City of Austin
Employees' Retirement System
2010 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2010

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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coaers

City of Austin Employees' Retirement System

June 2, 2011

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 (COAERS or System) for the year ended December 31, 2010. COAERS' management is responsible for the accuracy, completeness, and fair presentation of information, and all disclosures in this report.

Plan Profile and Demographic Highlights

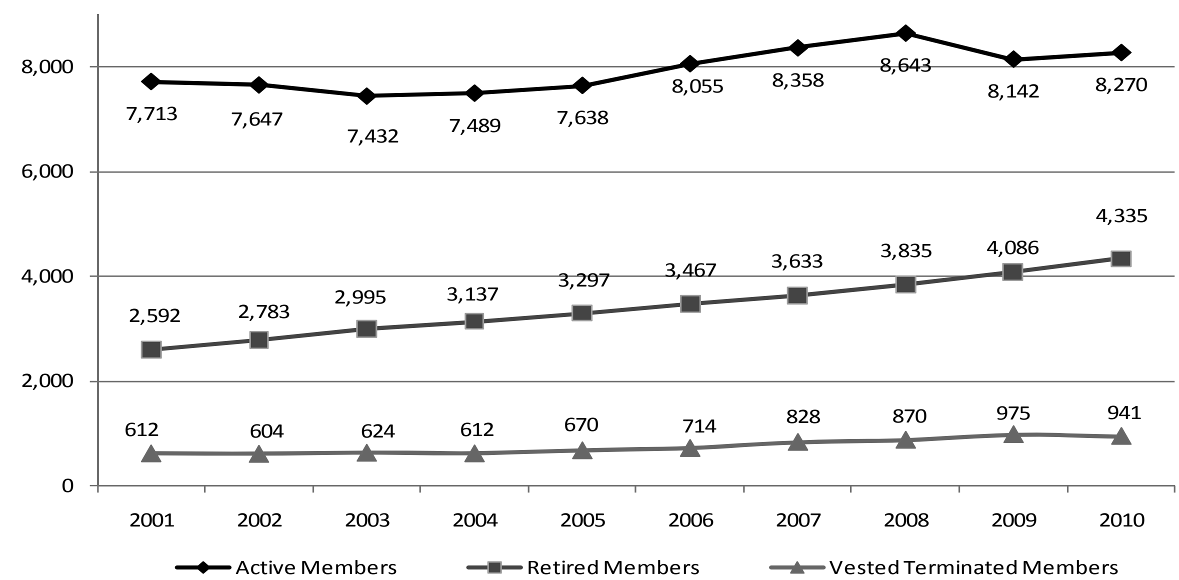
COAERS was established in 1941 and has provided retirement benefits to eligible City of Austin employees since that time. Though originally created by city ordinance, the System is now governed by state law and administered by an eleven-member board of trustees.

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.

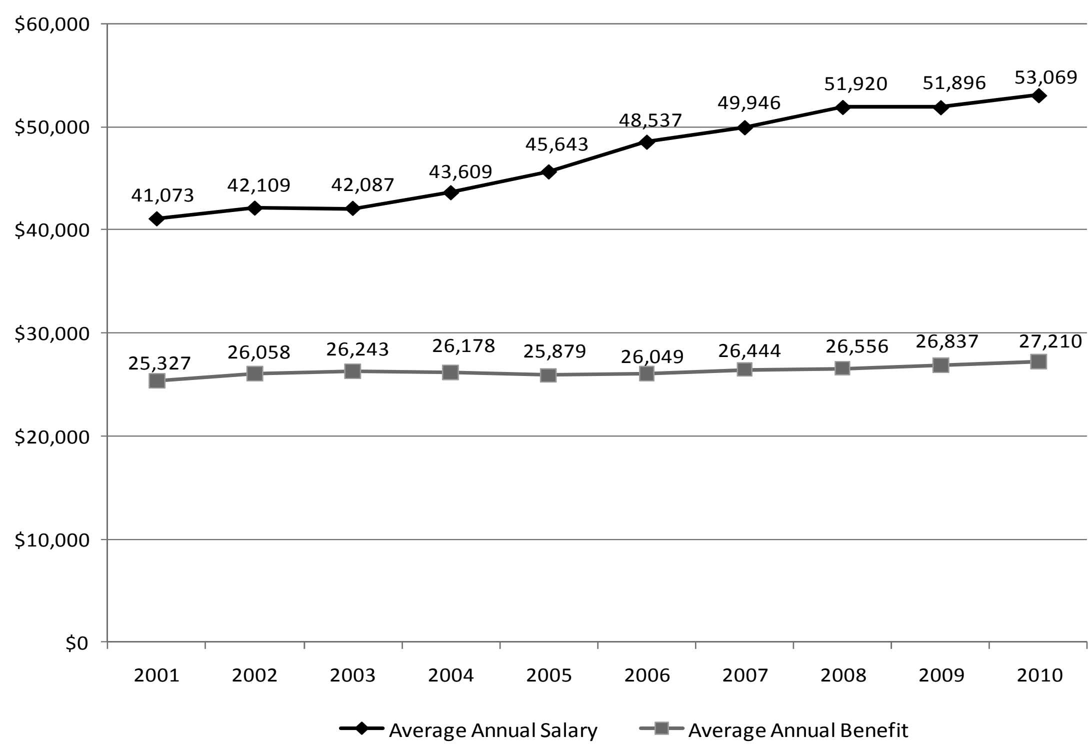
Additional information concerning COAERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

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

Membership Profile



Average Salary and Average Benefit



Audited Financial Statements and Summary

The financial statements included in this CAFR have been prepared by COAERS' management in accordance with generally accepted accounting principles and presented in accordance with guidelines established by the Governmental Accounting Standards Board (GASB). 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 2010 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.

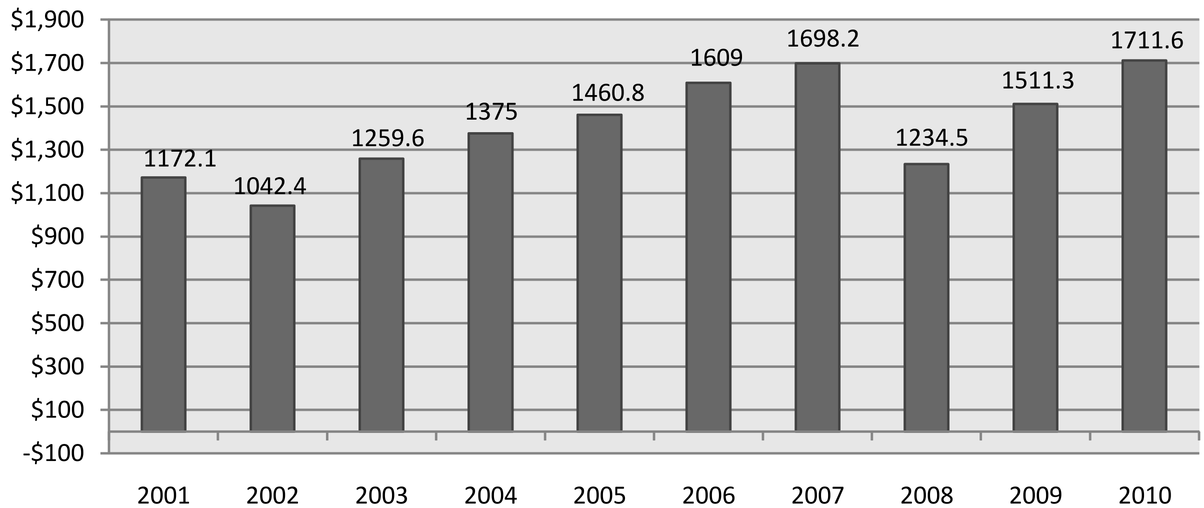
The ***Additions to Plan Net Assets*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2010, employer and employee contributions totaled $94.2 million; investment, securities lending, and other income was $34.0 million; and net appreciation of plan investments totaled $196.1 million, resulting in a net addition to Plan Net Assets of $324.3 million. The ***Deductions from Plan Net Assets*****,** totaling $124.0 million, consist of $114.3 million in annuity payments, refunds of $4.2 million, Deferred Retirement Option Program (DROP) disbursements of $1.6 million, retiree lump-sum annuity disbursements of $0.4 million, death benefits of $1.4 million, and administrative expenses of $2.1 million. The net increase of $200.3 million results in total assets held in trust of $1.7 billion.

Changes to Plan Net Assets

Additions			Deductions		
Employer Contributions	$	53,575,843	Retiree Annuity Payments	$	114,243,694
Employee Contributions		40,628,977	Refunds		4,205,011
Interest/Dividends/Net Securities			DROP Disbursements		1,609,854
Lending/Other Income		33,990,397	Retiree Lump-Sum Annuities		403,120
Appreciation in Plan Investments			Death Benefits		1,421,065
(net of investment fees)		196,112,219	General & Administrative Expenses		2,113,013
Total Additions	**$**	**324,307,436**	**Total Deductions**	**$**	**123,995,757**

The following chart shows the ***Total Plan Net Assets*** at the end of each year since 2001. Net Assets increased by $200.3 million during 2010, resulting in Total Plan Net Assets of $1,711,592,229 at December 31, 2010. Although a five-year trend of consistent growth was ended in 2008, as a result of what has been termed "the Great Recession", 2010 end-of-year assets experienced a significant rebound.

Total Plan Net Assets



Internal Controls

A framework of internal controls have been established by COAERS' management to provide reasonable assurance that assets are properly safeguarded, that financial records are fairly and accurately maintained, and that the governing statute and policies are correctly followed. Recognizing, however, that even sound internal controls have their inherent limitations, the COAERS' Board of Trustees has also authorized an "extended audit" since 1997. This annual review of internal controls, and compliance with operating policies and procedures, is currently conducted by Padgett Stratemann & Co; audit findings are reported, and actions of management to implement recommendations are reviewed with the Board of Trustees.

Investments

Essential to COAERS' 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 COAERS 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 COAERS. The Board of Trustees has established an investment policy and guidelines which provide for the delegation of investment authority to professional investment advisors.

COAERS' assets are strategically allocated to maximize returns and reduce risk by using diverse and complementary portfolio structures. The COAERS Board has consistently followed a long-range, conservative investment philosophy. COAERS employs a full-time Chief Investment Officer to oversee the investment portfolio and assist the Board in devising and implementing strategic investment decisions. The Board also retains Summit Strategies Group to provide independent investment consulting services and long-range asset liability analysis.

At December 31, 2010, the investment portfolio of COAERS was managed by 16 investment managers. One investment manager was added during the year. In order to further diversify the international equities portion of the portfolio, the Board funded an international equities account wherein the investment manager invests in international closed-end funds. This account was funded in July of 2010.

Portfolio Allocation

Investment Style	2010
Domestic Fixed Income	30.00%
International Equities	32.50%
U.S. Equities - Large Cap	22.75%
U.S. Equities - Non-Large Cap	9.75%
Real Estate	5.00%
	100.00%

The Board continues to evaluate the merits of different asset classes beyond those already represented in the portfolio in the context of historical experience, the current environment, suitability for the portfolio and prospective net investment returns.

Global equity markets finished 2010 with strong gains but the path was anything but a straight line. Major equity markets mostly advanced through April but experienced significant declines in May due to fears of a European sovereign debt crisis. Throughout the summer markets wavered back and forth as the stability of the global economic recovery was debated. In August Fed Chairman Bernanke announced additional measures to support the economy known as "QE2". Shorthand for the second round of quantitative easing, "QE2" was greeted with enthusiasm by the financial markets as the dollars from the Fed purchases of $600 billion in US Treasury securities appeared destined to flow into both equity and fixed income markets. From September through the end of the year the prices of financial assets advanced with one final hurdle before 2010 was complete. While the mid-term elections changed the balance of power in Washington, it was uncertain whether or not tax cuts that were set to expire in 2011 would be extended. When negotiations were completed it was determined that the tax cuts would remain in place as both parties concluded that the economy was not as yet strong enough to bear additional taxes. With uncertainty regarding taxes removed, financial markets rallied through the end of the year.

For the year ending December 31, 2010, the COAERS' portfolio investment return was 15.51%, net of fees, compared to a Policy Benchmark of 12.93%. For the three-year period, COAERS' portfolio returned 2.40%, net of fees, compared to 0.33% for the Policy Benchmark. For the five-year period, COAERS' portfolio returned 5.32%, net of fees, compared to 4.26% for the Policy Benchmark. COAERS is a long-term investor with a permanent fund, so it is performance over longer periods of time that remains the focus of the Board.

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. During the calendar year 2010, the City of Austin provided additional employer funding at a rate of four percent January 1, 2010, through September 30, 2010, and six percent October 1, 2010, through December 31, 2010. State law requires that any enhancement to the plan of benefits adopted by the System be certified 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, COAERS' contributions, including the rate of additional employer funding at the beginning of the year, are not sufficient to amortize the unfunded liability of the System.

The overall funded position of the System is 69.6%, down from 71.8% in 2009. The actuarial accrued liability and the actuarial value of assets of COAERS as of December 31, 2010, amounted to $2.461 billion and $1.712 billion, respectively. Because the initial actuarial value of assets under a five year smoothing methodology was only $12 million higher than the market value of assets, a decision was made by the Board of Trustees to reset the actuarial value of assets to the market value with the smoothing methodology to resume at the next actuarial valuation. This reset of the actuarial value of assets resulted in a slight decrease in funded ratio than would otherwise have been realized. A detailed discussion of funding is provided in the Actuarial Section of this report.

A supplemental funding plan originally adopted by the Austin City Council in 2005 was amended in September 2010. The amended supplemental funding plan (ASFP) provides for additional contributions by the City of Austin beyond what was contained in the original supplemental funding plan. Under the provisions of the ASFP, the total employer contribution rate is 14% of basic compensation effective October 1, 2010; 16% effective October 1, 2011; and 18% effective October 1, 2012, and thereafter. In addition, the City Council and Board of Trustees have both endorsed legislation to establish a new benefit structure for employees beginning employment on or after January 1, 2012. The additional contributions are reflected in the actuarial valuation in this report; however, the legislative action to establish the new benefit tier is still pending. The combination of the ASFP and the expected enactment of the new benefit tier will significantly improve the financial outlook for the System.

Awards

For the twelfth consecutive year, COAERS was awarded a *Certificate of Achievement for Excellence in Financial Reporting* for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2009, by the Government Finance Officers' Association of the United States and Canada (GFOA). COAERS 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 2010, COAERS earned its third *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 COAERS 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,

Elizabeth S. Gonzales 2010 Board Chair	Stephen C. Edmonds Executive Director	Donna Durow Boykin, CPA Chief Finance Officer

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, 2009

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Public Pension Coordinating Council

Recognition Award for Administration 2010

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
Program Administrator

COAERS 2010 BOARD OF TRUSTEES

Elizabeth S. Gonzales
Board Chair

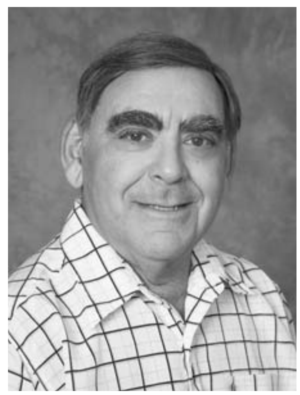
Anthony B. Ross, Sr.
Board Vice Chair

Art Alfaro
Trustee

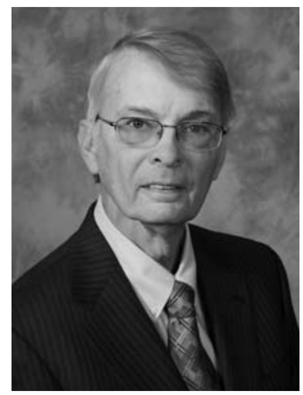
Janet Bartles
Trustee

Reagan David
Trustee

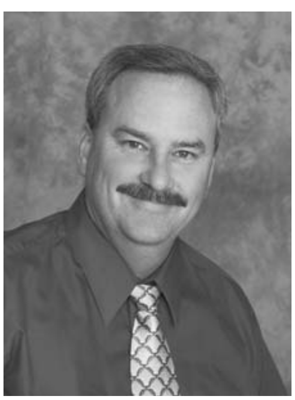
Francine Gertz
Trustee



Ed Golden
Trustee



Sam Jones
Trustee



Mark Monteith
Trustee

Bill Spelman
Trustee

Jim Williams
Trustee

COAERS STAFF

Stephen C. Edmonds
Executive Director

Russell Nash
Chief Operations Officer

Donna Durow Boykin
Chief Financial Officer

Kirk Stebbins
Chief Investment Officer

Jo Anne Norton
Manager, Administrative & Support Services

Melissa Adams
Member Services Specialist

Teresa Cantu
Member Services Specialist

Bertie Corsentino
Accountant

Cathy Edwards
Accountant

Laura L. Fugate
Member Services Specialist

Melissa Kennedy
Member Services Coordinator

Michelle Mahaini
Executive Assistant

Lovie Robinson-Laurant
Member Services Coordinator

Bobbie Simpson
Office Coordinator





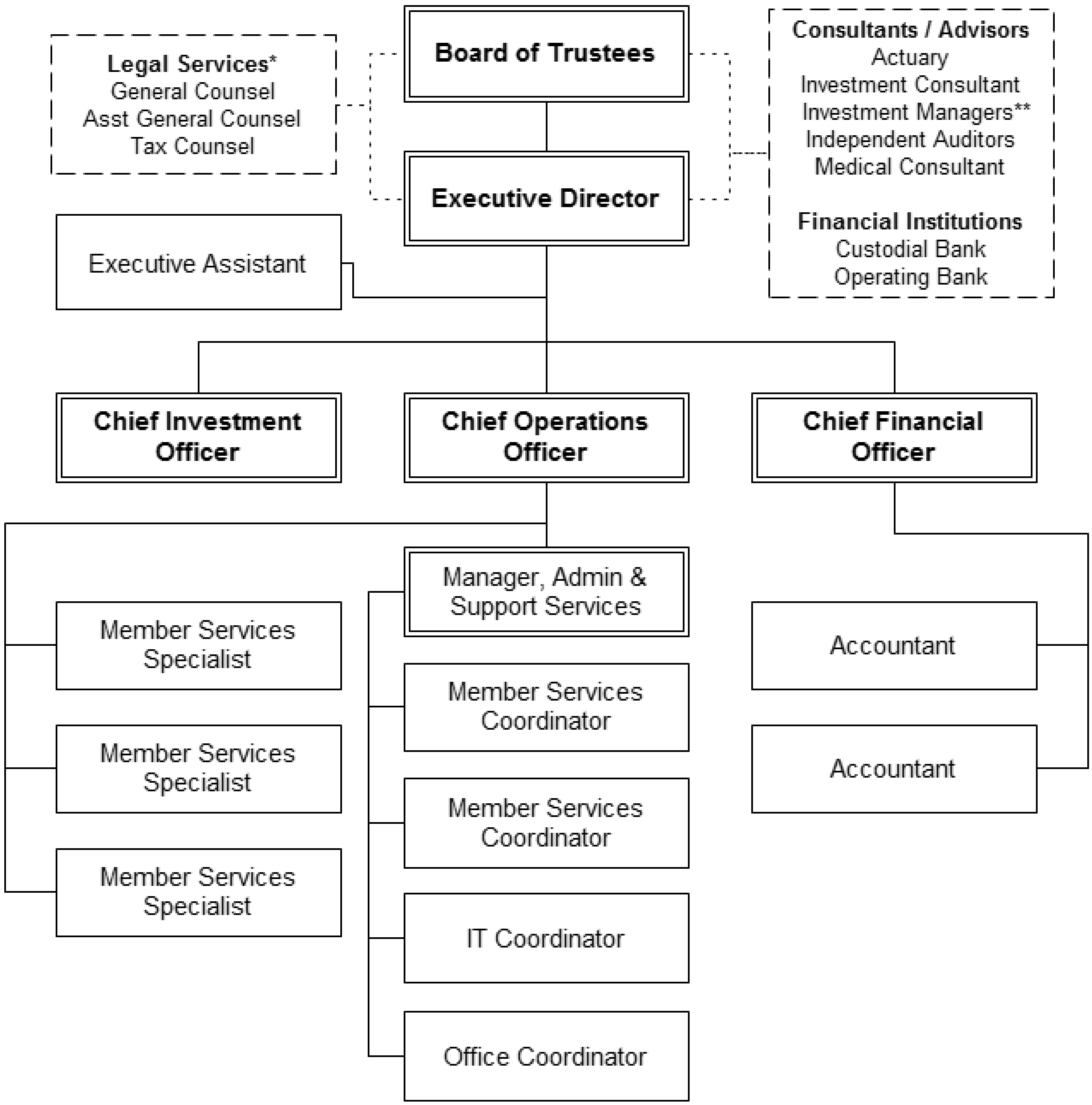









ORGANIZATIONAL CHART



* 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 Investments, Inc

Independent Auditors
KPMG LLP
Padgett Stratemann & Co LLP

Actuary
Gabriel Roeder Smith & Company

Tax Counsel
Strasburger & Price LLP

Operating Bank
JPMorgan Chase Bank

INVESTMENT MANAGERS

Fixed Income
Agincourt Capital Management LLC
Northern Trust Global Investments

International Equity
1607 Capital Partners
City of London Investment Management Co LTD
Dimensional Fund Advisors
Mondrian Investment Partners LTD
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 (COAERS)

Introduction

COAERS is:
A defined benefit plan qualified under Internal Revenue Code Section 401(a).
Statutorily governed by the State of Texas under Tex. Rev. Civ. Stat. art. 6243n.

COAERS Board of Trustees:
Provides oversight
Sets policy

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

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

Membership Requirements

City of Austin (COA) regular employees working 30 or more hours per week become Members of COAERS 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 COAERS 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: From January 1, 2010 to September 30, 2010, the employer contribution rate was 12% of compensation. This rate was the maximum amount of employer contributions possible under a Supplemental Funding Plan put into place by the City Council in May of 2005. The City Council replaced the original Supplemental Funding Plan with an Amended Supplemental Funding Plan in September of 2010. The Amended Supplemental Funding Plan increased the total employer contribution to the System to 14% of compensation effective October 1, 2010. The Amended Supplemental Funding Plan increased future employer contributions as follows: 16% of compensation effective October 1, 2011, and 18% of compensation effective October 1, 2012, and each fiscal year thereafter.

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 COAERS 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 COAERS and the Travis County Healthcare District, may also be combined with COAERS 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 COAERS to calculate retirement benefits, it is important to know the total number of years of Creditable Service a Member has with COAERS. 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 no more than two purchases 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 COAERS 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 COAERS. 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.

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:

- City of 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

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. In most cases, proportionate participation is based on funded service.

A limited proportionate service arrangement was also established in 2007 for those individuals who have membership in COAERS 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 COAERS, but not with any other system in the general proportionate program.

Calculation of Retirement Benefits

Factors used to calculate COAERS 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 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, the COAERS 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 COAERS.

Retirement Options

COAERS 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 COAERS 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 (COLAs), interest, and Member or employer contributions do not increase the monthly amount credited to the DROP.

Partial Lump-Sum Payment – A Retiree may select a retirement option under Option VI and receive 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 COAERS 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 COAERS 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

Upon the death of a Retiree, a death benefit of $10,000 is paid by COAERS 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, upon 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

Upon 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 COAERS 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 COAERS 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

Texas State Law, 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 COAERS, 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 QDROs 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, 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.

Interest is credited on the last day of the calendar year to amounts standing to the credit of the member on January 1 of the same calendar year. Interest is credited at a rate determined by the Board from time to time upon the advice of the Board's actuary.

Because COAERS is a defined benefit plan, and not defined contribution, 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

COAERS' funds are invested according to the requirement of state law and the COAERS 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 COAERS 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 a provision 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 a provision 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 a provision for vested eligibility after 10 years of Creditable Service.

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

Established a provision 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 a provision 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 a provision 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 a provision 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 a provision for a 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.

Implemented employer "pick up" of member contributions pursuant to 414(h)(2) of the Internal Revenue Code. 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 vesting eligibility at 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.

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 a provision 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 COAERS 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 a provision 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 a provision 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 statutory 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 a provision 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 Restoration of Retirement Income Plan to restore retirement income otherwise limited by Section 415 of the Internal Revenue Code.

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 a provision for purchases of Permissive Time to Active/Inactive Vested 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. Allows 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.

May 2005

City Council adopted a Supplemental Funding Plan providing additional City contributions in Resolution No. 20050512-045. The Plan is structured to increase City contributions to achieve a 30-year amortization period as follows: 1% in fiscal year 2007; 2% in fiscal year 2008, 3% in fiscal year 2009, and 4% in fiscal year 2010 and thereafter, if necessary. If during any calendar year, COAERS earns greater than a 12% time weighted rate of return net of fees, the increase is delayed one budget cycle. Any future benefit enhancements or cost of living adjustments require a recommendation from the City Manager and approval by the City Council. In addition, if the CPI index exceeds 3.0% in any calendar year, an actuarial study is to be performed to determine the additional subsidy needed if a cost of living adjustment were to be provided.

October 2006

City Council adopted a budget including a Supplement Funding Plan contribution subsidy of 1% for fiscal year 2007.

September 2007

Established a limited proportionate service arrangement exclusively for those individuals who have membership in COAERS 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.

October 2007

Scheduled increase in City Supplemental Funding Plan contribution subsidy postponed due to time weighted rates of investment returns (net of fees) exceeding 12%.

October 2008

City Council adopted a budget including a Supplement Funding Plan contribution subsidy of 2% for fiscal year 2009.

March 2009

City of Austin Police Retirement System joins the Proportional Retirement Program.

October 2009

City Council adopts a budget increasing Supplemental Funding Plan City contributions from 2% to 4% for fiscal year 2010.

September 2010

City Council replaces the original May 2005 Supplemental Funding Plan with an Amended Supplemental Funding Plan by Resolution No. 20100913-008. The Amended Supplemental Funding Plan increases the total employer contribution to the System to 14% of compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 16% of compensation effective October 1, 2011, and 18% of compensation effective October 1, 2012, and each fiscal year thereafter.

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KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

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 (COAERS) as of December 31, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended which comprise the basic financial statements of COAERS. These financial statements are the responsibility of COAERS 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 COAERS 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, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 30 through 33 and the schedules of funding progress and employer contributions on pages 54 through 55 are not a required part of the basic financial statements of COAERS, but are supplementary information required by U.S. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section on pages 1 through 28, other supplementary information on page 56, investment section on pages 57 through 70, actuarial section on pages 71 through 116, and statistical section on pages 117 through 126 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 2, 2011

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2010 and 2009

This section of the City of Austin Employees' Retirement System's (COAERS or the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2010 and 2009. 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 increased by $200.3 million, or 13.3%, in 2010, and increased by $276.8 million, or 22.4%, in 2009. All changes correlate with investment returns.
- Contributions increased by $10.2 million, or 12.1%, in 2010, and by $2.0 million, or 2.4%, in 2009. The 2010 increase was due to an $8.2 million increase in the City's supplemental funding, and increases of $0.3 million in employee and City contributions based on payroll, and $1.7 million in employee creditable service purchases. The 2009 increase was due to a $5.4 million increase in the City's supplemental funding, less decreases of $1.3 million in employee and City contributions based on payroll, and $2.1 million in employee creditable service purchases.
- The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $5.8 million, or 5.0% during 2010, and by $8.0 million, or 7.4%, during 2009. This is the result of the increases in the number of System retirees and in the average annuity payment. Benefit payments exceeded employee and City contributions by $27.7 million in 2010, and by $32.0 million in 2009.
- The System's rate of return on investments for the year ended December 31, 2010, was 15.92% gross of fees, and 15.51% net of fees, on a market value basis which is less than the return of 26.01% gross of fees, and 25.61% net of fees, for the year ended December 31, 2009. The actuarial assumed rate of return is 7.75%.
- The funding objective of COAERS is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2010, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 69.6%, which is down from the 71.8% level at December 31, 2009. Because the initial actuarial value of assets under a five year smoothing methodology was only $12 million higher than the market value of assets, a decision was made by the Board of Trustees to reset the actuarial value of assets to the market value with the smoothing methodology to resume at the next actuarial valuation. The reset of the actuarial value of assets resulted in a slight decrease in funded ratio than would otherwise have been realized. See further discussion in footnote 4.
- An Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System to 14% of compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 16% of compensation effective October 1, 2011 for fiscal year 2011-12; and 18% of compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the COAERS' 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, 2010 and 2009

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 COAERS' 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, 2010, 2009, 2008

Assets	**2010**	**2009**	**2008**
Cash and receivables	$ 15,226,146	20,502,113	11,505,776
Investments	1,704,103,736	1,507,265,750	1,234,411,659
Invested securities lending collateral	172,456,784	158,114,387	112,377,575
Capital assets, net	1,053,137	1,067,584	1,099,465
Total assets	1,892,839,803	1,686,949,834	1,359,394,475
Liabilities			
Total liabilities	181,247,574	175,669,284	124,898,276
Net assets held in trust for pension benefits	$ 1,711,592,229	1,511,280,550	1,234,496,199

Assets. As shown in the table above, COAERS' net assets increased by $200.3 million in 2010, and by $276.8 million in 2009. Changes in each year reflect investment returns in the financial markets. In 2010, decreases of $4.8 million in trades pending settlement and $1.0 million in cash were offset by a $0.5 million increase in receivables, resulting in a $5.3 million change in the net amount of cash and receivables at year end. In 2009, there was a $2.6 million decrease in the amount of cash held by the System and a $10.6 million increase in trades pending settlement, resulting in a $9.0 million change in the net amount of cash and receivables at year end. The

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2010 and 2009

increase in invested securities lending collateral of $14.3 million in 2010 reflected the net change in the number of securities on loan at year end and collateral held for loaned securities returning to market value. The increase in invested securities lending collateral of $45.7 million in 2009 reflected the net change in the number of securities on loan at year end and a recovery of the market value of the collateral held for loaned securities; this will be further discussed in footnote 3. The decrease in capital assets reflects depreciation with there being minimal additions and no retirements in 2010 and 2009.

Liabilities. Liabilities increased $5.6 million in 2010 and $50.8 million in 2009. These fluctuations were primarily due to changes in trades pending settlement and securities lending collateral. See further discussion in footnote 3.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2010, 2009, and 2008

		2010	2009	2008
Additions:				
Contributions	$	94,204,820	84,014,770	82,049,164
Investment income (depreciation)		234,521,815	314,599,270	(432,091,929)
Investment expenses		4,419,964	3,755,216	3,775,978
Net investment income (depreciation)		230,101,851	310,844,054	(435,867,907)
Other income		765	363	579
Total additions (deductions)		324,307,436	394,859,187	(353,818,164)
Deductions:				
Benefit payments and contribution refunds		121,882,744	116,043,021	108,014,690
General and administrative expenses		2,113,013	2,031,815	1,882,839
Total deductions		123,995,757	118,074,836	109,897,529
Net increase (decrease)		200,311,679	276,784,351	(463,715,693)
Net assets held in trust for pension benefits, beginning of year		1,511,280,550	1,234,496,199	1,698,211,892
Net assets held in trust for pension benefits, end of year	$	1,711,592,229	1,511,280,550	1,234,496,199

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

December 31, 2010 and 2009

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. COAERS Members' and City of Austin contributions for 2010 and 2009 totaled $94.2 million, and $84.0 million, respectively. The 2010 contributions represent an increase of $10.2 million, or approximately 12.1% above 2009; 2009 contributions represent an increase of $2.0 million, or approximately 2.4% above 2008. The increases in both 2010 and 2009 were primarily due to an increased percentage of payroll contributed under the Supplemental Funding Plans.

COAERS incurred a positive return of $230.1 million on the market value of its investments during 2010, albeit a decrease of $80.7 million from 2009. In 2009, net investment gain of $310.8 million was due to a reversal of the equity and financial markets, an increase of $746.7 million from 2008. Interest, dividends and net securities lending income generated 2010 income of $34.0 million, a slight decrease from the 2009 income of $37.0 million. Investment managers are paid based on their performance, and, accordingly, as returns were higher, so were the amounts of investment manager fees paid; in 2010, fees increased by $0.7 million, and in 2009, the increase was $0.3 million compared to 2008. The total rate of return (net of fees) for the System's investment portfolio in 2010 was 15.5%; in 2009 it was 25.6%.

Deductions. The expenses paid by COAERS include benefit payments, refunds of member contributions, and administrative expenses.

Benefits paid in 2010 were $117.7 million, an increase of $6.5 million from payments made in 2009, consistent with the increase in the number of retirees to 4,335 in 2010. Refunds to terminating employees decreased by $0.7 million. Administrative expenses in 2010 were $2.1 million, an increase of 4.0% from those of 2009.

Benefits paid in 2009 were $111.2 million, an increase of $7.5 million from payments made in 2008, consistent with the increase in the number of retirees to 4,086 in 2009 from 3,835 in 2008. Refunds to terminating employees increased by $0.6 million. Administrative expenses in 2009 were $2.0 million, an increase of 7.9% from those of 2008.

Overall Analysis. Overall, as of December 31, 2010, net assets increased by $200.3 million, or 13.3% from the prior year, and over the five-year period ending December 31, 2010, net assets increased by 17.2%.

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 Chief Financial Officer, 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, 2010

		Retirement Plan	Restoration Plan	Total
Assets				
Cash and cash equivalents (note 3)	$	1,672,893	15,000	1,687,893
Interest and dividends receivable		4,599,519		4,599,519
Trades pending settlement		6,221,092		6,221,092
Employer contributions receivable		1,358,821		1,358,821
Employee contributions receivable		1,358,821		1,358,821
Investments, at fair value (note 3):				
Domestic fixed income		449,430,480		449,430,480
Real Estate commingled fund		82,885,081		82,885,081
U.S. denominated equities		727,706,174		727,706,174
International equities		423,375,855		423,375,855
Short-term investment funds		20,706,146		20,706,146
Total investments		1,704,103,736	—	1,704,103,736
Invested securities lending collateral (note 3)		172,456,784		172,456,784
Capital assets, net (note 5)		1,053,137		1,053,137
Total assets		1,892,824,803	15,000	1,892,839,803
Liabilities				
Accrued expenses		1,055,916		1,055,916
Trades pending settlement		6,507,763		6,507,763
Securities lending transactions (note 3)		172,456,784		172,456,784
Refunds and death benefits payable		1,227,111		1,227,111
Total liabilities		181,247,574	—	181,247,574
Net assets held in trust for pension benefits	$	1,711,577,229	15,000	1,711,592,229

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Plan Net Assets

December 31, 2009

		Retirement Plan	Restoration Plan	Total
Assets				
Cash and cash equivalents (note 3)	$	2,674,086	15,000	2,689,086
Interest and dividends receivable		4,474,833		4,474,833
Trades pending settlement		10,987,950		10,987,950
Employer contributions receivable		1,175,122		1,175,122
Employee contributions receivable		1,175,122		1,175,122
Investments, at fair value (note 3):				
Domestic fixed income		423,822,239		423,822,239
Real Estate commingled fund		47,024,506		47,024,506
U.S. denominated equities		598,856,594		598,856,594
International equities		393,652,354		393,652,354
Short-term investment funds		43,910,057		43,910,057
Total investments		1,507,265,750	—	1,507,265,750
Invested securities lending collateral (note 3)		158,114,387		158,114,387
Capital assets, net (note 5)		1,067,584		1,067,584
Total assets		1,686,934,834	15,000	1,686,949,834
Liabilities				
Accrued expenses		1,040,147		1,040,147
Trades pending settlement		14,593,702		14,593,702
Securities lending transactions (note 3)		158,609,485		158,609,485
Refunds and death benefits payable		1,425,950		1,425,950
Total liabilities		175,669,284	—	175,669,284
Net assets held in trust for pension benefits	$	1,511,265,550	15,000	1,511,280,550

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2010

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 53,407,848	167,995	53,575,843
Employee contributions (note 4)	40,628,977		40,628,977
	94,036,825	167,995	94,204,820
Investment income:			
Net appreciation in plan investments	200,342,745		200,342,745
Interest	12,808,079		12,808,079
Dividends	20,739,034		20,739,034
Investment appreciation before expenses and securities lending	233,889,858	—	233,889,858
Securities Lending Activity:			
Securities lending income	631,957		631,957
Securities lending fees	(189,438)		(189,438)
Net securities lending appreciation	442,519	—	442,519
Investment expenses	(4,230,526)		(4,230,526)
Net investment appreciation	230,101,851	—	230,101,851
Other income	765		765
Total additions	324,139,441	167,995	324,307,436
Deductions:			
Retirement annuities	114,077,543	166,151	114,243,694
Contributions refunded to terminating employees	4,205,011		4,205,011
DROP disbursements	1,609,854		1,609,854
Retiree lump-sum annuity	401,276	1,844	403,120
Death benefits	1,421,065		1,421,065
General and administrative expenses	2,113,013		2,113,013
Total deductions	123,827,762	167,995	123,995,757
Net increase	200,311,679	—	200,311,679
Net assets held in trust for pension benefits, beginning of year	1,511,265,550	15,000	1,511,280,550
Net assets held in trust for pension benefits, end of year	$ 1,711,577,229	15,000	1,711,592,229

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Plan Net Assets

Year ended December 31, 2009

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 45,045,204	217,783	45,262,987
Employee contributions (note 4)	38,751,783		38,751,783
	83,796,987	217,783	84,014,770
Investment income:			
Net appreciation in plan investments	277,379,926		277,379,926
Interest	13,469,469		13,469,469
Dividends	18,679,954		18,679,954
Investment appreciation before expenses and securities lending	309,529,349	—	309,529,349
Securities Lending Activity:			
Securities lending income	930,780		930,780
Securities lending collateral unrealized gain	4,139,141		4,139,141
Securities lending fees	(240,299)		(240,299)
Net securities lending appreciation	4,829,622	—	4,829,622
Investment expenses	(3,514,917)		(3,514,917)
Net investment appreciation	310,844,054	—	310,844,054
Other income	363		363
Total additions	394,641,404	217,783	394,859,187
Deductions:			
Retirement annuities	105,991,585	156,418	106,148,003
Contributions refunded to terminating employees	4,857,618		4,857,618
DROP disbursements	1,531,739		1,531,739
Retiree lump-sum annuity	1,502,094	61,365	1,563,459
Death benefits	1,942,202		1,942,202
General and administrative expenses	2,031,815		2,031,815
Total deductions	117,857,053	217,783	118,074,836
Net increase	276,784,351	—	276,784,351
Net assets held in trust for pension benefits, beginning of year	1,234,481,199	15,000	1,234,496,199
Net assets held in trust for pension benefits, end of year	$ 1,511,265,550	15,000	1,511,280,550

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(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, 2010, 2009, and 2008, membership consisted of the following:

	2010	2009	2008
Retirees and beneficiaries currently receiving benefits	4,335	4,086	3,835
Terminated members entitled to but not yet receiving benefits	941	975	870
Accounts held for terminated members *	1,776	1,738	1,559
Current employees	8,270	8,142	8,643
Total	15,322	14,941	14,907

** Includes 150 proportional members of PSEM and CCSD*

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 COAERS Supplemental Funding Plan and beginning in October 2006, the City contributed an additional 4% subsidy for their 2010 fiscal year ending September 30, 2010. An Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the supplemental contribution to the Plan to 6% of compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 8% of compensation effective

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CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

October 1, 2011 for fiscal year 2011-12; and 10% of compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

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 6% subsidy, as described above, for its fourteen 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
2010	$	119,260	119,260
2009		98,590	98,590
2008		72,059	72,059

The System participates in the Proportionate Retirement Program through which a member of the System may meet requirements for service retirement eligibility by combining COAERS membership service with service credit from the following participating entities: City of Austin Police Retirement System, The El Paso City Employees' Pension Fund and 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, or any other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program. A limited proportionate service arrangement was established in 2007 between COAERS 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, 2010 and 2009, for this Restoration Plan. Net assets remaining in this plan as of December 31, 2010 and 2009, were $15,000.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

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

	Annual pension cost	Contributions made
2010	$ 167,995	167,995
2009	217,783	217,783
2008	124,445	124,445

At December 31, 2010, 2009 and 2008, membership in the Restoration Plan included the following:

	2010	2009	2008
Retirees and beneficiaries currently receiving benefits	11	10	9
Terminated members entitled to but not yet receiving benefits	-	-	-
Current employees	-	-	-
Total	11	10	9

Other Information

The System is required by Art.6243n, Vernon's Texas Civil Statutes, to maintain two 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 "Fund 3"; this third fund is maintained to account for accumulated contributions by the employer for the Internal Revenue Code Section 415 Restoration Plan as adopted by Board Resolution on November 23, 1999. At December 31, 2010, the balances of Fund 1, Fund 2, and Fund 3 were $394,263,555, $1,317,313,674 and $15,000, respectively. At December 31, 2009, the balances of Fund 1, Fund 2, and Fund 3 were $371,514,579, $1,139,750,971, 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. The System has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, which specifies that in addition to adopting all applicable GASB pronouncements, the System has adopted Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2010 and 2009, the book balances of the money market checking accounts totaled $0 and $0, respectively, and demand deposit accounts totaled $1,687,593 and $2,688,786, 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-end investment fund, includes properties that are valued monthly; all properties within this fund are appraised externally by nationally recognized appraisers. A portfolio allocation has been 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 unitized with the value of the units determined by the fair market value of the entire pool. The System also has a Northern Trust Investments Inc. (the Trustee) collective aggregate bond index 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 the Trustee.

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.

While limited liquidity restrictions were imposed in the fourth quarter of 2008 by Principal Life Insurance Company for the Principal US Property Account (Principal Life), and by the Trustee for the NT Collective Aggregate Bond Index Fund-Lending, COAERS' daily operations were never affected.

In September 2010, the Trustee discontinued their semi-monthly withdrawal program and returned to accepting requests for funds on a daily basis. By December 31, 2010, Principal Life had completely fulfilled payments to investors who had been subject to the Withdrawal Limitation imposed in 2008; in early 2011, Principal Life announced that the US Property Account had returned to full daily liquidity.

(d) Contributions Receivable

The employee and City contributions for the years ended December 31, 2010 and 2009 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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(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 (GAAP) 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.

(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 Investments Inc. as custodian of the assets of the System. The following summary of total investments by type as of December 31, 2010 and 2009, presents the System's investment mixes.

		2010	2009
Summary of investments by type:			
Asset-backed securities	$	744,707	842,563
Commercial mortgage-backed securities		16,156,984	15,836,010
Corporate bonds		114,269,060	95,548,278
US denominated equities		727,706,174	598,856,594
Government agencies		11,371,645	8,404,321
Government bonds		34,157,673	38,147,419
Government mortgage-backed securities		79,718,262	77,111,446
International equities		423,375,855	393,652,354
Nongovernment-backed CMOs		2,651,512	6,475,432
Other fixed income:			
NT Collective Aggregate Bond Index Fund - Lending		190,360,637	181,393,690
NT Securities Lending - Core USA Fund		-	63,080
Real Estate commingled fund		82,885,081	47,024,506
Short-term investment funds		20,706,146	43,910,057
Investments at fair value on balance sheet		1,704,103,736	1,507,265,750
Receivables and pending trades, net		4,312,848	869,081
Total investments (per investment consultant)	$	1,708,416,584	1,508,134,831

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

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 US government, treasury and agency securities, repurchase agreements, and pledged securities held as collateral.

As of December 31, 2010 and 2009, the System's operating bank balances of $1,687,593 and $2,688,786, 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 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, 2010 and 2009, 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 were invested in a short-term fixed income portfolio, Northern Trust Core USA Fund, which 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 COAERS 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 was 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. In response to the positive turn taken by the financial markets in 2009, Northern announced in November 2009 that the amount of the collateral deficiency allocated to COAERS would be reduced to $495,098; by March 2010, the amount was fully recovered. Having expensed the full amount estimated at December 31, 2008, COAERS was able to recognize a securities lending gain of $4,139,141 at December 31, 2009.

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, 2010:

(a) Fixed Income Investments

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

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 US 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;
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

Domestic equity investments may be no less than twenty-two and one-half percent (22.5%) and no more than forty-two and one-half percent (42.5%) 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.

(c) International Equity Investments

International equity investments should total no less than twenty-seven and one-half percent (27.5%) and no more than thirty-seven and one-half percent (37.5%) of total value of the System's investments at fair value. 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.

(d) Real Estate Open-End Commingled Fund

While not exposed to concentration of credit risk, total investments in real estate open-end 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(e) Other Investment Information

As of December 31, 2010 and 2009, 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 (5%) or more of net assets available for benefits.

As of December 31, 2010 and 2009, the following was the composition of the System's portfolio:

	2010	2009
Asset-backed securities	0.04%	0.06%
Commercial mortgage-backed securities	0.95%	1.05%
Corporate bonds	6.71%	6.34%
U.S. denominated equities	42.70%	39.73%
Government agencies	0.67%	0.56%
Government bonds	2.00%	2.53%
Government mortgage-backed securities	4.68%	5.11%
International equities	24.84%	26.12%
Nongovernment-backed CMOs	0.16%	0.43%
Other fixed income:		
NT Collective Aggregate Bond Index Fund - Lending	11.17%	12.03%
NT Securities Lending - Core USA Fund	-	0.01%
Real Estate commingled fund	4.86%	3.12%
Short-term investment funds	1.22%	2.91%
	100.00%	100.00%

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Absent a formal statement regarding interest rate risk, 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, 2010, 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	$ 744,707	-	-	-	744,707
Commercial mortgage-backed securities	16,156,984	-	-	-	16,156,984
Corporate bonds	114,269,060	536,897	59,673,198	36,149,258	17,909,707
Government agencies	11,371,645	-	4,344,819	7,026,826	-
Government bonds	34,157,673	-	27,642,812	5,325,383	1,189,478
Government mortgage-backed securities	79,718,262	-	-	11,321,258	68,397,004
Nongovernment-backed CMOs	2,651,512	-	-	-	2,651,512
Other fixed income:					
NT Collective Aggr Bond Index Fund	190,360,637	1,408,669	85,376,746	78,866,412	24,708,810
	$ 449,430,480	1,945,566	177,037,575	138,689,137	131,758,202

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

As of December 31, 2009, 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	$ 842,563	-	-	-	842,563
Commercial mortgage-backed securities	15,836,010	-	-	-	15,836,010
Corporate bonds	95,548,278	744,710	51,947,920	30,728,873	12,126,775
Government agencies	8,404,321	-	-	8,404,321	-
Government bonds	38,147,419	-	-	28,650,049	9,497,370
Government mortgage-backed securities	77,111,446	398	-	10,148,691	66,962,357
Nongovernment-backed CMOs	6,475,432	-	-	-	6,475,432
Other fixed income:					
NT Collective Aggr Bond Index Fund	181,456,770	1,397,217	85,230,244	68,989,864	25,839,445
	$ 423,822,239	2,142,325	137,178,164	146,921,798	137,579,952

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 US 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, 2010 and 2009

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2010, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset-backed securities	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Nongovt-backed CMOs	NT Collective Aggregate Bond Index Fund
AAA	$ 251,108,079	24,041	11,562,083	-	90,662,232	200,756	148,658,967
AA	24,239,958	-	-	15,914,853	-	-	8,325,105
A	76,376,610	-	3,911,308	53,384,821	-	-	19,080,481
BBB	61,222,042	720,666	683,593	44,332,552	427,675	799,544	14,258,012
BB	944,151	-	-	636,834	-	269,245	38,072
CCC	1,281,921	-	-	-	-	1,281,921	-
CC	100,046	-	-	-	-	100,046	-
Total credit risk of debt securities	$ 415,272,807	744,707	16,156,984	114,269,060	91,089,907	2,651,512	190,360,637
US govt & agencies*	34,157,673						
	$ 449,430,480						

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2009, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset-backed securities	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Nongovt-backed CMOs	NT Collective Aggregate Bond Index Fund	Northern Trust SecLndg - Core USA Fund
AAA	$ 241,328,462	32,255	12,079,120	-	85,111,316	804,756	143,301,015	-
AA	18,445,089	-	-	11,951,195	-	-	6,493,894	-
A	65,409,975	-	3,264,712	43,773,274	-	641,163	17,667,746	63,080
BAA	13,931,035						13,931,035	
BBB	44,706,689	810,308	492,178	39,823,809	404,451	3,175,943	-	-
BB	243,425	-	-	-	-	243,425	-	-
CCC	1,512,291					1,512,291		
CC	97,854	-	-	-	-	97,854	-	-
Total credit risk of debt securities	$ 385,674,820	842,563	15,836,010	95,548,278	85,515,767	6,475,432	181,393,690	63,080
US govt & agencies*	38,147,419							
	$ 423,822,239							

* Obligations of the US government or obligations explicitly guaranteed by the US 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, 2010 and 2009

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, 2010, and December 31, 2009:

Currency		2010 Fair value	2009 Fair value
British Pound Sterling	$	132,130,261	74,468,136
Japanese Yen		92,960,864	100,062,646
EURO Currency		75,605,776	84,292,807
Hong Kong Dollar		28,551,962	34,143,961
Swiss Franc		24,646,561	39,155,711
Australian Dollar		21,124,635	14,613,335
Singapore Dollar		20,910,529	21,591,731
Canadian Dollar		10,804,975	8,707,350
Danish Krone		3,510,266	3,508,045
New Zealand Dollar		3,488,762	3,408,286
Swedish Krona		3,465,568	2,839,033
South African Rand		3,328,158	3,105,121
Malaysian Ringgit		1,222,157	1,364,006
Hungarian Forint		910,538	1,195,802
Norwegian Krone		714,843	749,628
Mexican Peso		-	446,756
Total securities subject to foreign currency risk	$	423,375,855	393,652,354

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 US dollars at an agreed rate. At December 31, 2010 and 2009, the System held no foreign currency options.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

Securities Lending

The System is authorized under its Investment Policy to participate in securities lending programs through Northern Trust Investments Inc. 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, US 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, 2010 and 2009, 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 2010 and 2009.

As of December 31, 2010 and 2009, the System owned the following securities that were in possession of a borrowing financial institution:

	2010		2009	
	Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
US agencies	$ -	-	8,055,107	8,259,042
Corporate bonds	9,991,639	10,177,401	11,394,522	11,655,740
Corporate stocks	104,327,374	107,144,543	87,714,006	90,008,233
International stocks	25,919,176	27,169,370	37,875,341	39,639,438
US govt securities	27,525,645	27,965,470	8,876,461	9,047,032
Total	$ 167,763,834	172,456,784	153,915,437	158,609,485

Cash collateral received from borrowers of securities is invested in accordance with COAERS' securities lending agreement. As of December 31, 2010 and 2009, cash collateral was invested in the following categories:

Investment Category	2010	2009
Cash and other liquid assets	$ 17,832,031	59,273,122
Asset-backed securities	15,193,443	18,493,265
Commercial paper	14,089,719	8,476,863
Repurchase agreements	46,615,069	19,695,342
Certificates of deposit	37,974,984	43,763,996
US govt & agencies	33,939,495	4,435,559
Domestic corporate fixed-income securities	6,812,043	-
Mortgage-backed securities	-	3,976,240
Total	172,456,784	158,114,387
Securities lending collateral unrealized loss	-	495,098
Cash collateral received	$ 172,456,784	158,609,485

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(4) Contributions Required and Contributions Made

As of December 31, 2010 and 2009, 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.

In March 2011, the COAERS Board of Directors approved resetting the actuarial value of assets, "mark-to-market", where all prior deferred gains and losses under the five-year smoothing methodology were recognized in the December 31, 2010 valuation; the result was a slight decrease in the funding ratio. The five-year smoothing methodology will resume with the next actuarial valuation.

The latest actuarial valuation was as of December 31, 2010; in this valuation, the Plan had an unfunded actuarial accrued liability of $749,087,565. At December 31, 2010 and 2009, employer and employee contributions totaling $94,204,820 and $84,014,770, respectively, were required by the Plan and paid into the System. 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, 2010; 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 provided for an initial 1% contribution from the City beginning in October 2006, and increased 1% each year until reaching a cap of 4%. This additional funding would continue as long as necessary and in an amount necessary up to 4% to sustain a 30-year funding period. While compliance with the SFP continued into 2010, the negative impact of 2008 capital markets on the Plan rendered the effect of SFP, the contributions of which had reached the 4% maximum, inadequate to achieve the System's funding goal.

An Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System to 14% of compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 16% of compensation effective October 1, 2011 for fiscal year 2011-12; and 18% of compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(5) Capital Assets

The following summarizes the capital asset account balances as of December 31, 2010, and December 31, 2009, and changes to the accounts during the years then ended:

		Balance December 31, 2008	Additions	Balance December 31, 2009	Additions	Balance December 31, 2010
Capital assets not being depreciated:						
Land	$	**249,964**	-	**249,964**	-	**249,964**
Capital assets being depreciated:						
Building		1,184,560	-	1,184,560	14,365	1,198,925
Furniture and fixtures		544,755	15,510	560,265	40,181	600,446
Total capital assets being depreciated		**1,729,315**	**15,510**	**1,744,825**	**54,546**	**1,799,371**
Less accumulated depreciation:						
Building		370,840	26,788	397,628	42,322	439,950
Furniture and fixtures		508,974	20,603	529,577	26,671	556,248
Total accumulated depreciation		**879,814**	**47,391**	**927,205**	**68,993**	**996,198**
Total capital assets, net of accumulated depreciation	$	**1,099,465**	**(31,881)**	**1,067,584**	**(14,447)**	**1,053,137**

(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. COAERS 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 $1,762,500 with contents coverage of $619,400. 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(8) Health Plan for Retired COAERS Employees

Plan Description: The City of Austin Employees' Retirement System (COAERS) 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. COAERS, as the employer, has fewer than twenty current and potential plan members. COAERS does not participate in plan design or administration, and is subject to the terms and conditions set by the City. Both COAERS and the two members currently participating in the plan, pay monthly premiums based on the City's assumptions and actuarial data. COAERS' contributions for fiscal year 2010 and 2009 were approximately $8,150 and $3,090, respectively. In addition, the Plan members receiving benefits contributed approximately $240 per month in 2010, and in 2009, for individual coverage; dependent coverage paid by the members was approximately $680 for per month in 2010, and in 2009.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2010 and 2009

(9) Funded Status of the Plan

The following table illustrates the funding status of the Plan as of the most recent valuation date, December 31, 2010 (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)
12/31/2010	1,711.60	2,460.70	749.1	69.6%	438.9	170.7%

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, 2010, 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 COAERS are less than the amount necessary to produce a thirty-year funding period, the ARC was determined with the maximum thirty-year period.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2010 and 2009

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, 2005 through 2010

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)
12/31/2005	$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%
12/31/2009	$1,672.5	$2,330.9	$658.5	71.8%	$422.5	155.8%
12/31/2010	$1,711.6	$2,460.7	$749.1	69.6%	$438.9	170.7%

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2005 through 2010

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
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%
2009	$78,184,719	$45,106,569	57.7%
2010	$74,172,819	$53,407,848	72.0%

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 4.5% subsidy (prorated for 10/2010 increase from 4% to 6%)) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2010 this percentage is 12.5%/17.36%=72.00%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed, $53,407,848/72.0%, which produces a 2010 ARC of approximately $74,172,819.

See accompanying independent auditors' report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2010 and 2009

(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 recently negotiated an Amended 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. Significant actuarial assumptions employed by the actuary as of December 31, 2010, 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 COAERS 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

		2010	2009
Custodial Fees			
Northern Trust Investments, Inc.	$	**121,935**	**158,250**
Investment Manager Fees			
1607 Capital Partners		114,684	-
Agincourt Capital Management LLC		318,165	113,868
AllianceBernstein LP		-	54,263
AQR Capital Management LLC		228,273	146,478
Aronson + Johnson + Ortiz LP		193,271	368,219
Columbus Circle Investors		330,021	114,137
INTECH Investment Management LLC		322,808	158,091
Mondrian Investment Partners LTD		657,532	473,363
NTGI QM Aggregate Bond Index Fund		62,523	68,598
Pzena Investment Management LLC		283,920	215,303
Sprucegrove Investment Mgmt LTD		675,073	637,651
Wall Street Associates LLC		91,111	122,395
Prior-year accrual-to-actual variance		(33,478)	8,021
		3,933,591	3,181,667
Investment Manager Fees			
Summit Strategies Group		**175,000**	**175,000**
Total	$	**4,230,526**	**3,514,917**

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

General & Administrative Expenses

		2010	2009
Actuary	$	69,003	72,942
Attorney		20,497	11,525
Auditing		72,775	81,150
Banking Services		14,786	19,250
Computer Services		125,621	112,010
Consultants		9,305	4,724
Administrative		1,550,628	1,493,644
Depreciation		68,994	47,390
Insurance		124,275	126,765
Member Communications		13,580	17,659
Continuing Education & Site Visits		43,549	44,756
Total	$	**2,113,013**	**2,031,815**

Consultant Expenses

		2010	2009
Actuary			
Gabriel Roeder Smith & Co	$	**69,003**	**72,942**
Attorney			
Strasburger & Price LLP		20,497	11,525
		20,497	**11,525**
Auditing			
KPMG LLP		40,200	45,150
Padgett Stratemann & Co LLP		32,575	36,000
		72,775	**81,150**
Banking Services			
JPMorgan Chase		13,589	18,352
National Payment Corporation		1,197	898
		14,786	**19,250**
Computer Services			
Austin Web Design		2,208	2,392
Levi Ray & Shoup		82,260	83,736
Riata Technologies Inc		32,253	15,774
Other		8,900	10,108
		125,621	**112,010**
Other Consultants			
Robert A. Dennison MD		6,270	2,700
Waters Consulting Group		285	-
Martin Associates Architects		2,550	1,774
Other		200	250
		9,305	**4,724**
Total	$	**311,987**	**301,601**

See accompanying independent auditors' report.

coaers

City of Austin Employees' Retirement System

April 15, 2011

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, 2010. 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

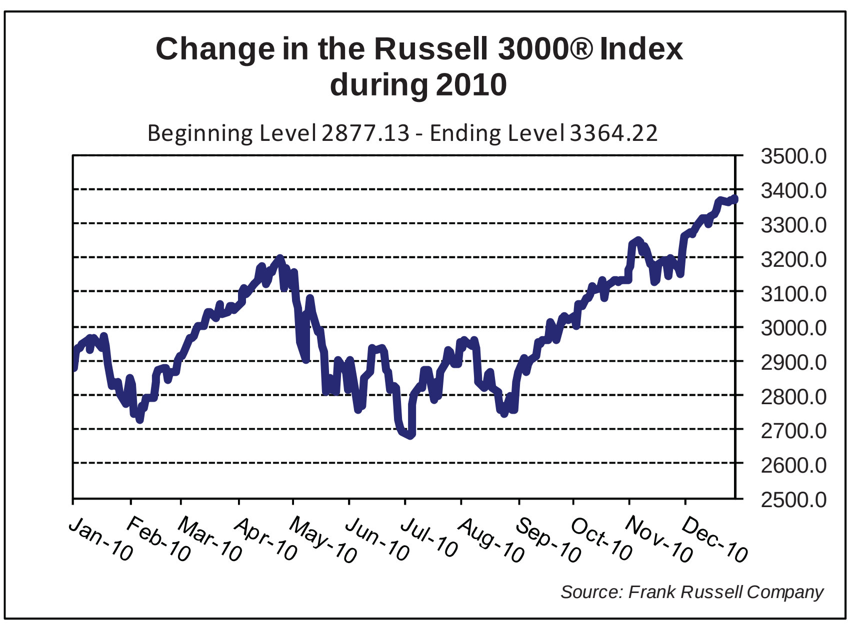
Double Dip versus Quantitative Easing

For most of 2010 the sustainability of the recovery that had mostly been engineered by the world's central banks in 2009 was debated. The oft-used phrase "double-dip recession" was the term that described the primary concern. Through April, the global economic recovery, though weak and uneven, appeared to be on track. In May, however, concerns of European sovereign debt defaults sparked fears of a second stage of the 2008 financial crisis and made a double-dip recession seem inevitable. Throughout the summer, fears of renewed economic weakness persisted. In early September the US Federal Reserve Bank announced a second round of central bank initiatives to buttress the economy known as "QE2". This second round of quantitative easing involved the purchase of $600 billion of US Treasury bonds by the Fed to flood the capital markets with liquidity and support asset prices. Capital markets rose on renewed confidence following "QE2" and gained additional momentum towards year end as the White House and Congress renewed tax cuts that were set to expire. The global economic recovery, though still tenuous, remained intact.

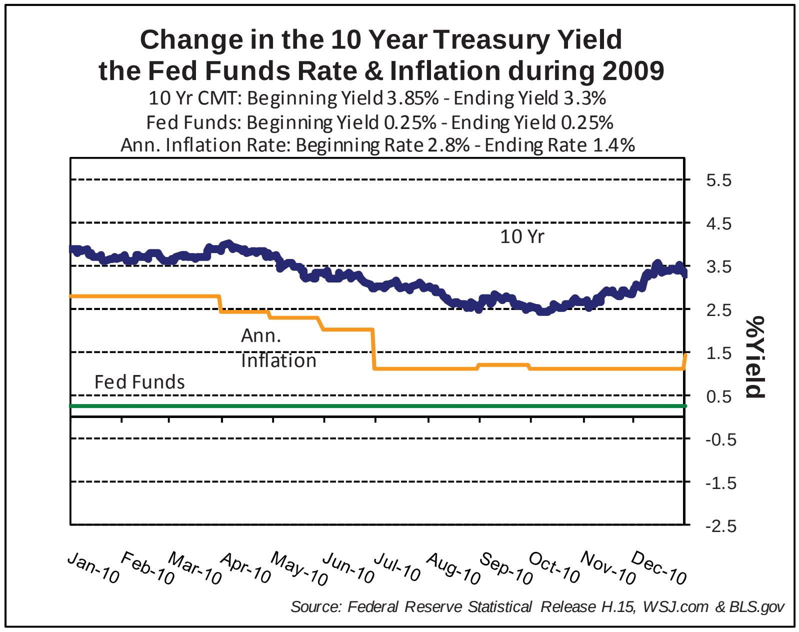
CAPITAL MARKETS

U.S. Stock Market

The chart to the right of the Russell 3000 stock index shows how the US stock market reacted to the events of this past year. The market began confidently until the European debt crisis surfaced. Fears persisted throughout the summer until "QE2" was announced after which the market climbed through the end of the year with renewed strength late in the year with the tax cut agreement.



Interest Rates



During 2010, interest rates remained fairly calm. A tame inflation environment and a still elevated unemployment rate allowed the Federal Reserve to maintain the very low interest rate regime originally implemented during the financial crisis of 2008. For a second consecutive year the Fed Funds rate remained unchanged at the 0 to 0.25% target established by the Federal Reserve. The inflation rate declined into the early summer months as energy prices declined, though this trend would not last. Treasury yields began to drift lower during the summer months as the economic recovery appeared to be at risk but yields began to rise in the fourth quarter as Federal Reserve resolve evidenced by "QE2" provided confidence that the economic recovery would continue. Beyond US Treasury securities, other sectors of the fixed income market, particularly corporate bonds, experienced lower yields and higher prices.

INVESTMENT PERFORMANCE

Investment Returns Through December 2010

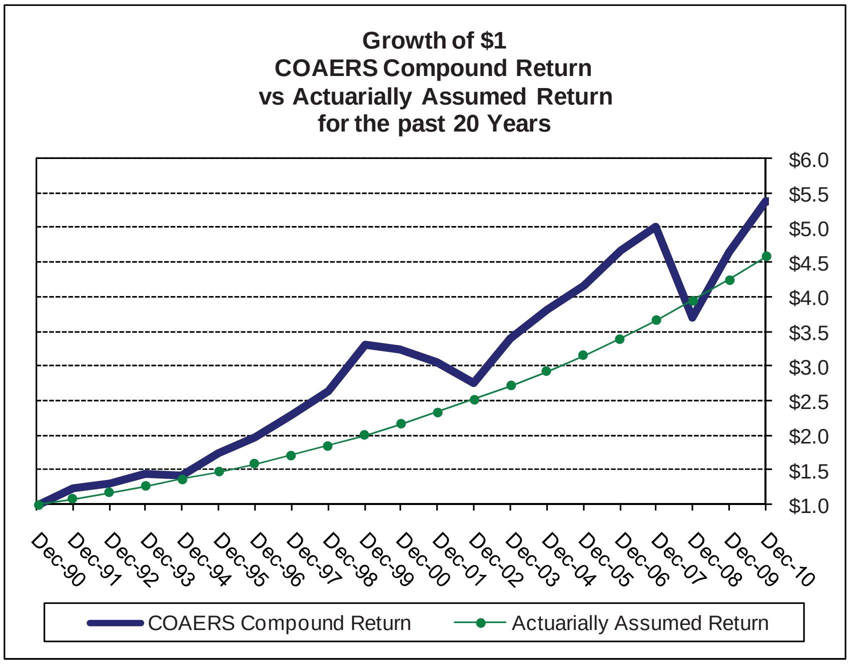
US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	0.13%	0.79%	2.39%
Barclays Capital Aggregate Bond Index	Core Bonds	6.54%	5.90%	5.80%
Barclays Capital Corporate Bond Index	Corporate Bonds	9.00%	7.14%	6.05%
Barclays Capital High Yield Bond Index	High Yield Bonds	15.12%	10.38%	8.92%
City of Austin Employees' Retirement System	**Domestic Fixed Income**	**7.40%**	**6.28%**	**6.08%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	16.93%	(2.01%)	2.74%
Russell 1000® Index	Large Cap Equity	16.10%	(2.37%)	2.59%
Russell 1000® Growth Index	Large Cap Growth	16.71%	(0.47%)	3.75%
Russell 1000® Value Index	Large Cap Value	15.51%	(4.42%)	1.28%
Russell 2500™ Index	Mid Cap Equity	26.71%	2.48%	4.86%
Russell 2000® Index	Small Cap Equity	26.85%	2.22%	4.47%
City of Austin Employees' Retirement System	**Broad US Equity**	**18.20%**	**(1.31%)**	**2.83%**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	11.60%	(4.58%)	5.29%
MSCI EAFE	Developed Non-US Equity	8.21%	(6.55%)	2.94%
MSCI Emerging Mkts.	Emerging Non-US Equity	19.20%	(0.03%)	13.11%
City of Austin Employees' Retirement System	**International Equity**	**20.98%**	**2.13%**	**7.75%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	13.11%	(4.18%)	3.51%
City of Austin Employees' Retirement System	**Real Estate**	**17.26%**	**(10.69%)**	**(0.98%)**
Policy Weighted Benchmark Index	Multiple	12.93%	0.33%	4.26%
City of Austin Employees' Retirement System	**Total Fund**	**15.92%**	**2.74%**	**5.63%**

Source: Summit Strategies Group

Stocks and Bonds Perform Well

Capital markets produced solid returns during 2010 and the System's portfolio fully participated in the gains as shown in the table above. U.S. equities had a very good year with small cap stocks producing exceptionally strong investment returns. International equities, particularly Euro denominated issues, were held back by the decline in the Euro due to the sovereign debt crisis. The System's international equity managers were, however, particularly adept at avoiding the Euro issue resulting in strong returns for the System's international equity allocation. The hard-hit real estate sector also experienced a nice recovery in 2010.

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 (currently 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. 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 dependent upon future growth in the global economy.

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 Fund's asset allocation is shown below.

Asset Allocation				
ASSET CLASS	Min	12/31/10	Target	Max
CASH	0.00%	0.02%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	31.49%	35.00%	43.00%
FIXED INCOME	27.00%	26.64%	30.00%	33.00%
REAL ESTATE	0.00%	4.85%	5.00%	10.00%
COMMON STOCKS	60.00%	68.49%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	22.75%	22.75%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	10.05%	9.75%	14.75%
INTERNATIONAL	27.50%	35.69%	32.50%	37.50%

At the end of the year due to the strong performance of the US and International stock portions of the portfolio, the fixed income portion of the portfolio dipped below its minimum strategic allocation thereby triggering the need to rebalance. Early in 2011, in keeping with Fund's rebalancing policy, equities were decreased and fixed income and real estate were increased to move the portfolio back within policy ranges. A disciplined rebalancing process is necessary to maintain diversification and achieve proper portfolio risk control.

RECENT EVENTS AND OUTLOOK

Looking Ahead

As we look forward, global economic growth following the 2008 recession, though comparatively weak by historic standards, is still progressing. Notable areas of weakness include the stubbornly high unemployment rate and the still depressed housing sector. Countering these weak spots in the economy have been corporate profitability, consumer spending and manufacturing. Corporations cut costs dramatically as the recession began and have kept expenses in check even as revenues have begun to rebound resulting in robust profits. Despite persistently high unemployment, the consumer sector has exhibited surprising resilience. Manufacturing benefited from inventory restocking early in the recovery and has maintained momentum aided by export growth and the weaker dollar.

The low interest rate policy of the Federal Reserve, designed to support the economy by raising the value of financial assets, has significantly reduced the value of the US dollar. While the weaker US dollar may raise the value of financial assets and aid exporters by lowering the cost of our goods to foreign buyers, it is beginning to create real hardships here at home. The dollar's value has declined substantially relative to major foreign currencies and relative to commodities, most notably food and energy. The official inflation statistics may show a tame inflation picture but the impact on consumers is more difficult. Consumers are feeling more inflation because the prices of items they must buy such as groceries and gasoline are going up while the prices of discretionary items such as electronics, clothes, etc. decline or remain unchanged. This commodity led inflation due to the lower dollar is different than the inflation of the 1970's in that with the current high rate of unemployment wages are not going up along with the prices of necessities.

The beginning of the second decade of this century holds major challenges for policy makers and the global economy. With government deficits in the spotlight, it is unlikely that there will be any appetite for additional government spending to stimulate the economy. The economies of the world's developed nations will have to become self-supportive as governmental measures recede. With this change it is likely that markets may experience elevated volatility. Nonetheless we believe 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

Summit Strategies Group

January 1, 2011

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

After the COAERS investment portfolio experienced a strong return in 2009 (up 26.0%), this past year the portfolio continued strong performance posting a gain of 15.9% gross of fees for the fiscal year ending December 31, 2010. The portfolio increased from a beginning value of $1.51 billion to its current value of $1.71 billion as a result of investment appreciation of $236 million, which added to net outflows of $35 million. The S&P 500 posted a 15.1% return as capital markets rebounded in recognition of continued economic improvement.

As detailed earlier, the COAERS investment portfolio rose 15.9% for the year ending December 31, 2010. This led the fund's Policy and Passive Benchmarks and the Median Public Fund in the Mellon sample. Specifically, the investment portfolio beat its Policy Benchmark return by 3.0%, the Passive Benchmark return by 3.8% and the Median Public Fund return by 3.2%, ranking in the 9th percentile. The outperformance versus Policy is largely attributable to COAERS' portfolio asset allocation, structure, and active equity managers beating their benchmarks. The outperformance versus peers is twofold, COAERS had a higher international equity weighting where the allocation and manager value added resulted in performance that beat the domestic equity portfolio and the active management in the domestic portfolio lead to performance above peers. Real estate, a weakness in 2009, returned to positive returns in 2010 and COAERS' manager performed well versus peers and the index. Longer-term results are positive and good on a relative basis. For the 10-year period, the fund returned 5.4% annualized. In this case, the return exceeded the Policy Benchmark and more than 78% of the public funds in our sample. All rates of return were calculated using a time-weighted rate of return and are gross of fees.

In fiscal year 2010, the funding to 1607 Capital Partners in international equities was completed; finishing the efforts to reduce the risk profile of the fund by diversifying the international allocation and a review process was begun on a manager not meeting Board expectations. The Board continued education and implementation of new investment themes as recommended in an earlier asset/liability study and discussed revisiting this topic after incorporating the new benefit structure. This exploration includes real estate, active fixed income, private equity, and alternative strategies.

The results for the past year achieved and exceeded the fund's actuarial assumption for long-term investment results. 2010 investment markets started off well, only to stumble in the second quarter, when Europe experienced significant uncertainty. Once the Fed's intention regarding a second round of quantitative easing was clear, equity markets took off in the second half of the year. After surviving the market turmoil of 2008 and a strong 2009, 2010 turned out to be a good year helping to put the System on stronger footing. The headwinds facing the economy continue to be many; high unemployment, significant federal debt, uncertain global economic growth, and continued and increasing global conflicts. The long-term results are positive and the hard work of the Board and staff over the past few years positioned the fund to capture the strong markets of 2010 for the benefit of the System and its members. 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 COAERS experience and look forward to continued service and success. Thank you.

Sincerely,

Eric J. Ralph, CFA
Senior Vice President

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. 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. The Statement of Investment Policy 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.

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. Quantitative 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 COAERS 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.
- 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
12/31/2010

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2010 VALUE	% OF FUND	ASSET ALLOCATION * TARGET %	ASSET ALLOCATION * TARGET AMOUNT	VARIANCE FROM TARGET AMOUNT	VARIANCE FROM TARGET %
Common Stocks	**$ 1,170,163,819**	**68.49%**	**65.00%**	**1,110,470,779**	**59,693,040**	**3.49%**
Domestic Large Cap Equities	388,765,862	22.75%	22.75%	388,664,773	101,089	
Domestic Non-Large Cap Equities	171,711,133	10.05%	9.75%	166,570,616	5,140,517	
International Equities	609,686,824	35.69%	32.50%	555,235,390	54,451,434	
Subtotal for Rebalancing	**$ 538,252,765**	**31.51%**	**35.00%**	**597,945,805**	**(59,693,040)**	**-3.49%**
Fixed Income	455,067,577	26.64%	30.00%	512,524,976	(57,457,399)	
Real Estate	82,885,081	4.85%	5.00%	85,420,829	(2,535,748)	
Cash	300,107	0.02%	0.00%	-	300,107	
TOTAL	**1,708,416,584**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**388,765,862**	**22.75%**	**22.75%**	**388,664,773**	**101,089**
INTECH INVESTMENT MANAGEMENT LLC (enhanced-index)	194,866,529	11.40%	11.3750%	194,332,387	534,142
ALLIANCEBERNSTEIN LP (large cap - growth)	99,272,683	5.81%	5.6875%	97,166,193	2,106,490
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	94,626,650	5.54%	5.6875%	97,166,193	(2,539,543)
US EQUITIES (Non-Large)	**171,711,133**	**10.05%**	**9.75%**	**166,570,616**	**5,140,517**
COLUMBUS CIRCLE INVESTORS (small cap - growth)	48,062,796	2.81%	2.4375%	41,642,654	6,420,142
AQR CAPITAL MGMT LLC (small cap - value)	39,681,838	2.32%	2.4375%	41,642,654	(1,960,816)
WALL STREET ASSOCIATES LLC (mid cap - growth)	46,121,739	2.70%	2.4375%	41,642,654	4,479,085
PZENA INVESTMENT MGMT LLC (mid cap -value)	37,844,760	2.22%	2.4375%	41,642,654	(3,797,894)
INTERNATIONAL EQUITIES	**609,686,824**	**35.69%**	**32.50%**	**555,235,390**	**54,451,434**
WALTER SCOTT & PARTNERS LTD (intl - growth)	144,452,092	8.46%	8.000%	136,673,327	7,778,765
SPRUCEGROVE INVESTMENT MGMT LTD (intl - value)	148,126,542	8.67%	8.000%	136,673,327	11,453,215
1607 CAPITAL PARTNERS (intl - non-correlated)	87,718,635	5.13%	5.000%	85,420,829	2,297,806
MONDRIAN INVESTMENT PARTNERS LTD (intl - small cap)	100,316,887	5.87%	5.000%	85,420,829	14,896,058
CITY OF LONDON INVESTMENT GROUP PLC (emerging markets)	63,689,039	3.73%	3.250%	55,523,539	8,165,500
DIMENSIONAL FUND ADVISORS (emerging markets)	65,383,629	3.83%	3.250%	55,523,539	9,860,090
DOMESTIC FIXED INCOME	**455,067,577**	**26.64%**	**30.00%**	**512,524,976**	**(57,457,399)**
AGINCOURT CAPITAL MGMT LLC	264,706,911	15.50%	15.00%	256,262,488	8,444,423
NT COLLECTIVE AGGREGATE BOND INDEX FUND - LENDING	190,360,666	11.14%	15.00%	256,262,488	(65,901,822)
REAL ESTATE	**82,885,081**	**4.85%**	**5.00%**	**85,420,829**	**(2,535,748)**
PRINCIPAL GLOBAL INVESTORS LLC	82,885,081	4.85%	5.00%	85,420,829	(2,535,748)
CASH	**300,107**	**0.02%**	**0.00%**	**0**	**300,107**
CASH	300,107	0.02%	0.00%	-	300,107
TOTAL	**$ 1,708,416,584**	**100.00%**			

Reconciliation to Statement of Plan Net Assets:

Interest and dividends receivable	**$**	**4,599,519**
Trades pending settlement - purchases		**6,221,092**
Total investments		**1,704,103,736**
Trades pending settlement - sales		**(6,507,763)**
	$	**1,708,416,584**

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/09	Balance 12/31/10	2010 Gross Return (%)	2010 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2010	3 Years	5 Years
FIXED INCOME GROUP	**$438,229,910**	**$455,067,577**	**7.4 %**	**$306,063**	**7.3 %**	**6.2 %**	**6.0 %**
Agincourt Capital Mgmt LLC	$256,836,192	$264,706,911	8.0 %	$243,540	7.9 %	6.5 %	6.5 %
BC Aggregate			6.5 %		6.5 %	5.9 %	5.8 %
NT Collective Agg Bond Index Fund - Lending	$181,393,718	$190,360,666	6.6 %	$62,523	6.6 %	5.6 %	5.7 %
BC Aggregate			6.5 %		6.5 %	5.9 %	5.8 %
INTERNATIONAL	**$543,583,935**	**$609,686,824**	**21.0 %**	**$3,117,229**	**20.3 %**	**1.6 %**	**7.2 %**
Walter Scott & Partners LTD	$177,854,677	$144,452,092	15.1 %	$718,915	14.5 %	0.8 %	6.5 %
EAFE			8.2 %		8.2 %	(6.5)%	2.9 %
Sprucegrove Investment Mgmt Inc	$173,193,970	$148,126,542	20.1 %	$690,740	19.5 %	(2.2)%	4.9 %
EAFE			8.2 %		8.2 %	(6.5)%	2.9 %
Mondrian Investment Partners LTD	$76,619,935	$100,316,887	32.0 %	$638,012	30.9 %	N/A	N/A
MSCI EAFE Small Cap			22.4 %		22.4 %	(1.4)%	3.2 %
1607 Capital Partners	N/A	$87,718,635	N/A	$63,922	N/A	N/A	N/A
90% MSCI EAFE/10% Emerging Mkts			N/A		N/A	N/A	N/A
City of London	$62,347,511	$63,689,039	24.0 %	$677,482	22.4 %	N/A	N/A
MSCI Emerging Markets			19.2 %		19.2 %	0.0 %	13.1 %
DFA Emerging Markets	$53,567,842	$65,383,629	22.8 %	$328,158	22.1 %	N/A	N/A
MSCI Emerging Markets			19.2 %		19.2 %	0.0 %	13.1 %
DOMESTIC EQUITY	**$475,629,158**	**$560,476,995**	**18.2 %**	**$1,493,710**	**17.8 %**	**(1.6)%**	**2.6 %**
US EQUITIES LARGE	**$340,585,119**	**$388,765,862**	**14.4 %**	**$640,553**	**14.1 %**	**(3.2)%**	**1.9 %**
INTECH Enhanced Invst Technologies LLC	$168,721,198	$194,866,529	15.7 %	$367,917	15.5 %	(3.0)%	N/A
S&P 500			15.1 %		15.1 %	(2.9)%	2.3 %
AllianceBernstein	$90,098,962	$99,272,683	10.2 %	$54,263	10.2 %	(3.5)%	0.9 %
Russell 1000 Growth			16.7 %		16.7 %	(0.5)%	3.8 %
Aronson+Johnson+Ortiz	$81,764,959	$94,626,650	16.0 %	$218,373	15.7 %	(3.5)%	1.5 %
Russell 1000 Value			15.5 %		15.5 %	(4.4)%	1.3 %
US EQUITIES NON-LARGE	**$135,044,039**	**$171,711,133**	**27.9 %**	**$853,157**	**27.2 %**	**2.5 %**	**4.1 %**
Wall Street Associates	$37,889,814	$46,121,739	22.1 %	$116,991	21.7 %	(0.8)%	4.4 %
Russell Mid Cap Growth			26.4 %		26.4 %	1.0 %	4.9 %
Pzena Investment Mgmt LLC	$31,380,866	$37,844,760	21.6 %	$271,801	20.6 %	3.8 %	N/A
Russell Mid Cap Value			24.8 %		24.8 %	1.0 %	4.1 %
AQR Capital Management	$31,254,936	$39,681,838	27.8 %	$209,307	27.0 %	2.9 %	N/A
Russell 2000 Value			24.5 %		24.5 %	2.2 %	3.5 %
Columbus Circle	$34,518,423	$48,062,796	40.1 %	$255,058	39.2 %	N/A	N/A
Russell 2000 Growth			29.1 %		29.1 %	2.2 %	5.3 %
REAL ESTATE	**$47,024,506**	**$82,885,081**	**17.3 %**	**$574,784**	**16.2 %**	**(11.5)%**	**(1.9)%**
Principal Global Investment	$47,024,506	$82,885,081	17.3 %	$574,784	16.2 %	(11.5)%	(1.9)%
NCREIF Property			13.1 %		13.1 %	(4.2)%	3.5 %
CASH	**$3,667,322**	**$300,107**	**0.2 %**		**20.0 %**	**0.9 %**	**2.7 %**
90 Day T-Bills			0.1 %		10.0 %	0.8 %	2.4 %
Total Fund	**$1,508,134,831**	**$1,708,416,584**	**15.9 %**	**$5,491,786**	**15.5 %**	**2.4 %**	**5.3 %**
****Policy Index***			12.9 %		12.9 %	0.3 %	4.3 %

Calculated using time-weighted rate of return based on market rate of return.

* 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 3/05
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 thru 3/09
22.75% S&P 500, 9.75% Russell 2500, 32.50% EAFE, 30% BC Aggregate, 5% NCREIF, 4/09 thru 12/09
22.75% S&P 500, 9.75% Russell 2500, 32.50% MSCI AC World ex US, 30% BC Aggregate, 5% NCREIF, 1/10 to present

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
224,323	JPMorgan Chase & Co COM	$	9,515,782	0.56%
28,905	Apple Inc COM		9,323,597	0.54%
140,120	Novartis AG CHF0.50 (REGD)		8,260,481	0.48%
106,600	Exxon Mobil Corp		7,794,592	0.46%
232,580	AT&T Inc COM		6,833,200	0.40%
74,800	Chevron Corp COM		6,825,500	0.40%
10,815	Google Inc CLA A		6,423,785	0.38%
158,600	Honda Motor Co NPV		6,286,900	0.37%
223,500	Microsoft Corp COM		6,240,120	0.36%
94,580	Adidas AG NPV		6,203,349	0.36%
	Top 10 Stock Holdings	**$**	**73,707,306**	**4.31%**
	Total COAERS Investment Portfolio 12-31-2010	**$**	**1,708,416,584**	**100.00%**

Full listing available upon request.

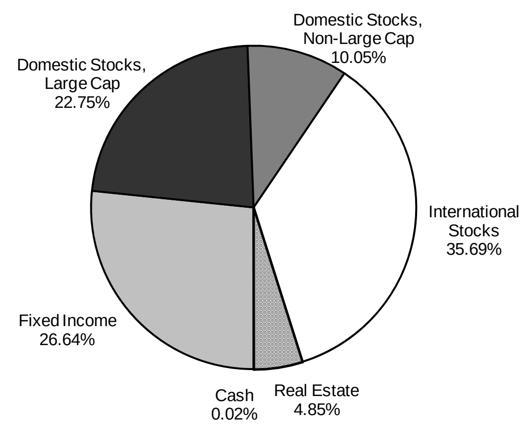
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	26,500,000	US Treasury Bonds DTD 00259 3.125% Due 10-31-2016 REG	$	27,642,812	1.62%
	9,256,221	GNMA Pool #747834 4% Due 10-15-2040 BEO		9,340,250	0.55%
	6,756,372	FNMA Pool #995024 5.5% Due 08-01-2037 BEO		7,272,126	0.43%
	5,885,000	FNMA Fannie Mae 5 05-11-2017		6,599,151	0.39%
	5,575,073	Federal Home Ln Mtg Corp Pool #A9-1538 4.5% 03-01-2040		5,718,269	0.33%
	7,585,000	US Treasury Sec Stripped 0% Due 11-15-2020 REG		5,325,383	0.31%
	4,765,217	FNMA Pool #995023 5.5% 08-01-2037 BEO		5,124,505	0.30%
	4,350,000	FHLMC 1.25% Due 09-30-2013		4,344,819	0.25%
	3,112,097	FFNMA Pool #254868 5% Due 09-01-2033 BEO		3,291,512	0.19%
	3,150,000	CMO Bear Stearns Tr 2006-Top 24 Mtg Passthru CTF CL A-2 Due 10-12-2041		3,208,804	0.19%
		Top 10 Bond Holdings	**$**	**77,867,631**	**4.56%**
		Total COAERS Investment Portfolio 12-31-2010	**$**	**1,708,416,584**	**100.00%**

INVESTMENT SUMMARY AT FAIR MARKET VALUE

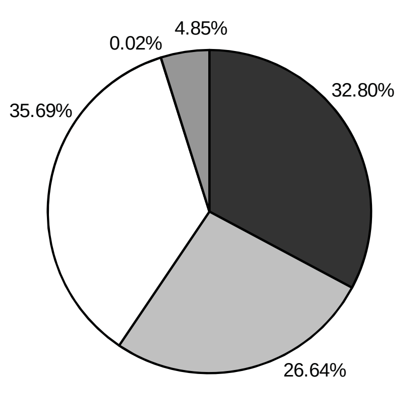
Asset Class	Fair Value	Percentage of Total Fair Value
Fixed Income	$455,067,577	26.64%
Domestic Stocks, Large Cap	388,765,862	22.75%
Domestic Stocks, Non-Large Cap	171,711,133	10.05%
International Stocks	609,686,824	35.69%
Real Estate	82,885,081	4.85%
Cash	300,107	0.02%
	$1,708,416,584	100.00%

COAERS Investment Portfolio



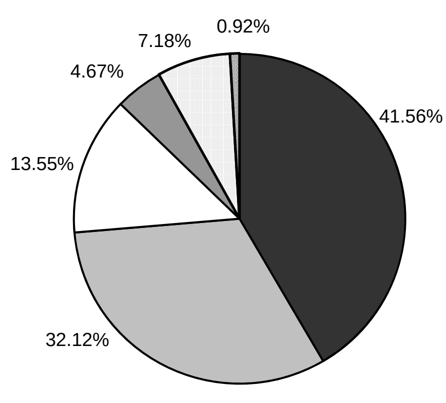
ALLOCATION BY SECTOR

COAERS Asset Allocation



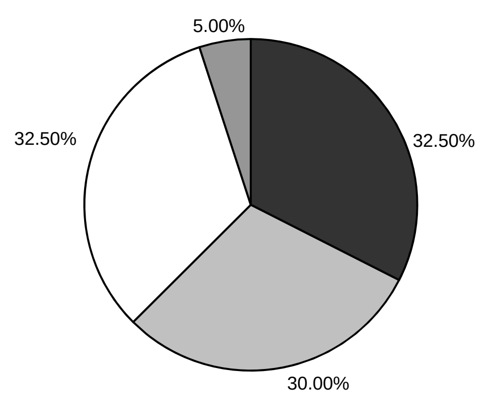
Market Value: $1.708 Billion

Mellon Median Public Fund Asset Allocation



Market Value: $1.1 Trillion

Target Allocation

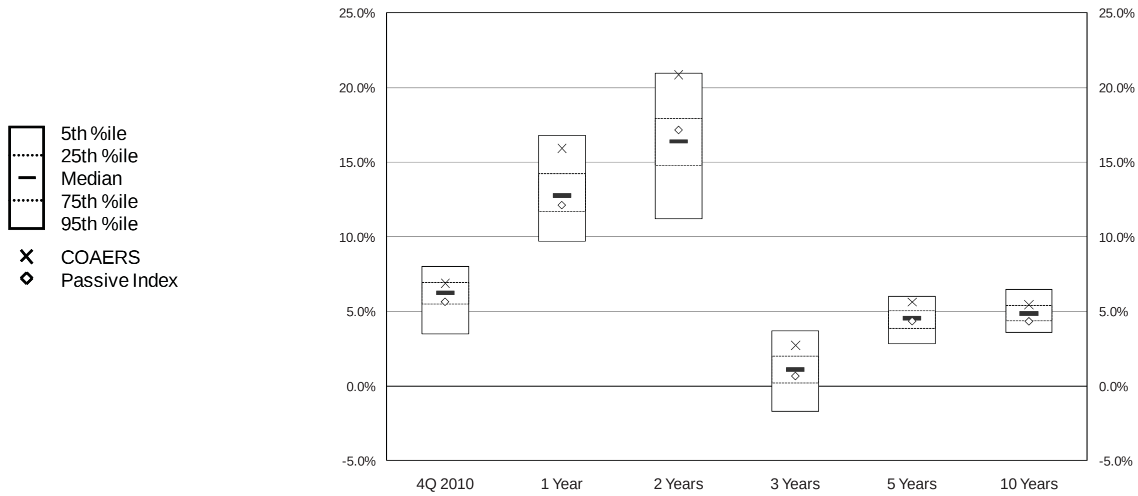


US Equity | Fixed Income | Intl Equity
Real Estate | Alternative Investments | Cash

BROKER COMMISSIONS OVER $10,000

Broker Name	# of Shares Traded	Commission Paid	Cost per Share
JP Morgan	9,034,556	$ 65,631	$ 0.007
InstiNet	4,343,219	59,739	0.014
Lynch Jones & Ryan	1,948,120	44,495	0.023
Merrill Lynch	20,631,593	44,134	0.002
CSFB	12,494,980	37,550	0.003
Jefferies & Company	8,643,719	29,664	0.003
Pershing	5,067,543	27,428	0.005
UBS Warburg LLC	19,405,425	26,520	0.001
Weeden & Co	1,529,394	26,007	0.017
Goldman Sachs & Company	13,463,115	25,771	0.002
Jones and Associates New York	1,102,217	22,044	0.020
Deutsche Bank Securities Inc	4,234,006	21,729	0.005
HSBC	1,539,300	21,163	0.014
Abel Noser Corporation	507,603	20,726	0.041
Investment Technology Group Inc	1,969,069	18,109	0.009
Morgan Stanley	38,661,893	18,094	0.000
CitiGroup	17,087,127	17,750	0.001
Bear Stearns 57079	1,303,367	17,614	0.014
SG Securities Hong Kong Ltd	1,498,932	15,453	0.010
Brockhouse	2,147,762	13,943	0.006
Barclays Capital	20,887,213	13,725	0.001
Cowen LLC	315,487	12,998	0.041
LiquidNet Inc	718,017	12,921	0.018
Societe Generale	261,967	11,960	0.046
Rosenblatt Securities LLC 501	785,681	11,448	0.015
Oppenheimer and Company	287,868	11,413	0.040
Piper Jaffray Inc	263,030	10,227	0.039
116 Minor Brokers	29,815,452	254,015	0.009
Total Broker Commissions	**219,947,655**	**$ 912,271**	**$ 0.004**

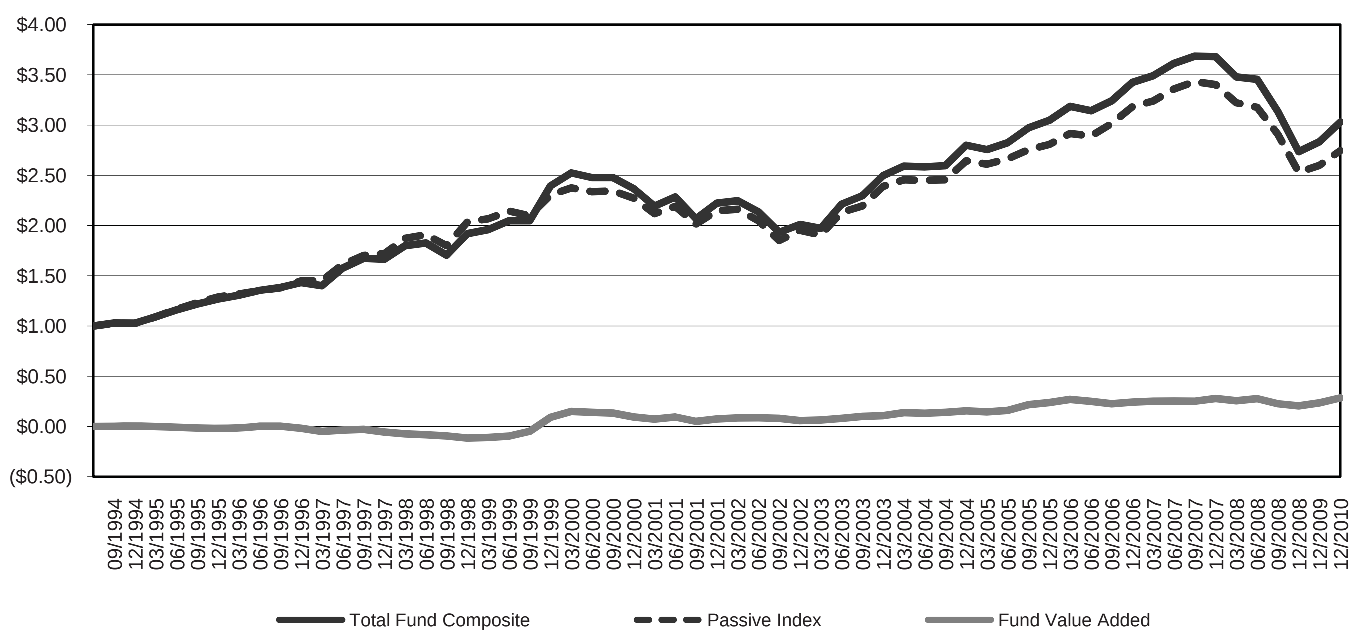
TOTAL FUND AND PASSIVE INDEX VS. MELLON PUBLIC FUND UNIVERSE



	4Q 2010	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	6.90%	15.92%	20.86%	2.74%	5.63%	5.43%
Passive	5.64%	12.12%	17.16%	0.66%	4.34%	4.33%
5th Percentile	8.01%	16.79%	20.96%	3.71%	6.03%	6.48%
25th Percentile	6.93%	14.23%	17.90%	2.03%	5.06%	5.37%
Median	6.23%	12.75%	16.39%	1.09%	4.53%	4.84%
75th Percentile	5.52%	11.70%	14.78%	0.19%	3.85%	4.37%
95th Percentile	3.47%	9.71%	11.19%	(1.71%)	2.82%	3.58%
Observations	316	305	297	282	189	147

Note: Passive Index is currently comprised of 32.5% R3000, 32.5% 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 32.5% R3000, 32.5% MSCI AC World ex USA, and 35% Barclays Capital Aggregate. Time weighted rates of return.

GRS
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April 11, 2011

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, 2010

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, 2010, 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. The actuarial value of assets has been revised this year to "mark to market" where all prior deferred gains and losses have been recognized. As a result, the significant asset loss in 2008 has been fully 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 2010 the City of Austin adopted the Amended Supplemental Funding Plan (ASFP). The ASFP provides for a City contribution rate of up to a maximum of 10.0% above the base 8.0% rate. The City is now contributing an additional 6.0% or a total rate of 14.0%. The additional contribution rate is intended to stay in place until the ASFP is amended or repealed.

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
April 11, 2011
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 COAERS.

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, 2010, 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, 2009 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

Lewis Ward
Consultant

Joe Newton

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

aap

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Gabriel Roeder Smith & Company

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EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2010 may be summarized as follows:

	December 31, 2010 (1)	December 31, 2009 (2)
• Members		
— Actives	8,270	8,142
— Retirees and beneficiaries (and disabled)	4,335	4,086
— Vested - terminated*	941	975
— Proportional PSEM and CCSD	150	159
— Total	13,696	13,362
• Covered payroll	$ 438,877,002	$ 422,539,199
• Normal cost	$ 68,893,836	$ 66,081,153
— As % of payroll	16.31%	16.26%
• Actuarial accrued liability	$ 2,460,664,794	$ 2,330,936,980
• Present actuarial value of assets	$ 1,711,577,229	$ 1,672,470,344
• Unfunded actuarial accrued liability (UAAL)	$ 749,087,565	$ 658,466,636
• Estimated yield on assets		
— Actuarial value basis	4.03%	15.23%
— Market value basis	15.23%	25.34%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	14.00% **	12.00% **
• Benefit and refund payments	$ 121,714,749	$ 115,886,602
• Amortization period of unfunded actuarial accrued liability	Infinite	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	170.7%	155.8%
— GASB funded ratio	69.6%	71.8%
— GASB Annual Required Contribution (ARC)	18.28%	17.36%

* Includes proportionate members of PSEM and CCSD, 125 in 2010 and 141 in 2009

** Employer rate increased to 12% effective October 1, 2009 and 14% effective October 1, 2010.

INTRODUCTION

This December 31, 2010 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, 2010, determine the funding period of any unfunded liability for the plan year beginning January 1, 2011, 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, 2010, is 16.31% of pay. This compares with 16.26% of pay as of the last valuation of December 31, 2009. 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 11.56% of pay. The normal cost for the deferred termination benefits is 1.87% and 2.15% 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 0.46%.

Table 1 illustrates a number of the key actuarial items for the 2010 valuation. As mentioned above, the employer normal cost rate is 16.31% of covered payroll. The actuarial accrued liability is $2,460.7 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,711.6 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $749.1 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2009), the System was underfunded by $658.5 million.

As of October 1, 2010, the City is contributing 14% of payroll and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 22% of payroll to fund benefits. The current normal cost of the plan is 16.31%, which means that the System is currently receiving contributions in excess of the normal cost equal to 5.69% of pay (22.00% less 16.31%). 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 Amended Supplemental Funding Plan (ASFP) the total City contribution rate has increased to 14.0% of pay (the maximum City rate under the ASFP is 18.0%). The additional contribution is intended to stay in place until the ASFP is amended or repealed.

While the current 14% of pay does not produce a funding period, it is expected that when the contribution rate increases to 16% in October 2011 that this will produce a finite funding period in the December 31, 2011 valuation. Furthermore, if the proposed benefit changes are enacted by the 2011 Texas Legislature it is expected that the funding period at the next valuation will be less than 30 years. These proposed changes are not reflected in this valuation.

Based on the recommendation of the actuary, the Board elected to mark the actuarial value of assets to the market value of assets. This was accomplished by fully recognizing all of the deferred investment excess/(shortfalls) in the actuarial asset valuation method. The method is still in place and a new base will be established following the 2011 plan year. This recommendation was made because the purpose of the actuarial asset method is to smooth the assets towards the market value over a short period of time. The initial actuarial value of assets was only $12 million more than the market value of assets. If the deferred investment basis had been left in place and recognized over the next four years, then it was expected that the actuarial value of assets would have diverged from the market value for two years before closing towards the market value in the following two years. To avoid this divergence and because the difference between the actuarial value of assets and the market value of assets was so small, the actuarial value of assets were "marked to market."

The GASB annual required contribution (ARC) is also developed in Item 10 on Table 1. The ARC for the 2011 plan year, as determined by the 2010 valuation, is 18.28%.

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, 2010 is $1,711.6 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. While the method has not been changed, all of the deferred gains and losses have been fully recognized this year as a result of marking the assets to market value as discussed in the previous section.

As a result of marking the actuarial assets to the market value, the total deferral of all Excess/(Shortfall) investment income for the year (shown in Table 4, Item 2.e.) is $0.0 million. 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, 2010, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 15.23% on a market value of assets basis. The rate of return for the year ending December 31, 2010, on an actuarial value basis was 4.03%. 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 $50.1 million in 2010 (the loss was determined prior to the actuarial assets being marked to market). This compares to the $109.2 million gain in 2009.

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, 2009.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2010, is an underfunded position of $686.9 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 2010.

Since the actual unfunded actuarial accrued liability as of December 31, 2010 is $749.1 million, it represents a total net loss for the period of $62.2 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 $50.1 million as shown in Table 7, a loss on the liability side equal to $0.0 million, and a method loss due of $12.0 million to the actuarial assets being marked to market. The experience liability loss is broken out by source in Items 16-23 of Table 8. As can be seen on Table 8, there were many offsetting gains and losses with the largest liability gain was due to lower than expected salary increases and the largest liability loss due to lower than expected number of withdrawals.

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.

While the actuarial assets were marked to market, the underlying asset method has not changed. 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. COAERS 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 2010 the City of Austin adopted an Amended Supplemental Funding Plan (ASFP) which provides for an additional contribution from the City, above the 8.0% base rate, which will continue to gradually increase the City's total contribution rate to the System to 18.0%. This additional contribution is intended to remain in place until the ASFP is either amended or repealed.

The overall funded position of the System decreased from 71.8% at the prior valuation to 69.6% at this valuation. Based on current benefit provisions, it is expected that the ASFP will 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. Furthermore, based on the proposed changes to the benefit provisions for members hired in 2012, deterministic projections show that if all assumptions are exactly met, and if the ASFP remains unchanged, then the funding period for amortizing the System's unfunded actuarial accrued liability is expected to be less than 30 years.

ACTUARIAL TABLES

City of Austin Employees' Retirement System **TABLE 1**
Actuarial Valuation - December 31, 2010

SUMMARY OF COST ITEMS

	December 31, 2010		December 31, 2009	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,270		8,142	
b. Terminated vested	941		975	
c. Retired participants and beneficiaries	4,251		4,002	
d. Disabled	84		84	
e. Proportional PSEM and CCSD	150		159	
f. Total	13,696		13,362	
2. Covered Payroll	$ 438,877,002		$ 422,539,199	
3. Averages for Active Participants				
a. Average age	44.7		44.4	
b. Average years of service	9.5		9.4	
c. Average pay	$ 53,069		$ 51,896	
4. Total Normal Cost	$ 68,893,836	16.31% *	$ 66,081,153	16.26% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,195,884,813		$ 1,147,793,175	
b. Terminated vested participants	44,676,183		47,370,255	
c. Refunds of terminated nonvested participants	8,136,512		7,707,251	
d. Retired participants and beneficiaries	1,183,234,695		1,097,685,356	
e. Disabled participants	12,093,520		12,088,194	
f. Proportional PSEM and CCSD	16,639,071		18,292,749	
g. Total	$ 2,460,664,794	560.67%	$ 2,330,936,980	551.65%
6. Present Actuarial Assets	$ 1,711,577,229	389.99%	$ 1,672,470,344	395.81%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 749,087,565	170.68%	$ 658,466,636	155.84%
8. Relative Size of UAAL				
a. As percent of actuarial assets	43.77%		39.37%	
b. As percent of covered payroll	170.68%		155.84%	
9. 30-year amortization of UAAL as % of covered payroll	9.97%		9.10%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	26.28%		25.36%	
b. Employee contribution rate	8.00%		8.00%	
c. ARC (10a. - 10b.)	18.28%		17.36%	

* as % of expected payroll

ANALYSIS OF NORMAL COST BY COMPONENT

	Cost as % of Pay	
Benefit Component	December 31, 2010	December 31, 2009
(1)	(2)	(3)
1. Retirement Benefits	11.56%	11.52%
2. Termination - Deferred Benefits	1.87%	1.85%
3. Termination - Refund Benefits	2.15%	2.17%
4. Disability Benefits	0.27%	0.27%
5. Death Benefits	0.46%	0.45%
6. Normal Cost	16.31%	16.26%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

TABLE 3

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

	December 31, 2010 (1)	December 31, 2009 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,447,051,004	$ 1,390,497,679
b. Deferred termination benefits	121,051,426	116,527,583
c. Refund of nonvested terminations	41,789,373	40,810,456
d. Disability benefits	15,850,982	15,307,099
e. Death benefits	37,394,209	35,613,092
f. Total	$ 1,663,136,994	$ 1,598,755,909
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,183,234,695	$ 1,097,685,356
b. Disability retirements	12,093,520	12,088,194
c. Total	$ 1,195,328,215	$ 1,109,773,550
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 44,676,183	$ 47,370,255
b. Nonvested terminations with refunds payable	8,136,512	7,707,251
c. Total	$ 52,812,695	$ 55,077,506
4. Proportional PSEM and CCSD	$ 16,639,071	$ 18,292,749
5. Total actuarial present value of future benefits	$ 2,927,916,976	$ 2,781,899,714
B. Present Value of Future Pay	$ 2,864,820,236	$ 2,773,448,549
C. Normal Cost Rate	16.31%	16.26%
D. Present Value of Future Normal Costs	$ 467,252,181	$ 450,962,734
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,663,136,994	$ 1,598,755,909
2. Less present value of future normal costs (Item D)	467,252,181	450,962,734
3. Actuarial accrued liability	$ 1,195,884,813	$ 1,147,793,175
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item E.3)	$ 2,460,664,794	$ 2,330,936,980

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

TABLE 3

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

	December 31, 2010 (1)	December 31, 2009 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,447,051,004	$ 1,390,497,679
b. Deferred termination benefits	121,051,426	116,527,583
c. Refund of nonvested terminations	41,789,373	40,810,456
d. Disability benefits	15,850,982	15,307,099
e. Death benefits	37,394,209	35,613,092
f. Total	$ 1,663,136,994	$ 1,598,755,909
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,183,234,695	$ 1,097,685,356
b. Disability retirements	12,093,520	12,088,194
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a. Vested terminations with deferred benefits	$ 44,676,183	$ 47,370,255
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2. Less present value of future normal costs (Item D)	467,252,181	450,962,734
3. Actuarial accrued liability	$ 1,195,884,813	$ 1,147,793,175
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item E.3)	$ 2,460,664,794	$ 2,330,936,980

Gabriel Roeder Smith & Company

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

	December 31, 2010 (1)	December 31, 2009 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,447,051,004	$ 1,390,497,679
b. Deferred termination benefits	121,051,426	116,527,583
c. Refund of nonvested terminations	41,789,373	40,810,456
d. Disability benefits	15,850,982	15,307,099
e. Death benefits	37,394,209	35,613,092
f. Total	$ 1,663,136,994	$ 1,598,755,909
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,183,234,695	$ 1,097,685,356
b. Disability retirements	12,093,520	12,088,194
c. Total	$ 1,195,328,215	$ 1,109,773,550
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 44,676,183	$ 47,370,255
b. Nonvested terminations with refunds payable	8,136,512	7,707,251
c. Total	$ 52,812,695	$ 55,077,506
4. Proportional PSEM and CCSD	$ 16,639,071	$ 18,292,749
5. Total actuarial present value of future benefits	$ 2,927,916,976	$ 2,781,899,714
B. Present Value of Future Pay	$ 2,864,820,236	$ 2,773,448,549
C. Normal Cost Rate	16.31%	16.26%
D. Present Value of Future Normal Costs	$ 467,252,181	$ 450,962,734
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,663,136,994	$ 1,598,755,909
2. Less present value of future normal costs (Item D)	467,252,181	450,962,734
3. Actuarial accrued liability	$ 1,195,884,813	$ 1,147,793,175
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item E.3)	$ 2,460,664,794	$ 2,330,936,980

CHANGE IN NET ASSETS

		Valuation Period Ending December 31,	
		2010	2009
		(1)	(2)
1.	Assets in plan at beginning of year **(A)**	$ 1,511,265,550	$ 1,234,481,199
2.	Employer contributions	53,407,848	45,106,569
3.	Employee contributions	40,628,977	38,751,783
4.	Benefit payments made*	117,509,738	111,028,984
5.	Refunds of contributions	4,205,012	4,857,618
6.	Expenses paid from trust	2,113,013	2,031,815
7.	Investment return	230,102,617	310,844,417
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,711,577,229	$ 1,511,265,550
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ 227,989,604	$ 308,812,601
	b. Estimated yield based on **(2I/(A + B - I))**	15.23%	25.34%

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

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending December 31, 2010	Plan Year Ending December 31, 2009
(1)	(2)	(3)
1. Actuarial assets, beginning of year	$ 1,672,470,344	$ 1,481,377,439
2. Contributions during year	$ 94,036,825	$ 83,858,352
3. Benefits paid during year	$ (117,509,738)	$ (111,028,984)
4. Refunds paid during year	$ (4,205,011)	$ (4,857,618)
5. Other	$ 0	$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 129,616,452	$ 114,806,752
b. Contributions	3,643,927	3,249,511
c. Benefits	(4,174,044)	(3,943,842)
d. Refunds	(149,367)	(172,547)
e. Other	0	0
f. Total	$ 128,936,968	$ 113,939,874
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,773,729,388	$ 1,563,289,062
8. Actuarial assets, end of year (Before Mark to Market)	$ 1,723,604,387	$ 1,672,470,344
9. Asset gain/(loss) (Item 8 - Item 7)	$ (50,125,001)	$ 109,181,282

Gabriel Roeder Smith & Company

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2010

CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2010	2009
1. Unfunded actuarial accrued liability (UAAL) as of prior year	$ 658,466,636	$ 765,526,422
2. Actual normal cost paid during year	72,305,922	74,575,056
3. Subtotal (1 + 2)	$ 730,772,558	$ 840,101,478
4. Interest at prior valuation's rate of 7.75%	53,833,020	62,218,081
5. Contributions during year	(94,036,825)	(83,858,352)
6. Interest on contributions for one-half year	(3,643,927)	(3,249,511)
7. Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 686,924,826	$ 815,211,696
8. Actual UAAL as of December 31st	749,087,565	658,466,636
9. Actuarial gain/(loss) for the period (7 - 8)	$ (62,162,739)	$ 156,745,060
SOURCE OF GAINS AND LOSSES		
10. Asset gain/(loss) (See Table 7)	$ (50,125,001)	$ 109,181,282
11. Total liability gain/(loss) for the period (9-10)	(12,037,738)	47,563,779
12. Gain/(loss) due to benefit enhancements	0	0
13. Gain/(loss) due to Proportional PSEM and CCSD	0	11,877,034
14. Gain/(loss) due to assumption & method changes	(12,027,158)	0
15. Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ (10,580)	$ 35,686,745
SOURCE OF LIABILITY GAINS AND LOSSES		
16. Salary Increases	$ 21,593,658	$ 51,851,638
17. Service Retirement	3,285,176	9,313,139
18. Withdrawal	(16,054,506)	(12,412,988)
19. Disability Retirement	(331,357)	(324,687)
20. Active Mortality	(686,576)	(473,893)
21. Retiree Mortality	(4,716,148)	(3,579,572)
22. Rehires	(3,400,870)	(4,058,764)
23. Other (Data)	300,043	(4,628,128)
24. Total Liability Experience Gain/(Loss)	$ (10,580)	$ 35,686,745

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

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%
2009	658,466,636	422,539,199	155.8%	1,672,470,344	39.4%	2,330,936,980	28.2%
2010	749,087,565	438,877,002	170.7%	1,711,577,229	43.8%	2,460,664,794	30.4%

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

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%
2009	8,142	422,539,199	51,896	0.0%
2010	8,270	438,877,002	53,069	2.3%

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

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)
1999	259	$ 10,757,697	57	$ 1,152,275	2,297	$ 53,097,238	0.219	$ 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
2009	331	9,953,411	80	1,630,148	4,086	109,656,152	7.7%	26,837
2010	341	10,495,807	92	2,029,423	4,335	117,954,059	7.6%	27,210

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2010

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, 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%
December 31, 2009	362,288,592	1,109,773,550	858,874,838	1,672,470,344	100.0%	100.0%	23.3%
December 31, 2010	377,651,365	1,195,328,215	887,685,214	1,711,577,229	100.0%	100.0%	15.6%

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, 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%
December 31, 2009	1,672.5	2,330.9	658.5	71.8%	422.5	155.8%
December 31, 2010	1,711.6	2,460.7	749.1	69.6%	438.9	170.7%

Note: Dollar amount in millions.

TABLE 13b

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

Fiscal Year (1)	Annual Required Contribution (2)	Percentage Contributed (3)
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%
2009	$78,184,719	57.69%
2010	$74,172,819	72.00%

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, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	5.00% to 6.00%
*Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(Effective as of December 31, 2010)

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, 2010)
(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, 2010)
(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, 2010)
(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%

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.

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2010) (Continued)

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.

The actuarial value of assets was marked to the market value of assets for this valuation. This was done to prevent an expected divergence away from the market value of assets. A new five-year phase in will begin with the next valuation.

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, 2010

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 2011 is up to $20,416.67 for persons who first become members after 1995 (members hired prior to 1996 have no limit on their compensation).

E. CITY AND MEMBER CONTRIBUTION RATES

The City currently contributes a base rate of 8.00% of pay for each active member. Under the Amended Supplemental Funding Plan, the City is providing an additional contribution for each active member. Beginning October 1, 2010, this additional contribution became 6% of pay, for a total city contribution of 14%. 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, 2010 (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

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, 2010
(Continued)

G. DISABILITY RETIREMENT

1. Eligibility: If the employee is terminated by reason of a total and permanent disability which prevents the employee from engaging in any employment duties. If the employee has less than five years of service, the disability must be job related.

2. Monthly Benefit: Same as Normal Retirement benefit using pay and service at date of disability.

3. Form of Payment: The normal form of payment that is available to a member taking normal retirement and the optional forms of payments described in F.1.d.i) and F.1.d.ii) above.

H. VESTING OF BENEFITS

1. Vesting

An employee is vested according to the following schedule:

Years of Vesting Service	Vested Percentage
Less than 5	0%
5 or more	100%

2. Benefits Upon Vesting

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2010 (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 refund of the member's accumulated deposits (with interest) plus a death benefit from COAERS equal to the member's accumulated deposits (with interest), but excluding any purchases for Non-contributory time, prior military service purchases, or Permissive Time (and accumulated 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, 2010 (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, 2010 (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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2010 (Continued)

2. 2.7% Retiree Gross-up

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

3. 23 & Out Provision

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

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

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

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 COAERS 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."

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2010 (Continued)

2. 2.98% Multiplier

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

3. 2.98% Retiree Gross-up

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

4. "Pop-up" Benefit Amendment

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

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

None

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2010 (Continued)

4. Purchase of Permissive Time

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

5. Conversion of Unused Sick Leave

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

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2010 (Continued)

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

None

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

None

Y. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2009

None

Z. BENEFIT ENHANCEMENTS ENACTED BY THE BOARD OF TRUSTEES IN 2010

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%.

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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 (COAERS). 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, 2010

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2010

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	51	30	19	17	3	3	0	0	0	0	0	0	123	$ 32,272
25-29	154	60	109	116	79	87	8	0	0	0	0	0	613	36,676
30-34	128	81	120	135	127	220	94	0	0	0	0	0	905	43,989
35-39	83	82	106	102	108	324	246	65	0	0	0	0	1,116	48,850
40-44	88	74	114	97	77	273	283	190	63	2	0	0	1,261	53,396
45-49	68	43	77	76	73	234	300	218	142	73	2	0	1,306	56,855
50-54	64	36	70	73	75	243	255	234	195	90	7	0	1,342	59,370
55-59	38	29	37	37	50	181	190	164	120	69	16	2	933	60,351
60-64	11	13	17	23	21	115	114	96	69	35	12	2	528	62,021
65 & Over	2	5	4	13	7	24	29	33	16	6	3	1	143	54,445
All Ages	687	453	673	689	620	1,704	1,519	1,000	605	275	40	5	8,270	$ 53,069

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TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2010

Completed Years of Service	Number of Employees	Total Average Salary
0	687	$ 43,509
1	453	47,215
2	673	45,352
3	689	45,591
4	620	46,127
5-9	1,704	51,047
10-14	1,519	55,722
15-19	1,000	62,785
20-24	605	66,763
25-29	275	69,067
30-34	40	72,695
35+	5	72,488
All Years	8,270	$ 53,069

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TABLE 19

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years Creditable Service						
January 1, 2006 to December 31, 2010	0-4	5-9	10-14	15-19	20-24	25-29	30+
Period 01/01/2006 to 12/31/2006							
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
Period 01/01/2009 to 12/31/2009							
Average Monthly Benefit	$308	$925	$1,439	$2,133	$3,211	$3,804	$4,158
Average Final Salary	$40,780	$53,705	$51,213	$54,996	$62,085	$61,276	$53,537
Number of Active Retirees	17	35	34	39	124	46	9
Period 01/01/2010 to 12/31/2010							
Average Monthly Benefit	$257	$740	$1,600	$2,089	$3,134	$4,115	$5,936
Average Final Salary	$44,138	$44,485	$55,981	$53,598	$58,538	$66,432	$84,299
Number of Active Retirees	22	40	35	31	96	64	15

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TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2010)

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						816									
$1-250	114	92	9	3	10	65	39	5	2				3		
251-500	210	164	23	11	12	92	78	12	9	4		1	14		
501-750	237	178	37	11	11	103	79	21	14	2	5		10	1	2
751-1,000	259	195	42	13	9	103	77	24	18	7	5	14	6	1	4
1,001-1,250	255	199	40	11	5	72	87	16	17	8	16	14	9		16
1,251-1,500	334	278	41	13	2	87	120	28	19	4	25	21	12		18
1,501-1,750	362	318	37	6	1	104	126	29	24	4	24	25	13	2	11
1,751-2,000	359	313	36	8	2	102	123	33	24	3	25	25	6	1	17
Over $2,000	2,205	2,091	103	8	3	586	846	174	154	28	114	106	73	11	113
Total	**4,335**	**3,828**	**368**	**84**	**55**	**2,130**	**1,575**	**342**	**281**	**60**	**214**	**206**	**146**	**16**	**181**

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 816 deferred vested members in the Unmodified option selection.

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SCHEDULE OF PARTICIPATING EMPLOYERS

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

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TABLE 22

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Additions										
Member Contributions	$26,238	$33,794	$30,449	$32,272	$33,334	$35,791	$39,971	$41,263	$38,752	$40,629
Employer Contributions	24,831	26,375	24,907	27,008	27,168	30,610	36,521	40,786	45,263	53,576
Investment Income (net of expenses)	(78,888)	(112,995)	246,069	145,631	118,154	179,952	114,931	(435,867)	310,844	230,102
Total additions to plan net assets	(27,819)	(52,826)	301,426	204,911	178,656	246,353	191,423	(353,818)	394,859	$324,307
Deductions										
Benefit Payments	66,013	71,023	77,187	81,426	85,851	90,116	94,627	100,707	108,090	115,665
Refunds	3,991	3,958	4,477	5,112	3,775	4,196	4,438	4,285	4,858	4,205
Administrative Expenses	1,305	1,642	1,553	1,555	1,497	1,671	1,776	1,883	2,032	2,113
Lump-sum Payments		266	1,029	1,343	1,798	2,178	1,328	3,022	3,095	2,013
Total deductions from plan net assets	71,310	76,888	84,246	89,436	92,921	98,161	102,169	109,897	118,075	123,996
Change in net assets	($99,129)	($129,715)	$217,180	$115,475	$85,735	$148,192	$89,254	($463,715)	$276,784	$200,311

Notes: Dollar amounts in thousands
Columns may not add due to rounding
Includes contributions to and benefit payments from 415 Restoration Plan

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TABLE 23

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Type of Benefit										
Age and service benefits:										
Retirees [a]	$64,598	$70,094	$75,527	$80,152	$84,003	$88,513	$93,049	$99,219	$106,148	$114,244
Beneficiaries [a]										
Lump-sum payments		$266	$1,029	$1,343	$1,798	$2,178	$1,328	$3,022	$3,095	$2,011
In service death benefits: [b]	$1,416	$929	$1,660	$1,274	$1,848	$1,603	$1,578	$1,489	$1,942	$1,421
Disability benefits: [c]										
Total benefits	$66,014	$71,289	$78,216	$82,769	$87,649	$92,294	$95,955	$103,730	$111,185	$117,676
Type of Refund										
Death [b]										
Separation	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205
Total refunds	$3,991	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205

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

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%
2009	12.00% [b]	"	3.25%	"	0.00%
2010	12.00% [c]	"	2.75%	"	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.
[c] Increased to 14.00% effective October 1, 2010 pursuant to Amended 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 COAERS internal sources.*