City of Austin
Employees' Retirement System
2011 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2011

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

TABLE OF CONTENTS

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INTRODUCTORY SECTION

May 24, 2012

coaers

City of Austin Employees' Retirement System

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, 2011. 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 the City of Austin as employer, and its employees, make contributions to the System. During 2011, retirement benefits were determined at 3% of the final average compensation, 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. Vesting occurs at five years of creditable service.

With legislation enacted in 2011, a significant modification has been made to plan design which will now provide for tiered benefits: employees beginning membership service on or after January 1, 2012, generally constitute "Group B", and existing members prior to that date generally constitute "Group A."

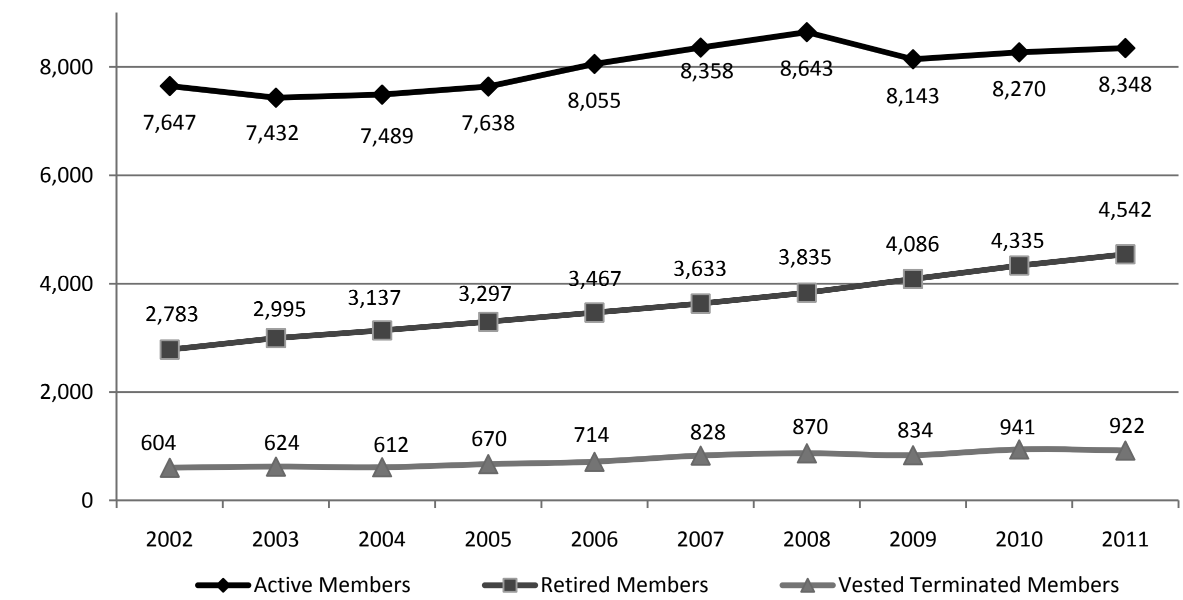
Group A members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Benefits are determined using a multiplier of 3%.

Group B members qualify for normal retirement benefits at age 65 with five years of creditable service or at age 62 with 30 years of creditable service. Benefits are determined using a multiplier of 2.5%. Reduced early retirement benefits are available for Group B members at age 55 with 10 years of creditable service.

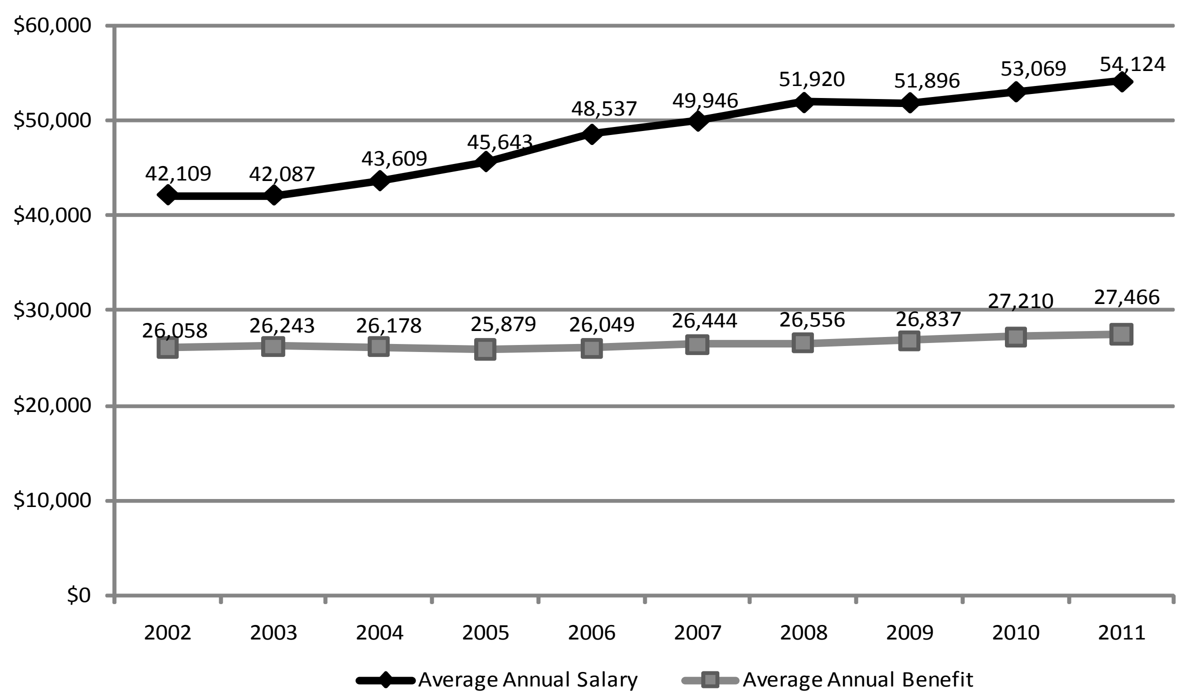
Additional information concerning current COAERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report. It should be noted that at December 31, 2011, there were no members of Group B.

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 2011 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.

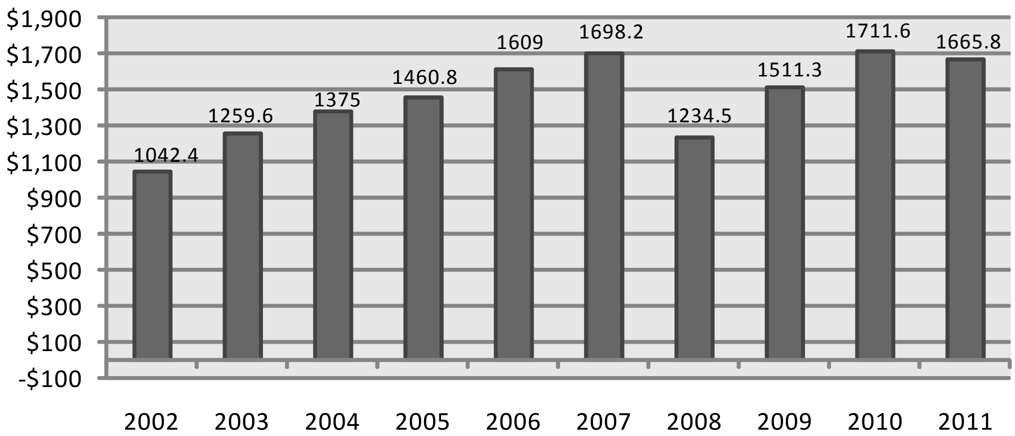
The ***Additions to Plan Net Assets*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2011, employer and employee contributions totaled $108.2 million; investment, securities lending, and other income was $37.0 million; and net depreciation of plan investments totaled $58.9 million, resulting in a net addition to Plan Net Assets of $86.3 million. The ***Deductions from Plan Net Assets*****,** totaling $132.1 million, consist of $121.4 million in annuity payments, refunds of $3.8 million, Deferred Retirement Option Program (DROP) disbursements of $1.8 million, retiree lump-sum annuity disbursements of $0.7 million, death benefits of $2.2 million, and administrative expenses of $2.2 million. The net decrease of $45.8 million results in total assets held in trust of $1.7 billion.

Changes to Plan Net Assets

Additions		Deductions	
Employer Contributions	$ 66,717,926	Retiree Annuity Payments	$ 121,366,131
Employee Contributions	41,503,157	Refunds	3,800,721
Interest, Dividends, Net Securities Lending & Other Income	36,983,269	DROP Disbursements	1,754,105
		Retiree Lump-Sum Annuities	728,535
		Death Benefits	2,192,283
Appreciation (depreciation) in Plan Investments (net of investment fees)	(58,947,403)	General & Administrative Expenses	2,217,980
Total Additions	**$ 86,256,949**	**Total Deductions**	**$ 132,059,755**

The following chart shows the ***Total Plan Net Assets*** at the end of each year since 2002. Net Assets decreased by $45.8 million during 2011, resulting in Total Plan Net Assets of $1,665,789,423 at December 31, 2011. Investment returns of the last two years provided recovery from the Great Recession of 2008. The positive trend continued through the first half of 2011, when in late summer, fears of a European sovereign debt crisis resurfaced, causing global equity markets to decline; year-to-date growth was lost due to the market reversal.

Total Plan Net Assets



Internal Controls

The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of costs and benefits requires estimates and judgments by management. 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, 2011, the investment portfolio of COAERS was managed by 14 investment managers. One investment manager was replaced during the year - Westfield Capital Management replaced AllianceBernstein as the manager of large capitalization domestic growth equities. Two investment manager accounts were consolidated into existing accounts resulting in the termination of relationships with Pzena Investment Management and Wall Street Associates; the assets formerly managed by these two firms were transferred to AQR Capital Management and Columbus Circle Investors, respectively. The portion of COAERS' fixed income allocation held in Northern Trust's Collective Aggregate Bond Index Fund - Lending was transitioned to the Collective Aggregate Bond Index Fund - Non-Lending.

Portfolio Allocation

Investment Style	2011
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. During the year ahead the Board will be engaged in a comprehensive study of the assets and the liabilities of the System in order to determine whether changes to the Strategic Portfolio Allocation might improve the likelihood of achieving long-term funding goals. This study, known as an Asset Liability Study, will be a key determinant in the Board's decision-making process regarding how best to allocate the investments of the portfolio in the pursuit of long-term objectives.

Funding and Actuarial Overview

In addition to investment income, the System is funded by regular contributions equal to eight percent of base compensation by City of Austin employees and eight percent of base compensation by the City of Austin. 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. Legislation was also enacted in 2011 establishing a tiered system as outlined in the Plan Profile and Demographics Highlights section of this letter.

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. Under the ultimate normal cost method utilized by the actuary, the normal cost assumes all members are in Group B (the new tier). This reduces the normal cost but causes a corresponding increase in the accrued liability to reflect the fact that the benefits for Group A members remain unchanged. This methodology produces a more level contribution rate over time than alternative methodologies.

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, produce an amortization period of unfunded actuarial accrued liability of 27.1 years. This is the first time since the 2001 valuation that the funding period has been less than 30 years.

The overall funded position of the System is 65.7%, down from 69.6% in 2010. The actuarial accrued liability and the actuarial value of assets of COAERS as of December 31, 2011, amounted to $2.724 billion and $1.791 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Awards

For the thirteenth 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, 2010, 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 2011, COAERS earned the Public Pension Coordinating Council Recognition Award for Funding and Administration. This is the third consecutive year that COAERS has met the administrative standards and the first year that the funding standards have been achieved. 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, serving as a benchmark by which to measure public defined benefit plans.

Acknowledgments

This report reflects the combined efforts 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,

Francine Gertz 2012 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, 2010

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

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

City of Austin Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

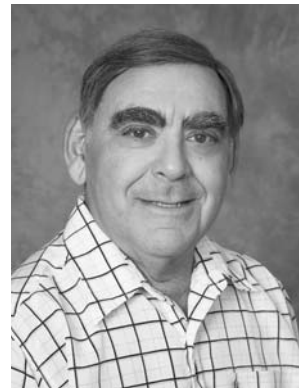
Alan H. Winkle

COAERS 2011 BOARD OF TRUSTEES

Anthony B. Ross, Sr.
2011 Board Chair

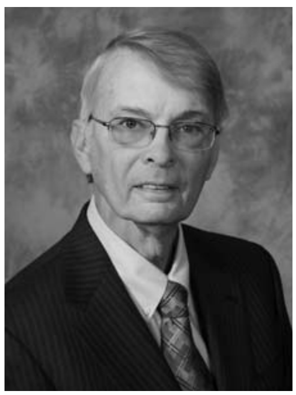
Francine Gertz
2011 Board Vice Chair
2012 Board Chair

Reagan David
Trustee

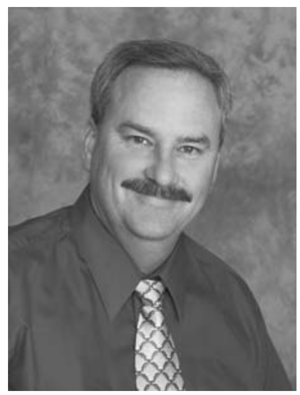


Ed Golden
Trustee

Elizabeth S. Gonzales
Trustee

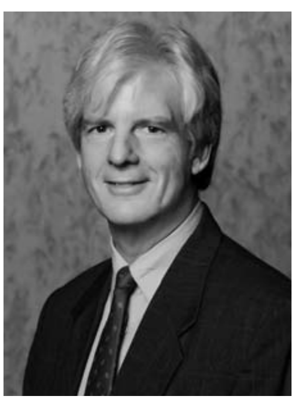


Sam Jones
Trustee



Mark Monteith
Trustee

Peter Rieck
Trustee



Bill Spelman
Trustee

Ed Van Eenoo
Trustee

Jim Williams
Trustee

Note: *The unexpired term of Anthony B. Ross, Sr., who retired in 2011, was filled in a special election of the retired membership by Chris Noak who assumed office on December 16, 2011.*

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

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

Catherine Pezulich
Member Services Specialist

Lovie Robinson-Laurant
Member Services Coordinator

Bobbie Simpson
Office Coordinator





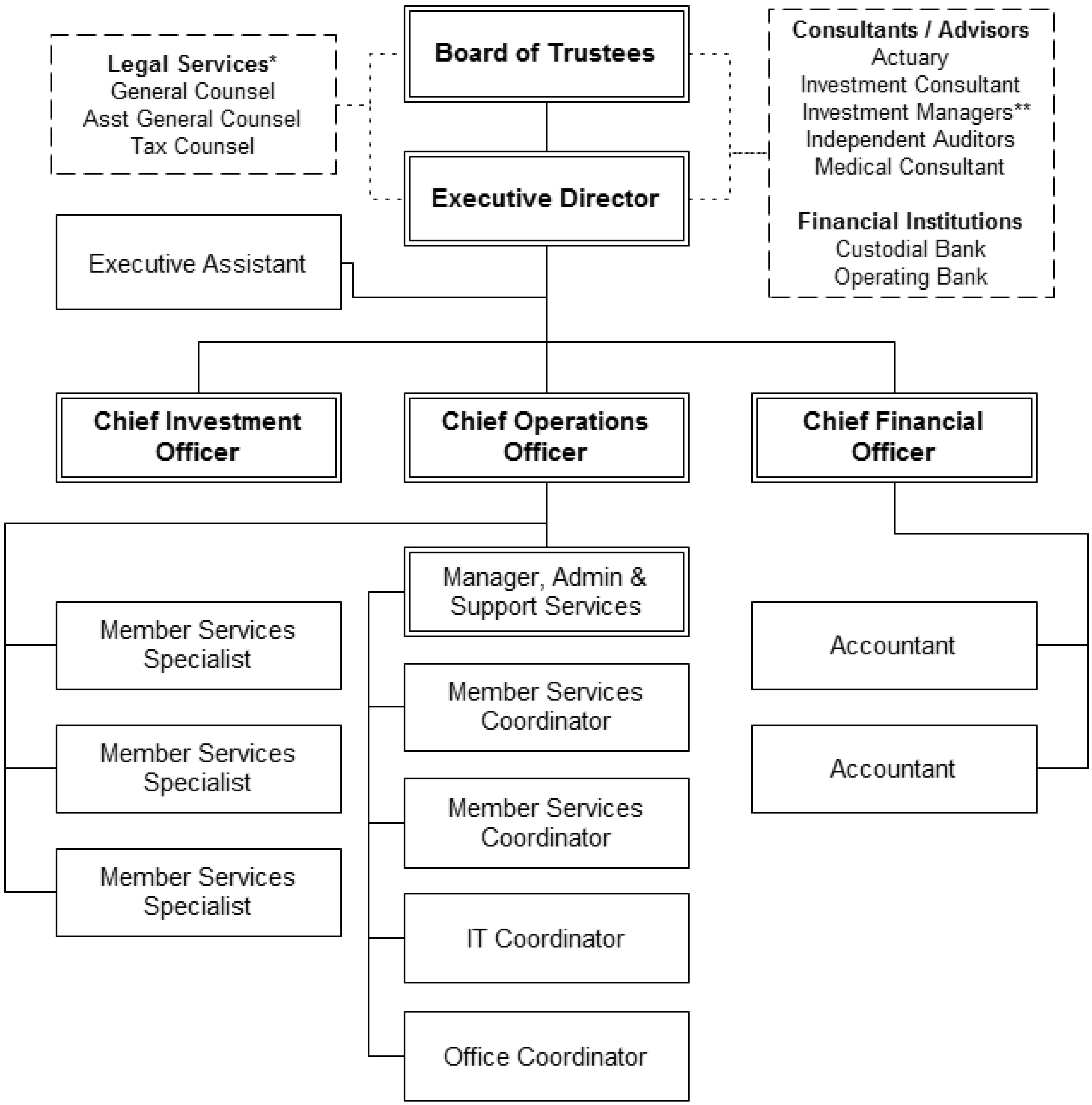









ORGANIZATIONAL CHART



* 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 LTD

International Equity
1607 Capital Partners LLC
City of London Investment Management Co LTD
Dimensional Fund Advisors LP
Mondrian Investment Partners LTD
Sprucegrove Investment Management LTD
Walter Scott & Partners LTD

Real Estate
Principal Global Investors LLC

US Equity
AQR Capital Management LLC
Aronson + Johnson + Ortiz LP
Columbus Circle Investors
INTECH Investment Management LLC
Westfield Capital Management Company LP

SUMMARY OF PLAN PROVISIONS

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM (COAERS)

Introduction

COAERS is an IRS tax qualified 401(a) defined benefit plan governed by State Statute Article 6243n.

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 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: By State Statute, the employer contributes an amount equal to 8% of the employee's base compensation or a higher rate established by the employer. On September 13, 2010, the City Council established by Resolution the current schedule of employer contributions as follows:

- 14% of compensation effective October 1, 2010 for fiscal year 2010-11;
- 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.

RETIREMENT BENEFITS

Retirement Eligibility[1]

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 when 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

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.

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.

Supplementary Service Credit (formerly Permissive Time)[1] – 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.

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.

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
- Supplementary service 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[1] – 3.0%.

Average Final Compensation – The average salary for the highest 36 months of contributory service during the last 10 years.

Retirement Date

The effective date of retirement is always the last day of the month.

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.

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 Backward Deferred Retirement Option Program (Back DROP) allows a Member to receive a lump-sum payment in addition to receiving a monthly annuity based on Average Final Compensation 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.

Cost-of-living adjustments, 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.

Retirees Returning to Work

The retirement board shall suspend the retirement allowance of a retired member who resumes employment with an employer within the period of time established by the board, or who resumes employment after retirement as a regular full-time employee of an employer. The retirement board shall suspend the retirement allowance of a retired member who resumes employment with an employer in a position that is not required to participate in another retirement system maintained by an employer, and who is not a regular full-time employee of an employer, if the member works for, or is compensated by, an employer for more than 1,508 hours in any rolling 12-month period after the member resumes employment with the employer.

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. 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. 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.

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.

[1] Indicates a plan provision at December 31, 2011 which was later changed for employees hired on and after January 1, 2012.

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 approves an Amended Supplemental Funding Plan establishing the City's total employer contribution to the System as follows:

- 14% of compensation effective October 1, 2010 for fiscal year 2010-11;
- 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.

The City's total employer contribution levels remain in effect until the Amended Supplemental Funding Plan is amended or repealed.

The Amended Supplemental Funding Plan also requires any future benefit enhancements or cost of living adjustments otherwise permitted under the System's governing documents to be recommended by the City Manager and approved by the City Council. Finally, the Amended Supplemental Funding Plan stated that it was the City and the System's intention to seek legislative amendments to state law to improve the overall financial condition of the System by establishing reasonable but different benefit levels for employees of the City who became members of the System on or after January 1, 2012.

March 2011

The Board, through policy, increased the waiting period for certain retirees returning to work from 60 to 90 days.

June 2011

Article 6243n was amended establishing a new benefit tier for employees hired on and after January 1, 2012. The following provisions apply to those employees:

- Normal retirement eligibility at age 65 with 5 years of service credit; or at age 62 with 30 years of service credit;

- Early reduced retirement eligibility at age 55 with 10 years of service credit;
- An annuity formula multiplier of 2.5%;
- The purchase of nonqualified permissive service (supplementary service credit) for annuity calculations only and not for eligibility purposes;

Unrelated to the new benefit tier, Article 6243n was amended to revise the rules for retirees returning to work. The revised rules require the Board to suspend the retirement allowance of a retired member who resumes employment with an employer in a position that is not required to participate in another retirement system maintained by an employer, and who is not a regular full-time employee of an employer, if the member works for, or is compensated by, an employer for more than 1,508 hours in any rolling 12-month period after the member resumes employment with the employer.

Financial Section

KPMG LLP
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Independent Auditors' Report

The Board of Trustees
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, 2011 and 2010, 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 the 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, 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, 2011 and 2010, and the respective changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 28 through 31 and pages 52 through 53 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG

Our audits were conducted for the purpose of forming on opinion on the financial statements that collectively comprise the City of Austin Employees' Retirement System's basic financial statements. The other supplementary information on page 54 presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial, and statistical sections on pages 1 - 26, 55 - 68, 69 - 116, and 117 - 126, respectively, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

May 24, 2012

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2011 and 2010

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 2011 and 2010. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Plan net assets held in trust by the System decreased by $45.8 million, or (2.7%), in 2011, and increased by $200.3 million, or 13.3%, in 2010. All changes primarily correlate with investment returns.
- Contributions increased by $14.0 million, or 14.9%, in 2011, and by $10.2 million, or 12.1%, in 2010. The 2011 increase was due to an $11.9 million increase in the City's supplemental funding, an increase of $2.4 million in employee and City contributions based on payroll, and a decrease of $0.3 million in employee creditable service purchases. 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 amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $8.0 million, or 6.5% during 2011, and by $5.8 million, or 5.0%, during 2010. This is the result of increases in the number of System retirees and the average annuity payment. Benefit payments exceeded employee and City contributions by $21.6 million in 2011, and by $27.7 million in 2010.
- The System's rate of return on investments for the year ended December 31, 2011, was (0.87%) gross of fees, and (1.29%) net of fees, on a market value basis, which is less than the return of 15.92% gross of fees, and 15.51% net of fees, for the year ended December 31, 2010. 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, 2011, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 65.7%, which is down from the 69.6% level at December 31, 2010. However, the amortization period of the unfunded actuarial accrued liability was reduced to 27.1 years, which, for the first time since the 2001 valuation, falls within the GASB 25 standard of 30 years. See further discussion in footnote 4.
- The Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System to 14% of base compensation effective October 1, 2010, with future employer contributions to be increased as follows: to 16% of base compensation effective October 1, 2011 for fiscal year 2011-12; and to 18% of base compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.
- In 2011, benefit changes enacted by the Texas Legislature have created a new benefit tier (Group B), which, generally, will include employees hired on or after January 1, 2012. Early effects of this modification are observed in the Actuarial Valuation Report for the year ending December 31, 2011, which reports that the funding period has decreased from infinite to 27.1 years, and that both the normal cost and the ARC of the System have been significantly reduced.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2011 and 2010

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

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, 2011, 2010, 2009

Assets	2011	2010	2009
Cash and receivables	$ 15,755,686	15,226,146	20,502,113
Investments	1,655,406,896	1,704,103,736	1,507,265,750
Invested securities lending collateral	148,049,689	172,456,784	158,114,387
Capital assets, net	1,004,177	1,053,137	1,067,584
Total assets	1,820,216,448	1,892,839,803	1,686,949,834
Liabilities			
Total liabilities	154,427,025	181,247,574	175,669,284
Net assets held in trust for pension benefits	$ 1,665,789,423	1,711,592,229	1,511,280,550

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2011 and 2010

Assets. As shown in the table above, COAERS' net assets decreased by $45.8 million in 2011, and increased by $200.3 million in 2010. Changes in each year reflect investment returns in the financial markets. In 2011, there was a $1.8 million increase in the amount of cash held by the System, a $2.1 million increase in receivables, and a $3.4 million decrease in trades pending settlement, resulting in a $0.5 million change in the net amount of cash and receivables at year end. 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. The decrease in invested securities lending collateral of $24.4 million in 2011 reflected the net change in the number of securities on loan at year end; the 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. In both 2011 and 2010, the decrease in capital assets reflects depreciation, with additions and retirements being minimal.

Liabilities. Liabilities decreased $26.8 million in 2011 and increased by $5.6 million in 2010. These fluctuations were primarily due to changes in trades pending settlement and in securities lending collateral. See further discussion in footnote 3.

Summary of Changes in Plan Net Assets
Years Ended December 31, 2011, 2010, and 2009

	2011	2010	2009
Additions:			
Contributions	$ 108,221,083	94,204,820	84,014,770
Investment income (depreciation)	(15,132,730)	234,521,815	314,599,270
Investment expenses	6,832,369	4,419,964	3,755,216
Net investment income (depreciation)	(21,965,099)	230,101,851	310,844,054
Other income	965	765	363
Total additions	86,256,949	324,307,436	394,859,187
Deductions:			
Benefit payments and contribution refunds	129,841,775	121,882,744	116,043,021
General and administrative expenses	2,217,980	2,113,013	2,031,815
Total deductions	132,059,755	123,995,757	118,074,836
Net increase (decrease)	(45,802,806)	200,311,679	276,784,351
Net assets held in trust for pension benefits, beginning of year	1,711,592,229	1,511,280,550	1,234,496,199
Net assets held in trust for pension benefits, end of year	$ 1,665,789,423	1,711,592,229	1,511,280,550

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2011 and 2010

Additions. Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions from COAERS members and the City of Austin for 2011 and 2010 totaled $108.2 million, and $94.2 million, respectively. The 2011 contributions represent an increase of $14.0 million, or approximately 14.9% above 2010; 2010 contributions represent an increase of $10.2 million, or approximately 12.1% above 2009. The increases in both 2011 and 2010 were primarily due to an increased percentage of payroll being contributed under the Supplemental Funding Plans.

In 2011, COAERS incurred a negative return of $22.0 million on the market value of its investments due to a reversal of the equity and financial markets, a decrease of $252.1 million from 2010. In 2010, net investment gain was $230.1 million, a decrease of $80.7 million from 2009. Interest, dividends and net securities lending income generated 2011 income of $37.0 million, a slight increase from the 2010 income of $34.0 million. Investment managers' fees are based on their cumulative performance, and, accordingly, as returns were higher in the last two years, so were the amounts of investment manager fees paid; in 2011, fees increased by $2.4 million, and in 2010, the increase was $.07 million compared to 2009. The total rate of return (net of fees) for the System's investment portfolio in 2011 was (1.3%); in 2010 it was 15.5%.

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

Benefits paid in 2011 were $126.0 million, an increase of $8.4 million from payments made in 2010, which is consistent with an increase in the number of retirees to 4,542 in 2011. Refunds to terminating employees decreased by $0.4 million. Administrative expenses in 2011 were $2.2 million, an increase of 5.0% from those of 2010.

Benefits paid in 2010 were $117.7 million, an increase of $6.5 million from payments made in 2009, which is consistent with the increase in the number of retirees to 4,335 in 2010 from 4,086 in 2009. 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.

Overall Analysis. Overall, as of December 31, 2011, net assets decreased by $45.8 million, or (2.7%) from the prior year; over the five-year period ending December 31, 2011, net assets increased by 3.5%.

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, 2011

		Retirement Plan	Restoration Plan	Total
Assets				
Cash and cash equivalents (note 3)	$	3,431,068	15,000	3,446,068
Interest and dividends receivable		5,325,557	-	5,325,557
Trades pending settlement		2,775,277	-	2,775,277
Employer contributions receivable		2,807,689	-	2,807,689
Employee contributions receivable		1,401,095	-	1,401,095
Investments, at fair value (note 3):				
Domestic fixed income		491,071,692	-	491,071,692
Real Estate commingled fund		116,281,647	-	116,281,647
U.S. denominated equities		661,233,272	-	661,233,272
International equities		359,399,647	-	359,399,647
Short-term investment funds		27,420,638	-	27,420,638
Total investments		1,655,406,896	-	1,655,406,896
Invested securities lending collateral (note 3)		148,049,689	-	148,049,689
Capital assets, net (note 5)		1,004,177	-	1,004,177
Total assets		1,820,201,448	15,000	1,820,216,448
Liabilities				
Accrued expenses		1,602,060	-	1,602,060
Trades pending settlement		3,312,495	-	3,312,495
Securities lending transactions (note 3)		148,049,689	-	148,049,689
Refunds and death benefits payable		1,462,781	-	1,462,781
Total liabilities		154,427,025	-	154,427,025
Net assets held in trust for pension benefits	$	1,665,774,423	15,000	1,665,789,423

See accompanying notes to financial statements.

(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 Changes in Plan Net Assets

Year ended December 31, 2011

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 66,545,903	172,023	66,717,926
Employee contributions (note 4)	41,503,157	-	41,503,157
	108,049,060	172,023	108,221,083
Investment income:			
Net depreciation in plan investments	(52,353,421)	-	(52,353,421)
Interest	12,946,099	-	12,946,099
Dividends	23,479,424	-	23,479,424
Investment depreciation before expenses and securities lending	(15,927,898)	-	(15,927,898)
Securities Lending Activity:			
Securities lending income	795,168	-	795,168
Securities lending fees	(238,387)	-	(238,387)
Net securities lending appreciation	556,781	-	556,781
Investment expenses	(6,593,982)	-	(6,593,982)
Net investment depreciation	(21,965,099)	-	(21,965,099)
Other income	965	-	965
Total additions	86,084,926	172,023	86,256,949
Deductions:			
Retirement annuities	121,194,108	172,023	121,366,131
Contributions refunded to terminating employees	3,800,721	-	3,800,721
DROP disbursements	1,754,105	-	1,754,105
Retiree lump-sum annuity	728,535	-	728,535
Death benefits	2,192,283	-	2,192,283
General and administrative expenses	2,217,980	-	2,217,980
Total deductions	131,887,732	172,023	132,059,755
Net decrease	(45,802,806)	-	(45,802,806)
Net assets held in trust for pension benefits, beginning of year	1,711,577,229	15,000	1,711,592,229
Net assets held in trust for pension benefits, end of year	$ 1,665,774,423	15,000	1,665,789,423

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

Notes to Financial Statements

December 31, 2011 and 2010

(1) Plan Description

Retirement Plan

The Board of Trustees of the City of Austin Employees' Retirement System (COAERS, or 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, 2011, 2010, and 2009, membership consisted of the following:

	2011	2010	2009
Retirees and beneficiaries currently receiving benefits	4,542	4,335	4,086
Terminated members entitled to but not yet receiving benefits	922	941	975
Accounts held for terminated members *	1,791	1,776	1,738
Current employees	8,348	8,270	8,142
Total	15,603	15,322	14,941

** Includes 134 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. See subsequent event disclosure in footnote 10.

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 (ASFP), adopted by the City Council in October 2010, increased the supplemental contribution to the Plan to 6% of base compensation effective October 1, 2010. The ASFP also increases future employer contributions as follows: 8% of base compensation effective October 1, 2011 for fiscal year 2011-12; and 10% of base 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, 2011 and 2010

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 an 8% 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
2011	$	147,703	147,703
2010		119,260	119,260
2009		98,590	98,590

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, 2011 and 2010, for this Restoration Plan. Net assets remaining in this plan as of December 31, 2011 and 2010 were $15,000.

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

		Annual pension cost	Contributions made
2011	$	172,023	172,023
2010		167,995	167,995
2009		217,783	217,783

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

At December 31, 2011, 2010, and 2009, membership in the Restoration Plan included the following:

	2011	2010	2009
Retirees and beneficiaries currently receiving benefits	12	11	10
Terminated members entitled to but not yet receiving benefits	-	-	-
Current employees	-	-	-
Total	12	11	10

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, 2011, the balances of Fund 1, Fund 2, and Fund 3 were $413,953,304, $1,251,821,119 and $15,000, respectively. 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.

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

(a) Basis of Accounting

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

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

(b) Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2011 and 2010, the book balances of the demand deposit accounts totaled $3,445,768 and $1,687,593, 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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

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.

(d) Contributions Receivable

The employee and City contributions for the years ended December 31, 2011 and 2010 that were not deposited with the System by year-end and are shown as contributions receivable.

(e) Capital Assets

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

Furniture and fixtures	3-12 years
Building	40 years

(f) System Expenses

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

(g) Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles (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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

(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, 2011 and 2010, presents the System's investment mixes.

		2011	2010
Summary of investments by type:			
Asset-backed securities	$	630,258	744,707
Commercial mortgage-backed securities		17,541,468	16,156,984
Corporate bonds		130,013,844	114,269,060
US denominated equities		661,233,272	727,706,174
Government agencies		5,803,828	11,371,645
Government bonds		21,156,901	34,157,673
Government mortgage-backed securities		90,169,053	79,718,262
International equities		359,399,647	423,375,855
Nongovernment-backed CMOs		1,077,235	2,651,512
Other fixed income:			
NT Collective Aggregate Bond Index Fund - Non-Lending		224,679,105	190,360,637
Real Estate commingled fund		116,281,647	82,885,081
Short-term investment funds		27,420,638	20,706,146
Investments at fair value on balance sheet		1,655,406,896	1,704,103,736
Receivables and pending trades, net		4,788,339	4,312,848
Total investments (per investment consultant)	$	1,660,195,235	1,708,416,584

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, 2011 and 2010, the System's operating bank balances of $3,445,768 and $1,687,593, 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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

credit risk because all securities are held by the System's custodial bank in the System's name. At December 31, 2011 and 2010, 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. Proceeds from loaned securities are invested in a short-term fixed income portfolio, Northern Trust Core USA Fund.

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, 2011:

(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 six percent (6%) of the market value of any manager's portfolio. This restriction applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipal securities. The total holdings of an agency-issued mortgage-backed security of the same coupon and maturity series of the same agency shall not exceed twenty percent (20%) of the portfolio (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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

(b) Domestic Equity Investments

Domestic equity investments should total no less than twenty-two percent (22.0%), and no more than forty-two and one-half percent (42.5%), of the total investment portfolio measured at fair value. No single company's securities shall represent more than 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 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 combined with fixed income, the aggregate does not exceed 38% of the portfolio.

(e) Other Investment Information

As of December 31, 2011 and 2010, 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, 2011 and 2010, the following was the composition of the System's portfolio:

	2011	2010
Asset-backed securities	0.04%	0.04%
Commercial mortgage-backed securities	1.06%	0.95%
Corporate bonds	7.85%	6.71%
U.S. denominated equities	39.94%	42.70%
Government agencies	0.35%	0.67%
Government bonds	1.28%	2.00%
Government mortgage-backed securities	5.45%	4.68%
International equities	21.71%	24.84%
Nongovernment-backed CMOs	0.07%	0.16%
Other fixed income:		
NT Collective Aggregate Bond Index Fund - Non-Lending	13.57%	11.17%
Real Estate commingled fund	7.02%	4.86%
Short-term investment funds	1.66%	1.22%
	100.00%	100.00%

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a formal policy regarding interest rate risk, i.e., maturities of investments by type, but its 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. Mortgage obligations are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

As of December 31, 2011, 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	$ 630,258	-	-	-	630,258
Commercial mortgage-backed securities	17,541,468	-	-	-	17,541,468
Corporate bonds	130,013,844	834,517	70,762,082	38,475,882	19,941,363
Government agencies	5,803,828	-	4,296,828	1,507,000	-
Government bonds	21,156,901	-	-	12,715,704	8,441,197
Government mortgage-backed securities	90,169,053	-	354,977	7,461,227	82,352,849
Nongovernment-backed CMOs	1,077,235	-	-	-	1,077,235
Other fixed income:					
NT Collective Aggr Bond Index Fund	224,679,105	2,875,893	118,922,650	73,492,535	29,388,027
	$ 491,071,692	3,710,410	194,336,537	133,652,348	159,372,397

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

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CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

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 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 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, 2011 and 2010

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2011, 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	$ 185,585,738	11,329	12,778,433	-		175,020	172,620,956
AA	41,616,555	-	-	12,927,974	17,589,433	-	11,099,148
A	137,455,559	-	4,026,150	59,334,465	50,526,106	-	23,568,838
BBB	102,978,040	-	736,885	57,038,586	27,857,342	-	17,345,227
BB	953,451	-	-	712,819	-	195,696	44,936
B	1,266,904	618,929	-	-	-	647,975	-
D	58,544	-	-	-	-	58,544	-
Total credit risk of debt securities	$ 469,914,791	630,258	17,541,468	130,013,844	95,972,881	1,077,235	224,679,105
US govt & agencies*	21,156,901						
	$ 491,071,692						

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						

* 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.

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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

The System's exposure to foreign currency risk includes the following international securities (all equity) as of December 31, 2011, and December 31, 2010:

Currency		2011 Fair value	2010 Fair value
British Pound Sterling	$	111,587,066	132,130,261
Japanese Yen		72,490,781	92,960,864
EURO Currency		62,031,331	75,605,776
Swiss Franc		23,617,455	24,646,561
Hong Kong Dollar		23,434,627	28,551,962
Australian Dollar		23,059,909	21,124,635
Singapore Dollar		18,039,618	20,910,529
Canadian Dollar		9,078,321	10,804,975
Danish Krone		4,730,793	3,510,266
South African Rand		3,612,182	3,328,158
Swedish Krona		3,394,810	3,465,568
New Zealand Dollar		2,476,967	3,488,762
Malaysian Ringgit		725,042	1,222,157
Hungarian Forint		593,809	910,538
Norwegian Krone		526,936	714,843
Total securities subject to foreign currency risk	$	359,399,647	423,375,855

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, 2011 and 2010, the System held no foreign currency options.

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, 2011 and 2010, 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 2011 and 2010.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

As of December 31, 2011 and 2010, the System owned the following securities that were in possession of a borrowing financial institution:

		2011		2010	
		Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
Corporate bonds	$	9,415,946	9,626,163	9,991,639	10,177,401
Corporate stocks		96,491,221	99,053,718	104,327,374	107,144,543
International stocks		16,812,605	17,601,674	25,919,176	27,169,370
US govt securities		21,389,851	21,768,134	27,525,645	27,965,470
Total	$	144,109,623	148,049,689	167,763,834	172,456,784

Cash collateral received from borrowers of securities is invested in accordance with COAERS' securities lending agreement. As of December 31, 2011 and 2010, cash collateral was invested in the following categories:

Investment Category		**2011**	**2010**
Cash and other liquid assets	$	40,239,905	17,832,031
Asset-backed securities		5,477,839	15,193,443
Commercial paper		3,745,657	14,089,719
Repurchase agreements		6,454,967	46,615,069
Certificates of deposit		34,036,623	37,974,984
US govt & agencies		27,004,263	33,939,495
Domestic corporate fixed-income securities		31,090,435	6,812,043
Total cash collateral received	$	148,049,689	172,456,784

(4) Contributions Required and Contributions Made

As of December 31, 2011 and 2010, 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

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 was resumed with the December 31, 2011 actuarial valuation.

The latest actuarial valuation was as of December 31, 2011; in this valuation, the Plan had an unfunded actuarial accrued liability of $932,942,173. At December 31, 2011 and 2010, employer and employee contributions totaling $108,221,083 and $94,204,820, respectively, were required by the Plan and paid into the System.

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 base compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 16% of base compensation effective October 1, 2011 for fiscal year 2011-12; and 18% of base compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter.

(5) Capital Assets

The following summarizes the capital asset account balances as of December 31, 2011, and December 31, 2010, and changes to the accounts during the years then ended:

		Balance December 31, 2009	Additions	Balance December 31, 2010	Additions	Balance December 31, 2011
Capital assets not being depreciated:						
Land	$	**249,964**	-	**249,964**	-	**249,964**
Capital assets being depreciated:						
Building		1,184,560	14,365	1,198,925	-	1,198,925
Furniture and fixtures		560,265	40,181	600,446	(5,562)	594,884
Total capital assets being depreciated		**1,744,825**	**54,546**	**1,799,371**	**(5,562)**	**1,793,809**
Less accumulated depreciation:						
Building		397,628	42,322	439,950	29,973	469,923
Furniture and fixtures		529,577	26,671	556,248	13,425	569,673
Total accumulated depreciation		**927,205**	**68,993**	**996,198**	**43,398**	**1,039,596**
Total capital assets, net of accumulated depreciation	$	**1,067,584**	**(14,447)**	**1,053,137**	**(48,960)**	**1,004,177**

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

(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, March 2003, and May 2012.

(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 $5,000 deductible and a building limit of $1,859,400 with contents coverage of $647,300. Automobile limits are set at $1,000,000 per occurrence. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for any of the past three years. The System obtains Workers Compensation and Employers Liability coverage through Texas Mutual Insurance Company.

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

(8) Health Plan for Retired COAERS Employees

Plan Description: The City of Austin Employees' Retirement System (COAERS) participates in the healthcare plan administered by the City of Austin (the 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 2011 and 2010 were approximately $8,450 and $8,150, respectively. In addition, the Plan members receiving benefits contributed approximately $250 per month in 2011, and $240 per month in 2010, for individual coverage; dependent coverage paid by the members was approximately $700 per month in 2011, and $680 in 2010.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

(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, 2011 (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)
12/31/2011	1,790.90	2,723.80	932.90	65.7%	451.80	207%

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, 2011, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	27.1 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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2011 and 2010

(10) Subsequent Event

In June 2011, the Texas State Legislature approved an amendment to Article 6243n, COAERS' plan document. This modification establishes a new benefit tier (identified as Group B) for employees hired on and after January 1, 2012, with the following provisions:

- Normal retirement eligibility at age 65 with 5 years of service credit; or at age 62 with 30 years of service credit;
- Early reduced retirement eligibility at age 55 with 10 years of service credit;
- An annuity formula multiplier of 2.5%
- The purchase of nonqualified permissive service (supplementary service credit) for annuity calculations only and not for eligibility purposes.

There were no Group B members at December 31, 2011.

The benefit structure for employees hired prior to January 1, 2012 with contributions being held by COAERS on that date (identified as Group A), are unaffected by the Group B provisions, and will continue under the plan as described in footnote 1.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2011 and 2010

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, 2006 through 2011

Valuation	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as a Percentage of Covered (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
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%
12/31/2011	1,790.9	2,723.8	932.9	65.7%	451.8	206.5%

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2006 through 2011

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
2006	$ 49,390,358	$ 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%
2011	83,893,732	66,545,903	79.3%

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 6.5% subsidy (prorated for 10/2010 increase from 6% to 8%)) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2011 this percentage is 14.5% / 18.28% = 79.32%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed, $66,545,903 / 79.32%, which produces a 2011 ARC of approximately $83,893,732.

See accompanying independent auditors' report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2011 and 2010

(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. The funded ratio expresses 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 was not sufficient to amortize the System's unfunded liabilities. In 2010, the System 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, 2011, the date of the latest actuarial study, include:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	27.1 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

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

Investment Expenses

		2011	2010
Custodial & Transaction Fees			
Northern Trust Investments, Inc.	$	157,338	121,935
Investment transaction fees		23,492	22,229
		180,830	**144,164**
Investment Manager Fees			
1607 Capital Partners		1,357,649	114,684
Agincourt Capital Management LLC		883,215	318,165
AQR Capital Management LLC		349,542	228,273
Aronson + Johnson + Ortiz LP		178,427	193,271
Columbus Circle Investors		648,982	330,021
INTECH Investment Management LLC		399,361	322,808
Mondrian Investment Partners LTD		679,908	657,532
Northern Trust Global Investments LTD		61,126	62,523
Pzena Investment Management LLC		281,284	283,920
Sprucegrove Investment Mgmt LTD		597,456	675,073
Wall Street Associates LLC		70,787	91,111
Walter Scott & Partners LTD		616,793	689,688
Westfield Capital Management Co LP		24,988	-
Prior-year accrual-to-actual variance		54,884	(55,707)
		6,204,402	**3,911,362**
Investment Consulting Fees			
Summit Strategies Group		**208,750**	**175,000**
Total	**$**	**6,593,982**	**4,230,526**

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

General & Administrative Expenses

		2011	2010
Actuary	**$**	53,597	69,003
Attorney		1,313	20,497
Auditing		69,600	72,775
Banking Services		2,847	14,786
Computer Services		159,774	125,621
Consultants		6,932	9,305
Administrative		1,683,278	1,550,628
Depreciation		48,960	68,994
Insurance		124,882	124,275
Member Communications		23,769	13,580
Continuing Education & Site Visits		43,028	43,549
Total	**$**	**2,217,980**	**2,113,013**

Consultant Expenses

		2011	2010
Actuary			
Gabriel Roeder Smith & Co	**$**	**53,597**	**69,003**
Attorney			
Strasburger & Price LLP		**1,313**	**20,497**
Auditing			
KPMG LLP		42,600	40,200
Padgett Stratemann Co LLP		27,000	32,575
		69,600	**72,775**
Banking Services			
JPMorgan Chase		1,599	13,589
National Payment Corporation		1,248	1,197
		2,847	**14,786**
Computer Services			
Austin Web Design		2,228	2,208
Levi Ray & Shoup		119,310	82,260
White Glove Technologies		36,206	32,253
Other		2,030	8,900
		159,774	**125,621**
Other Consultants			
Robert A. Dennison MD		5,632	6,270
Jonathan Decherd MD		-	285
Martin Associates Architects		-	2,550
Other		1,300	200
		6,932	**9,305**
Total	**$**	**294,063**	**311,987**

See accompanying independent auditors' report.

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INVESTMENT SECTION

coaers

City of Austin Employees' Retirement System

April 2012

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, 2011. 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

Risk On then Risk Off

Calendar year 2011 began with positive momentum from the previous year as the global economy appeared to be making steady progress in recovering from the Great Recession of 2008. Actions taken by central bankers and policy makers around the globe also gave investors confidence that the global financial system was on the mend. The first challenge to the global economy in 2011 came from the earthquake and tsunami that struck Japan on March 11. In addition to the tragic loss of life, the disaster crippled a major economic entity and caused global supply chain disruptions. When it became evident that the ingenuity and resilience of the Japanese people would win the day, and that the economic disruption would not derail the global economic recovery, investors were emboldened to increase their exposure to equities and other investments that reward risk. This positive environment for risk-based investments persisted through mid-summer until the European sovereign debt crisis resurfaced. This brought about renewed fears of a global financial crisis and a sell-off in equities and other risk-based investments in favor of safe haven assets such as cash and bonds. Broadly speaking, investors maintained a risk averse approach through the remainder of the year. To summarize 2011, what worked for the first half of 2011 was risk on as risk-based assets advanced and what worked for the second half of 2011 was risk off as risk-based assets declined.

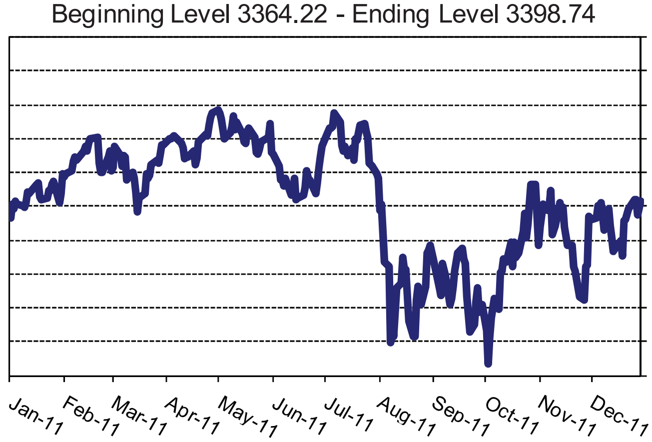
CAPITAL MARKETS

U.S. Stock Market

The chart to the right is of the Russell 3000 stock index. It shows how the U.S. stock market reacted to the events of this past year. The general uptrend of the first half of the year as well as the subsequent downdraft and higher volatility characteristic of the rest of the year are evident. For the full year, U.S. stocks advanced early then declined later finishing the year about where they began resulting in very modest total returns for the year.

Change in the Russell 3000® Index during 2011

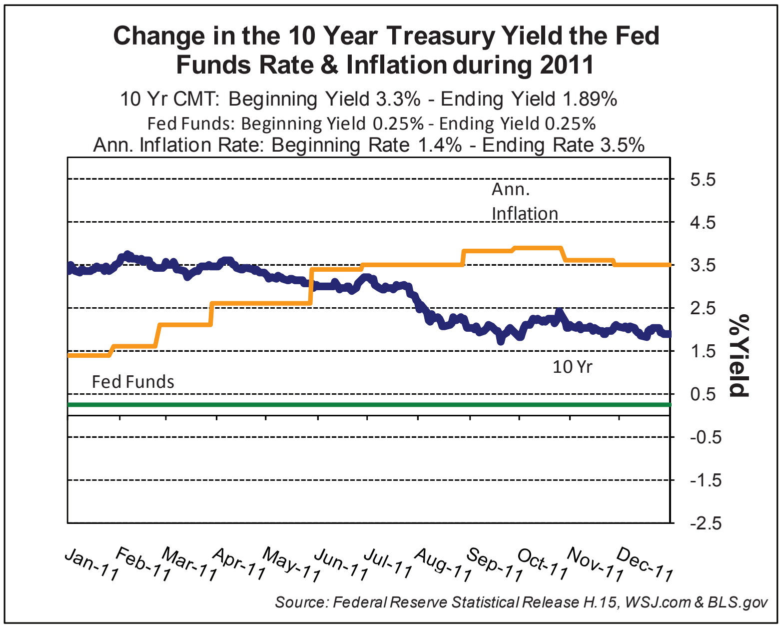
Beginning Level 3364.22 - Ending Level 3398.74



Source: Frank Russell Company

Interest Rates

The risk on then risk off theme of 2011 is also displayed in the course of interest rates during the year. Yields on ten year US Treasury bonds held close to 3.5% for the first half of the year and dipped to around 2% during the second half. Renewed concerns related to the European sovereign debt crisis and heightened volatility during the second half of the year caused investors to move money out of equities and other risk-based investments and into safe-haven assets like US Treasury bonds. For the third consecutive year the Fed Funds rate remained unchanged at the 0 to 0.25% target established by the Federal Reserve. The very low short-term rates, while helpful for global financial institutions, may be having a less than benign impact on inflation. Inflation increased during the year and consumers really began to sense the impact as prices increased noticeably for non-discretionary items like food and energy.



INVESTMENT PERFORMANCE

Investment Returns Through December 2011

US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	0.08%	0.13%	1.46%
Barclays Capital Aggregate Bond Index	Core Bonds	7.84%	6.77%	6.50%
Barclays Capital Corporate Bond Index	Corporate Bonds	8.15%	11.84%	6.82%
Barclays Capital High Yield Bond Index	High Yield Bonds	4.98%	24.12%	7.54%
City of Austin Employees' Retirement System	**Domestic Fixed Income**	**7.69%**	**8.33%**	**6.68%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	1.03%	14.88%	(0.01%)
Russell 1000® Index	Large Cap Equity	1.50%	14.81%	(0.02%)
Russell 1000® Growth Index	Large Cap Growth	2.64%	18.02%	2.50%
Russell 1000® Value Index	Large Cap Value	0.39%	11.55%	(2.64%)
Russell 2500™ Index	Mid Cap Equity	(2.51%)	18.41%	1.24%
Russell 2000® Index	Small Cap Equity	(4.18%)	15.63%	0.15%
City of Austin Employees' Retirement System	**Broad US Equity**	**0.58%**	**15.63%**	**0.51%**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	(13.33%)	11.20%	(2.48%)
MSCI EAFE	Developed Non-US Equity	(11.73%)	8.16%	(4.26%)
MSCI Emerging Mkts.	Emerging Non-US Equity	(18.17%)	20.42%	2.70%
City of Austin Employees' Retirement System	**International Equity**	**(12.47%)**	**15.63%**	**0.30%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	14.26%	2.43%	3.09%
City of Austin Employees' Retirement System	**Real Estate**	**16.43%**	**(1.87%)**	**(0.99%)**
Policy Weighted Benchmark Index	Multiple	(0.99%)	10.62%	1.34%
City of Austin Employees' Retirement System	**Total Fund**	**(0.87%)**	**13.13%**	**2.94%**

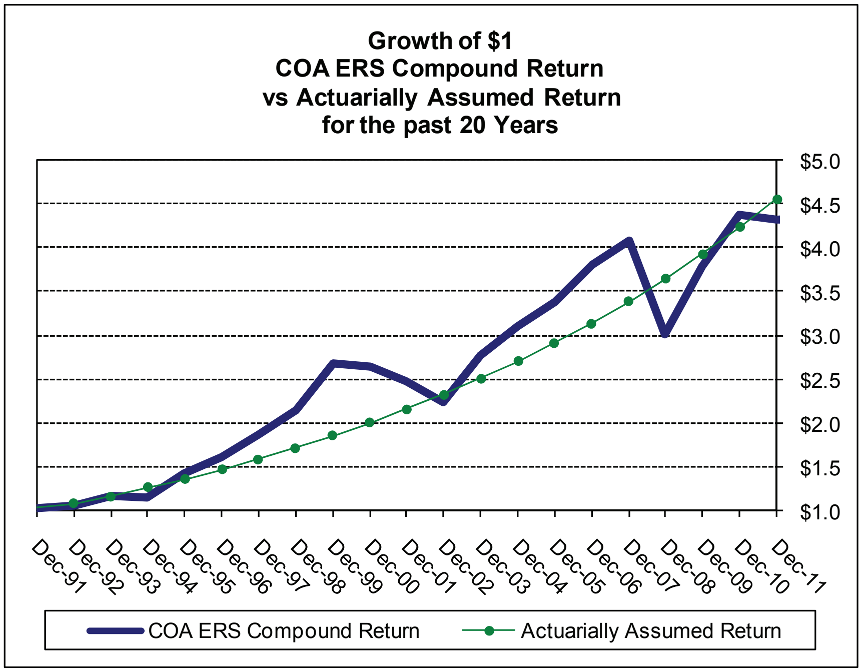
Source: Summit Strategies Group

Bonds Perform and Stocks Struggle

Capital markets produced mixed results during 2011 with defensive investments doing well and more aggressive investments performing poorly. Domestic equity markets were flat to negative with large capitalization stocks performing relatively well compared to smaller stocks, which lost ground. International equities were hard hit amidst the uncertainty and speculation concerning the fate of the Euro zone as European leaders worked overtime to address the difficult path forward. Domestic core real estate was a bright spot for the year as investors were attracted to the relatively stable, income producing asset class.

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 below what would have been experienced had the Fund earned the actuarially assumed rate. The past 20 year period has seen both bull and bear markets in equities. With the historical backdrop of the past 20 years, we believe that a long-term performance target of 7.75% may be an achievable, if, challenging goal. We are cognizant of the fact that long-term investing to achieve this goal is dependent upon future growth in the global economy and that growth may be muted for some time.



ASSET ALLOCATION

Diversification Reduces Volatility

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

Asset Allocation				
ASSET CLASS	Min	12/31/11	Target	Max
CASH	0.00%	0.25%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	36.90%	35.00%	43.00%
FIXED INCOME	27.00%	29.90%	30.00%	33.00%
REAL ESTATE	0.00%	7.00%	5.00%	10.00%
COMMON STOCKS	60.00%	62.85%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	23.38%	22.75%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	9.33%	9.75%	14.75%
INTERNATIONAL	27.50%	30.14%	32.50%	37.50%

Due to the strong performance of the US and International stock portions of the portfolio 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. The rebalancing performed in 2011 beneficially impacted portfolio returns for the year.

RECENT EVENTS AND OUTLOOK

Looking Ahead

The economic recovery from the 2008 recession remains weak compared to historical averages. U.S. economic growth, while remaining positive, decelerated last year as real GDP growth for 2011 was 1.6% compared to 3.1% in 2010. Though the domestic employment situation has improved recently, the unemployment rate remains stubbornly high. The housing sector appears to be healing to some degree, but the single family sector is anything but robust. Corporate profitability remained high during 2011; however, higher input prices may begin to erode profit margins. Though consumer spending has held up reasonably well, it remains to be seen if wages will keep up with inflation in non-discretionary goods.

A primary reason for both the depth of the 2008 financial crisis and the generally weak recovery has to do with debt; both at the personal and government level. Debt incurred for the purpose of increasing productive capacity will generally increase future economic growth, while debt incurred for the purpose of current consumption will generally detract from future economic growth. Borrowing money to fund current consumption diminishes future consumption by the amount necessary to service the debt incurred. In the current environment it is increasingly apparent that a great portion of the debts incurred over the last several years did not fund productive purposes but rather funded consumption. It is also apparent that this has been a global phenomenon. Currently the amount of resources devoted to servicing accumulated debts is creating a significant drag on global economic growth and there are no short-term solutions. Until the debt is either extinguished or repaid the drag on economic growth will persist. Refinancing may help avoid a crisis but it only changes the terms of the debt servicing.

The economic environment is indeed challenging. Slower economic growth will likely mean that the global economy becomes susceptible to more frequent recessions as economic momentum is diminished. More frequent recessions would be accompanied by higher levels of volatility in capital markets. 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, 2012

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

The COAERS investment portfolio experienced strong returns in 2009 (up 26.0%) and 2010 (up 15.9%) as it rebounded from the fiscal crisis of 2008. 2011 offered muted returns, losing 0.9% gross of fees for the fiscal year ending December 31. The portfolio decreased from a beginning value of $1.71 billion to its current value of $1.66 billion as a result of investment loss of $14 million, which added to net outflows of $34 million. The S&P 500 posted a 2.1% return as capital markets struggled with the global recovery and economic improvement.

As detailed earlier, the COAERS' investment portfolio lost 0.9% for the year ending December 31, 2011. This led the fund's Policy and Passive Indices, but trailed the Median Public Fund in the Mellon sample. Specifically, the investment portfolio beat its Policy Index return by 0.1%, the Passive Index return by 0.3%, and trailed the Median Public Fund return by 1.3%, ranking in the 76th percentile. The outperformance versus Policy is largely attributable to COAERS' portfolio structure and active equity managers beating their benchmarks. The underperformance versus peers is driven by asset allocation; COAERS has a higher international equity weighting versus peers and this was the worst equity asset class in 2011. While COAERS' international equity portfolio was down less than the benchmark and managers protected value, these equities were down the most in response to the European financial crisis. Asset allocation is a long-term, strategic decision designed to capture asset classes, and looking forward, international equities offer strong return potential as the least expensive equity asset class. Real estate continued its rebound in 2011 returning 16.4%. Longer-term results are positive and good on a relative basis. For the 10-year period, the fund returned 6.0% annualized. In this case, the return exceeded the Policy Index and more than 85% 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 2011, the manager review process begun in 2010 resulted in the termination of a US equity manager and the hiring of Westfield Capital. The Board continued education of investment themes recommended in an earlier asset/liability study and began preparations for the 2012 asset/liability study. This exploration includes real assets, equity, fixed income, private equity, and alternative strategies.

The results for the past year trailed the fund's actuarial assumption for long-term investment results and served as a reminder of the current lower expected return environment. 2011 investment markets started off well in the first half of the year, only to stumble in the third quarter, when the US suffered its first downgrade of debt and Europe experienced significant uncertainty. After surviving the market turmoil of 2008 and a strong rebound, 2011 turned out to be a year of muted returns reminding the System of the work needed to progress toward 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 benefit the System and its members. We believe the fund is in a good position to capture consistent, quality results in the years to come and the asset/liability study of 2012 provides the opportunity for further refinement. 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 the Investment Policy.
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 6% of the market value of any manager's portfolio. Fixed income securities of any one corporation shall 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 (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 Policy.
- 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
12/31/2011

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2011 VALUE	% OF FUND	ASSET ALLOCATION TARGET %	ASSET ALLOCATION TARGET AMOUNT	VARIANCE FROM TARGET AMOUNT	VARIANCE FROM TARGET %
Common Stocks	**$ 1,043,382,148**	**62.85%**	**65.00%**	**1,079,126,903**	**(35,744,755)**	**-2.15%**
Domestic Large Cap Equities	388,123,013	23.38%	22.75%	377,694,416	10,428,597	
Domestic Non-Large Cap Equities	154,956,247	9.33%	9.75%	161,869,036	(6,912,789)	
International Equities	500,302,888	30.14%	32.50%	539,563,451	(39,260,563)	
Subtotal for Rebalancing	**616,813,087**	**37.15%**	**35.00%**	**581,068,332**	**35,744,755**	**2.15%**
Fixed Income	496,437,789	29.90%	30.00%	498,058,570	(1,620,781)	
Real Estate	116,281,656	7.00%	5.00%	83,009,762	33,271,894	
Cash	4,093,642	0.25%	0.00%	-	4,093,642	
TOTAL	**$ 1,660,195,235**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**$ 388,123,013**	**23.38%**	**22.75%**	**377,694,416**	**10,428,597**
INTECH INVESTMENT MANAGEMENT LLC (large cap - core)	200,606,491	12.08%	11.3750%	188,847,208	11,759,283
WESTFIELD CAPITAL MGMT COMPANY LP (large cap - growth)	90,766,618	5.47%	5.6875%	94,423,604	(3,656,986)
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	96,749,904	5.83%	5.6875%	94,423,604	2,326,300
US EQUITIES (Non-Large)	**154,956,247**	**9.33%**	**9.75%**	**161,869,036**	**(6,912,789)**
COLUMBUS CIRCLE INVESTORS (small cap - growth)	79,569,789	4.79%	4.8750%	80,934,518	(1,364,729)
AQR CAPITAL MANAGEMENT LLC (small cap - value)	75,386,458	4.54%	4.8750%	80,934,518	(5,548,060)
INTERNATIONAL EQUITIES	**500,302,888**	**30.14%**	**32.50%**	**539,563,451**	**(39,260,563)**
WALTER SCOTT & PARTNERS LTD (dvlp mkts - growth)	125,105,339	7.54%	8.000%	132,815,619	(7,710,280)
SPRUCEGROVE INVESTMENT MGMT LTD (dvlp mkts - value)	125,095,258	7.53%	8.000%	132,815,619	(7,720,361)
1607 CAPITAL PARTNERS LLC (non-correlated alpha)	77,986,113	4.70%	5.000%	83,009,762	(5,023,649)
MONDRIAN INVESTMENT PARTNERS LTD (dvlp mkts - small cap)	76,891,621	4.63%	5.000%	83,009,762	(6,118,141)
CITY OF LONDON INVESTMENT MGMT CO LTD (emerging markets)	49,735,211	3.00%	3.250%	53,956,344	(4,221,133)
DIMENSIONAL FUND ADVISORS LP (emerging markets)	45,489,346	2.74%	3.250%	53,956,345	(8,466,999)
DOMESTIC FIXED INCOME	**496,437,789**	**29.90%**	**30.00%**	**498,058,570**	**(1,620,781)**
AGINCOURT CAPITAL MANAGEMENT LLC (core)	271,758,594	16.37%	15.00%	249,029,285	22,729,309
NT COLL AGG BOND INDEX FUND - NON-LENDING (core index)	224,679,195	13.53%	15.00%	249,029,285	(24,350,090)
REAL ESTATE	**116,281,656**	**7.00%**	**5.00%**	**83,009,762**	**33,271,894**
PRINCIPAL GLOBAL INVESTORS LLC	116,281,656	7.00%	5.00%	83,009,762	33,271,894
CASH	**4,093,642**	**0.25%**	**0.00%**	**0**	**4,093,642**
CASH	4,093,642	0.25%	0.00%	-	4,093,642
TOTAL	**$ 1,660,195,235**	**100.00%**			

Reconciliation to Statement of Plan Net Assets:

Interest and dividends receivable	**$**	**5,325,557**
Trades pending settlement (net)		**(537,218)**
Investments		**1,655,406,896**
Total investments (per investment consultant)	**$**	**1,660,195,235**

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/10	Balance 12/31/11	2011 Gross Return (%)	2011 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2011	3 Years	5 Years
FIXED INCOME GROUP	**$ 455,067,577**	**$ 496,437,789**	**7.7 %**	**$ 668,998**	**7.5 %**	**8.2 %**	**6.6 %**
Agincourt Capital Management LLC	264,706,911	271,758,594	7.5 %	639,545	7.3 %	9.3 %	6.7 %
BC Aggregate			7.8 %		7.8 %	6.8 %	6.5 %
NT Coll Agg Bond Index Fund - Non-Lending	190,360,666	224,679,195	7.9 %	29,453	7.9 %	7.0 %	6.4 %
BC Aggregate			7.8 %		7.8 %	6.8 %	6.5 %
INTERNATIONAL	**$ 609,686,824**	**$ 500,302,888**	**(12.5)%**	**$ 4,230,522**	**(13.1)%**	**14.9 %**	**(0.3)%**
Walter Scott & Partners LTD	144,452,092	125,105,339	(9.3)%	633,722	(9.7)%	10.5 %	0.7 %
EAFE			(11.7)%		(11.7)%	8.2 %	(4.3)%
Sprucegrove Investment Mgmt LTD	148,126,542	125,095,258	(9.6)%	611,850	(10.0)%	13.3 %	(2.5)%
EAFE			(11.7)%		(11.7)%	8.2 %	(4.3)%
Mondrian Investment Partners LTD	100,316,887	76,891,621	(8.1)%	706,652	(8.8)%	N/A	N/A
MSCI EAFE Small Cap			(15.7)%		(15.7)%	15.0 %	(3.8)%
1607 Capital Partners LLC	87,718,635	77,986,113	(11.0)%	1,196,277	(12.3)%	N/A	N/A
90% MSCI EAFE/10% Emerging Mkts			(12.7)%		(12.7)%	N/A	N/A
City of London Investment Management Co LTD	63,689,039	49,735,211	(20.9)%	739,062	(21.9)%	20.2 %	N/A
MSCI Emerging Markets			(18.2)%		(18.2)%	20.4 %	2.7 %
Dimensional Fund Advisors LP	65,383,629	45,489,346	(25.2)%	342,959	(25.6)%	20.4 %	N/A
MSCI Emerging Markets			(18.2)%		(18.2)%	20.4 %	2.7 %
DOMESTIC EQUITY	**$ 560,476,995**	**$ 543,079,260**	**0.6 %**	**$ 1,820,231**	**0.2 %**	**15.3 %**	**0.2 %**
US EQUITIES LARGE	**388,765,862**	**388,123,013**	**1.4 %**	**557,041**	**1.3 %**	**13.1 %**	**(0.3)%**
INTECH Investment Mgmt LLC	194,866,529	200,606,491	4.6 %	302,327	4.5 %	14.8 %	51.7 %
S&P 500			2.1 %		2.1 %	14.1 %	(0.3)%
Westfield Capital Management Company LP	N/A	90,766,618	N/A	24,988	N/A	N/A	N/A
Russell 1000 Growth			2.6 %		2.6 %	18.0 %	2.5 %
AllianceBernstein LP	99,272,683	N/A	N/A	N/A	N/A	N/A	N/A
Aronson+Johnson+Ortiz LP	94,626,650	96,749,904	2.5 %	229,726	2.2 %	11.1 %	(1.6)%
Russell 1000 Value			0.4 %		0.4 %	11.5 %	(2.6)%
US EQUITIES NON-LARGE	**171,711,133**	**154,956,247**	**(1.5)%**	**1,263,190**	**(2.3)%**	**21.0 %**	**1.3 %**
Wall Street Associates LLC	46,121,739	N/A	N/A	92,587	N/A	N/A	N/A
Pzena Investment Mgmt LLC	37,844,760	N/A	(6.1)%	358,493	(8.1)%	19.3 %	N/A
Russell Mid Cap Value			(1.4)%		(1.4)%	18.2 %	N/A
AQR Capital Management LLC	39,681,838	75,386,458	(4.8)%	286,352	(5.5)%	15.9 %	(1.4)%
Russell 2000 Value			(5.5)%		(5.5)%	12.4 %	(1.9)%
Columbus Circle Investors	48,062,796	79,569,789	2.0 %	525,758	0.9 %	23.6 %	N/A
Russell 2000 Growth			(2.9)%		(2.9)%	19.0 %	2.1 %
REAL ESTATE	**$ 82,885,081**	**$ 116,281,656**	**16.4 %**	**$ 686,766**	**15.6 %**	**(2.7)%**	**(1.9)%**
Principal Global Investors LLC	82,885,081	116,281,656	16.4 %	686,766	15.6 %	(2.7)%	(1.9)%
NCREIF Property			14.3 %		14.3 %	2.4 %	3.1 %
CASH	**$ 300,107**	**$ 4,093,642**	**1.0 %**	**N/A**	**1.0 %**	**0.5 %**	**1.8 %**
90 Day T-Bills			0.1 %		0.1 %	0.1 %	1.5 %
Total Fund	**$ 1,708,416,584**	**$ 1,660,195,235**	**(0.9)%**	**$ 7,406,517**	**(1.3)%**	**12.7 %**	**2.6 %**
**Policy Index*			(1.0)%		(1.0)%	10.6 %	1.3 %

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
126,100	Exxon Mobil Corp	$	10,688,236	0.64%
24,925	Apple Inc Com		10,094,625	0.61%
79,600	Chevron Corp Com		8,469,440	0.51%
141,510	Novartis AG CHF0.50 (REGD)		8,126,497	0.49%
379,200	General Electric Co.		6,791,472	0.41%
200,080	AT&T Inc Com		6,050,419	0.37%
101,900	Nestle SA CHF0.10 (REGD)		5,884,504	0.35%
86,780	Adidas AG		5,661,963	0.34%
30,760	International Business Machs Corp Com		5,656,149	0.34%
184,742	Wells Fargo & Co. New Com		5,091,489	0.31%
	Top 10 Stock Holdings	**$**	**72,514,794**	**4.37%**
	Total COAERS Investment Portfolio 12-31-2011	**$**	**1,660,195,235**	**100.00%**

Full listing available upon request.

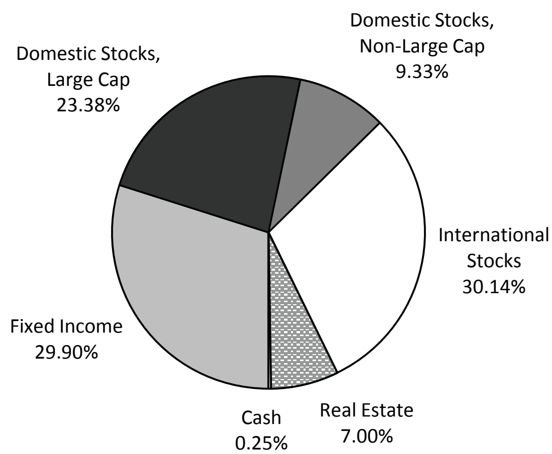
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	11,790,000	US Treasury Notes Dtd 00306 2.625% Due 8-15-2020 REG	$	12,715,703	0.77%
	8,655,779	FNMA Pool #AB2092 4% Due 01-01-2041 BEO		9,126,654	0.55%
	8,509,093	FNMA Gtd MTG Pool #AH2366 3.5% 01-01-2026 BEO		8,906,212	0.54%
	5,750,000	US Treasury Sec 4.5% Due 08-15-2039 REG		7,605,272	0.46%
	7,322,249	FNMA Pool #AE0981 3.5% Due 03-01-2041 BEO		7,537,120	0.45%
	5,216,197	FNMA Pool #995024 5.5% 08-01-2037 BEO		5,698,878	0.34%
	4,722,988	Federal Home Loan Mtg Corp Pool #A9-1538 4.5% 03-01-2040		5,007,534	0.30%
	4,190,795	FNMA Gtd Mtg Pool #AH2659 3.5% 01-01-2026 BEO		4,386,392	0.26%
	3,620,000	FNMA Fannie Mae 5% 05-11-2017		4,296,828	0.26%
	3,859,822	FNMA Pool #995023 5.5% 08-01-2037 BEO		4,214,578	0.25%
		Top 10 Bond Holdings	**$**	**69,495,171**	**4.18%**
		Total COAERS Investment Portfolio 12-31-2011	**$**	**1,660,195,235**	**100.00%**

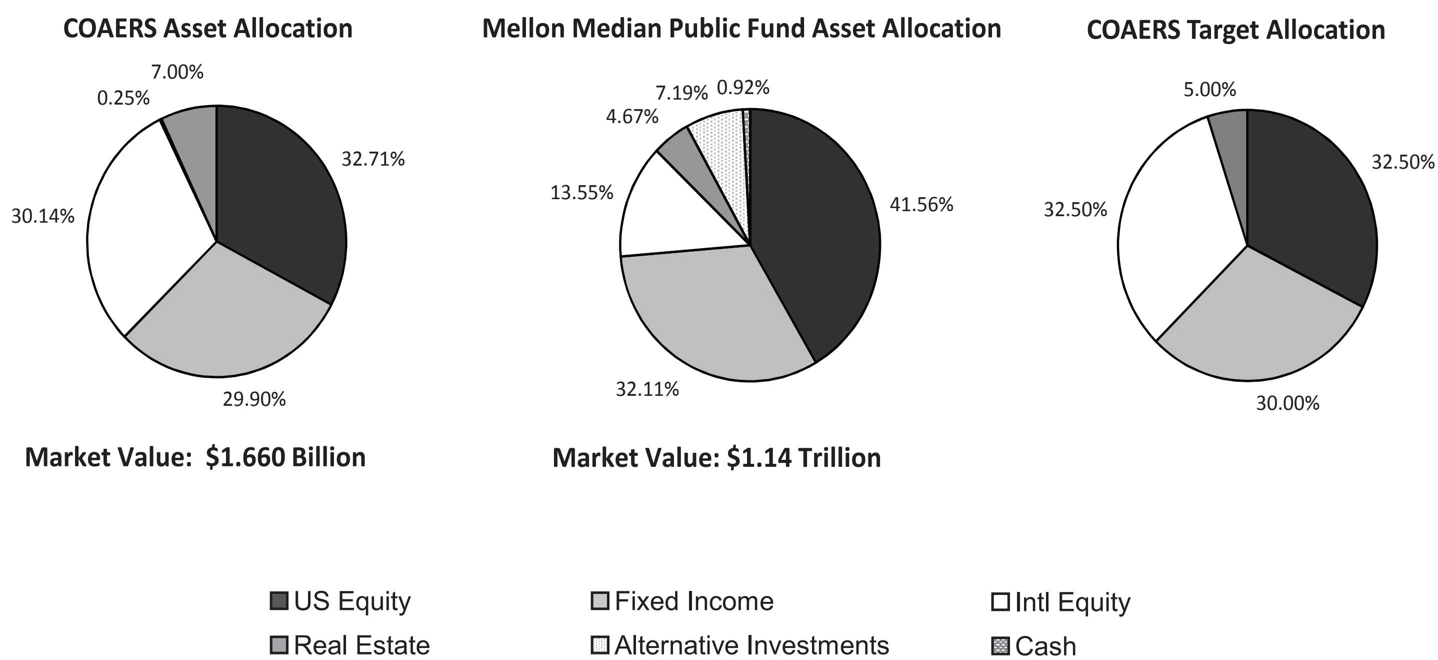
INVESTMENT SUMMARY AT FAIR MARKET VALUE

COAERS Investment Portfolio

Asset Class	Fair Value	Percentage of Total Fair Value
Fixed Income	$496,437,789	29.90%
Domestic Stocks, Large Cap	388,123,013	23.38%
Domestic Stocks, Non-Large Cap	154,956,247	9.33%
International Stocks	500,302,888	30.14%
Real Estate	116,281,656	7.00%
Cash	4,093,642	0.25%
	$1,660,195,235	100.00%



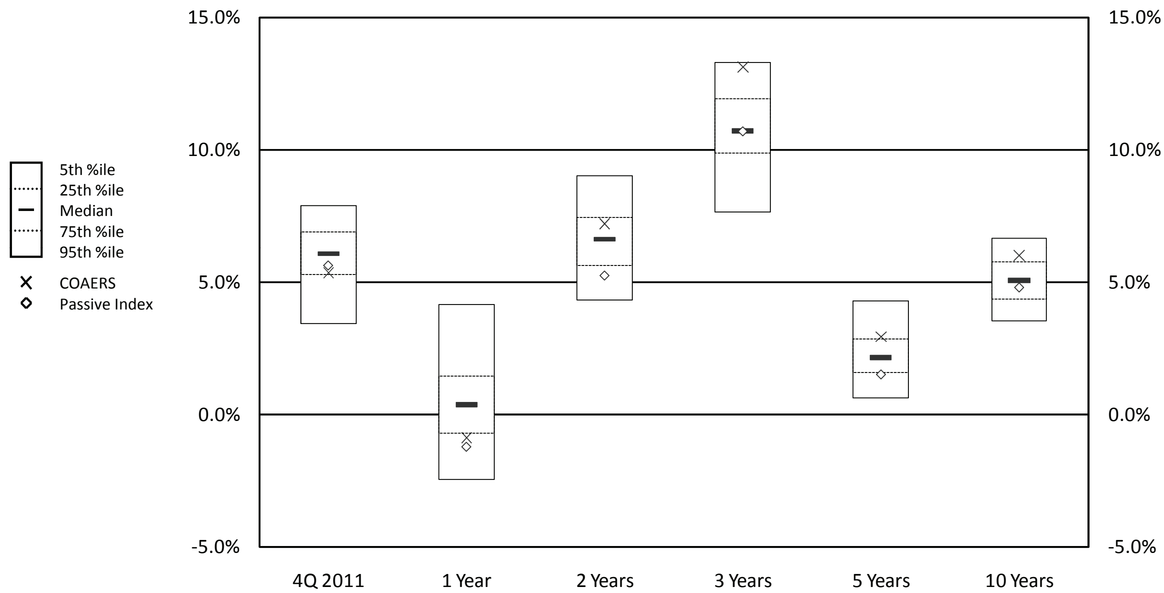
ALLOCATION BY SECTOR



BROKER COMMISSIONS OVER $10,000

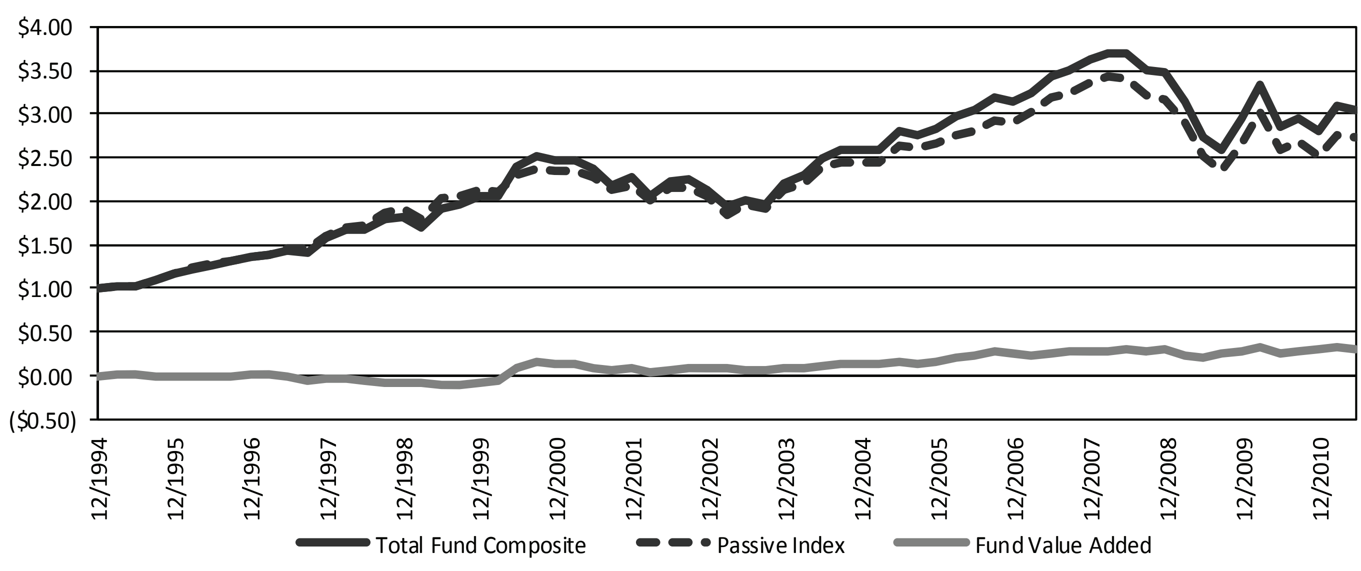
Broker Name	# Shares Traded	Commissions Paid	Cost per Share
Abel Noser Corporation	313,245	$ 12,536	$ 0.040
Barclays Capital LE	796,531	16,524	0.021
Bear Stearns 57079	3,482,315	24,394	0.007
Cap Institutional Services Inc	1,078,200	17,561	0.016
Credit Suisse First Boston Corporation	1,586,858	34,343	0.022
Deutsche Bank Securities Inc	5,924,156	46,253	0.008
Guzman & Company	626,900	10,244	0.016
InstiNet	608,930	10,214	0.017
Investment Technology Group Inc	1,022,737	20,752	0.020
Jefferies & Company	1,293,494	23,998	0.019
JP Morgan Securities Limited London	2,287,181	21,496	0.009
Knight Equity Markets LP	1,016,284	20,870	0.021
LiquidNet Inc	1,024,940	24,206	0.024
Lynch Jones & Ryan	2,046,388	44,570	0.022
Merrill Lynch International, London	1,030,054	19,195	0.019
Merrill Lynch Pierce Fenner & Smith	3,831,026	14,105	0.004
Morgan Stanley & Co Inc	334,901	11,172	0.033
Northern Trust Co	5,092,700	50,927	0.010
Oppenheimer and Company	277,342	11,027	0.040
Piper Jaffray Inc	494,749	12,964	0.026
RBC Dain Rauscher	337,252	12,741	0.038
Rosenblatt Securities LLC 501	960,055	15,416	0.016
SG Cowen and Company	1,337,200	12,825	0.010
UBS Warburg LLC	877,519	20,291	0.023
Wachovia Capital Markets 46171	269,973	10,814	0.040
Weeden & Co	876,736	19,557	0.022
172 Minor Brokers	24,526,430	294,835	0.012
Total Broker Commissions	**63,354,096**	**$ 833,830**	**$ 0.013**

TOTAL FUND AND PASSIVE INDEX VS. MELLON PUBLIC FUND UNIVERSE



	4Q 2011	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	5.36%	(0.87%)	7.20%	13.13%	2.94%	6.00%
Passive	5.62%	(1.22%)	5.24%	10.68%	1.51%	4.79%
5th Percentile	7.87%	4.16%	9.02%	13.28%	4.28%	6.65%
25th Percentile	6.88%	1.44%	7.43%	11.92%	2.86%	5.75%
Median	6.07%	0.38%	6.62%	10.72%	2.16%	5.06%
75th Percentile	5.30%	(0.72%)	5.62%	9.87%	1.58%	4.37%
95th Percentile	3.42%	(2.47%)	4.31%	7.66%	0.62%	3.55%
Observations	331	317	303	296	206	163

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.

Actuarial Section

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April 4, 2012

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, 2011

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, 2011, 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.

This is the first valuation to reflect the new tier of benefits. As a result, the normal cost has decreased and the plan's contribution rate is sufficient to amortize the System's unfunded liabilities in less than 30 years. Therefore, the funding objective is 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 8.0% or a total rate of 16.0%. 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 4, 2012
Page 2

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2006. As a result of that study, revised assumptions were adopted by the Board to be effective with the valuation as of December 31, 2006. We believe the assumptions are internally consistent, reasonable, and where appropriate based on the actual experience of COA ERS. (An experience study is being performed in 2012 which will establish new assumptions for the next valuation).

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, 2011, 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, 2010 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

Joe Newton

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

aap

Gabriel Roeder Smith & Company

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2011 may be summarized as follows:

	December 31, 2011 (1)	December 31, 2010 (2)
• Members		
— Actives	8,348	8,270
— Retirees and beneficiaries (and disabled)	4,542	4,335
— Vested - terminated*	922	941
— Proportional PSEM and CCSD	134	150
— Total	13,946	13,696
• Covered payroll	$ 451,831,198	$ 438,877,002
• Normal cost	$ 51,058,270	$ 68,893,836
— As % of payroll	11.74%	16.31%
• Actuarial accrued liability	$ 2,723,844,815	$ 2,460,664,794
• Present actuarial value of assets	$ 1,790,902,641	$ 1,711,577,229
• Unfunded actuarial accrued liability (UAAL)	$ 932,942,173	$ 749,087,565
• Estimated yield on assets		
— Actuarial value basis	5.94%	4.03%
— Market value basis	-1.42%	15.23%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	16.00% **	14.00% **
• Benefit and refund payments	$ 129,669,752	$ 121,714,749
• Amortization period of unfunded actuarial accrued liability	27.1 years	Infinite
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	206.5%	170.7%
— GASB funded ratio	65.7%	69.6%
— GASB Annual Required Contribution (ARC)	15.80%	18.28%

* Includes proportionate members of PSEM and CCSD, 112 in 2011 and 125 in 2010

** Employer rate increased to 14% effective October 1, 2010 and 16% effective October 1, 2011.

INTRODUCTION

This December 31, 2011 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, 2011, determine the funding period of any unfunded liability for the plan year beginning January 1, 2012, 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, 2011, is 11.74% of pay. This compares with 16.31% of pay as of the last valuation of December 31, 2010. 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 7.77% of pay. The normal cost for the deferred termination benefits is 0.41% and 2.50% for refunds of terminated employees (both vested and non-vested). The normal cost for disability benefits is 0.44%, and the normal cost for death benefits is 0.62%.

Table 1 illustrates a number of the key actuarial items for the 2011 valuation. As mentioned above, the total normal cost rate is 11.74% of covered payroll. The actuarial accrued liability is $2,723.8 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,790.9 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $932.9 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2010), the System was underfunded by $749.1 million.

As of October 1, 2011, the City is contributing 16% of payroll and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 24% of payroll to fund benefits. The current normal cost of the plan is 11.74%, which means that the System is currently receiving contributions in excess of the normal cost equal to12.26% of pay (24.00% less 11.74%). 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 be fully amortized over the next 27.1 years.

Under the Amended Supplemental Funding Plan (ASFP) the total City contribution rate has increased to 16.0% 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.

FUNDED STATUS OF THE PLAN
(Continued)

Furthermore, based on the benefit changes enacted by the 2011 Texas Legislature, the funding period has decreased from infinite in the prior valuation to less than 30 years as of the current valuation.

The GASB annual required contribution (ARC) is also developed in Item 10 on Table 1. The ARC for the 2012 plan year, as determined by the 2011 valuation, is 15.80%.

The reader may notice a significant drop in the normal cost and the ARC of the System. This is due to the reflection of the new benefit tier (Group B). The normal cost was determined using the Ultimate Normal Cost (or Replacement Life) method. This method determines the normal cost for all employees on an individual basis but assumes that all members are in the benefit tier that applies to new hires. This causes an immediate decrease in the Normal Cost percentage to the percentage the plan would be expected to ultimately reach as the new tier employees (Group B) replace all of the old tier employees (Group A). Because the Group A employees benefits are still based on the old tier there is a corresponding increase in the accrued liability for these employees (reflecting that the present value of their benefits remains unchanged). This methodology produces a more level contribution rate over time than the alternative method of determining the normal cost of each employee under their own benefit structure, which would trend towards the lower normal cost rate over time as the Group B employees replace the Group A employees.

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, 2011 is $1,790.9 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, the deferred gains and losses were fully recognized in the December 31, 2010 valuation as a result of marking the actuarial value of assets to the market value. As a result, only one year of deferred gains and losses are included in the determination of the actuarial value of assets as of December 31, 2011.

The total deferral of all Excess/(Shortfall) investment income for the year (shown in Table 4, Item 2.e.) is ($125.1) 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, 2011, assuming that income, revenue, and expenditures are evenly distributed throughout the year is -1.42% on a market value of assets basis. The rate of return for the year ending December 31, 2011, on an actuarial value basis was 5.94%. 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 $31.3 million in 2011. This compares to the $50.1 million loss in 2010.

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, 2010.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2011, is an underfunded position of $772.6 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 2011.

Since the actual unfunded actuarial accrued liability as of December 31, 2011 is $932.9 million, it represents a total net loss for the period of $160.4 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 $31.3 million as shown in Table 7, a gain on the liability side equal to $6.8 million, and a method loss of $135.8 million due to the recognition of the Group B benefit tier using the Ultimate Normal Cost method under the Entry-Age Normal actuarial cost method. 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.

This valuation is the first valuation to reflect the new benefit tier for employees hired after December 31, 2011. While no active members were in the new benefit tier on the valuation date, the new tier has been reflected using the Ultimate Normal Cost method as previously discussed. Please see Table 15 for a more detailed description of the plan provisions.

While the actuarial assets were marked to market last year, 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. COA ERS was required to comply with GASB No. 25 beginning January 1, 1997.

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

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

SUMMARY AND CLOSING COMMENTS

It is our opinion that the results of this valuation provide a reasonable reflection of the funded status of the System. The System's contributions are currently sufficient to amortize the unfunded liability of the System. However, this valuation does not reflect any proposed assumption changes that may be considered as part of the 2012 experience investigation. If more conservative assumptions are adopted, the current contribution rates may no longer amortize the unfunded liabilities over a period of 30 years or less.

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 69.6% at the prior valuation to 65.7% at this valuation. Based on the new benefit provisions and the current actuarial assumptions, it is expected that the ASFP will be sufficient to enable the System to maintain a position where the contributions to the System produce a funding period over which the unfunded liabilities can be amortized.

ACTUARIAL TABLES

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 1

SUMMARY OF COST ITEMS

	December 31, 2011		December 31, 2010	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,348		8,270	
b. Terminated vested	922		941	
c. Retired participants and beneficiaries	4,455		4,251	
d. Disabled	87		84	
e. Proportional PSEM and CCSD	134		150	
f. Total	13,946		13,696	
2. Covered Payroll	$ 451,831,198		$ 438,877,002	
3. Averages for Active Participants				
a. Average age	44.9		44.7	
b. Average years of service	9.7		9.5	
c. Average pay	$ 54,124		$ 53,069	
4. Total Normal Cost	$ 51,058,270	11.74% *	$ 68,893,836	16.31% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,383,791,695		$ 1,195,884,813	
b. Terminated vested participants	49,504,249		44,676,183	
c. Refunds of terminated nonvested participants	8,252,703		8,136,512	
d. Retired participants and beneficiaries	1,255,155,557		1,183,234,695	
e. Disabled participants	12,311,797		12,093,520	
f. Proportional PSEM and CCSD	14,828,814		16,639,071	
g. Total	$ 2,723,844,815	602.85%	$ 2,460,664,794	560.67%
6. Present Actuarial Assets	$ 1,790,902,641	396.37%	$ 1,711,577,229	389.99%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 932,942,173	206.48%	$ 749,087,565	170.68%
8. Relative Size of UAAL				
a. As percent of actuarial assets	52.09%		43.77%	
b. As percent of covered payroll	206.48%		170.68%	
9. 30-year amortization of UAAL as % of covered payroll	12.06%		9.97%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	23.80%		26.28%	
b. Employee contribution rate	8.00%		8.00%	
c. ARC (10a. - 10b.)	15.80%		18.28%	

* as % of expected payroll

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ANALYSIS OF NORMAL COST BY COMPONENT

	Cost as % of Pay	
Benefit Component	December 31, 2011	December 31, 2010
(1)	(2)	(3)
1. Retirement Benefits	7.77%	11.56%
2. Termination - Deferred Benefits	0.41%	1.87%
3. Termination - Refund Benefits	2.50%	2.15%
4. Disability Benefits	0.44%	0.27%
5. Death Benefits	0.62%	0.46%
6. Normal Cost	11.74%	16.31%

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

	December 31, 2011 (1)	December 31, 2010 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,504,879,327	$ 1,447,051,004
b. Deferred termination benefits	125,250,051	121,051,426
c. Refund of nonvested terminations	41,536,148	41,789,373
d. Disability benefits	16,332,483	15,850,982
e. Death benefits	38,914,835	37,394,209
f. Total	$ 1,726,912,844	$ 1,663,136,994
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,255,155,557	$ 1,183,234,695
b. Disability retirements	12,311,797	12,093,520
c. Total	$ 1,267,467,354	$ 1,195,328,215
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 49,504,249	$ 44,676,183
b. Nonvested terminations with refunds payable	8,252,703	8,136,512
c. Total	$ 57,756,952	$ 52,812,695
4. Proportional PSEM and CCSD	$ 14,828,814	$ 16,639,071
5. Total actuarial present value of future benefits	$ 3,066,965,963	$ 2,927,916,976
B. Present Value of Future Pay	$ 2,922,667,372	$ 2,864,820,236
C. Normal Cost Rate	11.74%	16.31%
D. Present Value of Future Normal Costs	$ 343,121,149	$ 467,252,181
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,726,912,844	$ 1,663,136,994
2. Less present value of future normal costs (Item D)	343,121,149	467,252,181
3. Actuarial accrued liability	$ 1,383,791,695	$ 1,195,884,813
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item E.3)	$ 2,723,844,815	$ 2,460,664,794

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TABLE 4

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item (1)	Valuation as of December 31, 2011 (2)
1. Excess (shortfall) of investment income for current year and previous three years (see Table 5):	
a. Current year	$ (156,410,273)
b. Current year -1	111,546,005
c. Current year -2	214,007,186
d. Current year -3	(568,702,657)
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	$ (125,128,218)
b. Current year - 1 (60% deferral)*	0
c. Current year - 2 (40% deferral)*	0
d. Current year - 3 (20% deferral)*	0
e. Total deferred for year	$ (125,128,218)
3. Market value of plan assets, end of year	$ 1,665,774,423
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.e)	$ 1,790,902,641
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	$ 1,332,619,539
b. 120% of market value of assets, end of year	$ 1,998,929,308
6. Final actuarial value of plan assets, end of year (Item 4, but not less than Item 5.a., or greater than Item 5.b.)	$ 1,790,902,641

* All deferred shortfalls and excess in deferred investment income recognized due to "Mark to Market as of January 1, 2011"

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 5

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31, 2011	2010	2009	2008	2007
(1)	(2)	(3)	(4)	(5)	(6)
1. Net Investment Income					
a. Interest and Dividends	$ 36,426,488	$ 33,547,879	$ 32,149,786	$ 43,788,389	$ 46,831,701
b. Realized and unrealized gains and losses*	(58,390,622)	196,554,737	278,694,631	(479,655,717)	68,099,136
c. Administrative expenses	(2,217,980)	(2,113,013)	(2,031,815)	(1,882,839)	(1,776,035)
d. Total	$ (24,182,115)	$ 227,989,603	$ 308,812,601	$ (437,750,166)	$ 113,154,802
2. Market value of assets, beginning of year	$ 1,711,577,229	$ 1,511,265,550	$ 1,234,481,199	$ 1,698,196,892	$ 1,608,943,244
3. Contributions during year	$ 108,049,060	$ 94,036,824	$ 83,858,352	$ 81,924,719	$ 76,413,416
4. Benefits and refunds paid during year	$ (129,669,752)	$ (121,714,749)	$ (115,886,602)	$ (107,890,245)	$ (100,314,570)
5. Other	$ -	$ -	$ -	$ -	$ -
6. Expected net investment income at	7.75%	7.75%	7.75%	7.75%	7.75%
a. Market value of assets, beginning of year	$ 132,647,235	$ 117,123,080	$ 95,672,293	$ 131,610,259	$ 124,693,101
b. Contributions	4,186,901	3,643,927	3,249,511	3,174,583	2,961,020
c. Benefits and refunds	(4,605,978)	(4,323,409)	(4,116,389)	(3,832,351)	(3,563,257)
d. Other	-	-	-	-	-
e. Total	$ 132,228,158	$ 116,443,598	$ 94,805,415	$ 130,952,491	$ 124,090,864
7. Excess investment income for year (Item 1.d. - Item 6.e.)	$ (156,410,273)	$ 111,546,005	$ 214,007,186	$ (568,702,657)	$ (10,936,062)

*Includes investment expenses

CHANGE IN NET ASSETS

		Valuation Period Ending December 31, 2011 (1)	Valuation Period Ending December 31, 2010 (2)
1.	Assets in plan at beginning of year **(A)**	$ 1,711,577,229	$ 1,511,265,550
2.	Employer contributions	66,545,903	53,407,848
3.	Employee contributions	41,503,157	40,628,977
4.	Benefit payments made*	125,869,030	117,509,738
5.	Refunds of contributions	3,800,721	4,205,011
6.	Expenses paid from trust	2,217,980	2,113,013
7.	Investment return	(21,964,134)	230,102,616
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,665,774,423	$ 1,711,577,229
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ (24,182,115)	$ 227,989,603
	b. Estimated yield based on **(2I/(A + B - I))**	-1.42%	15.23%

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 7

ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending	
	December 31, 2011	December 31, 2010
(1)	(2)	(3)
1. Actuarial assets, beginning of year (December 31, 2011 after Mark to Market)	$ 1,711,577,229	$ 1,672,470,344
2. Contributions during year	$ 108,049,060	$ 94,036,825
3. Benefits paid during year	$ (125,869,030)	$ (117,509,738)
4. Refunds paid during year	$ (3,800,721)	$ (4,205,011)
5. Other	$ 0	$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 132,647,235	$ 129,616,452
b. Contributions	4,186,901	3,643,927
c. Benefits	(4,470,973)	(4,174,044)
d. Refunds	(135,005)	(149,367)
e. Other	0	0
f. Total	$ 132,228,158	$ 128,936,968
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,822,184,696	$ 1,773,729,388
8. Actuarial assets, end of year (December 31, 2010 before Mark to Market)	$ 1,790,902,641	$ 1,723,604,387
9. Asset gain/(loss) (Item 8 - Item 7)	$ (31,282,055)	$ (50,125,001)

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System **TABLE 8**
Actuarial Valuation - December 31, 2011

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2011

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2011	2010
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 749,087,565	$ 658,466,636
2.	Actual normal cost paid during year	74,772,885	72,305,922
3.	Subtotal (1 + 2)	$ 823,860,450	$ 730,772,558
4.	Interest at prior valuation's rate of 7.75%	60,951,736	53,833,020
5.	Contributions during year	(108,049,060)	(94,036,825)
6.	Interest on contributions for one-half year	(4,186,901)	(3,643,927)
7.	Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 772,576,225	$ 686,924,826
8.	Actual UAAL as of December 31st	932,942,173	749,087,565
9.	Actuarial gain/(loss) for the period (7 - 8)	$ (160,365,948)	$ (62,162,739)
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 7)	$ (31,282,055)	$ (50,125,001)
11.	Total liability gain/(loss) for the period (9-10)	(129,083,893)	(12,037,738)
12.	Gain/(loss) due to benefit enhancements	0	0
13.	Gain/(loss) due to Proportional PSEM and CCSD	0	0
14.	Gain/(loss) due to assumption & method changes	(135,857,198)	(12,027,158)
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ 6,773,305	$ (10,580)
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ 29,621,427	$ 21,593,658
17.	Service Retirement	4,664,933	3,285,176
18.	Withdrawal	(20,664,724)	(16,054,506)
19.	Disability Retirement	(296,243)	(331,357)
20.	Active Mortality	(299,641)	(686,576)
21.	Retiree Mortality	529,889	(4,716,148)
22.	Rehires	(5,077,225)	(3,400,870)
23.	Other (Data)	(1,705,111)	300,043
24.	Total Liability Experience Gain/(Loss)	$ 6,773,305	$ (10,580)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

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)
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%
2011	932,942,173	451,831,198	206.5%	1,790,902,641	52.1%	2,723,844,815	34.3%

City of Austin Employees' Retirement System **TABLE 10**
Actuarial Valuation - December 31, 2011

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%
2011	8,348	451,831,198	54,124	2.0%

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

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	21.9%	$ 23,116
2000	241	5,552,629	75	1,403,412	2,463	60,817,825	14.5%	24,693
2001	224	5,278,490	95	2,046,233	2,592	65,647,094	7.9%	25,327
2002	309	7,754,803	118	2,534,050	2,783	72,520,159	10.5%	26,058
2003	271	7,706,066	59	1,502,757	2,995	78,596,302	8.4%	26,243
2004	227	5,619,478	85	1,741,624	3,137	82,121,249	4.5%	26,178
2005	258	6,699,023	98	2,438,555	3,297	85,324,686	3.9%	25,879
2006	259	6,788,190	89	1,883,938	3,467	90,312,037	5.8%	26,049
2007	289	8,523,459	123	2,262,126	3,633	96,071,149	6.4%	26,444
2008	290	8,299,468	88	2,056,217	3,835	101,840,870	6.0%	26,556
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
2011	324	9,851,119	117	2,785,375	4,542	124,748,580	5.8%	27,466

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

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, 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%
December 31, 2011	413,944,399	1,267,467,354	1,042,433,062	1,790,902,641	100.0%	100.0%	10.5%

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

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, 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%
December 31, 2011	1,790.9	2,723.8	932.9	65.7%	451.8	206.5%

Note: Dollar amount in millions.

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

Fiscal Year	Annual Required Contribution	Percentage Contributed
(1)	(2)	(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%
2011	$83,893,732	79.32%

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, 2011
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	27.1 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, 2011)

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, 2011)
(Continued)

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

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%

Group B members are assumed to retire at twice the applicable rate upon the first year they attain eligibility for normal retirement and at a rate of 50% at age 65. Early retirement rates (of 1% at age 55 increasing by 1% every two years to 5% at ages 63 and 64) apply for Group B members.

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2011)
(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, 2011) (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, 2011)
(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.

12. Mortality Improvement:

    To account for future mortality improvement, the healthy mortality rates were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent experience study (dated 3-27-2007). The margin at the time of the study was 14%-19% for non-disabled annuitants. No future mortality improvement after the measurement date is assumed except as described above.

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 as of the December 31, 2010 valuation.

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2011)
(Continued)

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 using the Ultimate Normal Cost method. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs where future normal costs are based on the Group B benefit provisions as if they were applicable for all members. 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, 2011

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.

Members originally hired prior to January 1, 2012 are classified as Group A members and members hired on or after January 1, 2012 are classified as Group B members.

Unless noted otherwise, the provisions for Group A and Group B are the same.

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, 2011, this additional contribution became 8% of pay, for a total city contribution of 16%. Each active member contributes 8.00% of pay. These employee contributions are made under a pre-tax 401(h) pick-up arrangement.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

F. RETIREMENT BENEFITS

1. Normal Retirement

a. Eligibility:

Group A – 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.

Group B – A participant may retire upon attaining age 62 with 30 years of service, or at age 65 with 5 years of service.

b. Monthly Benefit:

Group A – 3.00% of average final compensation times years of service.

Group B – 2.50% of average final compensation times years of service.

c. Payment Form: Benefits are paid as a monthly life annuity to the participant, with a provision that should the participant die prior to receiving monthly payments whose sum is greater than or equal to the participant's accumulated employee contributions, then the participant's beneficiary shall receive a lump-sum equal to the excess of the participant's accumulated employee contributions with interest over the sum of the monthly payments received.

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,

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

i) 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:

a. Eligibility:

Group A – Currently there are no reduced retirement benefits under the plan.

Group B – A participant may retire with a reduced benefit upon attaining age 55 with 10 years of service.

b. Monthly Benefit:

Group A – Not applicable.

Group B – the same formula benefit as determined under normal retirement multiplied by an actuarial equivalent early retirement reduction factor.

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

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%

Benefits Upon Vesting

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

I. DEATH IN SERVICE

1. Eligibility: All active members.

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

a. Employee eligible for retirement at date of death:

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

for Non-contributory time, prior military service purchases, or Permissive Time.

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.

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.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

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

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

4. Plan Participation Begins at Date of Hire

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

N. LEGISLATED PLAN CHANGES ENACTED BY 1997 LEGISLATURE

1. 2.6% Multiplier

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

2. 2.6% Retiree Gross-up

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

3. Military Service Purchase

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

4. Noncontributory Service Purchase

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

5. Employer Purchase of Creditable Service

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

O. LEGISLATED PLAN CHANGES ENACTED BY 1999 LEGISLATURE

1. 2.7% Multiplier

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

2. 2.7% Retiree Gross-up

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

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%.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

6. EMPLOYER PURCHASE OF CREDITABLE SERVICE

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

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

1. "415 Restoration of Retirement Income Plan"

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

2. 2.98% Multiplier

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

3. 2.98% Retiree Gross-up

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

4. "Pop-up" Benefit Amendment

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

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

None

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

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

1. 3.00% Multiplier

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

2. 3.00% Retiree Gross-up

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

3. Deferred Retirement Option Program

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

4. Purchase of Permissive Time

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

5. Conversion of Unused Sick Leave

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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

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

1. "Pop-up" Benefit Amendment

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

2. Permissive Time Amendment

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

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

None

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

None

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

None

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 15

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2011 (Continued)

AA. LEGISLATED PLAN CHANGES ENACTED BY THE 2011 LEGISLATURE

1. Retirement Provisions

   For members hired on after January 1, 2012 (Group B members), changed the eligibility for normal retirement to age 65 with 5 years of service, or age 62 with 30 years of service. Also for members hired on or after January 1, 2012, added an eligibility for early retirement upon age 55 with 10 years of service.

2. Benefit Multiplier

   For members hired on after January 1, 2012, the benefit multiplier was changed to 2.5% per year of service. Early retirement benefits would be reduced on an actuarially equivalent basis.

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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STATISTICAL SECTION

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

STATISTICAL TABLES

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 17

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2011

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	52	29	14	14	4	2	0	0	0	0	0	0	115	$ 32,417
25-29	139	125	50	67	90	99	8	0	0	0	0	0	578	37,699
30-34	102	127	73	118	128	288	110	1	0	0	0	0	947	44,298
35-39	75	88	71	90	102	335	234	60	1	0	0	0	1,056	49,660
40-44	65	72	75	111	103	293	324	185	57	3	0	0	1,288	54,299
45-49	56	77	44	80	72	244	316	225	131	54	1	0	1,300	57,511
50-54	50	54	27	63	79	250	302	222	189	113	9	1	1,359	60,812
55-59	41	36	34	48	36	198	226	159	127	70	25	1	1,001	61,430
60-64	13	15	13	17	23	110	138	95	68	41	9	4	546	62,282
65 & Over	4	3	3	7	12	26	42	28	19	8	5	1	158	57,471
All Ages	597	626	404	615	649	1,845	1,700	975	592	289	49	7	8,348	$ 54,124

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2011

Completed Years of Service	Number of Employees	Total Average Salary
0	597	$ 43,228
1	626	45,567
2	404	50,629
3	615	47,858
4	649	48,127
5-9	1,845	51,023
10-14	1,700	57,048
15-19	975	62,466
20-24	592	67,670
25-29	289	70,403
30-34	49	69,974
35+	7	73,849
All Years	8,348	$ 54,124

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 19

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years Creditable Service						
January 1, 2006 to December 31, 2011	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
Period 01/01/2011 to 12/31/2011							
Average Monthly Benefit	$206	$798	$1,409	$2,431	$3,273	$4,622	$4,891
Average Final Salary	$39,835	$47,423	$53,714	$61,051	$63,401	$73,660	$67,047
Number of Active Retirees	22	42	32	32	98	50	9

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2011)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a]				Option Selected[b]									
		1	2	3	4	Unmod.	1	2	3	4	5	6	7	8	9
Deferred						810									
$1-250	132	108	9	3	12	78	45	4	2				3		
251-500	220	175	22	11	12	98	81	13	9	4		1	14		
501-750	247	188	37	11	11	105	84	23	14	3	4	1	10	1	2
751-1,000	278	206	48	15	9	109	85	26	22	7	5	13	6	1	4
1,001-1,250	263	203	42	13	5	76	91	17	14	8	18	15	8		16
1,251-1,500	340	282	44	12	2	92	126	28	19	4	22	20	12		17
1,501-1,750	365	321	37	6	1	103	125	32	24	5	22	26	13	2	13
1,751-2,000	362	315	36	9	2	102	120	36	23	3	27	27	7		17
Over $2,000	2,335	2,217	106	7	5	623	923	188	162	28	111	100	78	12	110
Total	**4,542**	**4,015**	**381**	**87**	**59**	**2,196**	**1,680**	**367**	**289**	**62**	**209**	**203**	**151**	**16**	**179**

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 810 deferred vested members in the Unmodified option selection.

SCHEDULE OF PARTICIPATING EMPLOYERS

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 22

CHANGE IN NET ASSETS, LAST TEN FISCAL YEARS

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Member Contributions	$33,794	$30,449	$32,272	$33,334	$35,791	$39,971	$41,263	$38,752	$40,629	$41,503
Employer Contributions	26,375	24,907	27,008	27,168	30,610	36,521	40,786	45,263	53,576	66,718
Investment Income (net of expenses)	(112,995)	246,069	145,631	118,154	179,952	114,931	(435,867)	310,844	230,102	(21,964)
Total additions to plan net assets	(52,826)	301,426	204,911	178,656	246,353	191,423	(353,818)	394,859	$324,307	$86,257
Deductions										
Benefit Payments	71,023	77,187	81,426	85,851	90,116	94,627	100,707	108,090	115,665	123,558
Refunds	3,958	4,477	5,112	3,775	4,196	4,438	4,285	4,858	4,205	3,801
Administrative Expenses	1,642	1,553	1,555	1,497	1,671	1,776	1,883	2,032	2,113	2,218
Lump-sum Payments	266	1,029	1,343	1,798	2,178	1,328	3,022	3,095	2,013	2,483
Total deductions from plan net assets	76,888	84,246	89,436	92,921	98,161	102,169	109,897	118,075	123,996	132,060
Change in net assets	($129,715)	$217,180	$115,475	$85,735	$148,192	$89,254	($463,715)	$276,784	$200,311	($45,803)

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

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2011

TABLE 23

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Type of Benefit										
Age and service benefits:										
Retirees [a]	$70,094	$75,527	$80,152	$84,003	$88,513	$93,049	$99,219	$106,148	$114,244	$121,366
Beneficiaries [a]										
Lump-sum payments	$266	$1,029	$1,343	$1,798	$2,178	$1,328	$3,022	$3,095	$2,011	$2,483
In service death benefits: [b]	$929	$1,660	$1,274	$1,848	$1,603	$1,578	$1,489	$1,942	$1,421	$2,192
Disability benefits: [c]										
Total benefits	$71,289	$78,216	$82,769	$87,649	$92,294	$95,955	$103,730	$111,185	$117,676	$126,041
Type of Refund										
Death [b]										
Separation	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801
Total refunds	$3,958	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801

Notes: Dollar amounts in thousands

[a] Segregation of age benefits for beneficiaries not currently available

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

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

Includes benefit payments from 415 Restoration Plan

Excludes administrative expenses

Gabriel Roeder Smith & Company

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES

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

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES, CONTINUED

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1981	6.00%	6.00%	8.14%	"	3.00%
1982	6.60%	6.60%	8.21%	"	3.00%
1983	"	"	8.39%	"	3.00%
1984	7.00%	7.00%	8.29%	1.85%	3.00%
1985	"	"	8.22%	2.00%	3.00%
1986	"	"	8.00%	"	3.00%
1987	6.20%	6.20%	8.00%	"	1.50%
1988	7.00%	7.00%	8.00%	"	3.00%
1989	"	"	8.00%	"	3.00%
1990	"	"	8.00%	2.10%	3.00%
1991	"	"	6.50%	"	3.00%
1992	"	"	6.00%	"	4.00%
1993	"	"	5.00%	2.20%	3.10%
1994	"	"	6.00%	"	6.00%
1995	"	"	6.75%	2.30%	6.00%
1996	"	"	6.75%	"	6.00%
1997	"	"	6.75%	2.60%	6.00%
1998	"	"	5.00%	"	5.00%
1999	"	8.00%	6.25%	2.70%	3.00%
2000	8.00%	"	5.75%	2.98%	0.00%
2001	"	"	4.25%	"	3.50%
2002	"	"	3.75%	3.00%	2.50%
2003	"	"	3.75%	"	0.00%
2004	"	"	3.75%	"	0.00%
2005	"	"	4.50%	"	0.00%
2006	9.00% [b]	"	4.50%	"	0.00%
2007	"	"	4.50%	"	0.00%
2008	10.00% [b]	"	4.00%	"	0.00%
2009	12.00% [b]	"	3.25%	"	0.00%
2010	12.00% [c]	"	2.75%	"	0.00%
2011	14.00% [c]	"	2.25%	"	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, increased to 16.00% effective October 1, 2011 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.*