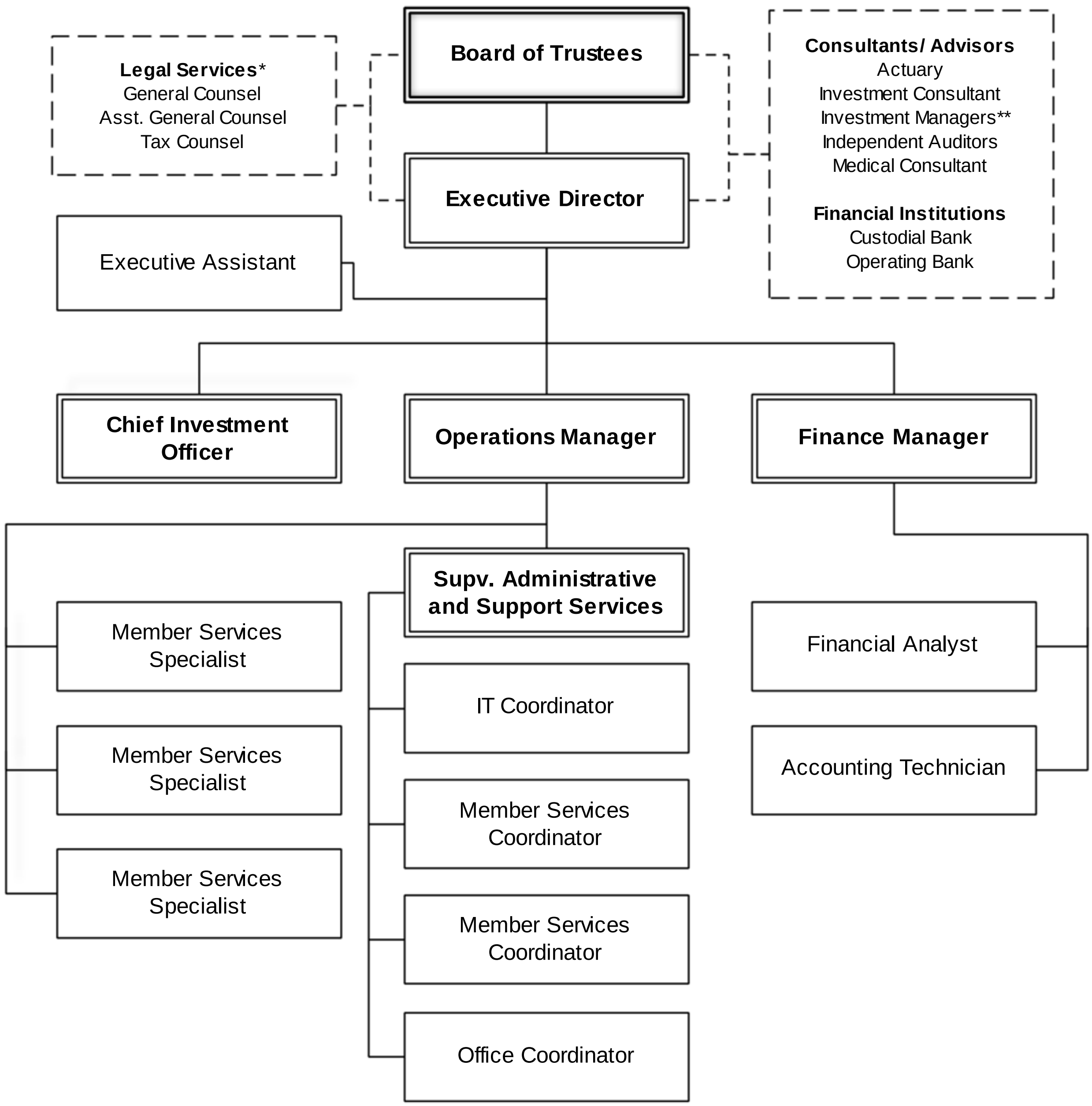








ORGANIZATIONAL CHART



* General Counsel and Assistant General Counsel are employed by the Board on a part-time basis. Tax Counsel is retained by professional services agreement.

** For more information on Investment Managers, refer to the Asset Allocation Table in the Investment Section.

PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Summit Strategies Group

Custodial Bank
Northern Trust

Independent Auditors
KPMG LLP
Padgett Stratemann & Co LLP

Actuary
Gabriel Roeder Smith & Company

General Counsel
Strasburger & Price LLP
Sedgwick Detert Moran & Arnold

Operating Bank
JPMorgan Chase Bank

INVESTMENT MANAGERS

Fixed Income
Agincourt Capital Management LLC
Northern Trust NTGI QM Aggregate Bond Index Fund

International Equity
City of London Investment Management Co LTD
Dimensional Fund Advisors
Sprucegrove Investment Management LTD
Walter Scott & Partners LTD

Real Estate
Principal Global Investors LLC

US Equity
AllianceBernstein LP
AQR Capital Management LLC
Aronson + Johnson + Ortiz LP
Columbus Circle Investors
INTECH Investment Management LLC
Pzena Investment Management LLC
Wall Street Associates LLC

SUMMARY OF PLAN PROVISIONS

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COA ERS)

Introduction

COA ERS is:
An IRS tax qualified 401(a) defined benefit plan
Governed by State Statute Art. 6243n

COA ERS Board of Trustees:
Provides oversight
Sets policy

COA ERS Staff:
Provides service to all Members
Ensures compliance with policies and procedures

Members of COA ERS:
Are the reason we are here
Are welcome to attend all Board Meetings

Membership Requirements

City of Austin regular employees working 30 or more hours per week become Members of COA ERS on the date of employment as mandated by Statute.

Members do not include:

- Temporary employees
- Part-time employees working less than 30 hours per week
- Civil service employees of the Fire Department and the Police Department
- The Mayor and members of the City Council

Contributions

Employee: Members of COA ERS currently contribute 8% of their base pay, calculated on a 40-hour work week. Contributions are made through payroll deduction each pay period (every two weeks). Overtime and special pay are not included.

Employer: Each pay period, the employer contributes an amount equal to the amount contributed by Member employees, currently 8%. These funds do not become a part of the Member's account. In 2005, the City of Austin adopted the Supplemental Funding Plan (SFP) which provides for a subsidy in addition to the regular employer contribution. Subject to certain conditions, the contribution subsidy will increase by 1% increments annually until the subsidy reaches a maximum of 4% (12% total employer contribution). The initial funding subsidy under the plan started in October 2006 at 1% of payroll. The increase in the City subsidy is delayed by a year if the System earns 12.0% or greater on its assets during the previous calendar year. Because of this provision, there was no increase in October 2007; however, the contribution subsidy was increased to 2% effective October 1, 2008, and will increase to 3% effective October 1, 2009. The SFP was designed to achieve a funding amortization period of 30 years and the contribution subsidy is to stay in effect until the regular 8% employer contribution is sufficient to maintain a 30-year amortization period.

RETIREMENT BENEFITS

Retirement Eligibility

Members are eligible for retirement when they meet one of the following age and service requirements:

- Age 62
- Age 55 with 20 years of creditable service, or
- Any age with 23 years Creditable Service

Vesting

Members become vested with COA ERS as soon as they have five years of Creditable Service. Members who leave active membership before attaining retirement eligibility must have five years of Creditable Service to be considered vested. Verified service credit with a participating proportionate retirement system(s) or in the limited proportionate service arrangement between COA ERS and the Travis County Healthcare District, may also be combined with COA ERS service credit in determining vested status and eligibility to receive a future benefit. The Member is not entitled to receive the employer contribution at any time. Instead, vesting means that a Member is entitled to receive a lifetime benefit as long as their contributions are on deposit in the System upon reaching retirement eligibility.

Creditable Service

In order for COA ERS to calculate retirement benefits, it is important to know the total number of years of Creditable Service a Member has with COA ERS. Creditable Service is a combination of membership service and other types of Creditable Service described below.

Current Active-Contributing/Vested Members, as of October 1, 1995, were granted service credit for the period between their date of hire and their date of participation, up to six months. All Members hired after October 1, 1995 become Members on their date of hire or on their date of regular employment at 30 or more hours per calendar week.

In some cases, Members may purchase Creditable Service. A Member may make such purchases twice each calendar year by lump-sum payment. Purchases must be made prior to retirement. Service credit must be purchased in minimum increments of one month and may be subject to other guidelines. To purchase service, Members may pay by personal check, cashier's check, or money order, or roll over funds from other qualified plans.

The Board of Trustees adopts policies and guidelines governing the purchase of service credit.

Types of Creditable Service

Membership Service – The employment period during which a Member makes payroll contributions to the System is considered the "Membership Service" period.

Reinstated Membership Service (Prior COA Service) – When Members leave City employment, withdraw their deposits, and later return to City employment or employment with a participating proportionate system, they may purchase and reinstate the earlier time with the City. To purchase this service, they must become a Member of COA ERS or another proportionate system. The cost to purchase prior service credit is based on the amount previously withdrawn, plus an interest payment based on the interest assumed to have been earned by the fund.

Non-Contributory Service Credit – Members may purchase service credit for the following non-contributory categories:

- Non-contributory service, such as temporary or part-time service (less than 30 hours per week)
- Approved leave of absence
- Workers' compensation leave due to an injury sustained in the course and scope of employment with the employer

Credit for Federal Active Duty Military Service

Prior Federal Active Duty Military Service – Members may establish up to 48 months Creditable Service for prior military service. Military service eligible for purchase is full-time active duty service in the armed forces of the United States performed before the first day of the most recent period of active membership in COA ERS. Military service in the reserves, a service academy, or for less than 90 consecutive days is not eligible for purchase. To purchase prior military service, Members must present an original DD214 showing honorable discharge.

Military Leave of Absence – Members may establish Creditable Service for an authorized leave of absence from employment for military service. The Member may establish such Creditable Service during the authorized leave of absence by continuing to make retirement contributions during the period of service. Alternatively, if the Member returns to employment within the applicable period (that varies from 14 days to 90 days depending on the length of service) after the completion of the military service, the Member and the employer may secure such Creditable Service by making a lump-sum payment within five years of the date the Member returns to employment and Active-Contributing Member status.

Permissive Time – Members may purchase up to five years of Creditable Service to advance their retirement eligibility date and/or increase the amount of their monthly annuity upon retirement. Only Vested Active-Contributing or inactive Members are eligible to purchase Permissive Time provided they have five years of membership service. Age, salary, earliest retirement date, and a combination of actuarial data determine the cost. There may be federal limitations on certain purchases.

Sick Leave Conversion – Retiring Members may convert sick leave hours to increase Creditable Service time. Employees eligible to be paid by the City of Austin for up to 720 hours of sick leave upon retirement cannot convert the eligible hours to Creditable Service. Converted sick leave hours cannot be used to reach retirement eligibility. Sick leave must be converted in pay period (80-hour) increments. Both the Member and the employer must pay the current contribution rate at the time of retirement to convert hours. Members must begin the conversion process 60 days prior to their retirement date.

Service prior to 1941 – Additional service credit is allowed for Members with service performed before 1941, when the System came into existence. Two percent is applied for the number of years (prior to 1941) times the average salary for the years 1946 through 1950.

Proportionate Service

In 1991 the Texas Legislature established a Proportionate Retirement Program for the benefit of members of participating public retirement systems. A member of two or more of the following participating retirement systems may be eligible for proportionate benefits:

- Austin Police Retirement System*
- City of Austin Employees' Retirement System
- The El Paso City Employees' Pension Fund
- El Paso Firemen and Policemen's Pension Fund
- Employees Retirement System of Texas
- Judicial Retirement System of Texas I & II
- Texas Municipal Retirement System
- Texas County and District Retirement System
- Teacher Retirement System of Texas
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program

*The Austin Police Retirement System became a participating system effective March 1, 2009.

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to retire in another system based on the combined service of two or more systems in order to satisfy the length of service requirements used to determine eligibility for service retirement. Members must qualify for retirement eligibility independently in each system. Retirement benefits will be paid separately from each system and will be determined based on the actual amount of Creditable Service earned in and the benefit structure of each plan. Military service purchases may only be used once in determining the amount of the member's combined service credit. Proportionate participation is based on funded service. Members who have refunded and forfeited membership service should contact the particular proportionate system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. Members should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

A limited proportionate service arrangement was also established in 2007 for those individuals who have membership in COA ERS and a retirement system within the Travis County Healthcare District (District) organization. This arrangement, effective with employees transitioning into the District effective March 1, 2009, is similar to the general proportionate program except that it applies only between these two retirement systems. Participation in the District retirement system can be used to establish retirement eligibility with COA ERS, but not with any other system in the general proportionate program.

Calculation of Retirement Benefits

Factors used to calculate COA ERS retirement benefits:

Total Creditable Service – Total years and months of Creditable Service, including:

- Regular membership service
- Reinstated membership service
- Military service purchased
- Non-contributory service purchased
- Permissive Time purchased
- Converted sick leave
- Up to one six-month probationary period granted at retirement to Active-Contributing/Vested Members hired on or before October 1, 1995
- Note: Proportionate service is only used to reach eligibility; it is not used to calculate retirement benefits.

Multiplier – As of January 2002, COA ERS' multiplier is 3.0%.

Final Average Earnings (FAE) – FAE is the average annual salary for the highest 36 months of contributory service during the last 10 years. For most Members, this is the average of the last three years worked. This can be calculated as either a monthly FAE or an annual FAE. Purchases of service credit do not affect FAE.

Retirement Date

The effective date of retirement is always the last day of the month. For example, if a Member is eligible to retire, completes the application process for retirement, and terminates employment on March 15, the effective date of retirement will be March 31, and the Member will receive the first annuity payment on the last business day of April. If a terminated Vested Member does not withdraw their accumulated deposits on account, the retirement annuity payment may begin the last day of the month after normal retirement eligibility is reached and the Member has completed the application process for retirement from COA ERS.

Retirement Options

COA ERS provides several options for payment of monthly benefits. All payment options are actuarially equivalent to the basic Member Only Life Annuity benefit. Members should choose a payment option that best meets their individual needs.

The options that include benefits to a survivor are calculated according to the ages of both the Member and the surviving beneficiary included in the plan. The Member's benefits are reduced if an option is chosen that provides survivor benefits. This reduction is applied to the Member's basic Life Annuity benefit according to the option the Member chooses. Some restrictions may apply to non-spouse survivor benefits.

If the Member is married, spousal consent is required. A Member cannot change options or the survivor beneficiary after retirement. Even if a Retiree and the beneficiary spouse later divorce, the survivor beneficiary cannot be changed. Only the survivor beneficiary named at retirement will receive survivor benefits.

Life Annuity - A basic monthly benefit payable for the life of the Retiree.

Option I: 100% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive the Retiree's benefit for the remainder of his/her life.

Option II: 50% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive 50% of the Retiree's benefit for the remainder of his/her life.

Option III: 66 2/3% Joint and Survivor - A reduced monthly benefit payable throughout the Retiree's life. At the Retiree's death, the survivor beneficiary will continue to receive 66 2/3% of the Retiree's benefit for the remainder of his/her life.

Option IV: Joint and 66 2/3% Last Survivor - A reduced monthly benefit payable until the death of either the Retiree or the survivor beneficiary. After death of the Retiree or the survivor beneficiary, the last survivor of the two will receive 66 2/3% of the Retiree's benefit for the remainder of his/her life.

Option V: Fifteen Year Certain and Life Annuity (180 payments) - A monthly benefit payable to the Retiree. If the Retiree's death occurs before 180 payments are made, the Retiree's beneficiary, spouse (if applicable), or estate will receive remaining monthly payments until all 180 payments have been made. If the Retiree is still living after receiving 180 payments, payments will continue until the Retiree's death.

Option VI: Actuarial Equivalent of Life Annuity - This option allows Members to develop their own benefit payment plan with the assistance and approval of the System's actuary. Members have flexibility to design a retirement benefit that is most appropriate for the needs of both the Member and the Member's beneficiary, subject to limitations established in Board policy. All options are subject to approval by the Board of Trustees.

A "Pop-up" benefit is provided for Retirees choosing Options I, II, or III as well as Retirees who selected any Joint and Survivor option other than Joint and Last Survivor option (e.g. actuarial equivalent of Life Annuity option with any survivor option including Level Income Survivor options). The "Pop-up" increases the Retiree's benefits to the Member only Life Annuity level if the survivor beneficiary predeceases the Retiree on or after October 1, 1999.

Lump-sum Payments

Backward DROP Program - The Deferred Retirement Option Program (DROP) allows a Member to receive a lump-sum payment in addition to receiving a monthly annuity based on Final Average Earnings and years of Creditable Service at the beginning of the DROP period. Members who have already reached retirement eligibility, excluding proportionate service, and who continue to work and contribute to COA ERS beyond retirement eligibility, may elect to "DROP-Back" a portion of their Creditable Service time. The DROP period can be no earlier than:

- The day of first retirement eligibility,
- The date of the last purchase of Creditable Service of any type other than Sick Leave Conversion, or
- 60 months (in one-month increments) prior to the retirement date

The DROP account is credited with 90% of the sum of the monthly annuity payments, based on the Member only Life Annuity benefit, the participant would have received if the Member had retired at the DROP entry date. DROP accounts may be rolled over to other qualified plans, paid in one lump-sum to the Member, or a combination of both. DROP payments made directly to the Member are subject to a mandatory 20% federal tax withholding. Members who receive a DROP payment before age 55 are subject to IRS penalty for early withdrawal of the funds. This penalty only applies to funds paid directly to a Member. The DROP payment is issued at the same time as the first monthly benefit check.

Cost-of-living adjustments (COLA's), interest, and Member or employer contributions do not increase the monthly amount credited to the DROP.

Partial Lump-sum Payment – A Retiree can select a retirement option and request a one-time lump-sum payment to be paid at the same time as the Member's first annuity payment. The Member's annuity amount will be actuarially reduced for the lump-sum payment. Members may select a partial lump-sum distribution, or both a partial lump-sum distribution and a DROP, not to exceed 60 months of annuity payments under a basic Member only Life Annuity benefit.

IRS Section 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 that exceeds the limitation imposed by the Internal Revenue Code from a separate, non-qualified, and unfunded "Restoration of Retirement Income Plan". Additional details are made available to affected Members during the retirement process.

DISABILITY RETIREMENT BENEFITS

Disability Retirement Requirements

Members may apply for disability retirement benefits if:

- They are mentally or physically incapacitated for the performance of all employment duties, AND
- The incapacity is likely to be permanent.

Disability Retirement Eligibility

Active-Contributing Members with less than five years Creditable Service may only apply for disability retirement if the disability is a result of an on-the-job accident or injury. Active-Contributing Members with five or more years of Creditable Service may apply for disability retirement even if the disability is not job related. Members who are already eligible to retire may not apply for disability retirement.

Members are considered to remain in the same membership category in effect on the date of termination for 90 days following termination. Members are allowed to apply for disability retirement for up to 90 days following termination for inability to perform all employment duties.

Disability Retirees are periodically required to provide proof of continued disability and are annually required to provide employment and income documentation to the Board of Trustees.

Disability Retirement Options

A Member approved for disability retirement may choose a Member only Life Annuity benefit or a benefit described in Options I, II, III, or IV. Disability Retirees are not eligible for any type of lump-sum payment.

DEATH AND SURVIVOR BENEFITS

Retired Members

At the death of a Retiree, a death benefit of $10,000 is paid by COA ERS to the designated beneficiary(ies) of the deceased. This $10,000 death benefit is paid to the beneficiary(ies) in addition to any of the following benefits that are applicable:

- If the Retired Member chose the Member only Life Annuity option, the monthly benefit stops the month following the death of the Retiree. However, if death occurs before the Retiree's accumulated deposits have been paid out, the Retiree's remaining deposits will be paid in a lump-sum to the Retiree's designated beneficiary(ies), spouse (if applicable), or estate.
- If the Retired Member chose an option providing benefits to a survivor beneficiary, at the Retiree's death, such benefits will be paid to the designated survivor. If the survivor beneficiary does not survive the Retiree, monthly benefits cease. However, if the survivor beneficiary does not survive the Retiree, and the Retiree's deposits have not been paid out, the Retiree's remaining deposits will be paid in a lump sum to the Retiree's designated beneficiary(ies), spouse (if applicable), or estate.

Active Members

Not Eligible to Retire

At the death of an Active Member who was not yet eligible for retirement, the designated beneficiary(ies) is entitled to a lump-sum payment of the Member's accumulated deposits (contributions and interest) plus a death benefit from COA ERS equal to the Member's deposits (excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time).

Eligible to Retire

If the Active Member was eligible for retirement prior to death and had not yet retired:

- A surviving spouse may choose any retirement option that would have been available to the Member, except for Member only Life Annuity, and receive the $10,000 death benefit. Alternatively, a surviving spouse may choose to receive a one-time lump-sum payment of the Member's accumulated deposits and a death benefit from COA ERS equal to the Member's deposits (excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time).
- If there is no spouse, the deceased Member's designated beneficiary may elect to receive payments under Option V, Fifteen Year Certain and Life Annuity, and receive the $10,000 death benefit. The non-spouse beneficiary may otherwise choose to receive a one-time lump-sum payment as described above.

The $10,000 death benefit is not paid to beneficiaries electing a one-time lump-sum payment.

Inactive Vested Members

Beneficiaries of inactive Vested Members receive the same death benefits as beneficiaries of Active Members as described above.

OTHER INFORMATION

Compliance with Applicable Law

State Statute Art. 6243n, the Internal Revenue Code, and other state and federal laws are applicable to the operation and management of, and the benefits provided by, the System. Such laws place restrictions and limitations on retirement systems, including COA ERS, and directly or indirectly affect Member benefits and options. Such requirements and limitations protect the Members and their benefits. The retirement benefit options available to Members are established by Statute and may provide for beneficiaries and survivors. Deposits or retirement benefits may not be transferred or assigned except pursuant to a Qualified Domestic Relations Order (QDRO). All QDRO's are subject to approval and must meet all statutory requirements. In addition, funds actually due and payable to a Member, beneficiary, or alternate payee may be subject to IRS seizure.

This document is a general overview of System membership and benefits. In the event of any inconsistency between this general overview and state or federal law as modified, interpreted, and applied from time to time, the state or federal law will govern and control.

Determining Interest on Members' Contributions

The Board of Trustees annually determines the amount of interest paid on Members' accumulated deposits, taking into consideration the current yield of the most recently issued 10-year U.S. Treasury notes and recommendations of the System's actuary. The actuary considers what funds are necessary to pay all the benefits to which Retirees and their surviving beneficiaries are entitled, as well as the expected liability for current employees who will someday retire.

Retirement interest is accrued on the last day of the calendar year based on the amount that each Member had in the System on the first day of the calendar year. The money must remain on deposit for the entire calendar year in order to accrue interest.

Because COA ERS is a defined benefit, and not a defined contribution plan, interest is set conservatively based on typical fixed-income returns, not on actual returns of the Fund or more aggressive investment vehicles.

Retirement Fund Investments

COA ERS' funds are invested according to the requirement of state law and the COA ERS Investment Policy. The investments provide returns that help fund the monthly retirement annuities and other benefits paid by the System to its Members and beneficiaries.

Prohibition on COA ERS Loans and Withdrawals

Plan provisions do not allow Active Members to make a partial withdrawal of deposits or to receive loans from their retirement funds.

HISTORY OF BENEFIT CHANGES

January 1, 1941

City Council established the City of Austin Employees' Retirement System.

Original City Ordinance provided a maximum annuity of $100 per month at age 65.

Contributions to retirement system set at 4.0%.

No survivor options, no early retirement eligibility, no vesting, no disability benefits, and no death benefits.

1951

Established two options for survivor benefits:

Option I – 100% Joint and Survivor

Option II – 66 2/3% Joint and Survivor

Established eligibility for early retirement.

Established for vested benefits after 15 years of Creditable Service.

Established disability retirement benefits.

Increased contribution rate to 5.0%.

1962

Established additional options for survivor benefits:

Option III – 50% Joint and Survivor

Option IV – 66 2/3% Joint and Last Survivor

1967

Set multiplier at 1.25%.

Set Active Member death benefits at $2,000.

1969

Established provisions for cost-of-living adjustment (COLA).

Set Retired Member death benefits at $2,000.

1971

Increased multiplier from 1.25% to 1.5%.

Established for unreduced retirement benefits at age 62 (lowered from age 65) with any number of years of service.

Provided free health insurance benefits, ages 62 – 65.

Increased contribution rate to 6.0%.

1972

Established for vested benefits after 10 years of Creditable Service.

Established for regular employees working 30 or more hours per week to make retirement contributions.

Established for Members eligible for early retirement benefits to choose Option I to provide survivor benefits.

1973

Increased multiplier from 1.5% to 1.75%.

Established for Final Average Earnings based on highest 60 months of contributing service.

Allowed Members eligible for retirement to select option to provide survivor benefit before actually retiring.

Established disability retirement for line-of-duty disabilities regardless of Creditable Service. Disability retirement available for any disability after 10 years of service. Disability retirement benefits based on age and years of service at time of disability retirement; no penalty based on age.

December 1977

Elimination of $2,000 death benefit for Active Members; continued for Retirees.

Established for Active Members' designated beneficiaries to receive contributions and interest plus an equal amount from the System if Member dies prior to retirement eligibility.

September 1978

Established additional retirement options.

December 1979

Discontinued medical insurance payment for Retirees who were ages 62 - 65.

July 1981

Established for contributions to be required after age 62 until retirement. Members older than age 62 have option to make up missed contributions to benefit from higher salary averaging for retirement benefits.

Reduced Final Average Earnings period from 60 to 36 months.

October 1982

Increased contribution rate to 6.6%, matched by City.

November 1982

Established retirement benefits for Members age 55 or older with 20 years service.

March 1984

Adopted unisex option factors. The sex of the Member and the beneficiary no longer considered in the determination of any System benefits.

December 1984

Increased Member contribution rate from 6.6% to 7.0%, matched by the City.

Increased multiplier from 1.75% to 1.85%.

Established for surviving spouse to select an optional benefit if Active Member dies who was already eligible to retire and had not yet selected a benefit option.

Qualified Plan with Internal Revenue Service under IRS Code Section 401(a). Member contributions after January 1, 1985 not taxed until time when benefits are paid to the Member.

Limited "Prior Service" Purchase – Former Members who forfeited membership service by taking a refund when they left City employment may purchase their prior Creditable Service. Current Members allowed six months to reinstate former credit by repaying withdrawn deposits plus interest. Only former Members who had been reemployed by the City before December 20, 1984 are eligible.

Established that the 36 months of salary used to calculate monthly benefits need not be consecutive. Highest 36 months of salary during last 10 years of Creditable Service would be averaged to determine Final Average Earnings.

March 1985

Granted a special one-time benefit increase based on year of retirement.

October 1985

Increased multiplier from 1.85% to 2.0%.

February 1986

Change in composition of Board of Trustees; replaced Council Member position with Retired Member Trustee to be appointed by the City Council.

May 1987

Established that Members laid-off during the period from September 30, 1986 through October 1, 1989, and who were eligible for retirement would receive an unreduced current service annuity.

October 1987

Reduced Member and City contribution rates to the System temporarily from 7.0% to 6.2% of basic compensation for the period from October 1, 1987 to September 30, 1988.

March 1988

Established survivor benefit options for Disability Retirees effective March 13, 1988.

August 1988

Established for vested benefits with five years of Creditable Service.

Extension of "Prior Service Purchases" – Former Members who forfeited membership service by taking a refund of their retirement contributions when they left City employment, who have returned to City employment, may purchase and reinstate their prior Creditable Service.

Provided that for purposes of calculating benefits and determining eligibility, three years were added to both age and service for all Members retiring between September 1, 1988 and December 31, 1988.

September 1988

Restored Member and employer contribution rates to 7.0% from 6.2% of basic earnings effective September 30, 1988.

December 1989

Amended ordinance for Retiree Member Trustee position of the Board to be elected by Retired Members to a four-year term, instead of appointment by the City Council.

January 1990

Granted a special one-time benefit increase ranging from 0.5% to 15% based on date benefit commenced.

February 1990

Established unreduced retirement benefits for Members at any age with 30 years Creditable Service.

Increased multiplier from 2.0% to 2.1%.

October 1990

Adopted limits on income of Social Security disability benefits for System Disability Retirees.

August 1991

Established System governance by Article 6243n of Texas State Law effective August 26, 1991. All changes to the System made by the Texas State Legislature.

Became a member of Proportionate Retirement Program with five other statewide retirement systems. Membership service may be combined with other participating systems for meeting service requirements for retirement eligibility.

July 1993

Increased multiplier from 2.1% to 2.2%, with commensurate increase for previous Retirees.

Established for unreduced retirement benefits for Members at any age with 25 years of service.

Allowed purchases for up to 24 months of former active duty U.S. military service.

October 1995

Increased multiplier from 2.2% to 2.3%, with commensurate increase for previous Retirees.

Established that new City of Austin employees hired after October 1, 1995 become Members of COA ERS at date of employment. Current employees as of October 1, 1995 are given retirement service credit for up to one six-month probationary period at time of retirement.

Change in composition of Board of Trustees; Director of Finance Designee replaced with additional Retired Member Trustee to be elected by Retired Members.

Increased death benefit for Retirees from $2,000 to $10,000.

October 1997

Increased multiplier from 2.3% to 2.6%, with commensurate increase for previous Retirees.

Established for unreduced retirement benefits for Members at age 55 with 20 years service.

Increased purchases of former active duty U.S. military service from 24 to 48 months.

Allowed new purchase option of Creditable Service for Non-contributory time including time while on workers' compensation, leaves of absence, part-time and temporary service.

Allowed for the City of Austin to purchase service credit for Members in order to qualify an employee for unreduced retirement benefit at age 55.

October 1999

Increased multiplier from 2.6% to 2.7%, with commensurate increase for previous Retirees.

Increased Member contribution rate from 7.0% to 8.0% following vote by Active Members.

Established for unreduced retirement benefits for Members at any age with 23 years of service.

Set new limits on Retirees returning to work for the City.

Added "pop-up" benefit for Retirees choosing Options I, II, or III (Joint and Survivor Annuities) to increase Retiree benefits if the survivor beneficiary predeceased the Retiree on, or after, October 1, 1999.

Granted Board authority to authorize certain benefit improvements subject to Statute guidelines.

Gave Board the ability to grant an additional payment to Members receiving monthly annuity payments in the form of an additional lump-sum benefit payment. The additional payment would be a percentage of the current monthly payment with a maximum percentage of 100%.

Established for disability retirement benefits for off-the-job injury/illness after five years Creditable Service (previously 10 years).

Removed limitations on employer purchases of Creditable Service for a Member.

January 2000

Established IRS Section 415 Restoration of Retirement Income Plan.

April 2000

Increased multiplier from 2.7% to 2.98%, with commensurate increase for previous Retirees.

Increased employer contribution rate from 7.0% to 8.0%, matching Member contribution rate.

July 2000

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

January 2002

Increased multiplier from 2.98% to 3.0%, with commensurate increase for previous Retirees.

Established for purchases of Permissive Time to Vested Active/Inactive Members, based on EGTRRA federal law with a minimum purchase of one month and a maximum of 60 months (five years) or the number of months needed to reach first eligibility for retirement, whichever is less.

Amended Proportionate Retirement Program provided by Texas Government Code 803 to allow former members of participating proportionate systems to re-establish Creditable Service previously forfeited in that system without returning to membership in that system.

April 2002

Established Sick Leave Conversion benefit. Allowed Members to convert sick leave balances to Creditable Service at time of retirement with purchase paid by Member and City of Austin.

Established Backward DROP (Deferred Retirement Option Program) benefit up to five years for Members working beyond retirement eligibility.

January 2003

Extended "pop-up" benefit to any Joint and Survivor option other than Joint and Last Survivor.

Amended Permissive Time resolution removing provision which restricted Members from purchasing Permissive Time in excess of the amount needed to reach first eligibility for retirement.

September 2007

Established a limited proportionate service arrangement exclusively for those individuals who have membership in COA ERS and a retirement system within the Travis County Healthcare District (District) organization. This arrangement, effective with employees transitioning into the District effective March 1, 2009, is similar to the general proportionate program except that it applies only between these two retirement systems.

Financial Section

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Independent Auditors' Report

The Board of Trustees of
The City of Austin Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the City of Austin Employees' Retirement System (the System) as of December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended which comprise the basic financial statements of the System. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Austin Employees' Retirement System as of December 31, 2008 and 2007, and the changes in plan net assets for the years then ended in conformity with United States generally accepted accounting principles.

The management's discussion and analysis on pages 28 through 31 and the schedules of funding progress and employer contributions on pages 53 through 54 are not a required part of the basic financial statements of the System, but are supplementary information required by United States generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the system. The introductory section on pages 1 through 26, other supplementary information on page 55, investment section on pages 57 through 70, actuarial section on pages 71 through 114, and statistical section on pages 115 through 124 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly we express no opinion on them.

KPMG LLP

June 3, 2009

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2008 and 2007

This section of the City of Austin Employees' Retirement System's (COA ERS or the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2008 and 2007. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Plan net assets held in trust by the System decreased by $463.7 million, or 27.3%, in 2008 and increased by $89.3 million, or 5.5%, in 2007. Both the decrease in 2008 and the increase in 2007 correlate with investment returns.
- Contributions increased by $5.6 million, or 7.3% in 2008 and increased by $10.1 million, or 15.2% in 2007. The 2008 increase was due to a $5.1 million increase in employee and City contributions based on payroll, $1.5 million from a full year of the City's supplemental funding, and a $1.0 million decrease in employee creditable service purchases. The 2007 increase was due to a $5.6 million increase in employee and City contributions based on payroll, $3.1 million from the 1% supplemental funding, and $1.4 million from employee creditable service purchases.
- The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $7.6 million, or 7.6%, during 2008, and $3.9 million, or 4.0%, during 2007. This is the result of the increase in the number of System retirees and in the average annuity payment. Benefit payments exceeded employee and City contributions by $26.0 million in 2008 and by $23.9 million in 2007.
- The System's rate of return on investments for the year ended December 31, 2008, was (25.76)% gross of fees, and (25.98)% net of fees, on a market value basis which was less than the return of 7.5% gross of fees, and 7.3% net of fees, for the year ended December 31, 2007. The actuarial assumed rate of return is 7.75%.
- The funding objective of COA ERS is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2008, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 65.9%, which is down from the 78.3% level at December 31, 2007, due to the collapse of the financial markets in the 4th quarter of 2008. See further discussion in footnote 4.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the COA ERS' financial statements, which are comprised of the following:

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2008 and 2007

Collectively, this information presents the net assets held in trust for pension benefits as of the end of each year, and summarizes the changes in net assets held in trust for pension benefits for the year. The information available in each of these components is briefly summarized below:

- **Financial Statements**

  The *Statement of Plan Net Assets* presents the System's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

  The *Statement of Changes in Plan Net Assets*, on the other hand, provides a view of current year additions to and deductions from the plan.

  These two statements report the System's net assets held in trust for pension benefits (net assets) – the difference between assets and liabilities – as one way to measure the COA ERS' financial position. Over time, increases and decreases in net assets are one indicator of whether its financial health is improving or deteriorating.

- **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

Summary of Plan Net Assets
December 31, 2008, 2007, 2006

Assets		**2008**	**2007**	**2006**
Cash and receivables	$	11,505,776	11,166,212	9,981,192
Investments		1,234,411,659	1,691,382,280	1,600,703,760
Invested securities lending collateral		112,377,575	194,210,934	183,981,546
Capital assets, net		1,099,465	1,137,228	1,181,333
Total assets		1,359,394,475	1,897,896,654	1,795,847,831
Liabilities				
Total liabilities		124,898,276	199,684,762	186,889,587
Net assets held in trust for pension benefits	$	1,234,496,199	1,698,211,892	1,608,958,244

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2008 and 2007

Assets. As shown in the table below, COA ERS' net assets decreased by $463.7 million in 2008, and increased by $89.3 million in 2007. Changes in both 2008 and 2007 reflect investment returns in the financial markets. In 2008, there was a $2.3 million increase in the amount of cash held by the System and a $2.4 million decrease in the trades pending settlement, resulting in minimal change to the net amount of cash and receivables at year end; the increase of $1.2 million in 2007, was primarily due to fluctuations in the amount of cash held in the System's operating bank account and in the trades pending settlement. The decrease in invested securities lending collateral of $81.8 million in 2008, reflected the net change in the number of securities on loan at year end and a decline in market value of the collateral held for loaned securities; this will be further discussed in footnote 3. The increase in invested securities lending collateral of $10.2 million in 2007, was related to the net change in the number of securities on loan at each fiscal year end. The decrease in capital assets reflects depreciation with there being minimal additions and no retirements in 2008 and 2007.

Liabilities. Liabilities decreased $74.8 million in 2008 and increased $12.8 million in 2007. These fluctuations were primarily due to changes in securities lending collateral. See further discussion in footnote 3.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2008, 2007 and 2006

		2008	2007	2006
Additions:				
Contributions	$	82,049,164	76,491,770	66,400,877
Investment income (depreciation)		(432,091,929)	118,935,687	184,039,268
Investment expenses		3,775,978	4,006,190	4,089,091
Net investment income (depreciation)		(435,867,907)	114,929,497	179,950,177
Other income		579	1,340	1,654
Total additions (deductions)		(353,818,164)	191,422,607	246,352,708
Deductions:				
Benefit payments and contribution refunds		108,014,690	100,392,924	96,490,275
General and administrative expenses		1,882,839	1,776,035	1,670,792
Total deductions		109,897,529	102,168,959	98,161,067
Net increase (decrease)		(463,715,693)	89,253,648	148,191,641
Net assets held in trust for pension benefits, beginning of year		1,698,211,892	1,608,958,244	1,460,766,603
Net assets held in trust for pension benefits, end of year	$	1,234,496,199	1,698,211,892	1,608,958,244

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2008 and 2007

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2008 and 2007 totaled $82.0 million and $76.5 million, respectively. The 2008 contributions represent an increase of $5.6 million, or approximately 7.3% above 2007. The 2008 increases were due to employee and employer contributions on an increased annual payroll, and an increased percentage of payroll contributed under the Supplemental Funding Plan. In 2007, contributions based on payroll were $10.1 million above the 2006 level, attributable to an increased annual payroll, and the first full year of the Supplemental Funding Plan.

COA ERS incurred a negative return on the market value of its investments during 2008. Net investment loss of $435.9 million was due to crisis in the equity and financial markets, a decrease of $550.8 million from 2007. Interest, dividends and net securities lending income generated 2008 income of $40.5 million, a decrease from the $47.7 million received in 2007. Investment managers are paid based on their performance; accordingly, in 2008, as returns were lower, so were the amounts of investment manager fees paid, a decrease of $0.4 million compared to 2007. The total rate of return for the System's investment portfolio in 2008 was (26.0)% (net of fees), compared to 7.3% for 2007.

Deductions. The expenses paid by COA ERS include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid in 2008 were $103.7 million, an increase of $7.8 million from payments made in 2007, consistent with the increase in the number of retirees to 3,835 in 2008 from 3,633 in 2007. Refunds to terminating employees decreased by $0.2 million. Administrative expenses in 2008 were $1.9 million, an increase of 6.0% from those of 2007.

Benefits paid in 2007 were $96.0 million, an increase of $3.7 million from payments made in 2006, consistent with the increase in the number of retirees to 3,633 in 2007 from 3,467 in 2006. Refunds to terminating employees increased by $.2 million. Administrative expenses in 2007 were $1.8 million, 6.3% more than the amount incurred in 2006.

Overall Analysis. Overall, as of December 31, 2008, net assets decreased by $463.7 million or 27.3% from the prior year, and over the five-year period ending December 31, 2008, net assets decreased by 2.0%.

Other Potentially Significant Matters. The global credit crisis market volatility continues into 2009, creating uncertainty with regard to the fair value of COA ERS' investment portfolio.

Request for Information

This financial report is designed to provide a general overview of the finances of the City of Austin Employees' Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Manager, City of Austin Employees' Retirement System, 418 E. Highland Mall Blvd., Austin, Texas 78752.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2008

		Retirement Plan	Restoration Plan	Total
Assets:				
Cash and cash equivalents (note 3)	$	5,303,335	15,000	5,318,335
Interest and dividends receivable		3,615,992		3,615,992
Trades pending settlement		353,193		353,193
Employer contributions receivable		1,109,128		1,109,128
Employee contributions receivable		1,109,128		1,109,128
Investments, at fair value (note 3):				
United States government securities		378,574,181		378,574,181
Corporate bonds		71,037,832		71,037,832
Real Estate Commingled Fund		68,597,749		68,597,749
Corporate stocks		441,150,356		441,150,356
International stocks		238,175,869		238,175,869
Short-term investment funds		36,875,672		36,875,672
Total investments		1,234,411,659	—	1,234,411,659
Invested securities lending collateral (note 3)		112,377,575		112,377,575
Capital assets, net (note 5)		1,099,465		1,099,465
Total assets		1,359,379,475	15,000	1,359,394,475
Liabilities:				
Accrued expenses		652,396		652,396
Trades pending settlement		6,491,367		6,491,367
Securities lending collateral (note 3)		117,011,814		117,011,814
Refunds and death benefits payable		742,699		742,699
Total liabilities		124,898,276	—	124,898,276
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Required Supplementary Information)	$	1,234,481,199	15,000	1,234,496,199

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2007

		Retirement Plan	Restoration Plan	Total
Assets:				
Cash and cash equivalents (note 3)	$	3,018,590	15,000	3,033,590
Interest and dividends receivable		3,813,892		3,813,892
Trades pending settlement		2,752,810		2,752,810
Employer contributions receivable		782,960		782,960
Employee contributions receivable		782,960		782,960
Investments, at fair value (note 3):				
United States government securities		420,211,827		420,211,827
Corporate bonds		67,137,923		67,137,923
Real Estate Commingled Fund		91,622,081		91,622,081
Corporate stocks		736,062,044		736,062,044
Municipal bonds		283,058		283,058
International stocks		350,756,991		350,756,991
Short-term investment funds		25,308,356		25,308,356
Total investments		1,691,382,280	—	1,691,382,280
Invested securities lending cash collateral (note 3)		194,210,934		194,210,934
Capital assets, net (note 5)		1,137,228		1,137,228
Total assets		1,897,881,654	15,000	1,897,896,654
Liabilities:				
Accrued expenses		1,147,818		1,147,818
Trades pending settlement		3,753,238		3,753,238
Securities lending collateral (note 3)		194,210,934		194,210,934
Refunds and death benefits payable		572,772		572,772
Total liabilities		199,684,762	—	199,684,762
Net assets held in trust for pension benefits (a schedule of funding progress is presented in Required Supplementary Information)	$	1,698,196,892	15,000	1,698,211,892

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2008

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 40,661,542	124,445	40,785,987
Employee contributions (note 4)	41,263,177		41,263,177
	81,924,719	124,445	82,049,164
Investment income:			
Net depreciation in plan investments	(473,144,554)		(473,144,554)
Interest	22,007,077		22,007,077
Dividends	21,780,733		21,780,733
Investment depreciation before expenses and securities lending	(429,356,744)	-	(429,356,744)
Securities Lending Activity:			
Securities lending income	1,899,054		1,899,054
Securities lending collateral unrealized loss	(4,634,239)		(4,634,239)
Securities lending fees	(550,841)		(550,841)
Net securities lending depreciation	(3,286,026)	-	(3,286,026)
Investment expenses	(3,225,137)		(3,225,137)
Net investment depreciation	(435,867,907)	-	(435,867,907)
Other income	579		579
Total additions (deductions)	(353,942,609)	124,445	(353,818,164)
Deductions:			
Retirement annuities	99,094,506	124,445	99,218,951
Contributions refunded to terminating employees	4,285,231		4,285,231
DROP disbursements	2,080,734		2,080,734
Retiree lump-sum annuity	941,266		941,266
Death benefits	1,488,508		1,488,508
General and administrative expenses	1,882,839		1,882,839
Total deductions	109,773,084	124,445	109,897,529
Net decrease	(463,715,693)	-	(463,715,693)
Net assets held in trust for pension benefits, beginning of year	1,698,196,892	15,000	1,698,211,892
Net assets held in trust for pension benefits, end of year	$ 1,234,481,199	15,000	1,234,496,199

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2007

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 36,442,325	78,354	36,520,679
Employee contributions (note 4)	39,971,091		39,971,091
	76,413,416	78,354	76,491,770
Investment income:			
Net appreciation in plan investments	70,942,826		70,942,826
Interest	26,111,842		26,111,842
Dividends	20,718,518		20,718,518
Investment income before expenses and securities lending	117,773,186	—	117,773,186
Securities Lending Activity:			
Securities lending income	1,162,501		1,162,501
Securities lending fees	(338,140)		(338,140)
Net securities lending income	824,361	—	824,361
Investment expenses	(3,668,050)		(3,668,050)
Net investment income	114,929,497	—	114,929,497
Other income	1,340		1,340
Total additions	191,344,253	78,354	191,422,607
Deductions:			
Retirement annuities	92,970,834	78,354	93,049,188
Contributions refunded to terminating employees	4,437,968		4,437,968
DROP disbursements	1,177,034		1,177,034
Retiree lump-sum annuity	150,910		150,910
Death benefits	1,577,824		1,577,824
General and administrative expenses	1,776,035		1,776,035
Total deductions	102,090,605	78,354	102,168,959
Net increase	89,253,648	—	89,253,648
Net assets held in trust for pension benefits, beginning of year	1,608,943,244	15,000	1,608,958,244
Net assets held in trust for pension benefits, end of year	$ 1,698,196,892	15,000	1,698,211,892

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(1) Plan Description

Retirement Plan

The Board of Trustees of the City of Austin Employees' Retirement System (the System) is the administrator of a single-employer defined benefit pension plan (the Plan). Participating employees include all regular, full time employees, except for civil service firefighters and civil service police officers, who work at least 30 hours per week. At December 31, 2008 and 2007, membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits	3,835	3,633
Terminated members entitled to but not yet receiving benefits	870	828
Current employees	8,643	8,358
Total	13,348	12,819

The System provides service retirement, death, disability, and withdrawal benefits. Benefits vest with five years of creditable service. Participants may retire at age 62, at age 55 with 20 years of service, or at any age with 23 years of service. Prior to October 1, 1999, active member contributions to the Plan were 7%. Effective October 1, 1999, active member contributions increased to 8%. Prior to October 1, 1999, the monthly benefit was equal to 2.6% of the highest 36-month average annual salary of the last ten years multiplied by years and months of service. Effective October 1, 1999, the monthly benefit multiplier was increased to 2.7%. Effective April 1, 2000, the monthly benefit multiplier was increased to 2.98%. Effective January 1, 2002, the monthly benefit multiplier was increased to 3.0%. Effective January 1, 2001, the System approved a 3.5% ad hoc retiree increase and a 2.5% increase effective January 1, 2002.

Effective in 2002, a Member may elect to retroactively participate in the System's DROP (Deferred Retirement Option Program). DROP programs benefit employees by allowing a lump-sum payment in lieu of additional creditable service time after reaching retirement eligibility. 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.

The lump-sum Death Benefit payable upon the death of a retiree is $10,000.

Participants are required to contribute 8% of their basic compensation to the Plan. The City of Austin (the City) also contributes 8% of basic compensation. The benefit and contribution provisions of this plan are governed by state law. Amendments may be made by the Legislature of the State of Texas. Should the Plan fully terminate at some future time, the retirement allowance of a member would be determined by reference to the member's average final compensation as if the member had attained normal retirement age on that date.

Pursuant to the 2005 COA ERS Supplemental Funding Plan and beginning in October 2006, the City contributed an additional 1% subsidy for their 2007 fiscal year ending September 30, 2007. For subsequent years, the subsidy would continue to increase by 1%, to a maximum of 4%, if annual fund returns did not exceed 12%, net of fees. For COA ERS' calendar year ended December 31, 2006, investment returns exceeded the threshold, so the City contribution rate subsidy remained at 1% for their fiscal year beginning October 1, 2007. For COA ERS' calendar year ended December 31, 2007, investment returns did not meet the threshold; therefore, the City subsidy increased to a total of 2% effective with the City's fiscal year beginning October 1, 2008. Based on COA ERS' 2008 investment returns, the City subsidy will increase to 3% effective October 1, 2009.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. Accordingly, the System contributes 8% of basic employee compensation to the Plan, plus a 2% subsidy, as described above, for its fifteen current employees; System employees also contribute 8% of their basic compensation to the Plan. Since there is only one Plan, all actuarial calculations are provided on an aggregate basis. The System's annual pension cost for its employees and related contributions made for the past three years are:

		Annual pension cost	Contributions made
2008	$	72,059	72,059
2007		65,556	65,556
2006		58,991	58,991

The System participates in the Proportionate Retirement Program through which a member of the System may meet requirements for service retirement eligibility by combining COA ERS membership service with service credit in a participating entity in any of the state-wide retirement systems covering state employees, teachers, county and district employees, and municipal employees, or, any of the El Paso public employee pension funds. A limited proportionate service arrangement was established in 2007, between COA ERS and individuals who have membership in a retirement system within the Travis County Healthcare District.

Restoration Plan

On November 23, 1999, the Board adopted a resolution to establish a "Restoration of Retirement Income Plan for Certain Participants in the City of Austin Employees' Retirement System" (Restoration Plan). This Restoration Plan is effective as of January 1, 2000 and is intended to be a "qualified governmental excess benefit arrangement" within the meaning of Section 415(m) of the Internal Revenue Code, and shall be construed, interpreted and administered in accordance with such provision. The Restoration Plan shall be administered as an unfunded plan which is not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. Eligible members are those who are members in the Plan whose pension or pension-related benefits under the Plan are limited due to the provision of Section 415 of the Internal Revenue Code.

All benefits payable under this Restoration Plan shall be paid by the City of Austin Employees' Retirement System from contributions provided by the Employer and not from the Fund or any other trust unless such trust is maintained solely for the purpose of providing benefits from this Restoration Plan. No contribution receivable is due for the years ended December 31, 2008 and 2007, for this Restoration Plan. Net assets remaining in this plan as of December 31, 2008 and 2007, were $15,000.

The Restoration Plan's annual pension cost and related contributions for the past three years are:

		Annual pension cost	Contributions made
2008	$	124,445	124,445
2007		78,354	78,354
2006		64,475	64,475

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

At December 31, 2008 and 2007, membership in the Restoration Plan included the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits	9	7
Terminated members entitled to but not yet receiving benefits	-	-
Current employees	-	-
Total	9	7

Other Information

The System is required by statute to maintain three separate funds in its internal accounting records. The first fund, defined in the statute as "Fund 1", shall be maintained to account for all accumulated deposits (contributions and interest) of Members who have not withdrawn from the System. The second fund, defined as "Fund 2", shall be maintained to account for all other net assets of the System less the amount held in the third fund, defined as "Fund 3", which shall be maintained to account for accumulated contributions by the employer for the Restoration Plan. At December 31, 2008, the balances of Fund 1, Fund 2, and Fund 3 were $357,423,035, $877,058,164, and $15,000, respectively. At December 31, 2007, the balances of Fund 1, Fund 2, and Fund 3 were $333,340,167, $1,364,856,725, and $15,000, respectively.

(2) Summary of Significant Accounting Policies and System Asset Matters

(a) Basis of Accounting

The System's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting except for the recognition of actuarial liabilities. Contributions are recognized as revenues in the period in which the employer reports compensation for their employees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The System is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB). The System has no component units and is not a component unit of any other entity.

(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2008 and 2007, the book balances of the money market checking accounts totaled $5,174,416 and $3,303,466, respectively, and demand deposit accounts totaled $143,619 and ($270,176), respectively.

(c) Investments

The System's equity investments are reported at fair value. Short-term cash investments are reported at cost, which approximates fair value. International securities are valued at current exchange rates. Investments that do not have an established market are reported at estimated fair value. The System's real estate commingled fund, an open-ended investment fund, includes properties that are valued monthly; all properties within this fund are appraised externally by nationally recognized appraisers. In 2008, a portfolio allocation was made to International Emerging Markets with the funding of City of London Investment Management and Dimensional Fund Advisors. These investments are both commingled arrangements where assets are pooled with other institutional investors and then

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

unitized with the value of the units determined by the fair market value of the entire pool. The System also has a Northern Trust (Trustee) daily aggregate bond fund that may hold units of participation in any fixed income collective fund established and maintained by the trustee or any of its affiliates. The Trustee values its securities at fair value. Any securities for which no current market quotation is readily available are valued at fair value as determined in good faith by Northern Trust Investments, N.A.

Investment income is recognized in the period earned and purchases and sales of investments are recorded on a trade-date basis. Net appreciation/depreciation in Plan investments includes both realized and unrealized gains and losses.

In 2008, the global credit crisis caused two investment managers to place restrictions on liquidity that had previously been available to COA ERS. On September 26, 2008, Principal Life Insurance Company implemented a client redemption queue for the Principal U.S. Property Account, a real estate commingled fund, suspending the $1.5 million per calendar quarter previously available to COA ERS for operational funding. Economic and market factors continued to deteriorate and through the end of the year and no distributions were made. Market events also led to a reduction of liquidity in the NTGI Daily Aggregate Bond Index Fund causing restrictions on full or partial withdrawals through the end of 2008. In January 2009, redemption procedures were established to allow semi-monthly redemption requests to be considered within the guidelines established. These measures did not affect COA ERS' daily operations, but did impose an extended timeframe for portfolio rebalancing that was ultimately accomplished in March 2009.

(d) Contributions Receivable

The employee and City contributions for the year ended December 31, 2008 and 2007 that were not deposited with the System by year-end and are shown as contributions receivable.

(e) Capital Assets

Capital assets are recorded at cost. The System capitalizes all computers and electronic equipment purchased as well as any other assets greater than $1,000. Depreciation is computed using the straight-line method over the assets' estimated useful lives of:

Furniture and fixtures	3-12 years
Building	40 years

(f) System Expenses

Substantially all System administrative costs are the responsibility of the System. The administrative costs are funded through the investment income.

(g) Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(h) Reclassifications

Certain amounts in 2007 have been reclassified to conform with 2008 presentation.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(3) Cash, Investments, and Securities Lending

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact delivery of System services. The Board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth the factors involved in the management of investment assets for the System. This policy is included in every investment management agreement. The document is designed to mitigate risk by requiring that investing be done in compliance with policy guidelines by qualifying the broker and financial institution with whom the System will transact, and by establishing sufficient collateralization, portfolio diversification, and limiting maturity. The System's Board, in accordance with the power and authority conferred under the Texas Statutes, has employed Northern Trust as custodian of the assets of the System. The following summary of total investments by type as of December 31, 2008 and 2007, presents the System's investment mixes.

		2008	2007
Summary of investments by type:			
Asset-backed securities	$	1,835,932	2,738,518
Commercial mortgage-backed securities		15,780,193	29,618,127
Corporate bonds		71,037,832	67,137,923
Corporate stocks		441,150,356	736,062,044
Government agencies		12,302,614	15,699,939
Government bonds		9,562,339	13,641,072
Government mortgage-backed securities		81,249,596	82,162,987
International stocks		238,175,869	350,756,991
Municipal bonds		-	283,058
Nongovernment backed CMOs		9,895,225	15,834,233
Other fixed income:			
NTGI QM Aggregate Bond Fund		247,919,168	260,516,951
SL-Core USA Sub Fund		29,114	-
Real Estate Commingled Fund		68,597,749	91,622,081
Short-term investment funds		36,875,672	25,308,356
Investments at fair value on balance sheet		1,234,411,659	1,691,382,280
Receivables and pending trades, net		(2,522,182)	2,813,464
Total investments (per investment consultant)	$	1,231,889,477	1,694,195,744

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. While the Board has no formal policy specific to custodial credit risk, operating bank account deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured amounts are backed by U.S. Government, Treasury and Agency securities, Repurchase agreements, and pledged securities held as collateral.

As of December 31, 2008 and 2007, the System's operating bank balances of $5,318,035 and $3,033,290, respectively, were not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and are held by the counterparty, its trust or

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

agent, but not in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name. At December 31, 2008 and 2007, the System was not exposed to credit risk through security lending.

Borrowers of System securities through Northern Trust Securities Lending Program are required to fully collateralize their obligation to return such securities when the loans are called. However, proceeds from loaned securities are invested in a short-term fixed income portfolio that was impacted by the financial market events of 2008. To avoid forced sales of illiquid securities and due to defaults on certain short-term Lehman securities, Northern determined that a "collateral deficiency" existed, and, on September 18, 2008, an amount was calculated based on the difference between book value and vended (as opposed to liquidation) prices. To ensure equity among program participants, the deficit was allocated to participants on that date as a liability that would be realized if they withdrew from the program. The impact to COA ERS on December 31, 2008, had it exited the securities lending program, would have been a cost of $4,634,239 based on its pro rata ownership. This amount is reflected as a securities lending unrealized loss in the financial statement, and as a reduction to the securities lending cash collateral reported on the Statement of Plan Net Assets.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System is authorized to invest in the following as of December 31, 2008:

(a) Domestic Fixed Income Investments

The fixed income investment may be no less than twenty-seven percent (27%) and no more than thirty-three percent (33%) of the investment portfolio measured at fair value. No single issuer's securities shall represent more than four percent (4%) of portfolio value at purchase cost, or six percent (6%) of the market value of any manager's portfolio. This restriction applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipal securities. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed twenty percent (20%) of the portfolio at cost (agency-issued mortgage-backed securities include Government National Mortgage Association (GNMA) securities).

Section 144(a) securities shall be limited to no more than five percent (5%) of the portfolio at market value of any manager's portfolio. This does not apply to obligations of the U.S. government (treasury bonds, bills and notes).

The assets of the System are to be invested only in the following fixed income securities:

1. United States Treasury notes, bonds, and bills;
2. United States government agency obligations;
3. Investment grade corporate bonds (however, the average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA);
4. Preferred stocks;
5. Investment grade foreign bonds payable in United States dollars;
6. Cash equivalents in the form of commercial paper rated as A1 by Moody's or P1 by Standard & Poor's;

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

7. Other corporate obligations with an equivalent or higher rating than items 1 through 6 above; or

8. Obligations backed by United States government and investment grade municipal funds.

(b) Domestic Equity Investments

While not exposed to concentration of credit risk, total investments in domestic common stock may be no less than thirty-two percent (32%) and no more than fifty-two percent (52%) of the total investment portfolio measured at fair value less international equities. No single company's securities shall represent more than four percent (4%) of portfolio value at purchase cost or six percent (6%) of the market value of any manager's portfolio.

The equity assets of the System are invested only in the domestic common stocks listed on the following exchanges:

1. The New York Stock Exchange;

2. The American Stock Exchange; or

3. The National Association of Securities Dealers Automated Quotation (NASDAQ) System.

(c) International Investments

Any international investments must be investment grade and payable in United States dollars. However, such international investments should total no less than eighteen percent (18%) and no more than twenty-eight percent (28%) of total value of the System's investments at fair value.

(d) Real Estate Open-ended Commingled Fund

While not exposed to concentration of credit risk, total investments in real estate open-ended commingled funds may be up to ten percent (10%) of the total investment portfolio measured at fair value, if, when viewed in conjunction with fixed income, the aggregate does not exceed 38% of the portfolio.

(e) Other Investment Information

As of December 31, 2008 and 2007, respectively, investments in any one organization, other than investments backed by the full faith and credit of the United States Government and the real estate open end commingled fund, did not represent five percent or more of net assets available for benefits.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

As of December 31, 2008 and 2007, the following was the composition of the System's portfolio:

	2008	2007
Asset-backed securities	0.2%	0.2%
Commercial mortgage-backed securities	1.3%	1.8%
Corporate bonds	5.7%	4.0%
Corporate stocks	35.7%	43.5%
Government agencies	1.0%	0.9%
Government bonds	0.8%	0.8%
Government mortgage-backed securities	6.6%	4.8%
International stocks	19.3%	20.7%
Municipal bonds	-	0.1%
Nongovernment backed CMOs	0.8%	0.9%
Other fixed income:		
NTGI QM Aggregate Bond Fund	20.1%	15.4%
Securities Lending - Core USA Sub Fund	0.1%	-
Real Estate Commingled Fund	5.4%	5.4%
Short-term investment funds	3.0%	1.5%
	100.0%	100.0%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System's Investment Policy requires fixed income managers to disclose their credit exposure and portfolio duration in their quarterly reports. The System monitors credit exposure using segmented time distribution.

As of December 31, 2008, the System had the following investments and maturities:

Investment type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$ 1,835,932	-	-	-	1,835,932
Commercial mortgage-backed securities	15,780,193	-	-	-	15,780,193
Corporate bonds	71,037,832	1,689,055	36,491,866	22,451,138	10,405,773
Government agencies	12,302,614	-	7,799,217	4,503,397	-
Government bonds	9,562,339	-	-	-	9,562,339
Government mortgage-backed securities	81,249,596	228	1,252	7,714,926	73,533,190
Nongovernment backed CMOs	9,895,225	-	-	-	9,895,225
Other fixed income:					
NTGI Aggregate Bond Fund	247,948,282	2,529,073	173,886,130	44,283,563	27,249,516
	$ 449,612,013	4,218,356	218,178,465	78,953,024	148,262,168

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

As of December 31, 2007, the System had the following investments and maturities:

Investment type	Fair value	Less than 1 year	1 to 6 years	6 to 10 years	10+ years
Asset-backed securities	$ 2,738,518	-	72,319	-	2,666,199
Commercial mortgage-backed securities	29,618,127	-	-	-	29,618,127
Corporate bonds	67,137,923	2,910,313	27,532,226	25,782,559	10,912,825
Government agencies	15,699,939	-	14,664,380	1,035,559	-
Government bonds	13,641,072	-	-	-	13,641,072
Government mortgage-backed securities	82,162,987	8,565	4,717	1,072,735	81,076,970
Municipal bonds	283,058	-	-	283,058	-
Nongovernment backed CMOs	15,834,233	-	-	-	15,834,233
Other fixed income:					
NTGI Aggregate Bond Fund	260,516,951	2,344,653	119,056,247	109,156,602	29,959,449
	$ 487,632,808	5,263,531	161,329,889	137,330,513	183,708,875

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. To control credit risk, credit quality guidelines are incorporated into the Investment Policy, as follows:

- Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by either rating agency unless specific written permission is granted by the Board to a manager. The average rating of all corporate bonds held in any investment portfolio, taken together, may not fall below AA.
- Split-rated securities in which the middle rating is below investment grade shall not comprise more than five percent (5%) of the market value of any manager's portfolio unless specific authority has been granted.
- Unless specific authority has been granted by the Board, in the event of a bond's downgrade below investment grade by Moody's, Standard & Poor's, and Fitch, the Board shall be notified in writing and the manager shall include a recommended course of action in response to the event in the way it deems most prudent for the Fund in the long term.
- The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (Standard & Poor's, and Fitch) may have a five percent (5%) position of portfolio value at purchase cost and a seven percent (7%) position at market value.
- Issues of individual entities rated below Aa3 (Moody's) or AA- (Standard & Poor's and Fitch) may have a two percent (2%) position of portfolio value at purchase cost or three percent (3%) position at market value.
- The ratings issue does not apply to direct obligations of the U.S. government and its agencies, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.
- If specific managers are given international flexibility, the same quality restrictions apply.
- Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A- (Standard & Poor's and Fitch) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2008, are as follows:

Standard & Poor's Quality Rating		Total fair value	Asset backed securities	Commercial mortgage-backed	Corporate bonds	U.S. govt & agencies	Non-govt backed CMO's	NTGI Aggregate Bond Fund	Northern Trust SL-Core USA Sub Fund
AAA	$	318,951,085	771,287	15,780,193	-	93,199,210	7,741,279	201,459,116	-
AA+		2,351,027	-	-	1,586,156	-	764,871	-	-
AA		11,878,854	-	-	3,250,539	-	1,389,075	7,239,240	-
AA-		4,262,113	-	-	4,262,113	-	-	-	-
A+		6,092,887	-	-	6,063,773	-	-	-	29,114
A		42,613,534	1,064,645	-	17,599,897	-	-	23,948,992	-
A-		7,464,985	-	-	7,464,985	-	-	-	-
BBB+		15,563,690	-	-	15,563,690	-	-	-	-
BBB		26,694,108	-	-	11,069,288	353,000	-	15,271,820	-
BBB-		3,654,454	-	-	3,654,454	-	-	-	-
BB+		522,937	-	-	522,937	-	-	-	-
Total credit risk of debt securities	$	440,049,674	1,835,932	15,780,193	71,037,832	93,552,210	9,895,225	247,919,168	29,114
U.S. govt & agencies*		9,562,339							
	$	449,612,013							

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2007, are as follows:

Standard & Poor's Quality Rating		Total fair value	Asset backed securities	Commercial mortgage-backed	Corporate bonds	U.S. govt & agencies	Municipal bonds	Non-govt backed CMO's	NTGI Aggregate Bond Fund
AAA	$	354,574,492	1,461,323	29,618,127	1,165,924	97,862,926	-	15,322,454	209,143,738
AA+		1,596,112	-	-	1,596,112	-	-	-	-
AA		13,525,313	-	-	486,426	-	-	-	13,038,887
AA-		7,897,947	-	-	7,897,947	-	-	-	-
A+		9,358,831	-	-	9,358,831	-	-	-	-
A		26,894,877	72,319	-	5,438,784	-	-	-	21,383,774
A-		9,235,035	-	-	9,235,035	-	-	-	-
BBB+		15,872,363	-	-	15,872,363	-	-	-	-
BBB		27,786,083	1,204,876	-	9,347,597	-	283,058	-	16,950,552
BBB-		7,250,683	-	-	6,738,904	-	-	511,779	-
Total credit risk of debt securities	$	473,991,736	2,738,518	29,618,127	67,137,923	97,862,926	283,058	15,834,233	260,516,951
U.S. govt and agencies*		13,641,072							
Total	$	487,632,808							

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The System's currency risk exposure, or exchange rate risk, primarily resides within the System's international equity investment holdings. The System's Investment Policy is to allow its external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts.

The System's exposure to foreign currency risk includes the following international securities (all equity) as of December 31, 2008, and December 31, 2007:

Currency		2008 Fair value	2007 Fair value
Japanese Yen	$	80,941,482	91,737,664
British Pound Sterling		43,655,231	78,919,898
EURO Currency		36,350,089	66,272,904
Hong Kong Dollar		28,691,127	32,981,417
Swiss Franc		22,020,180	29,915,851
Australian Dollar		7,141,946	13,589,748
Canadian Dollar		5,565,786	12,723,063
Singapore Dollar		5,474,909	11,612,428
Swedish Krona		3,859,211	4,831,530
South African Rand		1,570,626	2,425,411
Hungarian Forint		1,338,659	2,314,259
Malaysian Ringgit		787,097	1,107,650
Mexican Peso		779,526	1,049,129
Danish Krone		-	867,050
Norwegian Krone		-	408,989
Total securities subject to foreign currency risk	$	238,175,869	350,756,991

Foreign Currency Options

The System periodically invests in foreign currency options in order to hedge the value of a portion of its investments denominated in foreign currencies. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. The foreign currency options held by the System entitle the System to convert the value of certain foreign equities into U.S. dollars at an agreed rate. At December 31, 2008 and 2007, the System held no foreign currency options.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

Securities Lending

The System is authorized under its Investment Policy to participate in securities lending programs through Northern Trust Corporation under which, for an agreed-upon fee, system-owned investments are loaned to a borrowing financial institution. Under this agreement, when the loan closes, the borrowed securities are returned to the System and the collateral is returned to the borrower. The lending agreement requires securities on loan to be collateralized by cash, U.S. government securities, or irrevocable letters of credit with a total market value of at least 102% of the loaned System securities. For global securities pledged as collateral, total market value shall not be less than 105%. The System cannot sell or pledge the non-cash collateral unless a default of the securities lending agreement has occurred.

Cash collateral can be invested in a short-term investment pool or in term loans. The term loans can be terminated on demand by either lender or borrower. At December 31, 2008 and 2007, System investments that were in possession of a borrowing financial institution were collateralized by cash and irrevocable letters of credit. The cash collateral was invested in a short-term investment pool with an average weighted maturity approximating the maturity of the security loans. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default for fiscal years 2008 and 2007.

As of December 31, 2008 and 2007, the System owned the following securities that were in possession of a borrowing financial institution:

		2008		2007	
		Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
US agencies	$	3,144,074	3,193,860	7,722,165	7,904,191
Corporate bonds		9,167,699	9,231,663	132,306,450	135,968,442
Corporate stocks		67,517,726	67,476,360	26,395,311	28,131,796
International stocks		25,910,610	27,281,546	12,254,746	12,503,031
US govt securities		9,595,273	9,828,385	9,541,222	9,703,474
Total	$	115,335,382	117,011,814	188,219,894	194,210,934

Cash collateral received from borrowers of securities is invested in accordance with COA ERS' securities lending agreement. As of December 31, 2008 and 2007, cash collateral was invested in the following categories:

Investment Category		**2008**	**2007**
Cash and other liquid assets	$	52,928,702	19,421,093
Asset-backed securities		22,081,843	54,379,062
Commercial paper		-	5,826,328
Repurchase agreements		-	48,552,734
Certificates of deposit		5,815,700	34,957,968
US govt & agencies		9,706,268	-
Domestic corporate fixed-income securities		16,178,086	-
Mortgage-backed securities		5,666,976	31,073,749
Total		112,377,575	194,210,934
Securities lending collateral unrealized loss		4,634,239	-
Cash collateral received	$	117,011,814	194,210,934

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(4) Contributions Required and Contributions Made

As of December 31, 2008 and 2007, the System's funding policy as guided by state law requires contributions equal to 8% of basic compensation, by the participants and by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, if any exists, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using a level percentage of payroll method.

The funding objective of the System is for 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. Significant actuarial assumptions used to assess the adequacy of the financing arrangement are the same as those used to compute the unfunded actuarial accrued liability below. The latest actuarial valuation was as of December 31, 2008; in this valuation, the Plan had an unfunded actuarial accrued liability of $765,526,422. At December 31, 2008 and 2007, employer and employee contributions totaling $82,049,164 and $76,491,770, respectively, were required by the Plan and paid into the System. Due to significant net depreciation in the fair value of the Plan investments from 2000-2002 and 2008, primarily caused by the unanticipated downturn in the financial markets, the System's Actuary has reported that the Plan's contribution rate is not sufficient to amortize the System's unfunded liabilities as of December 31, 2008; therefore, the System's funding objective is not being met.

In 2005, the City of Austin City Council approved a Supplemental Funding Plan (SFP) relating to the System. The basic elements of this plan provide for an initial 1% contribution rate subsidy from the City beginning in October 2006, and increase 1% each year until it reaches a cap of 4%. A subsidy would continue as long as necessary and in an amount necessary up to 4% to sustain a 30-year funding period. Any incremental subsidy increase will be delayed by a year if the System earns 12% or more net of fees in any calendar year. Net earnings were 12.5% in 2006, precluding any increase, and the City subsidy remained at 1% for their 2008 fiscal year. However, net earnings were 7.3% in 2007, and (26.0)% in 2008, triggering the 1% subsidy increases, and resulting in a total City subsidy of 2% for their 2009 fiscal year and 3% for their 2010 fiscal year. The supplemental funding is subject to annual City Council budget approval.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(5) Capital Assets

Capital assets for the years ended December 31, 2008 and 2007 consisted of:

		2008	2007
Land	$	249,964	249,964
Furniture and fixtures		544,755	528,181
Building		1,184,560	1,184,560
Total		1,979,279	1,962,705
Accumulated depreciation		(879,814)	(825,477)
Net capital assets	$	1,099,465	1,137,228

The following summarizes the change in capital assets for the year ended December 31, 2008:

Capital assets, not being depreciated:

		Balance December 31, 2007	Additions	Transfers/ Deletions	Balance December 31, 2008
Land	$	249,964	-	-	249,964
Total	$	249,964	-	-	249,964

Capital assets, being depreciated:

		Balance December 31, 2007	Additions	Transfers/ Deletions	Balance December 31, 2008
Furniture and fixtures	$	528,181	16,574	-	544,755
Building		1,184,560	-	-	1,184,560
Total	$	1,712,741	16,574	-	1,729,315

Less accumulated depreciation for:

		Balance December 31, 2007	Additions	Transfers/ Deletions	Balance December 31, 2008
Furniture and fixtures	$	486,832	22,142	-	508,974
Building		338,645	32,195	-	370,840
Total	$	825,477	54,337	-	879,814

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

The following summarizes the change in capital assets for the year ended December 31, 2007:

Capital assets, not being depreciated:

	Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Land	$ 249,964	-	-	249,964
Total	$ 249,964	-	-	249,964

Capital assets, being depreciated:

	Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Furniture and fixtures	$ 516,109	12,072	-	528,181
Building	1,184,560	-	-	1,184,560
Total	$ 1,700,669	12,072	-	1,712,741

Less accumulated depreciation for:

	Balance December 31, 2006	Additions	Transfers/ Deletions	Balance December 31, 2007
Furniture and fixtures	$ 462,850	23,982	-	486,832
Building	306,450	32,195	-	338,645
Total	$ 769,300	56,177	-	825,477

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(6) Federal Income Taxes

The Plan is a Public Employee Retirement System and is exempt from Federal income taxes. A favorable determination letter from the Internal Revenue Service was issued in November 1984, with additional letters received December 1999 and March 2003. COA ERS awaits IRS response to application for an updated determination that was filed in December 2008.

(7) Risk Management

The System is exposed to various risks of loss related to torts, errors and omission, violation of civil rights, theft of, damage to, and destruction of assets, and natural disaster. These risks are covered by insurance purchased by the System. This coverage is in compliance with the workers' compensation laws of the State of Texas with no accident or aggregate deductibles. Property physical damage is insured to replacement value with a $1,000 deductible and a building limit of $1,515,300 with contents of $527,500. Automobile limits are set at $1,000,000 per occurrence. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for any of the past three years. The System obtains Workers Compensation and Employers Liability coverage through Texas Mutual Insurance Company.

The System maintains a pension and welfare fund fiduciary responsibility insurance policy with an aggregate limit of liability of $20,000,000, and officers and directors liability coverage of $5,000,000.

(8) Health Plan for Retired COA ERS Employees

Plan Description: The City of Austin Employees' Retirement System (COA ERS) participates in the healthcare plan administered by the City of Austin (City). The City provides healthcare insurance for eligible retirees and their dependents through their group health insurance plan that covers both active and retired members. The authority to amend and establish benefit provisions to the healthcare plan resides with the City. Any reports regarding the healthcare plan are available from the City.

Funding Policy: Benefit provisions are established and amended by the City Council; rates are actuarially determined by a third-party actuary. COA ERS, as the employer, has fewer than twenty current and potential plan members. COA ERS does not participate in plan design or administration, and is subject to the terms and conditions set by the City. Both COA ERS and the member currently participating in the plan, pay monthly premiums based on the City's assumptions and actuarial data. COA ERS' contributions for fiscal year 2008 and 2007 were approximately $2,450 and $1,690, respectively. In addition the plan member receiving benefits contributed approximately $112 per month in 2008, and $116 per month in 2007 for individual coverage; dependent coverage paid by the member was approximately $230 and $310 for dependent coverage per month in 2008 and 2007.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2008 and 2007

(9) Funded Status of the Plan

The following table illustrates the funding status of the plan as of the most recent valuation rate, December 31, 2008 (amounts in millions).

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2008	1,481.40	2,246.90	765.5	65.90%	448.7	170.60%

Six year historical trend information designed to provide information about the pension fund's progress made in accumulating sufficient assets to pay benefits due, and the fund's funding progress about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits, is presented in "Required Supplementary Information".

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with long-term perspective of the calculation.

Additional information from the latest actuarial valuation, December 31, 2008, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	30 years *
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed
Post-retirement benefit increases	None assumed

* GASB No. 25 prescribes that the Annual Required Contribution (ARC) shall have a funding period of thirty years or less. Since the contributions currently being received by COA ERS are less than the amount necessary to produce a thirty year funding period, the ARC was determined with the maximum thirty year period.

(10) Subsequent Event

The global credit crisis market volatility continues into 2009, creating uncertainty with regard to the fair value of COA ERS' investment portfolio. As of April 30, 2009, total fair value of investments is approximately $1.225 billion.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2008 and 2007

The following schedules and the accompanying notes are presented in compliance with the financial reporting standards established by Governmental Accounting standards Board (GASB) Statement No. 25. This actuarially determined information provides information about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due:

Schedule of Funding Progress

Years ended December 31, 2003 through 2008

Actuarial valuation date	Actuarial value of assets (AVA)	Actuarial accrued liability (AAL)	Unfunded actuarial accrued liability (UAAL) (3)-(2)	Funded ratio	Annual covered payroll	UAAL as a percentage of covered payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2003	1,348.8	1,551.8	203.0	86.9	312.8	64.9
12/31/2004	1,356.8	1,678.2	321.4	80.8	326.6	98.4
12/31/2005	1,398.8	1,794.2	395.4	78.0	348.6	113.4
12/31/2006	1,497.8	1,974.0	476.2	75.9	391.0	121.8
12/31/2007	1,653.5	2,112.8	459.3	78.3	417.5	110.0
12/31/2008	1,481.4	2,246.9	765.5	65.9	448.7	170.6

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2003 through 2008

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
(1)	(2)	(3)	(3/2)
2003	30,660,538	24,851,500	81.1
2004	32,733,243	26,940,941	82.3
2005	41,610,470	27,129,892	65.2
2006	49,390,658	30,545,197	61.8
2007	56,080,689	36,442,325	65.0
2008	57,937,202	40,661,542	70.2

This schedule discloses the annual contribution required to provide benefits to retirees and their beneficiaries in accordance with the terms of the Plan. The Percentage Contributed is the current contribution rate for the fiscal year (the City's ongoing 8% plus 1.25% subsidy (prorated for 10/2008 increase from 1% to 2%)) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2008 this percentage is 9.25%/13.18%=70.2%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed ($40,661,542/70.2%), which produces a 2008 ARC of approximately $57,937,202.

See accompanying independent auditors' report.

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2008 and 2007

(1) Description of Funding Progress

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor. Isolated analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability and unfunded actuarial accrued liability can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides an indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employee retirement system.

(2) Actuarial Assumptions and Methods

Funding Method – An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. The System has a fixed contribution rate greater than the normal cost and the System is currently unfunded. Therefore, the contributions received in excess of the normal cost are used to amortize the unfunded liabilities. Primarily due to the unanticipated significant asset losses caused by the downturn in the 2000-2002 and 2008 financial markets, the Plan's contribution rate is not sufficient to amortize the System's unfunded liabilities; therefore, the funding objective is not being met. In the absence of significant actuarial gains, the current contribution rates will not be sufficient to support the current benefit structure of the Plan. The System negotiated a Supplemental Funding Plan with the City of Austin that was approved by the Austin City Council. This Plan is described in footnote 4 to the financial statements. The supplemental funding is subject to annual City of Austin budget approval. Significant actuarial assumptions employed by the actuary as of December 31, 2008, the date of the latest actuarial study, include:

Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	30 years *
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed
Post retirement benefit increases	None assumed

* GASB No. 25 prescribes that the Annual Required Contribution (ARC) shall have a funding period of thirty years or less. Since the contributions currently being received by COA ERS are less than the amount necessary to produce a thirty year funding period, the ARC was determined with the maximum thirty year period.

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

Investment Expenses

		2008	2007
Custodial Fees			
Northern Trust	$	**170,000**	**170,000**
Investment Manager Fees			
Agincourt Capital Management LLC		111,782	216,161
AllianceBernstein LP		93,035	325,708
AQR Capital Management LLC		197,466	256,243
Aronson + Johnson + Ortiz LP		84,414	139,215
Columbus Circle Investors		62,492	-
Eubel Brady & Suttman Asset Mgmt		-	45,362
INTECH Investment Management LLC		505,906	333,559
NTGI QM Aggregate Bond Index Fund		81,589	77,984
Pzena Investment Management LLC		228,409	126,825
Sprucegrove Investment Mgmt LTD		644,219	729,195
Wall Street Associates LLC		193,080	198,478
Walter Scott & Partners LTD		735,859	819,701
Prior-year accrual-to-actual variance		(58,114)	54,619
		2,880,137	**3,323,050**
Investment Consulting Fees			
Summit Strategies Group		**175,000**	**175,000**
Total	**$**	**3,225,137**	**3,668,050**

Note: These expenses are presented on an accrual basis and do not reflect fees directly charged against commingled funds.

General & Administrative Expenses

		2008	2007
Actuary	$	67,727	86,941
Attorney		52,986	34,256
Auditing		65,740	60,000
Banking Services		6,464	904
Computer Services		109,136	107,332
Consultants		16,365	4,950
Administrative		1,292,621	1,218,064
Depreciation		54,336	56,177
Insurance		127,304	127,892
Member Communications		26,676	20,808
Continuing Education & Site Visits		63,484	58,711
Total	**$**	1,882,839	1,776,035

Consultant Expenses

		2008	2007
Actuary			
Gabriel Roeder Smith & Co	**$**	**67,727**	**86,941**
Attorney			
Sedgwick Detert Moran & Arnold		13,066	33,924
Strasburger & Price LLP		39,920	-
Godwin Gruber LLP		-	332
		52,986	**34,256**
Auditing			
KPMG LLP		38,000	35,000
Padgett Stratemann Co. LLP		27,740	25,000
		65,740	**60,000**
Banking Services			
JPMorgan Chase		5,562	-
National Payment Corporation		902	904
		6,464	**904**
Computer Services			
Austin Web Design		736	2,200
Levi Ray & Shoup		90,909	87,769
Riata Technologies Inc		9,144	9,435
Other		8,347	7,928
		109,136	**107,332**
Other Consultants			
Robert A. Dennison MD		4,050	4,950
Waters Consulting Group		5,500	-
Martin Associates Architects		6,762	-
Other		53	-
		16,365	**4,950**
Total	**$**	**318,418**	**294,383**

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INVESTMENT SECTION

Summit Strategies Group

January 1, 2009

The Board of Trustees
City of Austin Employees' Retirement System
418 E. Highland Mall Boulevard
Austin, TX 78752-3720

The COA ERS investment portfolio suffered a significant negative return this past year, posting a loss of 25.76% gross of fees for the fiscal year ending December 31, 2008. The portfolio declined from a beginning value of $1.69 billion to its current value of $1.23 billion as a result of investment depreciation of $430 million, which added to net outflows of $34 million. After five positive years, 2008 was the first negative year. The S&P 500 posted its worst return, down 37%, in 82 years, and only 1931's return was worse, down 43%. The global deleveraging of market excess took a significant toll on the portfolio, tested the resolve of long term investors, and while difficult, it was not completely unexpected.

As detailed earlier, the COA ERS investment portfolio fell 25.76% for the year ending December 31, 2008. This led the fund's Policy Benchmark, but trailed the Passive Benchmark and the Median Public Fund in the Mellon sample. Specifically, the investment portfolio beat its Policy Benchmark return by 0.4% and trailed the Passive Benchmark return by 0.1% and the Median Public Fund return by 0.7%, ranking in the 55th percentile. The outperformance versus Policy is largely attributable to COA ERS' portfolio structure and active international equity managers beating their benchmarks in volatile markets. The underperformance versus peers is two fold, COA ERS' had a higher international equity weighting and a flight to quality led to Dollar strengthening, which resulted in lower international returns and other plans had greater alternative investment exposure. Real estate, a buffer in previous years, saw the weakness that we anticipated last year materialize in 2008. Longer-term results are positive and good on a relative basis. For the 10-year period, the fund returned 3.6% annualized. In this case, the return exceeded the Policy Benchmark and more than 62% of the public funds in our sample. All rates of return are time-weighted using accrual-based accounting and are gross of fees.

In fiscal year 2008, the funding to Columbus Circle small cap growth equities was completed at the start of the third quarter. The staged funding of the two emerging market managers, Dimensional Fund Advisors and City of London, was completed in the fourth quarter of 2008. The Board continued education and implementation of new investment themes as recommended in an earlier asset/liability study. This exploration includes value added and opportunistic real estate, portable alpha strategies, private equity, and alternative strategies.

The results for the past year did not achieve the Fund's actuarial assumption for long-term investment results. In 2008, investment markets started poorly, only to worsen, and experienced the fastest and deepest equity decline over a six-week period following the Lehman Brothers bankruptcy. Summit anticipated a difficult 2008, but in no way foresaw the magnitude of the difficulties. The positive, if there is one after a year like 2008, is that expected returns are higher looking forward as investors expect to be rewarded for taking risk. This does not mean that 2009 will be positive or that the loss will be recouped quickly, but it does mean a base for future growth should be established. The long-term results are positive and the hard work of the Board and staff over the past few years positioned the fund to prudently safeguard the assets in a difficult year. We believe that the fund is in a good position to capture consistent, quality results in the years to come. All of us at Summit Strategies Group have enjoyed our COA ERS experience and look forward to continued service and success. Thank you.

Sincerely,

Eric J. Ralph, CFA
Senior Vice President

coaers

City of Austin Employees' Retirement System

April 8, 2009

Dear Members:

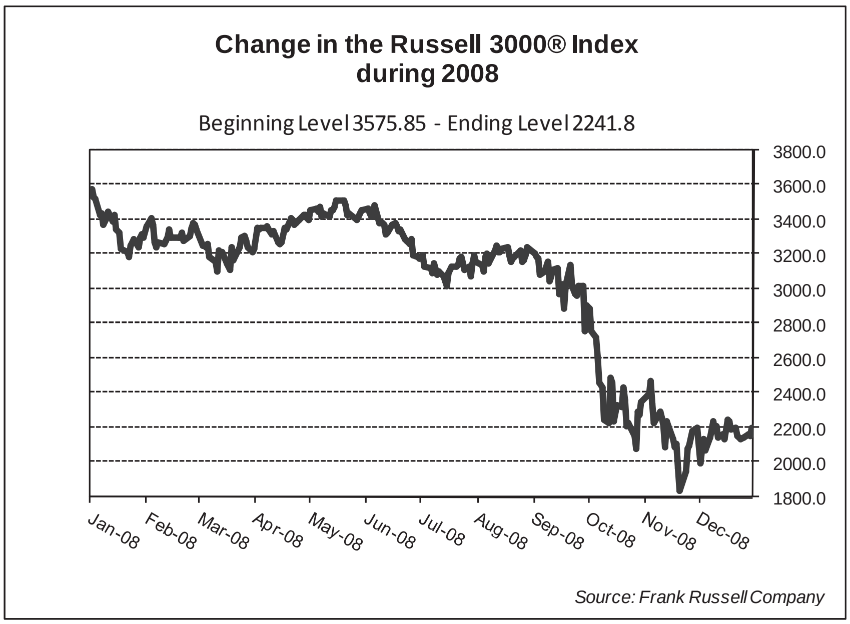
In this letter we will look back at the environment and events that helped to shape investment returns for the year ending December 31, 2008. I will present investment performance of major markets and the Fund for last year and for longer periods. Since asset allocation plays a dominant role in determining investment performance, we will review the Fund's asset allocation. I will also provide a brief summary of the current economic outlook. Finally, I will summarize the investment philosophies and principles that have long guided and that continue to guide the management of the Fund.

ECONOMIC ENVIRONMENT

Recession

During 2008 economic growth fell significantly below the long-term trend officially entering recession territory. Real gross domestic product declined by -0.85% versus a long-term average of growth rate of 3.36%. Residential investment declined sharply for a second consecutive year. The impact from the deflating real estate bubble has clearly spread to the broader economy as personal consumption, business investment and exports all declined.

CAPITAL MARKETS

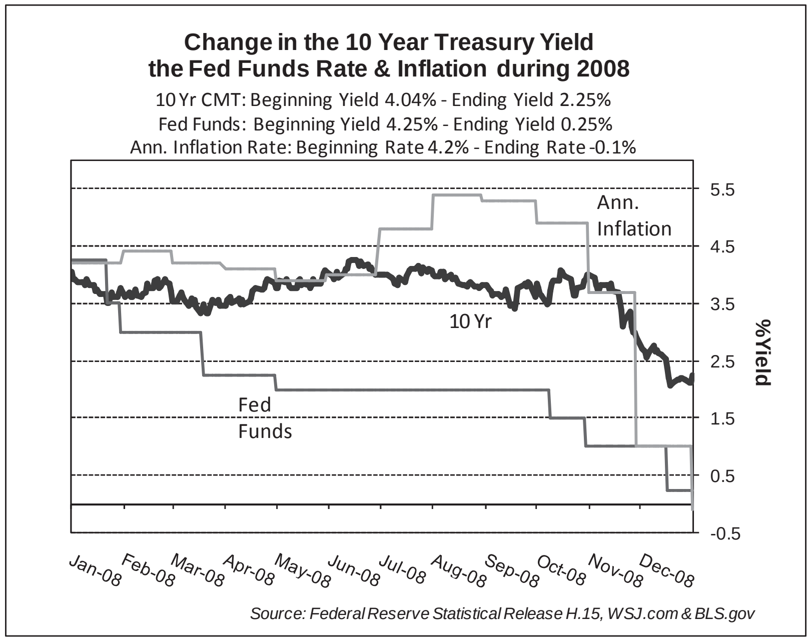


U.S. Stock Market

The chart to the right shows the toll the declining economy had on the stock market as measured by the Russell 3000 stock index. This broad measure of the U.S. stock market finished the year well below where it began. In fact, the depth and pace of the decent has as its only comparison the stock market decline during the Great Depression. The steady upward trend that began in March of 2003 has been sharply reversed and we are firmly in bear market territory. The stock market has been shaken by the credit crisis in the financial industry stemming from sub-prime lending defaults. The high levels of borrowing that were fueled by years of low interest rates began to unwind last year into a full-fledged liquidity crisis coupled with a downturn in economic activity. Investor fear as measured by volatility in the stock market rose dramatically compared to prior periods.

Interest Rates

As it became evident that the economy was slowing and the housing market was in distress, the Federal Reserve began lowering the Fed Funds rate in September of 2007 and continued to reduce it during 2008. Working against the Fed and against consumers was the lagging indicator of inflation. Higher energy and other commodity prices had been transmitted into consumer price inflation, but by the end of the year the annualized inflation rate had fallen below 0%. Yields on ten-year Treasury bonds dropped sharply towards the end of the year due to the slowing economy and a flight to quality following the collapse of Lehman. The yield curve finished the year much steeper than where it began. A steeper yield curve may eventually provide some help to battered financial institutions.



Investment Returns Through December 2008

US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	2.10%	3.92%	3.15%
Barclays Capital Aggregate	Core Bonds	5.24%	5.51%	4.65%
Citigroup Broad Investment-Grade Bond	Corporate Bonds	7.03%	6.18%	5.10%
Merrill Lynch High Yield Master II	High Yield Bonds	(26.39%)	(5.62%)	(0.86%)
City of Austin Employees Retirement System	**Domestic Fixed Income**	**1.64%**	**4.33%**	**3.97%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	(37.31%)	(8.63%)	(1.95%)
Russell 1000® Index	Large Cap Equity	(37.60%)	(8.66%)	(2.04%)
Russell 1000® Growth Index	Large Cap Growth	(38.44%)	(9.11%)	(3.42%)
Russell 1000® Value Index	Large Cap Value	(36.85%)	(8.32%)	(0.79%)
Russell 2500™ Index	Mid Cap Equity	(36.79%)	(9.37%)	(0.98%)
Russell 2000® Index	Small Cap Equity	(33.79%)	(8.29%)	(0.93%)
City of Austin Employees Retirement System	**Broad US Equity**	**(37.66%)**	**(9.45%)**	**(1.80%)**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	(45.24%)	(6.57%)	3.00%
MSCI EAFE	Developed Non-US Equity	(43.06%)	(6.92%)	2.10%
MSCI Emerging Mkts.	Emerging Non-US Equity	(53.18%)	(4.62%)	8.02%
City of Austin Employees Retirement System	**International Equity**	**(39.97%)**	**(6.72%)**	**2.70%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	(6.46%)	8.11%	11.67%
City of Austin Employees Retirement System	**Real Estate**	**(13.06%)**	**4.46%**	**-**
Policy Weighted Benchmark Index	Multiple	(26.11%)	(3.40%)	1.39%
City of Austin Employees Retirement System	**Total Fund**	**(25.98%)**	**(3.70%)**	**1.67%**

Source: Summit Strategies Group

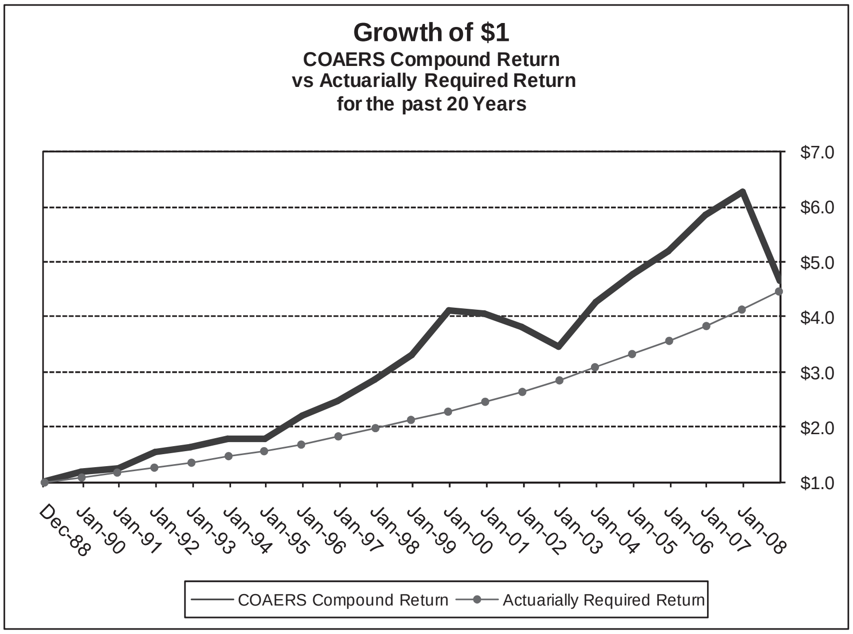
INVESTMENT PERFORMANCE

Stocks Slump and Bonds are Mixed

Both U.S. and international equities declined sharply during the year ending December 31, 2008. High quality bonds earned their coupon income and rose in price as interest rates fell, while lower quality bonds declined in value due to heightened fears of credit risk. Among U.S. equities, significant declines were experienced across the board. International equities were even harder hit as they proved to be still heavily dependent upon U.S. economic growth. Returns on less liquid asset classes such as real estate are lagged and have yet to reflect the full impact of the downturn.

A Long-term Perspective

The chart to the right shows the growth that compound returns of the Fund produced relative to the growth that compound returns of the assumed actuarial rate of 7.75% would have produced. Over this long-term horizon of the past 20 years the investment portfolio returns have produced growth above what would have been experienced had the Fund earned the actuarially assumed rate of 7.75%. The past 20 year period has been remarkable for its two vibrant bull markets and its two major bear markets in equities. With the historical backdrop of the past 20 years, we believe that a long-term performance target of 7.75% is reasonable and yet we are cognizant of the fact that long-term investing to achieve this goal is normally accompanied by the risks of periodic setbacks.



ASSET ALLOCATION

Diversification Reduces Volatility

Diversification is the investor's best defense against the risks associated with any individual asset class. Diversification controls risk by allocating assets across various asset classes. The asset allocation statistics of the Fund are shown below.

Asset Allocation				
ASSET CLASS	Min	12/31/08	Target	Max
CASH	0.00%	0.45%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	42.55%	35.00%	43.00%
FIXED INCOME	27.00%	36.98%	30.00%	33.00%
REAL ESTATE	0.00%	5.57%	5.00%	10.00%
COMMON STOCKS	60.00%	57.00%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	22.13%	22.75%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	7.68%	9.75%	14.75%
INTERNATIONAL	27.50%	27.19%	32.50%	37.50%

As of year end the decline in the equity markets had left the fund below its minimum stock allocation and above its maximum fixed income allocation. Following a disciplined rebalancing process, the Fund allocation has, at the writing of this letter, moved within its set policy ranges.

RECENT EVENTS AND OUTLOOK

Looking Ahead
As we look forward the global economy is in the midst of a recession of as yet unknown duration. Distress in the financial sector has claimed several household names and the decline in real estate prices has spread to the commercial sector. In the United States, the portion of the economy tied to consumer spending remains threatened as consumers continue to cut both spending and debt in the face of rising unemployment rates and declining homes prices. Businesses are likewise facing a difficult environment as financing is uncertain due to impaired credit markets and consumer demand slackens. Consumer related defaults and bankruptcy statistics are elevated. The deleveraging of the global economy continues unabated.

On the positive side, policy makers in Washington including the Federal Reserve, the Administration and Congress are taking unprecedented actions to mitigate the damage caused by the credit crisis. Globally, policy makers seem to be in accord taking actions to provide economic stimulus and mitigate talk of trade protectionism. Outside of the financial sector, in general, balance sheets of large corporations seem healthy and not over-leveraged. There is hope that the nonfinancial corporate sector may be able to navigate the economic downturn reasonably well.

Recessions are unsettling; however, they are by no means unprecedented. The Republic has survived many economic downturns and these downturns have sown the seeds of the next economic expansion. While the current environment is challenging, we anticipate that over the long term our diversification and rebalancing discipline will provide appropriate risk controls to produce satisfactory long-term returns.

INVESTMENT PHILOSOPHIES AND GUIDING PRINCIPLES

Listed below are the beliefs that guide our stewardship of the Fund.

- A pension fund has the longest of investment horizons and therefore rightly focuses on factors that impact long-term results.
- Asset allocation is the key factor determining long-term returns.
- Disciplined rebalancing towards the desired asset allocation maintains diversification and controls risk.
- Diversification within and across asset classes is the most effective tool for controlling risk.
- Passive investment management is commonly the most effective approach in efficient markets: active investment management can be successful in inefficient markets.

By adhering to these long standing principles we expect continued success in the prudent management of the assets of the Fund. Thank you for allowing me the opportunity to present my perspective.

Sincerely,

Kirk D. Stebbins, CFA
Chief Investment Officer

OUTLINE OF INVESTMENT POLICIES

The City of Austin Employees' Retirement System Board of Trustees, which has the fiduciary duty of overseeing the pension fund investments, has adopted a Statement of Investment Policy and Objectives. This summary includes the major elements of this annually reviewed document. A copy, in its entirety, is available upon request.

INVESTMENT GOALS

The purpose of the Fund is to accumulate the financial reserves necessary to provide for the retirement and pensioning of eligible members of the City of Austin Employees' Retirement System and their beneficiaries. Given this purpose, the System's liquidity requirement, and the source and predictability of contributions, the Board elects to assume normal pension fund risk in pursuing an investment program. A primary objective of the investment management of the Fund is to emphasize consistency of growth in a manner that protects the Fund from excessive volatility in market value from year to year.

The Board, with consultation, advice, and assistance from the investment consultant, will use the Fund's asset allocation as the primary tool to achieve this goal. As this is a long-term projection and investments are subject to short-term volatility, the main investment review focus of the Board will be to emphasize total return of the Fund versus its absolute and relative targets, each asset segment's composite performance versus appropriate market benchmarks, and each money manager's performance versus a specified asset class style benchmark and style peer comparison over relevant time periods. Each manager is expected to maintain a consistent philosophy and style, perform well versus others utilizing the same style, add incremental value after costs and provide investment management in compliance with this document and the manager's contract with the System.

INVESTMENT PHILOSOPHY

The Fund is a permanent one.

The benefit obligations of the System must be met on a timely and regular basis.

There is currently no expectation of a need for significant liquidity from the Fund's portfolio.

The Fund shall be considered a total return fund, with appropriate recognition given to both current income and capital appreciation. Taxes shall not be a consideration. As such, market value will be the only relevant basis for investment value.

In the long run, ownership (equity investment) is a prudent investment vehicle for preservation of real values. The purpose of fixed income investments is to protect principal and provide a measure of stability to the portfolio.

Diversification is integral to the Fund's design and as a result, investments that improve fund diversification will be considered.

As a long-term fund with a commitment to funding the full benefits of the participants, cash flow considerations shall take precedence over the liability stream when considering overall asset allocation of Fund assets.

IDENTIFICATION OF DUTIES

There are several parties acting as fiduciaries regarding the investment program for the Fund. This document sets out specific duties and responsibilities for the investment-related parties as they carry out their specific roles towards achieving the objectives of the Fund.

PERMISSIBLE INVESTMENTS

Listed below are the investment vehicles specifically permitted under the current Statement of Investment Policies and Objectives. They are categorized as equity or fixed income to indicate how they are classified for purposes of the asset-mix guidelines in a subsequent section. Unless given authorization in writing, managers are allowed to invest only in the security types listed below for the asset class for which they have been hired.

Equities	*Fixed Income*	*Real Estate*
Common Stocks	Domestic and Yankee Bonds	Open-ended Commingled Funds
Convertible Bonds	Mortgages and Mortgage-Backed Securities	
Preferred Stocks	Asset-Backed Securities	
	Cash-Equivalent Securities	
	Money Market Funds, Bank STIF and STEP Funds	

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over this document.
2. Private placement bonds are not permitted. Section 144(a) fixed income securities are allowable.
3. Investments may not be made in any investment that is prohibited by the Internal Revenue Service, the Department of Labor or statutory restriction.
4. For purposes of definition, cash equivalent securities are any fixed income investment with less than one year to maturity or reset date.
5. The securities representing equity of any one company shall not exceed 4% of the cost basis or 6% of the market value of any manager's portfolio. Fixed income securities of any one corporation shall be limited to 4% at cost of a portfolio and may not exceed 6% at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipals. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed 20% of the portfolio at cost (agency-issued mortgage backed securities to include GNMA's). The direct debt of the federal government (treasury bonds, bills and notes) shall not be restricted as a percentage of the portfolio.
6. Formulaic investment styles that are index based may deviate from the above position limits provided they are following a pre-established investment process and relative position limitation (i.e. index weight plus 1%) and they will monitor the account and promptly inform COA ERS if the diversification restriction noted above in the Policy is exceeded.
7. Derivatives are permissible for the purpose of equitizing cash (e.g. an overlay program, reducing cash exposure, or in portfolio transition).
8. Equity managers may invest in depository receipts as long as the underlying security is permissible within these guidelines and the investment does not expose the Fund to any greater risk than the risk from holding the underlying security.
9. Domestic equity managers are allowed to invest in dollar-denominated, SEC registered stock of foreign domiciled companies traded on the NYSE, AMEX or OTC markets. Concentration restrictions for the above securities are the same as for any other security.
10. Investment managers may be hired to manage accounts using primarily closed-end funds. In such accounts, closed-end funds are permissible holdings.

TOTAL PENSION FUND INVESTMENT OBJECTIVES

Both relative and absolute results will be considered in the evaluation of the total Fund's performance. The following are the performance expectations for the Fund:

- The Fund's total return after fees should exceed the total return of an index composed of a mix of asset class benchmarks in proportions set out in the Statement of Investment Policies and Objectives.
- The time period for this objective is on the market cycle or five years, whichever is shorter.

ASSET ALLOCATION

The Trustees believe that the level of risk assumed in the Fund is a function, in large part, of the Fund's asset allocation. The proportion of assets allocated for equity investments is the most important determinant of volatility of future returns. As indicated by long-term historical data, the risk of equity ownership has been rewarded with a higher rate of return.

Based on its determination of the appropriate risk posture for the Fund and its long-term return expectations, the Board and investment consultant have established the following asset mix guidelines for the Fund:

Equities	**65%**	**Fixed Income**	**30%**	**Real Estate**	**5%**
Large Cap Domestic	35%	Core Fixed Income	100%	Real Estate	100%
Non-Large Cap Domestic	15%	Cash	0%		
International	50%				

Periodic asset/liability studies provide the basis for changes to the portfolio allocation policy. Guidelines will be amended when a proposed investment strategy is adopted. During times of phased transition to a new allocation, current values may deviate from the established strategic mix. The Board will review its asset allocations at least every two years, or sooner, if a material event in either the liability structure of the plan or the capital markets warrants a sooner look.

Market movements also may cause a portfolio to differ from its strategic mix. Therefore, a range has been set for the actual asset allocation of the System's assets to allow for the fluctuations that are inherent in marketable securities. Rebalancing will take place when such triggering event effects variances beyond their recommended range.

ASSET ALLOCATION

City of Austin Employees' Retirement System
Asset Allocation
12/31/2008

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2008 VALUE	% OF FUND	ASSET ALLOCATION *		VARIANCE FROM TARGET	
			TARGET %	TARGET AMOUNT	AMOUNT	%
Common Stocks	**$ 702,185,761**	**57.00%**	**65.00%**	**800,728,160**	**(98,542,399)**	**-8.00%**
Domestic Large Cap Equities	272,676,090	22.13%	26.00%	320,291,264	(47,615,174)	
Domestic Non-Large Cap Equities	94,626,855	7.68%	9.75%	120,109,224	(25,482,369)	
International Equities	334,882,816	27.19%	29.25%	360,327,672	(25,444,856)	
Subtotal for Rebalancing	**$ 529,703,716**	**43.00%**	**35.00%**	**431,161,317**	**98,542,399**	**8.00%**
Fixed Income	455,511,273	36.98%	30.00%	369,566,843	85,944,430	
Real Estate	68,597,749	5.57%	5.00%	61,594,474	7,003,275	
Cash	5,594,694	0.45%	0.00%	-	5,594,694	
TOTAL	**1,231,889,477**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**272,676,090**	**22.13%**	**26.00%**	**320,291,264**	**(47,615,174)**
INTECH INVESTMENT MANAGEMENT LLC (enhanced-index)	134,655,726	10.93%	13.00%	160,145,632	(25,489,906)
ALLIANCEBERNSTEIN LP (large cap - growth)	67,396,845	5.47%	6.500%	80,072,816	(12,675,971)
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	70,623,519	5.73%	6.500%	80,072,816	(9,449,297)
US EQUITIES (Non-Large)	**94,626,855**	**7.68%**	**9.75%**	**120,109,224**	**(25,482,369)**
COLUMBUS CIRCLE INVESTORS (small cap - growth)	25,711,709	2.09%	2.4375%	30,027,306	(4,315,597)
AQR CAPITAL MGMT LLC (small cap - value)	24,051,808	1.95%	2.4375%	30,027,306	(5,975,498)
WALL STREET ASSOCIATES LLC (mid cap - growth)	24,409,528	1.98%	2.4375%	30,027,306	(5,617,778)
PZENA INVESTMENT MGMT LLC (mid cap -value)	20,453,810	1.66%	2.4375%	30,027,306	(9,573,496)
INTERNATIONAL EQUITIES	**334,882,816**	**27.19%**	**29.25%**	**360,327,672**	**(25,444,856)**
WALTER SCOTT & PARTNERS LTD (intl - growth)	136,455,008	11.08%	11.375%	140,127,428	(3,672,420)
SPRUCEGROVE INVESTMENT MGMT LTD (intl - value)	128,038,197	10.39%	11.375%	140,127,428	(12,089,231)
CITY OF LONDON INVESTMENT GROUP PLC (emerging markets)	34,316,679	2.79%	3.250%	40,036,408	(5,719,729)
DIMENSIONAL FUND ADVISORS (emerging markets)	36,072,932	2.93%	3.250%	40,036,408	(3,963,476)
DOMESTIC FIXED INCOME	**455,511,273**	**36.98%**	**30.00%**	**369,566,843**	**85,944,430**
AGINCOURT CAPITAL MGMT LLC	207,590,420	16.85%	15.00%	184,783,421	22,806,999
NTGI QM AGGREGATE BOND INDEX FUND	247,920,853	20.13%	15.00%	184,783,422	63,137,431
REAL ESTATE	**68,597,749**	**5.57%**	**5.00%**	**61,594,474**	**7,003,275**
PRINCIPAL GLOBAL INVESTORS LLC	68,597,749	5.57%	5.00%	61,594,474	7,003,275
CASH	**5,594,694**	**0.45%**	**0.00%**	**0**	**5,594,694**
CASH	5,594,694	0.45%	0.00%	-	5,594,694
TOTAL	**$ 1,231,889,477**	**100.00%**			

Reconciliation to Statement of Plan Net Assets:

Interest and dividends receivable	**$**	**3,615,992**
Trades pending settlement - sales		**353,193**
Total investments		**1,234,411,659**
Trades pending settlement - purchases		**(6,491,367)**
	$	**1,231,889,477**

*** Interim target reached at 12/31/08 (30.0% Fixed income, 29.25% International equity, 35.75% US equity, 5.0% Real Estate)**

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/07	Balance 12/31/08	2008 Gross Return (%)	2008 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2008	3 Years	5 Years
FIXED INCOME GROUP	$ 493,059,442	$ 455,511,273	1.7 %	$ 205,821	1.6 %	4.3 %	4.0 %
Agincourt Capital Mgmt LLC	232,542,491	207,590,420	(0.7)%	124,232	(0.8)%	3.5 %	3.5 %
Lehman Aggregate			5.2 %		5.2 %	5.5 %	4.7 %
NTGI QM Aggregate Bond Index Fund	260,516,951	247,920,853	3.8 %	81,589	3.8 %	5.1 %	4.4 %
Lehman Aggregate			5.2 %		5.2 %	5.5 %	4.7 %
INTERNATIONAL	385,569,955	334,882,816	(39.7)%	1,763,035	(40.0)%	(6.7)%	2.7 %
Walter Scott & Partners LTD	199,180,312	136,455,008	(31.2)%	790,744	(31.5)%	(2.8)%	5.1 %
EAFE			(43.1)%		(43.1)%	(6.9)%	2.1 %
Sprucegrove Investment Mgmt LTD	186,389,643	128,038,197	(41.9)%	688,977	(42.2)%	(7.7)%	2.2 %
EAFE			(43.1)%		(43.1)%	(6.9)%	2.1 %
City of London Investors	N/A	34,316,679	N/A	191,808	N/A	N/A	N/A
MSCI Emerging Markets			(53.2)%		(53.2)%	(4.6)%	8.0 %
Dimensional Fund Advisors Emerging Markets	N/A	36,072,932	N/A	91,506	N/A	N/A	N/A
MSCI Emerging Markets			(53.2)%		(53.2)%	(4.6)%	8.0 %
DOMESTIC EQUITY	721,818,721	367,302,945	(37.5)%	1,681,672	(37.7)%	(9.4)%	(1.8)%
US EQUITIES LARGE	**562,535,352**	**272,676,090**	**(36.4)%**	**919,966**	**(36.6)%**	**(8.4)%**	**(1.1)%**
INTECH Investment Management LLC	286,852,798	134,655,726	(36.7)%	629,676	(36.9)%	N/A	N/A
S&P 500			(37.0)%		(37.0)%	(8.4)%	(2.2)%
AllianceBernstein LP	134,277,209	67,396,845	(39.3)%	218,919	(39.4)%	(11.1)%	(2.5)%
Russell 1000 Growth			(38.4)%		(38.4)%	(9.1)%	(3.4)%
Aronson+Johnson+Ortiz LP	141,405,345	70,623,519	(33.0)%	71,371	(33.0)%	(7.0)%	1.6 %
Russell 1000 Value			(36.8)%		(36.8)%	(8.3)%	(0.8)%
US EQUITIES NON-LARGE	**159,283,369**	**94,626,855**	**(40.3)%**	**761,706**	**(40.6)%**	**(12.4)%**	**(3.7)%**
Wall Street Associates LLC	47,195,948	24,409,528	(47.9)%	258,236	(48.3)%	(13.1)%	(3.3)%
Russell Mid Cap Growth			(44.3)%		(44.3)%	(11.8)%	(2.3)%
AQR Capital Management LLC	36,372,042	24,051,808	(39.1)%	253,578	(39.6)%	N/A	N/A
Russell 2000 Value			(38.4)%		(38.4)%	(10.0)%	0.3 %
Pzena Investment Management LLC	33,877,195	20,453,810	(33.4)%	213,637	(33.9)%	N/A	N/A
Russell Mid Cap Value			(28.9)%		(28.9)%	(7.5)%	0.3 %
iShares R2000 Growth	41,838,184	N/A					
Russell 2000 Growth							
Columbus Circle Investors	N/A	25,711,709	N/A	36,255	N/A	N/A	N/A
Russell 2000 Growth			(38.5)%		(38.5)%	(9.3)%	(2.3)%
REAL ESTATE	91,622,081	68,597,749	(12.2)%	176,833	(13.1)%	4.5 %	N/A
Principal Global Investors LLC	91,622,081	68,597,749	(12.2)%	176,833	(13.1)%	4.5 %	N/A
NCREIF Property			(6.5)%		(6.5)%	8.1 %	11.7 %
CASH	2,125,545	5,594,694	2.2 %		2.2 %	4.4 %	3.7 %
90 Day T-Bills			2.1 %		2.1 %	3.9 %	3.2 %
TOTAL FUND	$ 1,694,195,744	$ 1,231,889,477	(25.8)%	$ 3,827,361	(26.0)%	(3.7)%	1.7 %
****Policy Index***			(26.1)%		(26.1)%	(3.4)%	1.4 %

Rates of return are time-weighted using accrual-based accounting.

* Policy Allocation: 33% S&P 500, 14% Russell 2500 Growth, 15% FTAWI Ex-US, 38% BC Aggregate, thru 8/00.
33% S&P 500, 14% Russell 2500 Growth, 15% EAFE, 38% BC Aggregate, 9/00 thru 9/01.
33% S&P 500, 14% Russell 2500, 15% EAFE, 38% BC Aggregate, 10/01 thru 12/02.
33% S&P 500, 16% Russell 2500, 16% EAFE, 35% BC Aggregate, 1/03 thru 305.
33% S&P 500, 16% Russell 2500, 16% EAFE, 30% BC Aggregate, 5% NCREIF, 4/05 thru 6/08.
29% S&P 500, 10% Russell 2500, 26% EAFE, 30% BC Aggregate, 5% NCREIF, 7/08 to present.

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
143,500	Exxon Mobil Corp	$	11,455,605	0.93%
179,590	Novartis AG CHF0.50 (REGD)		8,892,181	0.72%
213,700	Nestle SA COM STK		8,352,440	0.68%
242,275	AT&T Inc COM		6,904,838	0.56%
1,002,000	CLP Holdings HKD5		6,800,495	0.55%
91,400	Procter & Gamble Co COM		5,650,348	0.46%
152,580	Hewlett Packard Co COM		5,550,463	0.45%
71,000	Chevron Corp		5,251,870	0.43%
311,600	General Electric Co		5,144,516	0.42%
97,000	Takeda Pharmaceutical Co NPV		4,965,030	0.40%
	Top 10 Stock Holdings	**$**	**68,967,786**	**5.60%**
	Total COA ERS Investment Portfolio 12-31-2008	**$**	**1,231,889,477**	**100.00%**

Full listing available upon request.

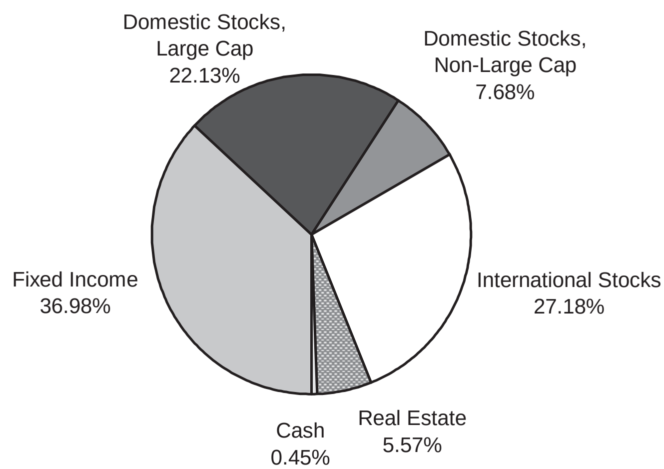
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	7,585,000	United States Treas Sec Strip 0% Due 11-15-2020 REG	$	5,125,351	0.42%
	4,941,715	Federal Home Ln Mtg Corp Pool #B1-5586 4.5% Due 07-01-2019 BEO		5,090,609	0.41%
	4,780,080	FNMA Pool #254868 5.0% Due 09-01-2033 BEO		4,912,979	0.40%
	4,435,000	FNMA Preassign 00419 3.625% Due 08-15-2011		4,761,378	0.39%
	4,165,758	Federal Home Ln Mtg Corp Pool #G0-1740 5.5% Due 12-01-2034 BEO		4,291,124	0.35%
	3,640,000	Federal National Mortgage Assoc 5% Nts Due 05-11-2017		4,175,675	0.34%
	4,007,240	FNMA Pool #831095 6.0% Due 10-01-2035		4,150,779	0.34%
	3,142,397	Federal Home Ln Mtg Corp Pool #A7-6044 5.5% 04-01-2038 BEO		3,234,021	0.26%
	3,137,938	Federal Home Ln Mtg Corp Pool #B1-9666 4.5% 08-01-2020 BEO		3,228,562	0.26%
	3,000,000	FHLMC Preassign 00039 3.25% Due 07-16-2010		3,142,720	0.25%
		Top 10 Bond Holdings	**$**	**42,113,198**	**3.42%**
		Total COA ERS Investment Portfolio 12-31-2008	**$**	**1,231,889,477**	**100.00%**

INVESTMENT SUMMARY AT FAIR MARKET VALUE

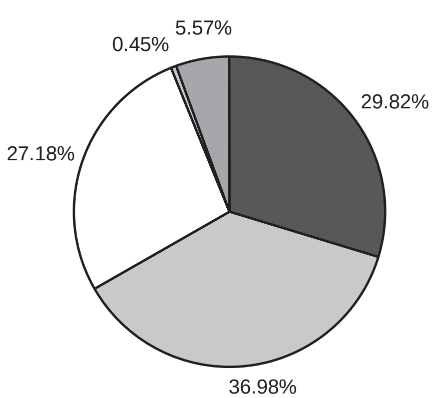
	Fair Value	Percentage of Total Fair Value
Fixed Income	$455,511,273	36.98%
Domestic Stocks, Large Cap	272,676,090	22.13%
Domestic Stocks, Non-Large Cap	94,626,855	7.68%
International Stocks	334,882,816	27.18%
Real Estate	68,597,749	5.57%
Cash	5,594,694	0.45%
	$1,231,889,477	100.00%

COA ERS Investment Portfolio



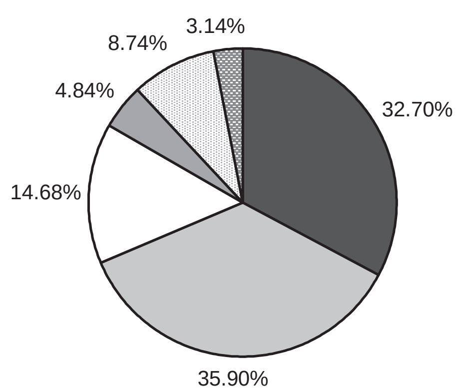
ALLOCATION BY SECTOR

COA ERS Asset Allocation



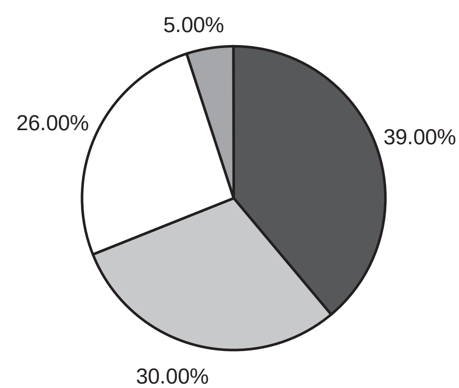
Market Value: $1.231 Billion

Mellon Median Public Fund Asset Allocation



Market Value: $939.2 Billion

Target Allocation

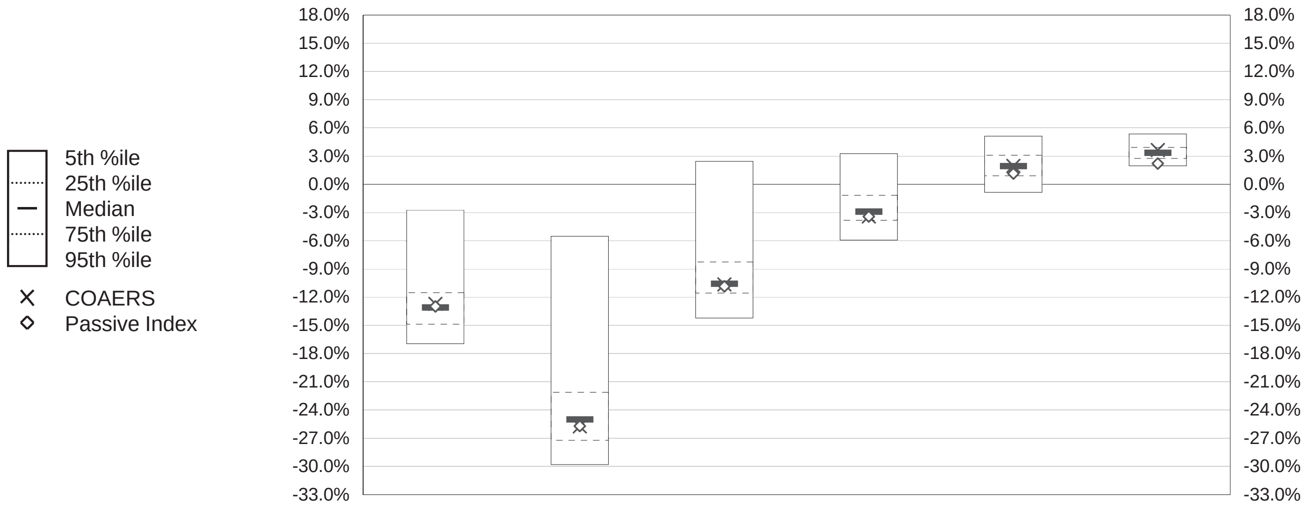


US Equity | Fixed Income | Intl Equity
Real Estate | Alternative Investments | Cash

BROKER COMMISSIONS OVER $10,000

Broker Name	# of Shares Traded	Commissions Paid	Cost per Share
CREDIT SUISSE FIRST BOSTON CORPORATION	2,427,339	47,332	0.019
DEUTSCHE BANK SECURITIES INC	3,573,663	45,790	0.013
LEHMAN BROTHERS INC NEW YORK	3,661,211	41,409	0.011
UBS WARBURG LLC	1,710,240	35,886	0.021
MERRILL LYNCH PIERCE FENNER & SMITH	1,510,848	25,924	0.017
LYNCH JONES & RYAN	1,338,821	24,150	0.018
J.P. MORGAN SECURITIES INC	725,643	22,972	0.032
GOLDMAN SACHS & COMPANY	1,048,852	21,109	0.020
WEEDEN AND & CO	1,040,597	20,226	0.019
INSTINET	1,657,127	19,497	0.012
GUZMAN & COMPANY	958,598	18,803	0.020
ROSENBLATT SECURITIES LLC 501	1,097,307	18,409	0.017
JEFFERIES & COMPANY	1,385,064	18,115	0.013
CITIGROUP GLOBAL MARKETS INC/SMITH BARNEY	845,739	15,633	0.018
CAP INSTITUTIONAL SERVICES INC	805,044	14,490	0.018
HSBC BANK PLC (FORMERLY MIDLAND BK)	561,600	12,782	0.023
EXANE PARIS	434,000	12,489	0.029
ABEL NOSER CORPORATION	235,400	11,770	0.050
INSTINET U.K LIMITED LONDON	231,070	11,457	0.050
INVESTMENT TECHNOLOGY GROUP INC	684,414	10,553	0.015
156 Minor Brokers	20,417,645	300,532	0.015
Total Broker Commissions	**46,350,222**	**$ 749,328**	**$ 0.016**

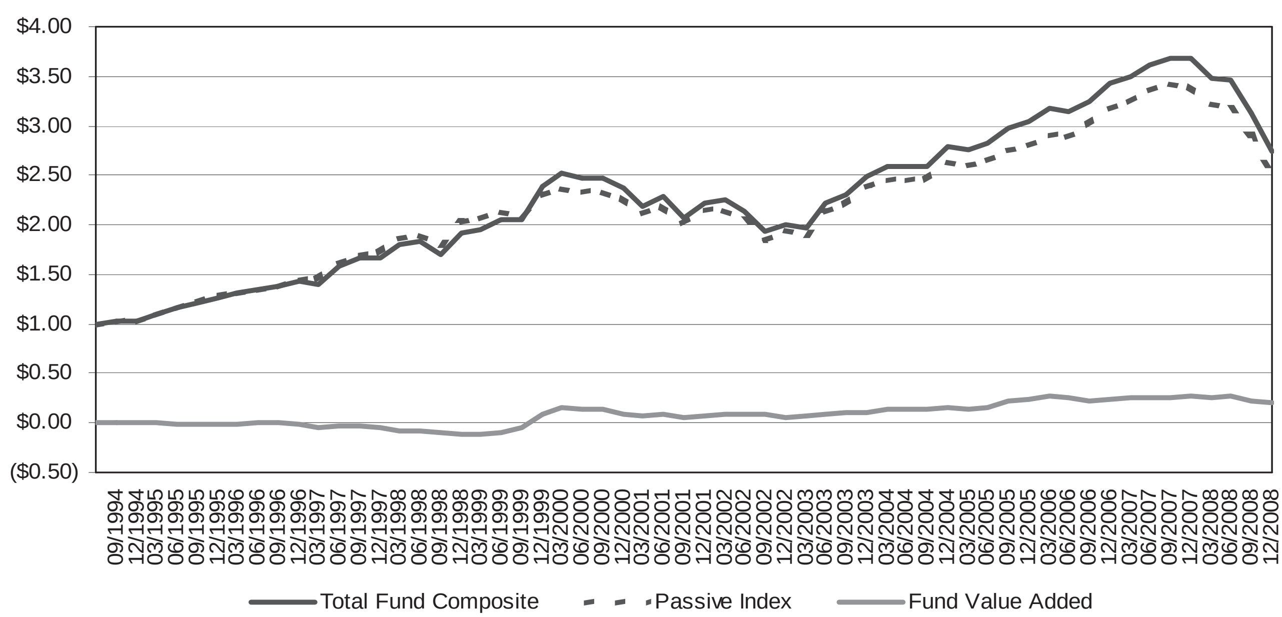
TOTAL FUND AND PASSIVE INDEX VS. MELLON PUBLIC FUND UNIVERSE



	4Q 2008	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	(12.72%)	(25.76%)	(10.65%)	(3.43%)	1.95%	3.64%
Passive Index	(12.99%)	(25.70%)	(10.85%)	(3.42%)	1.14%	2.20%
5th Percentile	(2.73%)	(5.54%)	2.44%	3.24%	5.13%	5.35%
25th Percentile	(11.52%)	(22.12%)	(8.26%)	(1.18%)	3.09%	3.91%
Median	(13.11%)	(25.02%)	(10.59%)	(2.91%)	1.93%	3.33%
75th Percentile	(14.88%)	(27.24%)	(11.58%)	(3.84%)	0.89%	2.74%
95th Percentile	(16.97%)	(29.82%)	(14.23%)	(5.95%)	(0.87%)	1.96%
Observations	176	163	105	103	92	60

Note: Passive Index is currently comprised of 43.25% R3000, 21.75% MSCI EAFE and 35% Barclays Capital Aggregate. Time weighted rates of return.

TOTAL GROWTH OF $1.00 VS. PASSIVE INDEX



Note: Passive Index is currently comprised of 43.25% R3000, 21.75% MSCI EAFE and 35% Barclays Capital Aggregate. Time weighted rates of return.

Actuarial Section

GRS

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Consultants & Actuaries

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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.

Mr. Stephen Edmonds
May 28, 2009
Page 2

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

TABLE OF CONTENTS

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

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

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

Benefit Component	Cost as % of Pay December 31, 2008	Cost as % of Pay 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

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System **TABLE 4**
Actuarial Valuation - December 31, 2008

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

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

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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

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
Actuarial Valuation - December 31, 2008

TABLE 8

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)

Gabriel Roeder Smith & Company

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

	Added to Rolls		Removed from Rolls		Rolls-End of Year			
Year Ending December 31	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average 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%

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.

Gabriel Roeder Smith & Company

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%

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

TABLE 14

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.

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

TABLE 15

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%.

Statistical Section

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	Years Creditable Service						
January 1, 2006 to December 31, 2008	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

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City of Austin Employees' Retirement System
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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.

City of Austin Employees' Retirement System
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TABLE 21

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
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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
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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

Gabriel Roeder Smith & Company

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1941	4.00%	4.00%	-	1.125%	-
1942	"	"	-	"	-
1943	"	"	-	"	-
1944	"	"	-	"	-
1945	"	"	2.00%	"	-
1946	"	"	2.00%	"	-
1947	"	"	2.00%	"	-
1948	"	"	2.00%	"	-
1949	"	"	2.00%	"	-
1950	"	"	2.00%	"	-
1951	5.00%	5.00%	2.00%	"	-
1952	"	"	2.00%	"	-
1953	"	"	1.91%	"	-
1954	"	"	2.46%	"	-
1955	"	"	2.52%	"	-
1956	"	"	2.60%	"	-
1957	"	"	2.00%	"	-
1958	"	"	2.62%	"	-
1959	"	"	2.79%	"	-
1960	"	"	3.27%	"	-
1961	"	"	2.77%	"	-
1962	"	"	3.65%	"	-
1963	"	"	3.76%	"	-
1964	"	"	3.31%	"	-
1965	"	"	3.25%	"	-
1966	"	"	3.56%	"	-
1967	"	"	3.68%	1.25%	-
1968	"	"	4.25%	"	-
1969	"	"	4.66%	"	0.50% [a]
1970	"	"	4.98%	"	1.50%
1971	6.00%	6.00%	5.43%	1.50%	2.00%
1972	"	"	6.04%	"	3.00%
1973	"	"	6.22%	1.75%	3.00%
1974	"	"	6.33%	"	3.00%
1975	"	"	6.82%	"	3.00%
1976	"	"	6.94%	"	3.00%
1977	"	"	6.51%	"	3.00%
1978	"	"	6.66%	"	3.00%
1979	"	"	7.84%	"	3.00%
1980	"	"	8.01%	"	3.00%

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES, CONTINUED

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1981	6.00%	6.00%	8.14%	"	3.00%
1982	6.60%	6.60%	8.21%	"	3.00%
1983	"	"	8.39%	"	3.00%
1984	7.00%	7.00%	8.29%	1.85%	3.00%
1985	"	"	8.22%	2.00%	3.00%
1986	"	"	8.00%	"	3.00%
1987	6.20%	6.20%	8.00%	"	1.50%
1988	7.00%	7.00%	8.00%	"	3.00%
1989	"	"	8.00%	"	3.00%
1990	"	"	8.00%	2.10%	3.00%
1991	"	"	6.50%	"	3.00%
1992	"	"	6.00%	"	4.00%
1993	"	"	5.00%	2.20%	3.10%
1994	"	"	6.00%	"	6.00%
1995	"	"	6.75%	2.30%	6.00%
1996	"	"	6.75%	"	6.00%
1997	"	"	6.75%	2.60%	6.00%
1998	"	"	5.00%	"	5.00%
1999	"	8.00%	6.25%	2.70%	3.00%
2000	8.00%	"	5.75%	2.98%	0.00%
2001	"	"	4.25%	"	3.50%
2002	"	"	3.75%	3.00%	2.50%
2003	"	"	3.75%	"	0.00%
2004	"	"	3.75%	"	0.00%
2005	"	"	4.50%	"	0.00%
2006	9.00% [b]	"	4.50%	"	0.00%
2007	"	"	4.50%	"	0.00%
2008	10.00% [b]	"	4.00%	"	0.00%

[a] In 1969, the adjustment was 1.5% prorated for 4 months, 4/12 x 1.5% or .05%.

[b] Includes City of Austin subsidy payment, effective at beginning of their fiscal year, October 1, pursuant to Supplemental Funding Plan.

Special adjustments based on years of retirement granted by City Council in 1985 and 1990 not reflected in table.

Source: *Information derived from COA ERS internal sources.*