2012 Annual Report

Comprehensive Annual Financial Report

City of Austin

Employees' Retirement System

For the Year Ended December 31, 2012

Austin, Texas

City of Austin
Employees' Retirement System
2012 Annual Report

Comprehensive Annual Financial Report
for the Year ended December 31, 2012

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

Our Mission

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

We Value:

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

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INTRODUCTORY SECTION

May 24, 2013

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 (CAFR) of the City of Austin Employees' Retirement System (COAERS or System) for the year ended December 31, 2012. 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 2012, 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 was made to plan design which now provides 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."

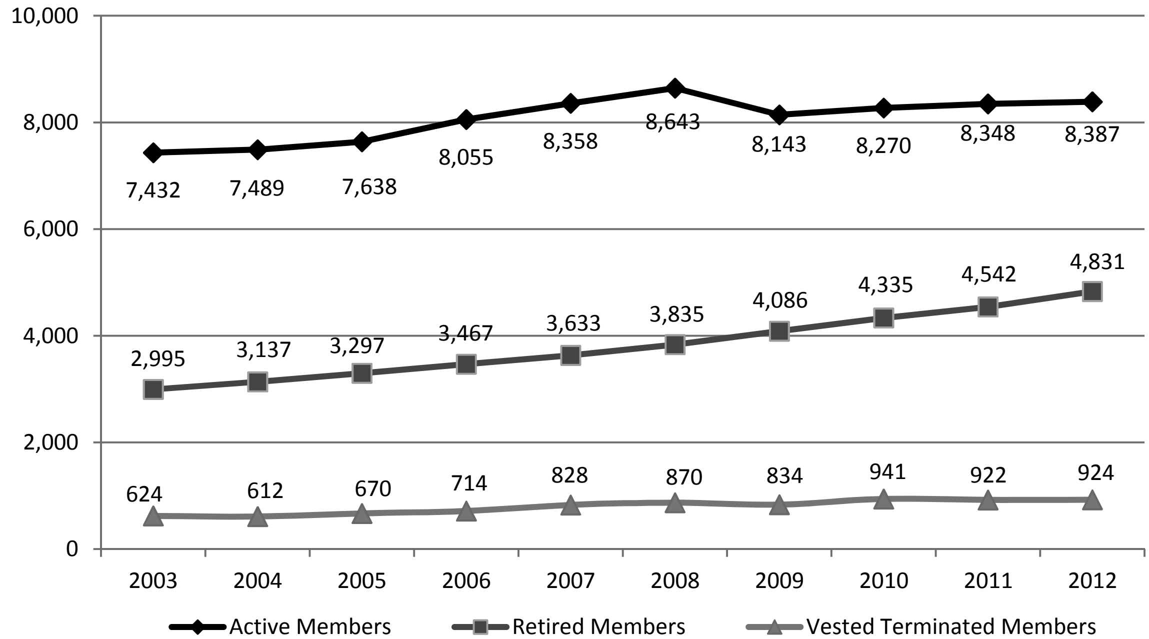
Group A members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Benefits are determined using a multiplier of 3%.

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.

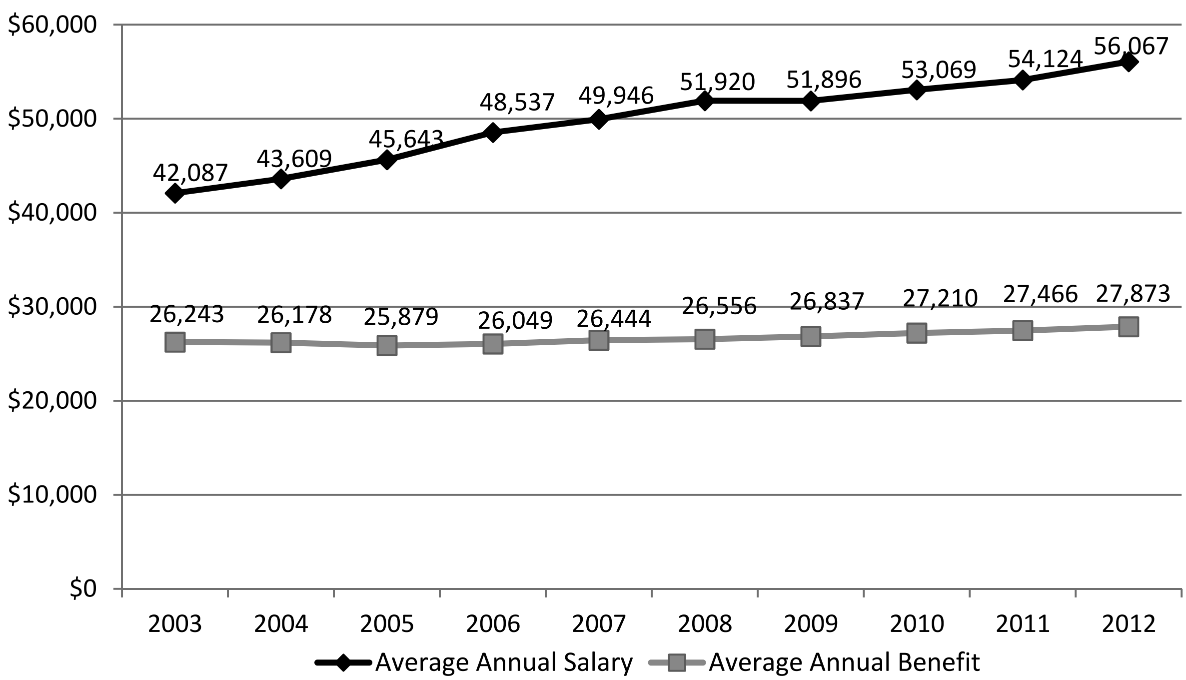
Additional information concerning current COAERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

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 2012 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.

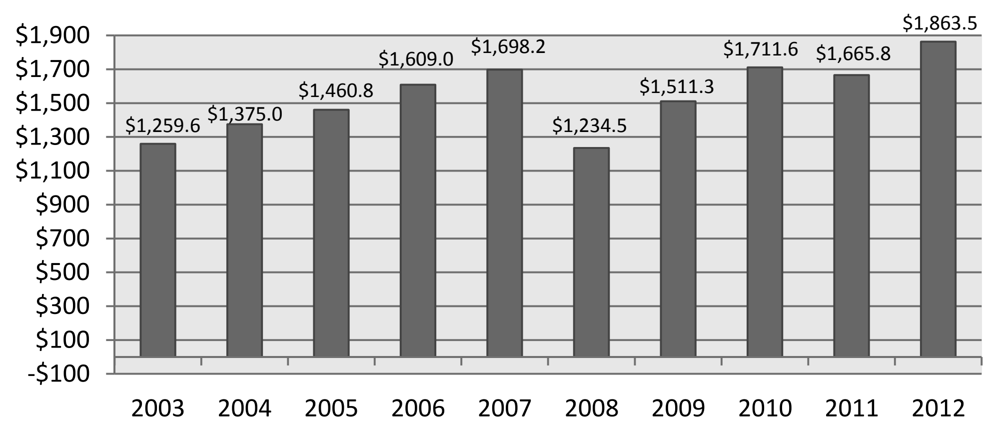
The ***Additions to Net Position*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2012, employer and employee contributions totaled $120.1 million; investment, securities lending, and other income was $39.1 million; and net appreciation of plan investments totaled $181.1 million, resulting in a net addition to Net Position of $340.3 million. The ***Deductions from Net Position*****,** totaling $142.6 million, consist of $130.0 million in annuity payments, refunds to terminating members of $4.9 million, Deferred Retirement Option Program (DROP) disbursements of $2.6 million, retiree lump-sum annuity disbursements of $1.2 million, death benefits of $1.6 million, and administrative expenses of $2.3 million. The net increase of $197.7 million results in total assets held in trust of $1.9 billion.

Changes to Net Position

Additions		Deductions	
Employer Contributions	$ 76,216,532	Retiree Annuity Payments	$ 130,018,898
Employee Contributions	43,922,380	Refunds to terminating members	4,915,664
Interest, Dividends, Net Securities Lending & Other Income	39,111,038	DROP Disbursements	2,639,779
		Retiree Lump-Sum Annuities	1,203,210
		Death Benefits	1,586,815
Appreciation in Plan Investments (net of investment fees)	181,092,663	General & Administrative Expenses	2,279,609
Total Additions	**$ 340,342,613**	**Total Deductions**	**$ 142,643,975**

The following chart shows the ***Total Net Position*** at the end of each year since 2003. Net Position increased by $197.7 million during 2012, resulting in Total Net Position of $1,863,488,061 at December 31, 2012. Investment returns of the last four years provided recovery from the Great Recession of 2008. The Total Net Position at December 31, 2012, was the highest at any year-end in the history of the System.

Total Net Position



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, 2012, the investment portfolio of COAERS continued to be managed by 14 investment managers.

Portfolio Allocation

Investment Style	2012
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%

During 2012, the Board conducted an extensive review of its projected assets and liabilities. The goal of this review, commonly referred to as an asset liability analysis or study, is to determine the best combination or allocation of investments in order to improve the likelihood of achieving long-term funding goals and objectives. These asset liability studies are performed periodically, normally, every four years. Asset liability studies are long term and strategic in nature, providing the basis for the strategic portfolio asset allocation and any modifications thereto. Based upon the findings of the 2012 asset liability study, the Board, in November of 2012, adopted a new strategic asset allocation that is anticipated to be implemented in increments during 2013 and 2014. The new strategic asset allocation, in addition to modifications to the proportions shown above, will include three new asset classifications: risk parity, real assets, and private equity. Each of these new asset categories are scheduled to be further reviewed during 2013 and 2014. The selection of any investment management organizations resulting in investment of assets in these new categories will be subjected to the same due diligence process as applied to any investment approved by the Board.

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 payrolls. 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 years, essentially unchanged from the prior year.

The overall funded position of the System is 63.9%, down from 65.7% in 2011. The actuarial accrued liability and the actuarial value of assets of COAERS as of December 31, 2012, amounted to $2.97 billion and $1.90 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

An actuarial experience study for the five-year period ending December 31, 2011, was conducted in March 2012. Changes to the actuarial assumptions are reflected in the 2012 valuation.

Awards

For the fourteenth 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, 2011, 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 2012, COAERS earned the Public Pension Coordinating Council Recognition Award for Funding and Administration. This is the fourth consecutive year that COAERS has met the administrative standards and the second 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 2013 Board Chair	Stephen C. Edmonds Executive Director	Donna Durow Boykin, CPA Chief Financial 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, 2011

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

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2012

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
Program Administrator

COAERS 2012 BOARD OF TRUSTEES

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





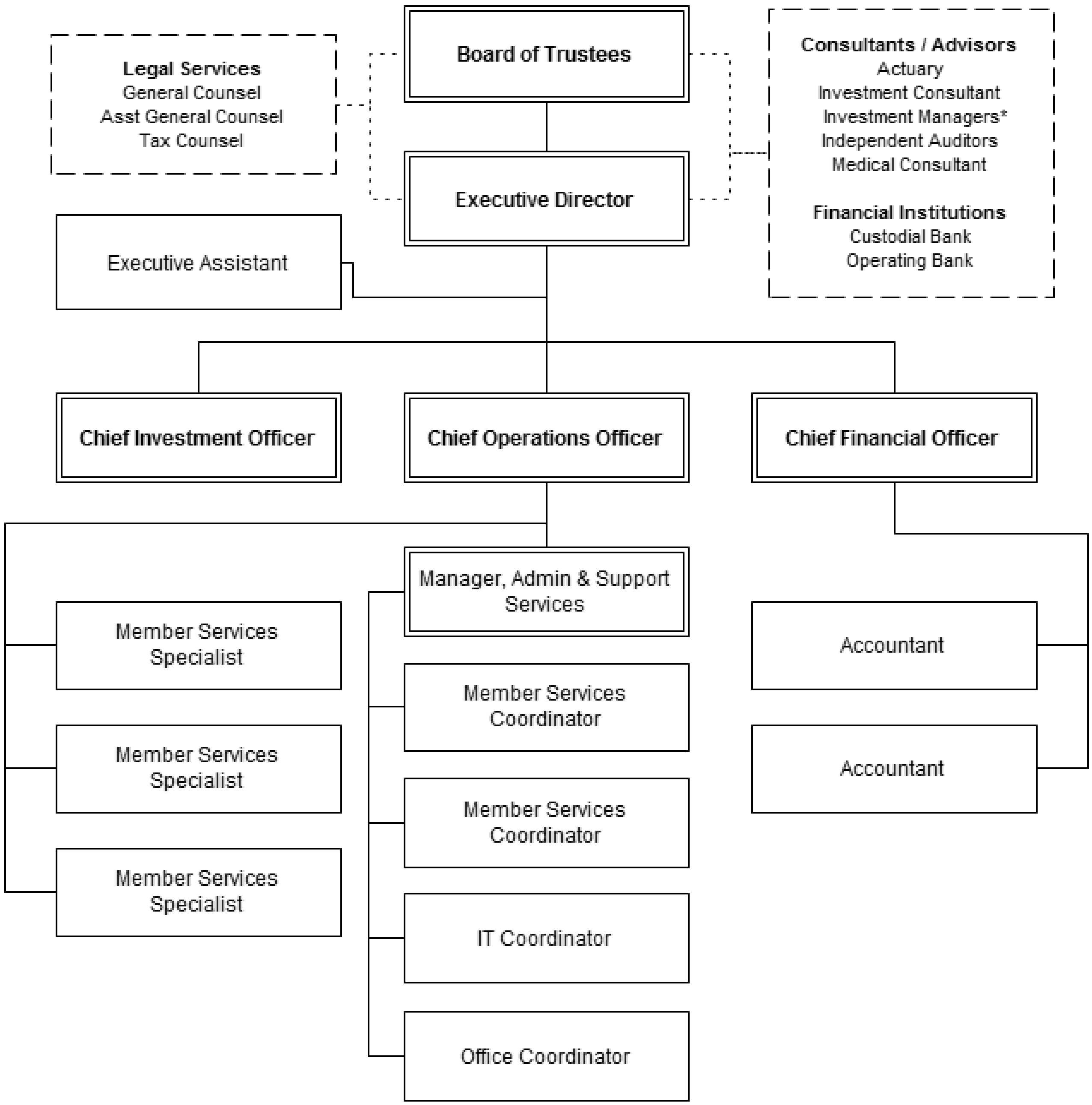









ORGANIZATIONAL CHART



* For more information on Investment professionals who provide services to COAERS, refer to the Asset Allocation on page 63 and the Investment Expenses table under Other Supplementary Information on page 53.

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

General Counsel
McKamie Krueger & Knight LLP

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 Texas state law.

Membership Requirements

City of Austin 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:

- 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

Members are eligible for retirement when they meet one of the following age and service requirements for the membership "Group" to which they belong:

Group A Members (Normal Retirement)
- Age 62
- Age 55 with 20 years of Creditable Service, or
- Any age with 23 years Creditable Service

Group B Members (Normal Retirement)
- Age 65 with 5 years of Creditable Service (excluding Supplementary Service Credit)
- Age 62 with 30 years of Creditable Service (excluding Supplementary Service Credit)

Group B Members (Early Retirement – Reduced Benefits)
- Age 55 with at least 10 years of Creditable Service (excluding Supplementary Service Credit)

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 (Previous known as Permissive Time) – Group A 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. Group B members may purchase up to five years of Creditable Service only to increase the amount of their annuity but not to advance their retirement eligibility. Only Vested Active-Contributing or inactive Members are eligible to purchase Supplementary Service Credit 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 Employees' Retirement System
- City of Austin Police Retirement System
- 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 may only be used once in determining the amount of the member's combined service credit. Proportionate participation is generally 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 for Group A Members – 3.0%.

Multiplier for Group B Members – 2.5%

Average Final Compensation – The average base 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 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 . 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 receive a lump-sum amount and have their retirement calculated as though they had retired at an earlier date. 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 lump-sum amount is 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 earlier date. The lump sum amount 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 – As an alternative to the Backward DROP Program, 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 allowance of a retired member who resumes employment with an employer within 90 days after retirement and has not attained age 55, or who resumes employment after retirement as a regular full-time employee of an employer is subject to suspension. Suspension also occurs if a retired member resumes employment with an employer in a position that is not required to participate in another retirement system maintained by an employer, and 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 Supplementary Service Credit).

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 Supplementary Service Credit).
- 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

Article 6243n of Vernon's Texas Civil Statutes, 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 QDRO's are subject to approval and must meet all statutory requirements. In addition, funds actually due and payable to a Member, beneficiary, or alternate payee may be subject to IRS seizure.

This document is a general overview of System membership and benefits. In the event of any inconsistency between this general overview and state or federal law as modified, interpreted, and applied from time to time, 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 average yield of the 10-year U.S. Treasury note during the 12-month period ending on October 31st and recommendations of the System's actuary. Retirement interest is accrued on the last day of the calendar year based on the amount that each Member had in the System on the first day of the calendar year. The money must remain on deposit for the entire calendar year in order to accrue interest.

Prohibition on COAERS Loans and Withdrawals

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

HISTORY OF BENEFIT CHANGES

January 1, 1941

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

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

Contributions to retirement system set at 4.0%.

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

1951

Established two options for survivor benefits:

Option I – 100% Joint and Survivor

Option II – 66 2/3% Joint and Survivor

Established eligibility for early retirement.

Established a provision for vested benefits after 15 years of Creditable Service.

Established disability retirement benefits.

Increased contribution rate to 5.0%.

1962

Established additional options for survivor benefits:

Option III – 50% Joint and Survivor

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

1967

Set multiplier at 1.25%.

Set Active Member death benefits at $2,000.

1969

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

Set Retired Member death benefits at $2,000.

1971

Increased multiplier from 1.25% to 1.5%.

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

Provided free health insurance benefits, ages 62 – 65.

Increased contribution rate to 6.0%.

1972

Established a provision for vested eligibility after 10 years of Creditable Service.

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

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

1973

Increased multiplier from 1.5% to 1.75%.

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

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

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

December 1977

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

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

September 1978

Established additional retirement options.

December 1979

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

July 1981

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

Reduced Final Average Earnings period from 60 to 36 months.

October 1982

Increased contribution rate to 6.6%, matched by City.

November 1982

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

March 1984

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

December 1984

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

Increased multiplier from 1.75% to 1.85%.

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

Implemented employer "pick up" of member contributions pursuant to 414(h)(2) of the Internal Revenue Code. Member contributions after January 1, 1985 not taxed until time when benefits are paid to the Member.

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

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

March 1985

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

October 1985

Increased multiplier from 1.85% to 2.0%.

February 1986

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

May 1987

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

October 1987

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

March 1988

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

August 1988

Established vesting eligibility at five years of Creditable Service.

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

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

September 1988

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

December 1989

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

January 1990

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

February 1990

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

Increased multiplier from 2.0% to 2.1%.

October 1990

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

August 1991

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

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

July 1993

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

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

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

October 1995

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

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

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

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

October 1997

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

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

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

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

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

October 1999

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

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

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

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

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

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

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

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

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

January 2000

Established Restoration of Retirement Income Plan to restore retirement income otherwise limited by Section 415 of the Internal Revenue Code.

April 2000

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

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

July 2000

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

January 2002

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

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

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

April 2002

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

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

January 2003

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

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

May 2005

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

October 2006

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

September 2007

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

October 2007

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

October 2008

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

March 2009

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

October 2009

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

September 2010

City Council 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:

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the City of Austin Employees' Retirement System (COAERS), as of December 31, 2012 and 2011, and the related statements of changes in net position for the years then ended and the notes to the financial statements, which collectively comprise COAERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Austin Employees' Retirement System as of December 31, 2012 and 2011, and the respective changes in financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Schedules of Funding Progress and Employer Contributions on pages 29-32 and 51-52 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise COAERS' basic financial statements. The Other Supplementary Information – Investment, General & Administrative, and Consultant Expenses on page 53 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information – Investment, General & Administrative, and Consultant Expenses is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic 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 – Investment, General & Administrative, and Consultant Expenses fairly is 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, 69-118, and 119-130, respectively, have 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

Austin, Texas
May 24, 2013

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2012 and 2011

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 2012 and 2011. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Net position held in trust by the System increased by $197.7 million, or 11.9%, in 2012, and decreased by $45.8 million, or (2.7%), in 2011. All changes primarily correlate with investment returns.
- Contributions increased by $11.9 million, or 11.0%, in 2012, and by $14.0 million, or 14.9%, in 2011. The 2012 increase was due to a $6.5 million increase in the City's supplemental funding, an increase of $3.9 million in employee and City contributions based on payroll, and an increase of $1.5 million in employee creditable service purchases. 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 amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees increased approximately $10.5 million, or 8.1% during 2012, and by approximately $8.0 million, or 6.5%, during 2011. 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 $20.2 million in 2012, and by $21.6 million in 2011.
- The System's rate of return on investments for the year ended December 31, 2012, was 13.82% gross of fees, and 13.31% net of fees, on a market value basis, which is more than the return of (0.87%) gross of fees, and (1.29%) net of fees, for the year ended December 31, 2011. 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, 2012, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 63.9%, which is down from the 65.7% level at December 31, 2011. The amortization period of the unfunded actuarial accrued liability is 27.0 years at December 31, 2012.
- The Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System 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 were observed in the Actuarial Valuation Report for the year ending December 31, 2011, which reported that the funding period has decreased from infinite to 27.1 years, and significantly reduced both the normal cost and the ARC of the System.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2012 and 2011

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 Net Position
- Statement of Changes in Net Position
- Notes to the Financial Statements

Collectively, this information presents the net position held in trust for pension benefits as of the end of each year, and summarizes the changes in net position 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 Net Position* presents the System's assets and liabilities and the resulting net position, which is 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 Net Position*, 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 position held in trust for pension benefits (net position) – the difference between assets and liabilities – as one way to measure the COAERS' financial position. Over time, increases and decreases in net position 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 Net Position
December 31, 2012, 2011, 2010

Assets		2012	2011	2010
Cash and receivables	$	17,540,228	15,755,686	15,226,146
Investments		1,852,254,380	1,655,406,896	1,704,103,736
Invested securities lending collateral		157,614,728	148,049,689	172,456,784
Capital assets, net		965,542	1,004,177	1,053,137
Total assets		2,028,374,878	1,820,216,448	1,892,839,803
Liabilities				
Total liabilities		164,886,817	154,427,025	181,247,574
Net position held in trust for pension benefits	$	1,863,488,061	1,665,789,423	1,711,592,229

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2012 and 2011

Assets. As shown in the table below, COAERS' net position increased by $197.7 million in 2012, and decreased by $45.8 million in 2011. Changes in each year reflect investment returns in the financial markets. In 2012, there was a $1.2 million increase in the amount of cash held by the System, a $0.2 million decrease in receivables, and a $0.8 million increase in trades pending settlement, resulting in a $1.8 million change in the net amount of cash and receivables at year end. In 2011, increases of $1.8 million in cash and $2.1 million in receivables were offset by 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. The increase in invested securities lending collateral of $9.6 million in 2012 reflected the net change in the number of securities on loan 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 and collateral held for loaned securities returning to market value. In both 2012 and 2011, the decrease in capital assets reflects depreciation, with additions and retirements being minimal.

Liabilities. Liabilities increased $10.5 million in 2012 and decreased by $26.8 million in 2011. 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 Net Position

Years Ended December 31, 2012, 2011, and 2010

	2012	2011	2010
Additions:			
Contributions	$ 120,138,912	108,221,083	94,204,820
Investment income (depreciation)	226,780,192	(15,132,730)	234,521,815
Investment expenses	6,579,477	6,832,369	4,419,964
Net investment income (depreciation)	220,200,715	(21,965,099)	230,101,851
Other income	2,986	965	765
Total additions	340,342,613	86,256,949	324,307,436
Deductions:			
Benefit payments and contribution refunds	140,364,366	129,841,775	121,882,744
General and administrative expenses	2,279,609	2,217,980	2,113,013
Total deductions	142,643,975	132,059,755	123,995,757
Net increase (decrease)	197,698,638	(45,802,806)	200,311,679
Net position held in trust for pension benefits, beginning of year	1,665,789,423	1,711,592,229	1,511,280,550
Net position held in trust for pension benefits, end of year	$ 1,863,488,061	1,665,789,423	1,711,592,229

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2012 and 2011

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 2012 and 2011 totaled $120.1 million, and $108.2 million, respectively. The 2012 contributions represent an increase of $11.9 million, or approximately 11.0% above 2011; 2011 contributions represent an increase of $14.0 million, or approximately 14.9% above 2010. The increase in 2012 was due to both an increase in base salaries on which employee and employer contributions are made, and an increased percentage of payroll being contributed under the Supplemental Funding Plan. The increase in 2011 was primarily due to an increased percentage of payroll being contributed under the Supplemental Funding Plans.

In 2012, COAERS had a net investment gain on the market value of its securities of $220.2 million, an increase of $242.2 million from 2011. 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. Interest, dividends and net securities lending income generated 2012 income of $39.1 million, an increase from the 2011 income of $37.0 million, or 5.8%. Investment managers' fees are based on their cumulative performance; in 2012, fees decreased by $0.3 million; in 2011, the increase was $2.4 million compared to 2010. The total rate of return (net of fees) for the System's investment portfolio in 2012 was 13.31%; in 2011 it was (1.3%).

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

Benefits paid in 2012 were $135.4 million, an increase of $9.4 million from payments made in 2011, which is consistent with an increase in the number of retirees to 4,831 in 2012. Refunds to terminating employees increased by $1.1 million. Administrative expenses in 2012 were $2.3 million, an increase of 2.8% from those of 2011.

Benefits paid in 2011 were $126.0 million, an increase of $8.4 million from payments made in 2010, which is consistent with the increase in the number of retirees to 4,542 in 2011 from 4,335 in 2010. 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.

Overall Analysis. Overall, as of December 31, 2012, net position increased by $197.7 million, or 11.9% from the prior year; over the five-year period ending December 31, 2012, net position increased by 9.7%.

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 Net Position

December 31, 2012

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	$ 4,634,554	20,000	4,654,554
Interest and dividends receivable	4,561,455	-	4,561,455
Trades pending settlement	3,591,471	-	3,591,471
Employer contributions receivable	3,280,448	-	3,280,448
Employee contributions receivable	1,452,300	-	1,452,300
Investments, at fair value (note 3):			
Domestic fixed income	490,676,475	-	490,676,475
Real Estate commingled fund	130,072,079	-	130,072,079
U.S. denominated equities	769,591,343	-	769,591,343
International equities	433,760,579	-	433,760,579
Short-term investment funds	28,153,904	-	28,153,904
Total investments	1,852,254,380	-	1,852,254,380
Invested securities lending collateral (note 3)	157,614,728	-	157,614,728
Capital assets, net (note 5)	965,542	-	965,542
Total assets	2,028,354,878	20,000	2,028,374,878
Liabilities			
Accrued expenses	1,593,987	-	1,593,987
Trades pending settlement	3,825,352	-	3,825,352
Securities lending transactions (note 3)	157,614,728	-	157,614,728
Refunds and death benefits payable	1,852,750	-	1,852,750
Total liabilities	164,886,817	-	164,886,817
Net position held in trust for pension benefits	$ 1,863,468,061	20,000	1,863,488,061

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Net Position

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 position 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 Changes in Net Position

Year ended December 31, 2012

		Retirement Plan	Restoration Plan	Total
Additions:				
Contributions:				
Employer contributions (note 4)	$	76,047,465	169,067	76,216,532
Employee contributions (note 4)		43,922,380	-	43,922,380
		119,969,845	169,067	120,138,912
Investment income:				
Net appreciation in plan investments		187,396,911	-	187,396,911
Interest		12,096,072	-	12,096,072
Dividends		26,369,324	-	26,369,324
Investment appreciation before expenses and securities lending		225,862,307	-	225,862,307
Securities Lending Activity:				
Securities lending income		917,885	-	917,885
Securities lending fees		(275,229)	-	(275,229)
Net securities lending appreciation		642,656	-	642,656
Investment expenses		(6,304,248)	-	(6,304,248)
Net investment appreciation		220,200,715	-	220,200,715
Other income		2,986	-	2,986
Total additions		340,173,546	169,067	340,342,613
Deductions:				
Retirement annuities		129,854,831	164,067	130,018,898
Contributions refunded to terminating employees		4,915,664	-	4,915,664
DROP disbursements		2,639,779	-	2,639,779
Retiree lump-sum annuity		1,203,210	-	1,203,210
Death benefits		1,586,815	-	1,586,815
General and administrative expenses		2,279,609	-	2,279,609
Total deductions		142,479,908	164,067	142,643,975
Net increase		197,693,638	5,000	197,698,638
Net position held in trust for pension benefits, beginning of year		1,665,774,423	15,000	1,665,789,423
Net position held in trust for pension benefits, end of year	$	1,863,468,061	20,000	1,863,488,061

See accompanying notes to financial statements.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Statement of Changes in Net Position

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 position held in trust for pension benefits, beginning of year	1,711,577,229	15,000	1,711,592,229
Net position 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

Notes to Financial Statements

December 31, 2012 and 2011

(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, who work at least 30 hours per week, except for civil service firefighters and civil service police officers. At December 31, 2012, 2011, and 2010 membership consisted of the following:

	2012	2011	2010
Retirees and beneficiaries currently receiving benefits	4,831	4,542	4,335
Terminated members entitled to but not yet receiving benefits	924	922	941
Accounts held for terminated members *	1,757	1,791	1,776
Current employees	8,387	8,348	8,270
Total	15,899	15,603	15,322

** Includes 124 proportional members of PSEM and CCSD*

The System provides service retirement, death, disability, and withdrawal benefits. Benefits vest with five years of creditable service.

With the January 1, 2012 implementation of an additional benefit tier, the benefit structure for employees hired prior to January 1, 2012, and who have contributions being held by COAERS on that date, become identified as Group A, and are unaffected by the new provisions.

Group A members continue under the plan originated in 1941. 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, 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.

In June 2011, the Texas State Legislature approved an amendment to Article 6243n, COAERS' plan document. This modification established 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 not for eligibility purposes.

The following apply to both Group A and Group B:

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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

Prior to October 1, 1999, active member contributions to the Plan were 7%. Effective October 1, 1999, active member contributions increased to 8%. Currently, all Participants are required to contribute 8% of their base compensation to the Plan. The City of Austin (the City) also contributes 8% of base 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.

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. Accordingly, the System contributes 8% of basic employee compensation to the Plan, plus a 10% 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
2012	$ 175,095	175,095
2011	147,703	147,703
2010	119,260	119,260

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, for this Restoration Plan. Assets remaining in this plan as of December 31, 2012 and 2011, were $20,000 and $15,000, respectively.

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

	Annual pension cost	Contributions made
2012	$ 169,067	169,067
2011	172,023	172,023
2010	167,995	167,995

At December 31, 2012, 2011, and 2010, membership in the Restoration Plan included the following:

	2012	2011	2010
Retirees and beneficiaries currently receiving benefits	12	12	11
Terminated members entitled to but not yet receiving benefits	-	-	-
Current employees	-	-	-
Total	12	12	11

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, 2012, the balances of Fund 1, Fund 2, and Fund 3 were $422,796,396, $1,440,671,665 and $20,000, respectively. 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.

(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 when due pursuant to formal commitments, as well as statutory or contractual requirements; accordingly, 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, the book balances of the demand deposit accounts totaled $4,654,254 and $3,445,768, respectively.

(c) Investments

The System's equity investments are reported at fair market value. Short-term cash investments are reported at cost, which approximates fair market value. International securities are reported at fair market value in U.S. dollars converted 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 is an open-end investment fund that includes properties that are valued monthly; all properties within this fund are appraised externally by nationally recognized appraisers. The System's exposure to international emerging markets comes through two funds: one managed by City of London Investment Management and the other by Dimensional Fund Advisors. These investments are both commingled arrangements where assets are pooled with other institutional investors and then unitized with the value of the units determined by the fair market value of the entire pool. The System also invests in 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 market 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, 2012 and 2011 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

(g) Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash, Investments, and Securities Lending

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact delivery of System services. The Board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth the factors involved in the management of investment assets for the System. This policy is included in every investment management agreement. The document is designed to mitigate risk by requiring that investing be done in compliance with policy guidelines by qualifying the broker and financial institution with whom the System will transact, and by establishing sufficient collateralization, portfolio diversification, and limiting maturity. The System's Board, in accordance with the power and authority conferred under the Texas Statutes, has employed Northern Trust Investments Inc. as custodian of the assets of the System. The following summary of total investments by type as of December 31, 2012 and 2011, presents the System's investment mixes.

		2012	2011
Summary of investments by type:			
Asset-backed securities	$	461	630,258
Commercial mortgage-backed securities		17,221,506	17,541,468
Corporate bonds		126,375,539	130,013,844
US denominated equities		769,591,343	661,233,272
Government agencies		1,599,475	5,803,828
Government bonds		30,875,605	21,156,901
Government mortgage-backed securities		80,390,594	90,169,053
International equities		433,760,579	359,399,647
Nongovernment-backed CMOs		—	1,077,235
Other fixed income:			
NT Collective Aggregate Bond Index Fund - Non-Lending		234,213,295	224,679,105
Real Estate commingled fund		130,072,079	116,281,647
Short-term investment funds		28,153,904	27,420,638
Investments at fair value on balance sheet		1,852,254,380	1,655,406,896
Receivables and pending trades, net		4,327,574	4,788,339
Total investments (per investment consultant)	$	1,856,581,954	1,660,195,235

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, 2012 and 2011, the System's operating bank balances of $ 4,654,254 and $ 3,445,768, respectively, were not exposed to custodial credit risk.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and are held by the counterparty, its trust or agent, but not in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name. At December 31, 2012 and 2011, 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, 2012:

(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, 2012 and 2011

(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, 2012 and 2011, 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 position available for benefits.

As of December 31, 2012 and 2011, the following was the composition of the System's portfolio:

	2012	2011
Asset-backed securities	0.00%	0.04%
Commercial mortgage-backed securities	0.93%	1.06%
Corporate bonds	6.82%	7.85%
U.S. denominated equities	41.55%	39.94%
Government agencies	0.09%	0.35%
Government bonds	1.67%	1.28%
Government mortgage-backed securities	4.34%	5.45%
International equities	23.42%	21.71%
Nongovernment-backed CMOs	0.00%	0.07%
Other fixed income:		
NT Collective Aggregate Bond Index Fund - Non-Lending	12.64%	13.57%
Real Estate commingled fund	7.02%	7.02%
Short-term investment funds	1.52%	1.66%
	100.00%	100.00%

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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 changes in prepayments, which may arise from a change in interest rates.

As of December 31, 2012, 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	$ 461	-	-	-	461
Commercial mortgage-backed securities	17,221,506	-	-	-	17,221,506
Corporate bonds	126,375,539	4,715,509	76,659,374	24,800,603	20,200,053
Government agencies	1,599,475	-	1,599,475	-	-
Government bonds	30,875,605	-	-	19,960,358	10,915,247
Government mortgage-backed securities	80,390,594	-	2,157,781	3,163,249	75,069,564
Other fixed income:					
NT Collective Aggr Bond Index Fund	234,213,295	2,248,448	156,946,329	44,851,846	30,166,672
	$ 490,676,475	6,963,957	237,362,959	92,776,056	153,573,503

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2012, are as follows:

Standard & Poor's Quality Rating	Total fair value	Asset-backed securities	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Municipal Bonds	Aggregate Bond Index Fund
AAA	$ 188,436,609	461	11,792,481	-			176,643,667
AA	102,474,763	-	2,483,397	10,131,577	80,390,594	1,248,308	8,220,887
A	84,741,625	-	2,093,410	55,513,756	-	972,834	26,161,625
BBB	84,415,713	-	852,218	58,776,904	1,599,475	-	23,187,116
BB	1,953,302	-	-	1,953,302	-	-	-
Total credit risk of debt securities	$ 462,022,012	461	17,221,506	126,375,539	81,990,069	2,221,142	234,213,295
US govt & agencies*	28,654,463						
	$ 490,676,475						

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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						

* 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.

The System's exposure to foreign currency risk includes the following international securities (all equity) as of December 31, 2012 and December 31, 2011.

Currency	2012 Fair value	2011 Fair value
British Pound Sterling	$ 134,701,116	111,587,066
Japanese Yen	79,079,367	72,490,781
EURO Currency	78,381,870	62,031,331
Swiss Franc	30,518,991	23,617,455
Australian Dollar	29,843,331	23,059,909
Hong Kong Dollar	27,653,200	23,434,627
Singapore Dollar	24,788,261	18,039,618
Canadian Dollar	10,174,100	9,078,321
Danish Krone	6,964,360	4,730,793
Swedish Krona	3,905,987	3,394,810
South African Rand	3,694,851	3,612,182
New Zealand Dollar	1,720,657	2,476,967
Norwegian Krone	1,053,502	526,936
Hungarian Forint	690,151	593,809
Malaysian Ringgit	590,835	725,042
Total securities subject to foreign currency risk	$ 433,760,579	359,399,647

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 2012and 2011.

As of December 31, 2012 and 2011, the System owned the following securities that were in possession of a borrowing financial institution:

		2012		**2011**	
		Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
US corporate fixed	$	4,194,682	4,270,866	9,415,946	9,626,163
US equities		107,550,610	108,869,758	96,491,221	99,053,718
Global stocks		17,086,250	18,048,626	16,812,605	17,601,674
US government fixed		25,869,209	26,425,478	21,389,851	21,768,134
Total	$	154,700,751	157,614,728	144,109,623	148,049,689

Cash collateral received from borrowers of securities is invested in accordance with COAERS' securities lending agreement. As of December 31, 2012 and 2011, cash collateral was invested in the following categories:

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

Investment Category	2012	2011
Cash and other liquid assets	$ 75,859,969	40,239,905
Asset-backed securities	1,323,964	5,477,839
Commercial paper	5,484,992	3,745,657
Repurchase agreements	1,922,900	6,454,967
Certificates of deposit	11,553,159	34,036,623
US govt & agencies	9,835,159	27,004,263
Domestic corporate fixed-income securities	51,634,585	31,090,435
Total cash collateral received	$ 157,614,728	148,049,689

(4) Contributions Required and Contributions Made

As of December 31, 2012 and 2011, 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 payrolls. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, if any exists, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using a level percentage of payroll method.

The funding objective of the System is for contribution rates to be sufficient to cover the normal cost of the Plan and to amortize any unfunded actuarial accrued liabilities over a period not to exceed 30 years.

Significant actuarial assumptions used to assess the adequacy of the financing arrangement are the same as those used to compute the unfunded actuarial accrued liability below.

In 2012, an Actuarial Experience Study was conducted by Gabriel, Roeder, Smith and Company, Inc. (GRS). GRS reviewed the Plan's experience over the previous five years and provided recommendations to the Board of Trustees for certain economic and demographic assumptions of the Plan. The Board of Trustees adopted the final actuarial assumptions so that the changes would be reflected in the December 31, 2012 actuarial valuation.

The latest actuarial valuation was as of December 31, 2012; in this valuation, the Plan had an unfunded actuarial accrued liability of $1,070,656,825. At December 31, 2012 and 2011, employer and employee contributions totaling $120,138,912 and $108,221,083, 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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012, and December 31, 2011, and changes to the accounts during the years then ended:

		Balance December 31, 2010	Net Change	Balance December 31, 2011	Net Change	Balance December 31, 2012
Capital assets not being depreciated:						
Land	$	**249,964**	-	**249,964**	-	**249,964**
Capital assets being depreciated:						
Building		1,198,925	-	1,198,925	-	1,198,925
Furniture and fixtures		600,446	(5,562)	594,884	(220,464)	374,420
Total capital assets being depreciated		**1,799,371**	**(5,562)**	**1,793,809**	**(220,464)**	**1,573,345**
Less accumulated depreciation:						
Building		439,950	29,973	469,923	29,973	499,896
Furniture and fixtures		556,248	13,425	569,673	(211,802)	357,871
Total accumulated depreciation		**996,198**	**43,398**	**1,039,596**	**(181,829)**	**857,767**
Total capital assets, net of accumulated depreciation	$	**1,053,137**	**(48,960)**	**1,004,177**	**(38,635)**	**965,542**

(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 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 $1,961,700 with contents coverage of $676,400. Automobile limits are set at $1,000,000 per occurrence. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. Insurance settlements have not exceeded insurance coverage for any of the past three years. The System obtains Workers Compensation and Employers Liability coverage through Texas Mutual Insurance Company.

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2012 and 2011

(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 2012 and 2011 were approximately $8,790 and $8,450, respectively. In addition, the Plan members receiving benefits contributed approximately $265 per month in 2012, and $250 per month in 2011, for individual coverage; dependent coverage paid by the members was approximately $730 per month in 2012, and $700 in 2011.

(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, 2012 (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)
12/31/2012	1,897.7	2,968.4	1,070.7	63.9%	470.2	227.7%

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

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

Additional information from the latest actuarial valuation, December 31, 2012, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	27.0 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.5% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (unaudited)

December 31, 2012 and 2011

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, 2007 through 2012

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as a Percentage of Covered (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2007	$ 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%
12/31/2012	1,897.7	2,968.4	1,070.7	63.9%	470.2	227.7%

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2007 through 2012

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
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%
2012	72,825,996	76,052,464	104.4%

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 8.5% subsidy (prorated for 10/2012 increase from 8% to 10%)) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2012 this percentage is 16.5% / 15.8% = 104.4%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund by the Percentage Contributed, $76,052,464 / 104.4%, which produces a 2012 ARC of approximately $72,825,996.

See accompanying independent auditors' report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2012 and 2011

(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, 2012, 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	27.0 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.5% to 6.0%
Includes inflation at	3.25%
Cost-of-living adjustments	None assumed

See accompanying independent auditors' report.

(Continued)

OTHER SUPPLEMENTARY INFORMATION

Investment Expenses

		2012	2011
Custodial & Transaction Fees			
Northern Trust Investments Inc	$	162,906	157,338
Investment transaction fees		22,340	23,492
		185,246	**180,830**
Investment Manager Fees			
1607 Capital Partners		1,001,417	1,357,649
Agincourt Capital Management LLC		655,228	883,215
AQR Capital Management LLC		632,507	349,542
Aronson + Johnson + Ortiz LP		82,315	178,427
Columbus Circle Investors		1,036,299	648,982
INTECH Investment Management LLC		480,789	399,361
Mondrian Investment Partners LTD		685,391	679,908
Northern Trust Global Investments LTD		82,828	61,126
Pzena Investment Management LLC		-	281,284
Sprucegrove Investment Mgmt LTD		609,357	597,456
Wall Street Associates LLC		-	70,787
Walter Scott & Partners LTD		650,692	616,793
Westfield Capital Management Co LP		-	24,988
Prior-year accrual-to-actual variance		(18,825)	54,884
		5,897,998	**6,204,402**
Investment Consulting Fees			
Summit Strategies Group		**221,004**	**208,750**
Total	$	**6,304,248**	**6,593,982**

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

General & Administrative Expenses

		2012	2011
Actuary	$	96,743	53,597
Attorney		42,158	1,313
Auditing		69,600	69,600
Banking Services		1,233	2,847
Computer Services		116,595	159,774
Consultants		17,114	6,932
Administrative		1,700,751	1,683,129
Depreciation		45,983	48,960
Insurance		127,056	124,882
Member Communications		33,445	23,769
Continuing Education & Site Visits		28,931	43,177
Total	$	**2,279,609**	**2,217,980**

Consultant Expenses

		2012	2011
Actuary			
Gabriel Roeder Smith & Co	$	**96,743**	**53,597**
Attorney			
Strasburger & Price LLP		5,906	1,313
McKamie Krueger & Knight LLP		36,252	-
		42,158	**1,313**
Auditing			
KPMG LLP		42,600	42,600
Padgett Stratemann Co LLP		27,000	27,000
		69,600	**69,600**
Banking Services			
JPMorgan Chase		-	1,599
National Payment Corporation		1,233	1,248
		1,233	**2,847**
Computer Services			
Austin Web Design		2,333	2,228
Levi Ray & Shoup		76,907	119,310
mindSHIFT Technologies		31,198	36,206
Other		6,157	2,030
		116,595	**159,774**
Other Consultants			
Robert A. Dennison MD		5,614	5,632
Jonathan Decherd MD		1,559	-
Waters Consulting Group		5,500	-
Other		4,441	1,300
		17,114	**6,932**
Total	$	**343,443**	**294,063**

See accompanying independent auditors' report.

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Investment Section

coaers

City of Austin Employees' Retirement System

April 2013

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, 2012. 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

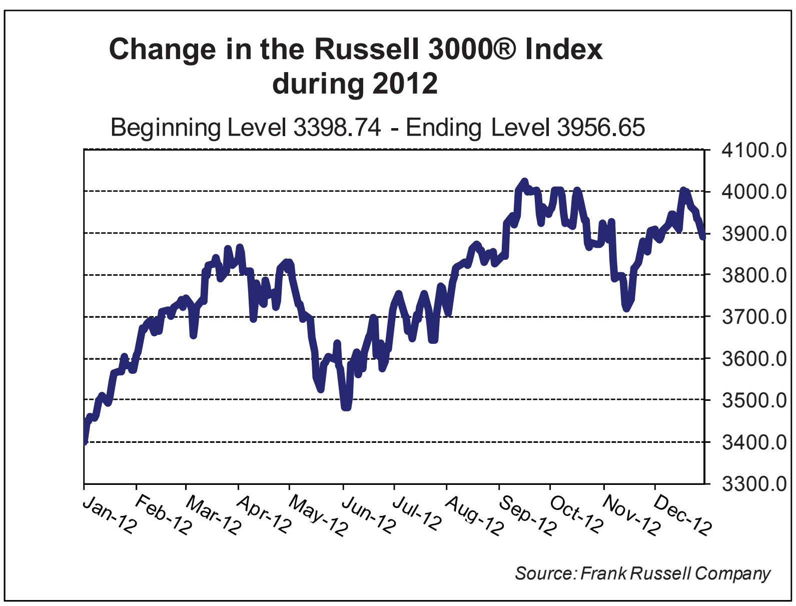
Familiar Themes and an Election

Calendar year 2012 shared many of the themes that have characterized the last four years since the Great Recession of 2008. Slow, uneven economic growth both in the United States and abroad, extraordinary central bank policy interventions, distrust of Wall Street and fears of a sovereign debt crisis in Europe marked 2012 as they have marked each of the three preceding years. For 2012, the U.S. economy grew at the sluggish pace of 1.7%. Like each of the last four years this growth rate is well below the 3.2% average annual growth since 1950. Global equity markets which had advanced during the first quarter of 2012 reversed course as international unrest and renewed fears of a sovereign default in Europe emerged. In late July, Mario Draghi who heads the European Central Bank stated that the bank would do "whatever it takes" to stem any sovereign debt problems and in September, the Federal Reserve under Ben Bernanke began their third round of quantitative easing with a similar open-ended pronouncement. Suspicions of the financial markets were renewed mid-year as J.P. Morgan announced a $2 billion loss by a trader in their London office and the much anticipated initial public offering of Facebook flopped. Unlike the previous three years, however, 2012 witnessed U.S. Presidential elections, which when all the smoke cleared, left the balance of power essentially unchanged.

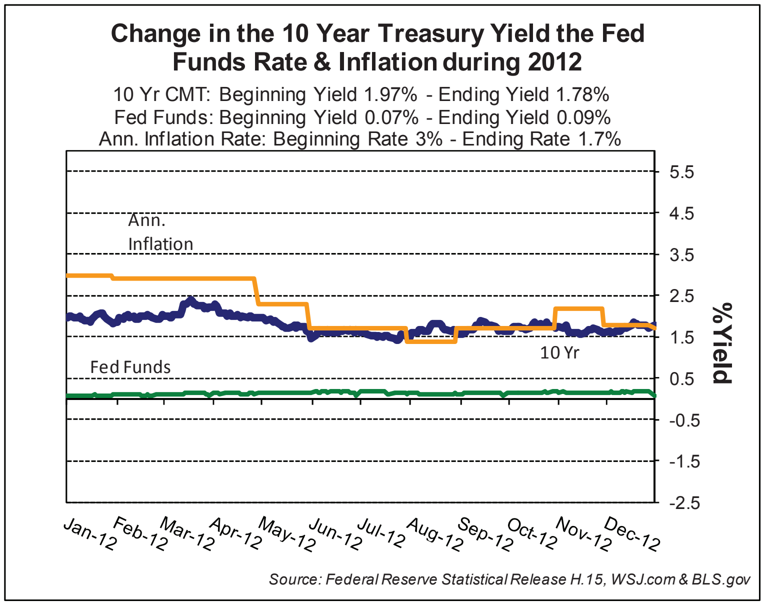
CAPITAL MARKETS

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 year was marked by an early summer downturn and recovery as well as a post-election decline and rebound. The summer event shows the market's reaction to sovereign debt fears and subsequent central bank responses and the post election downdraft and rebound was due to the U.S. government sequester and resolution. Through it all, U.S. stocks earned strong returns for the year.



Interest Rates



In contrast to the bumpy uphill advance of stocks, interest rates and bond markets were fairly quiet during the year. The chart to the right shows the effective Fed Funds rate, the yield on ten year U.S. Treasury bonds and the rate of CPI inflation during the year. Yields on ten year U.S. Treasury bonds stayed within a narrow range from a low of 1.43% to a high of 2.39%, finishing the year just slightly lower than where they began. The slight decline in yields followed the trend in inflation which also declined slightly during the year. The high point in yields corresponded with the early April period when it appeared that more robust economic growth was on the horizon and stocks were advancing. European debt crisis fears sent investors back to the safety of bonds causing yields to decline. For the fourth consecutive year the official Fed Funds rate remained unchanged at the 0 to 0.25% target established by the Federal Reserve and the effective Fed Funds rate followed suit. Thus far by official measures, the very low short-term rates and Federal Reserve bond purchases that have been characterized as money printing have not produced higher rates of inflation.

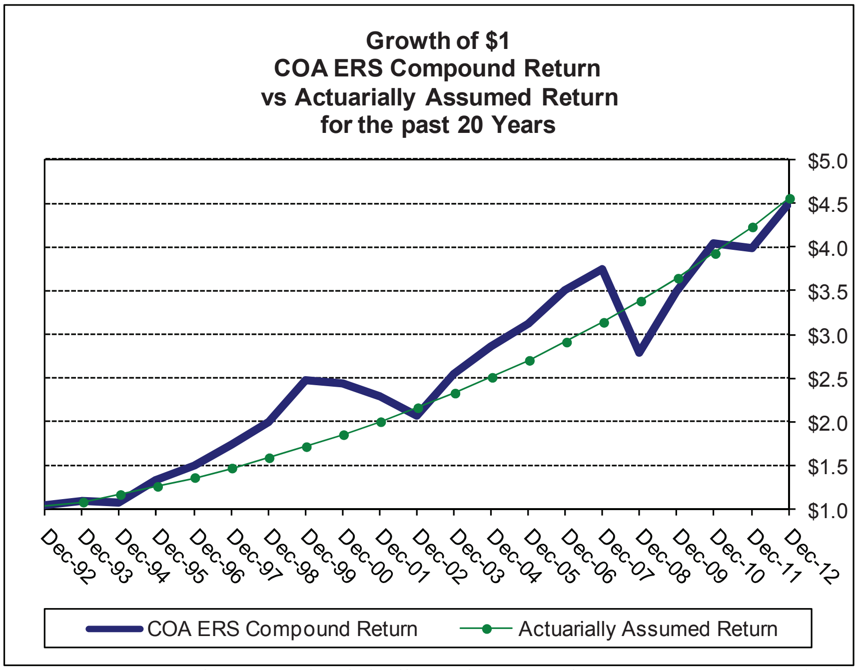
INVESTMENT PERFORMANCE

Investment Returns Through December 2012

US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	0.08%	0.10%	0.51%
Barclays Capital Aggregate Bond Index	Core Bonds	4.21%	6.19%	5.95%
Barclays Capital Corporate Bond Index	Corporate Bonds	12.41%	13.16%	10.41%
Barclays Capital High Yield Bond Index	High Yield Bonds	15.81%	11.86%	10.34%
City of Austin Employees' Retirement System	**Domestic Fixed Income**	**5.26%**	**6.78%**	**6.35%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	16.42%	11.20%	2.04%
Russell 1000® Index	Large Cap Equity	16.42%	11.12%	1.92%
Russell 1000® Growth Index	Large Cap Growth	15.26%	11.35%	3.12%
Russell 1000® Value Index	Large Cap Value	17.51%	10.86%	0.59%
Russell 2500™ Index	Mid Cap Equity	17.88%	13.34%	4.34%
Russell 2000® Index	Small Cap Equity	16.35%	12.25%	3.56%
City of Austin Employees' Retirement System	**Broad US Equity**	**15.45%**	**11.13%**	**2.22%**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	17.39%	4.33%	(2.44%)
MSCI EAFE	Developed Non-US Equity	17.90%	4.04%	(3.21%)
MSCI Emerging Mkts.	Emerging Non-US Equity	18.64%	4.99%	(0.61%)
City of Austin Employees' Retirement System	**International Equity**	**20.77%**	**8.54%**	**2.40%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	10.54%	12.63%	2.13%
City of Austin Employees' Retirement System	**Real Estate**	**12.75%**	**15.54%**	**(1.29%)**
Policy Weighted Benchmark Index	Multiple	12.86%	8.07%	2.45%
City of Austin Employees' Retirement System	**Total Fund**	**13.82%**	**9.36%**	**4.12%**

Source: Summit Strategies Group

Higher Risk and Higher Returns
A fundamental rule in investing is that over the long-term, in order to achieve higher returns, you generally have to assume higher levels of risk. While this relationship does not hold true each and every year, during 2012 it did. Capital markets produced strong positive results during 2012 with defensive investments lagging and more aggressive investments performing well. Both domestic and international equity markets finished the year with returns in the mid to high teens. Even with the fairly sluggish growth of the global economy, corporations have, as a whole, been able to maintain high levels of profitability. In fact, US corporate profits as a percentage of gross domestic product are at record high levels. The average percentage relationship since the late 1940's is close to 6%, and the latest readings show that corporate profits are 11% of gross domestic product. With interest rates at very low levels investors seeking income moved funds into corporate bonds, high yield bonds and dividend yielding stocks during 2012 generating strong returns for these income producing investments.



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 net returns have produced growth matching 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 a long-term performance target of 7.75% to 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	12/31/12	Target	Max
CASH	0.00%	0.17%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	33.86%	35.00%	43.00%
FIXED INCOME	27.00%	26.85%	30.00%	33.00%
REAL ESTATE	0.00%	7.01%	5.00%	10.00%
COMMON STOCKS	60.00%	65.97%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	24.31%	22.75%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	9.34%	9.75%	14.75%
INTERNATIONAL	27.50%	32.32%	32.50%	37.50%

Due to the strong performance of the US and International stock portions of the portfolio during 2012, early in 2013, in keeping with Fund's rebalancing policy, equities were decreased and fixed income was increased to move the portfolio back within policy ranges. A disciplined rebalancing process is necessary to maintain diversification and achieve proper portfolio risk control.

RECENT EVENTS AND OUTLOOK

Looking Ahead

The economic recovery from the 2008 recession, though it remains weak, continues to expand. While this slow growth environment may seem frustrating and unusual, history indicates that it is probably to be expected in the wake of the bursting of a debt induced asset bubble such as occurred in 2008. Such episodes were well documented in the 2009 book "This Time Is Different: Eight Centuries of Financial Folly" by Carmen M. Reinhart and Kenneth Rogoff. The "new normal" is the term that was applied early on and coined by PIMCO's Mohamed El-Erian referring to a more volatile, slow growth environment. The "normal" in new normal implies that a return to past levels of economic growth is unlikely and that we may be in this type of period for some time. As financial assets tend to reflect the state of the economy, investment returns are usually higher in periods of strong economic growth and lower in periods of weak economic growth.

The European Central Bank, the Federal Reserve and, in 2013, the Bank of Japan have engaged in unprecedented and extraordinary measures in an attempt to encourage economic growth. Corporations have been the primary beneficiaries of these measures as their cost of capital has been reduced and their profitability supported. This is reflected in low corporate bond yields and higher stock prices. In order to build momentum and expand the benefits to the broader economy, it will be necessary to see improvements in the labor markets. And while, at the moment, there are some encouraging signs in the labor market, higher employment levels of the "old normal" are not anticipated. The Board has been researching ways to address this more volatile low return environment. To further diversify the fund and enhance returns, the Board is evaluating new asset classes beyond those currently in the portfolio. The purpose for considering these new asset classes is to control risk and earn returns necessary to support System benefits over the long term. The new asset classes the Board is reviewing are risk parity, real assets and private equity.

The economic environment is indeed challenging. Slower economic growth will likely mean that the global economy is 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, 2013

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. 2012 offered continued strong returns, with the fund up 13.8% gross of fees for the fiscal year ending December 31st. The fund increased from a beginning value of $1.66 billion to its current value of $1.86 billion as a result of outflows of $31 million and income and investment gains of $228 million. The S&P 500 and MSCI EAFE Indices posted returns of 16.4% and 17.9%, respectively, as risk assets rallied across the globe.

As detailed earlier, the COAERS' investment portfolio gained 13.8% for the year ending December 31, 2012. This led the fund's Policy and Passive Indices, and the fund ranked in the top third of the Investment Metrics sample. Specifically, the investment portfolio beat its Policy Index return by nearly 1.0%, the Passive Index return by 1.2%, and was ahead of the median public fund return by 0.9%, ranking in the 28th percentile. The outperformance versus Policy is largely attributable to COAERS' active equity managers beating their benchmarks. The outperformance versus peers is driven by asset allocation; COAERS has a higher international equity weighting versus peers, and this was the top-performing equity asset class in 2012. This is in contrast to 2011 when COAERS' overweight to international equities versus peers was a relative detractor to the portfolio. Domestic equities rebounded from a tough 2011 with a 15.5% return in 2012. Real estate continued its strong run in 2012, returning 12.8%. Longer-term results are strong and positive on a relative basis. For the 10-year period, the fund returned 8.5% annualized. In this case, the return exceeded the Policy Index and more than 88% of the public funds in our sample. All rates of return were calculated using a time-weighted rate of return and are reported gross of fees.

In 2012, the Board completed the planned Asset/Liability study and adopted a new target asset allocation. After a thoughtful and thorough review process, the new allocation targets risk parity, real assets, and private equity for the first time.

The results for the past year exceeded the fund's actuarial assumption for long-term investment results. In 2012, markets started off well in the first quarter of the year as the U.S. posted strong economic data and European central bank action calmed fears of a global recession. In the final quarter of the year, a Presidential election and looming fiscal cliff negotiations caused great volatility in domestic markets while the appetite for risk continued abroad, providing strong positive returns in international markets. Despite a strong 2012, 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 of the fund are positive and the hard work of the Board and staff over the past few years has benefited the System and its members. We believe the fund is in a good position to capture consistent, quality results in the years to come. All of us at Summit Strategies Group have enjoyed our COAERS' experience and look forward to continued service and success. Thank you.

Sincerely,

Eric J. Ralph, CFA
Senior Vice President

OUTLINE OF INVESTMENT POLICIES

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

INVESTMENT GOALS

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

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

INVESTMENT PHILOSOPHY

The Fund is a permanent one.

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

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

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

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

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

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

IDENTIFICATION OF DUTIES

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

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

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

1. The above assets can be held in commingled (mutual) funds as well as privately managed separate accounts. If held in a commingled account or mutual fund, the prospectus or Declaration of Trust takes precedence over 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
12/31/2012

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2012 VALUE	% OF FUND	ASSET ALLOCATION TARGET %	ASSET ALLOCATION TARGET AMOUNT	VARIANCE FROM TARGET AMOUNT	VARIANCE FROM TARGET %
Common Stocks	**$ 1,224,761,657**	**65.97%**	**65.00%**	**1,206,778,270**	**17,983,387**	**0.97%**
Domestic Large Cap Equities	451,371,572	24.31%	22.75%	422,372,395	28,999,177	
Domestic Non-Large Cap Equities	173,353,535	9.34%	9.75%	181,016,740	(7,663,205)	
International Equities	600,036,550	32.32%	32.50%	603,389,135	(3,352,585)	
Subtotal for Rebalancing	**631,820,297**	**34.03%**	**35.00%**	**649,803,684**	**(17,983,387)**	**-0.97%**
Fixed Income	498,579,872	26.85%	30.00%	556,974,586	(58,394,714)	
Real Estate	130,072,088	7.01%	5.00%	92,829,098	37,242,990	
Cash	3,168,337	0.17%	0.00%	-	3,168,337	
TOTAL	**$ 1,856,581,954**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER	VALUE	% OF FUND	TARGET %	TARGET AMOUNT	VARIANCE AMOUNT
US EQUITIES (Large)	**$ 451,371,572**	**24.31%**	**22.75%**	**422,372,395**	**10,428,597**
INTECH INVESTMENT MANAGEMENT LLC (large cap - core)	230,658,912	12.42%	11.3750%	211,186,197	19,472,715
WESTFIELD CAPITAL MGMT COMPANY LP (large cap - growth)	107,329,859	5.78%	5.6875%	105,593,099	1,736,760
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	113,382,801	6.11%	5.6875%	105,593,099	7,789,702
US EQUITIES (Non-Large)	**173,353,535**	**9.34%**	**9.75%**	**181,016,740**	**(6,912,789)**
COLUMBUS CIRCLE INVESTORS (small cap - growth)	89,806,787	4.84%	4.8750%	90,508,370	(701,583)
AQR CAPITAL MANAGEMENT LLC (small cap - value)	83,546,748	4.50%	4.8750%	90,508,370	(6,961,622)
INTERNATIONAL EQUITIES	**600,036,550**	**32.32%**	**32.50%**	**603,389,135**	**(39,260,563)**
WALTER SCOTT & PARTNERS LTD (dvlp mkt - growth)	151,434,924	8.16%	8.000%	148,526,556	2,908,368
SPRUCEGROVE INVESTMENT MGMT LTD (dvlp mkt - value)	147,027,219	7.92%	8.000%	148,526,556	(1,499,337)
1607 CAPITAL PARTNERS LLC (non-correlated alpha)	92,655,267	4.99%	5.000%	92,829,098	(173,831)
MONDRIAN INVESTMENT PARTNERS LTD (dvlp mkt - small cap)	97,436,560	5.25%	5.000%	92,829,098	4,607,462
CITY OF LONDON INVESTMENT MGMT CO LTD (emerging markets)	57,185,165	3.08%	3.250%	60,338,914	(3,153,749)
DIMENSIONAL FUND ADVISORS LP (emerging markets)	54,297,415	2.92%	3.250%	60,338,913	(6,041,498)
DOMESTIC FIXED INCOME	**498,579,872**	**26.85%**	**30.00%**	**556,974,586**	**(1,620,781)**
AGINCOURT CAPITAL MANAGEMENT LLC (core)	264,366,487	14.24%	15.00%	278,487,293	(14,120,806)
NT COLL AGG BOND INDEX FUND - NON-LENDING (core index)	234,213,385	12.61%	15.00%	278,487,293	(44,273,908)
REAL ESTATE	**130,072,088**	**7.01%**	**5.00%**	**92,829,098**	**33,271,894**
PRINCIPAL GLOBAL INVESTORS LLC	130,072,088	7.01%	5.00%	92,829,098	33,271,894
CASH	**3,168,337**	**0.17%**	**0.00%**	**0**	**3,168,337**
CASH	3,168,337	0.17%	0.00%	-	3,168,337
TOTAL	**$ 1,856,581,954**	**100.00%**			

Reconciliation to Statement of Net Position:

Interest and dividends receivable	**$**	**4,561,455**
Trades pending settlement (net)		**(233,881)**
Investments		**1,852,254,380**
Total investments (per investment consultant)	**$**	**1,856,581,954**

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/11	Balance 12/31/12	2012 Gross Return (%)	2012 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2012	3 Years	5 Years
FIXED INCOME GROUP	**$496,437,789**	**$498,579,872**	**5.3 %**	**$907,075**	**5.1 %**	**6.6 %**	**6.3 %**
Agincourt Capital Mgmt LLC	$271,758,594	$264,366,487	6.1 %	$846,442	5.8 %	7.0 %	6.5 %
BC Aggregate			4.2 %		4.2 %	6.2 %	5.9 %
NTGI QM Bond Index Fund	$224,679,195	$234,213,385	4.2 %	$60,633	4.2 %	6.2 %	5.8 %
BC Aggregate			4.2 %		4.2 %	6.2 %	5.9 %
INTERNATIONAL	**$500,302,888**	**$600,036,549**	**20.8 %**	**$3,808,497**	**19.9 %**	**7.8 %**	**1.8 %**
Walter Scott & Partners LTD	$125,105,339	$151,434,924	21.6 %	$627,654	21.1 %	7.8 %	2.2 %
EAFE			17.9 %		17.9 %	4.0 %	(3.2)%
Sprucegrove Investment Mgmt Inc	$125,095,258	$147,027,219	18.1 %	$595,650	17.5 %	8.1 %	(0.2)%
EAFE			17.9 %		17.9 %	4.0 %	(3.2)%
Mondrian Investment Partners LTD	$77,986,113	$97,436,560	25.9 %	$659,093	24.9 %	14.3 %	-
MSCI EAFE Small Cap			20.4 %		20.4 %	7.5 %	(0.5)%
1607 Capital Partners	$76,891,621	$92,655,267	21.9 %	$967,129	20.5 %	-	-
90% MSCI EAFE/10% Emerging Mkts			17.4 %		17.4 %	-	-
City of London	$49,735,211	$57,185,164	16.4 %	$661,838	15.0 %	3.2 %	-
MSCI Emerging Markets			18.6 %		18.6 %	5.0 %	(0.6)%
DFA Emerging Markets	$45,489,346	$54,297,415	20.1 %	$297,133	19.4 %	2.7 %	-
MSCI Emerging Markets			18.6 %		18.6 %	5.0 %	(0.6)%
DOMESTIC EQUITY	**$543,079,261**	**$624,725,107**	**15.4 %**	**$2,154,201**	**15.0 %**	**10.8 %**	**1.9 %**
US EQUITIES LARGE	**$388,123,014**	**$451,371,572**	**16.4 %**	**$510,194**	**16.3 %**	**10.4 %**	**1.3 %**
INTECH Enhanced Invst Technologies LLC	$200,606,491	$230,658,912	15.2 %	$463,334	15.0 %	11.5 %	1.9 %
S&P 500			16.0 %		16.0 %	10.9 %	1.7 %
Westfield Capital	$90,766,618	$107,329,859	18.3 %	$0	18.3 %	-	-
Russell 1000 Growth			15.3 %		15.3 %	11.4 %	3.1 %
Aronson+Johnson+Ortiz	$96,749,904	$113,382,801	17.2 %	$46,860	17.2 %	11.5 %	1.5 %
Russell 1000 Value			17.5 %		17.5 %	10.9 %	0.6 %
US EQUITIES NON-LARGE	**$154,956,247**	**$173,353,535**	**13.0 %**	**$1,644,007**	**11.9 %**	**11.6 %**	**3.3 %**
Pzena Investment Mgmt LLC	$8,829	$0	-	$0	-	-	-
Russell Mid Cap Value			18.5 %		18.5 %	13.4 %	3.8 %
AQR Capital Management	$75,377,629	$83,546,748	11.7 %	$637,039	10.8 %	9.9 %	2.7 %
Russell 2000 Value			18.1 %		18.1 %	11.6 %	3.5 %
Columbus Circle	$79,569,788	$89,806,787	14.1 %	$1,006,968	12.9 %	16.6 %	-
Russell 2000 Growth			14.6 %		14.6 %	12.8 %	3.5 %
REAL ESTATE	**$116,281,656**	**$130,072,088**	**12.8 %**	**$985,325**	**11.9 %**	**14.5 %**	**(2.2)%**
Principal Global Investment	$116,281,656	$130,072,088	12.8 %	$985,325	11.9 %	14.5 %	(2.2)%
NCREIF Property			10.5 %		10.5 %	12.6 %	2.1 %
CASH	**$4,093,642**	**$3,168,337**	**0.0 %**	**N/A**	**0.0 %**	**0.0 %**	**1.5 %**
90 Day T-Bills			0.1 %		0.1 %	0.1 %	0.5 %
Total Fund	**$1,660,195,235**	**$1,856,581,954**	**13.8 %**	**$7,855,098**	**13.3 %**	**8.9 %**	**3.7 %**
**Policy Index*			12.9 %		12.9 %	8.1 %	2.5 %

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 thru 9/12
22.75% S&P 500, 9.75% Russell 2000, 32.50% MSCI AC World ex US, 30% BC Aggregate, 5% NCREIF, 10/12 to present

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
164,400	Exxon Mobil Corp	$	14,228,820	0.77%
26,340	Apple Inc Com		14,040,010	0.75%
162,047	Novartis AG CHF0.50 (REGD)		9,309,618	0.50%
72,700	Chevron Corp Com		7,861,778	0.42%
110,020	Adidas AG		7,407,678	0.40%
213,680	AT&T Inc Com		7,203,153	0.39%
160,728	JPMorgan Chase & Co Com		7,067,210	0.38%
111,323	Nestle SA CHF0.10 (REGD)		6,634,883	0.36%
235,450	Microsoft Corp Com		6,293,578	0.34%
262	Keyence Corp NPV		6,249,570	0.34%
	Top 10 Stock Holdings	**$**	**86,296,298**	**4.65%**
	Total COAERS Investment Portfolio 12-31-2012	**$**	**1,856,581,954**	**100.00%**

Full listing available upon request.

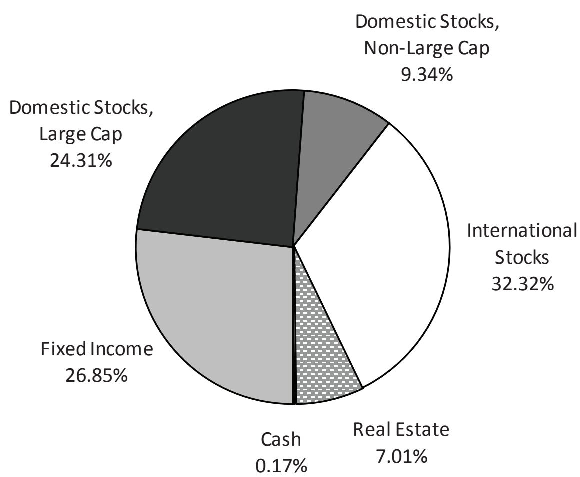
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	17,040,000	US Treasury Notes Dtd 00306 2.625% Due 8-15-2020 REG	$	18,712,050	1.01%
	16,534,237	Federal Home Loan Mtg Corp Pool #C09004 3.5% 07-01-2042		17,632,259	0.95%
	6,935,000	US Treasury Sec 4.5% Due 08-15-2039 REG		9,189,957	0.50%
	7,895,583	FNMA Pool #AB2092 4% Due 01-01-2041 BEO		8,600,730	0.46%
	6,654,911	FNMA Gtd MTG Pool #AH2366 3.5% 01-01-2026 BEO		7,063,702	0.38%
	4,999,399	Federal Home Loan Mtg Corp Pool #E0-9015 2.5% 12-01-2027		5,226,977	0.28%
	3,460,578	FNMA Pool #995024 5.5% 08-01-2037 BEO		3,785,972	0.20%
	3,189,934	Federal Home Loan Mtg Corp Pool #A9-1538 4.5% 03-01-2040		3,435,055	0.19%
	3,071,060	FNMA Gtd Mtg Pool #AH2659 3.5% 01-01-2026 BEO		3,259,706	0.18%
	3,020,000	CMO JPMorgan Chase Coml Mtg Secs TR 2007-L CL A-3 A-3 6.00725 Due 06-15-2049 BEO		3,239,629	0.17%
		Top 10 Bond Holdings	**$**	**80,146,037**	**4.32%**
		Total COAERS Investment Portfolio 12-31-2012	**$**	**1,856,581,954**	**100.00%**

INVESTMENT SUMMARY AT FAIR MARKET VALUE

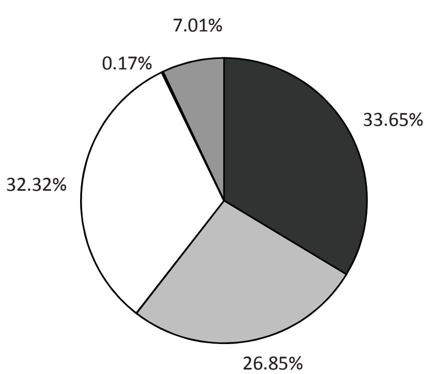
COAERS Investment Portfolio

Asset Class	Fair Value	Percentage of Total Fair Value
Fixed Income	$498,579,872	26.85%
Domestic Stocks, Large Cap	451,371,572	24.31%
Domestic Stocks, Non-Large Cap	173,353,535	9.34%
International Stocks	600,036,550	32.32%
Real Estate	130,072,088	7.01%
Cash	3,168,337	0.17%
	$1,856,581,954	100.00%



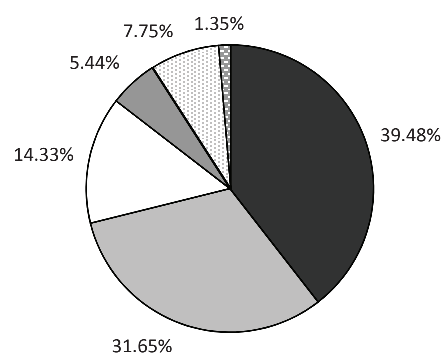
ALLOCATION BY SECTOR

COAERS Asset Allocation



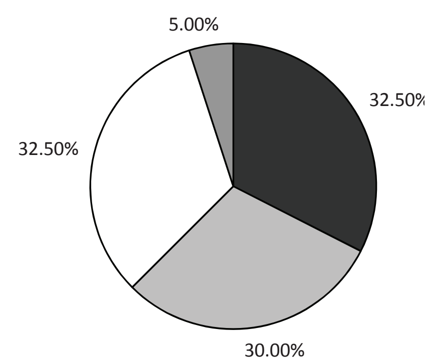
Market Value: $1.660 Billion

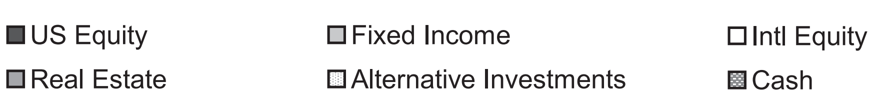
Mellon Median Public Fund Asset Allocation



Market Value: $1.14 Trillion

Target Allocation

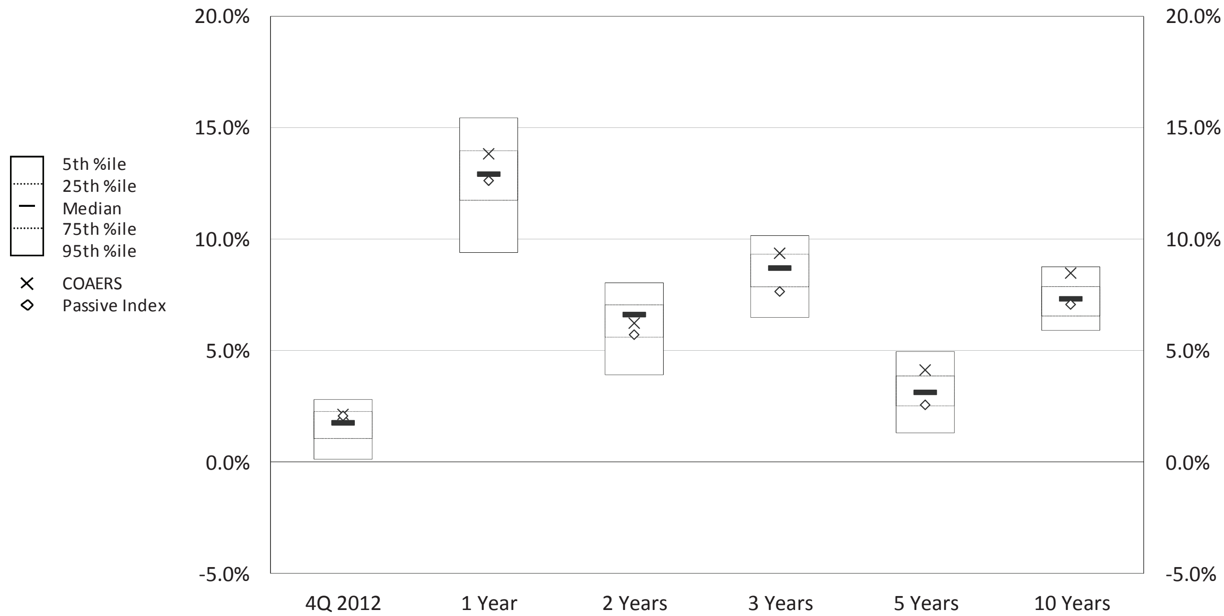




BROKER COMMISSIONS OVER $10,000

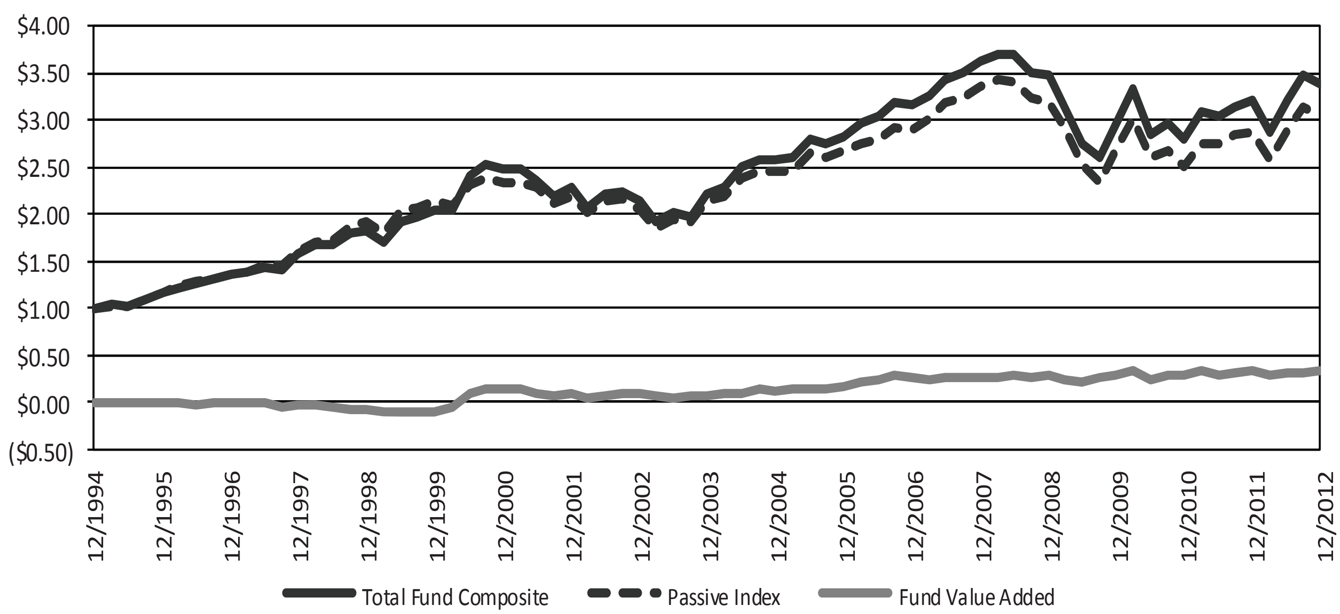
Broker Name	# of Shares Traded	Commission Paid	Cost per Share
Barclays Capital LE	1,245,309	$ 21,794	$ 0.018
Bear Stearns 57079	4,730,294	25,240	0.005
Bernstein, Sanford C. & Co.	644,225	13,393	0.021
Cap Institutional Services Inc	764,900	15,290	0.020
Credit Suisse First Boston Corporation	9,241,360	26,061	0.003
CSI US Institutional Desk	278,955	11,158	0.040
Deutsche Bank Securities Inc	6,876,300	34,910	0.005
HSBC Bank PLC	1,287,629	10,942	0.008
InstiNet	1,140,724	19,892	0.017
Investment Technology Group Inc	498,200	14,096	0.028
Jefferies & Company	4,647,160	25,456	0.005
JP Morgan Securities PLC	1,443,615	14,782	0.010
Knight Equity Markets LP	1,415,398	28,726	0.020
Lazard Freres & Co.	296,880	11,875	0.040
LiquidNet Inc	905,582	21,533	0.024
Lynch Jones & Ryan	1,432,281	41,567	0.029
Merrill Lynch International Limited	1,036,380	11,665	0.011
Merrill Lynch Pierce Fenner & Smith	8,092,031	21,185	0.003
Oppenheimer and Company	356,962	14,278	0.040
Piper Jaffray Inc	630,723	23,240	0.037
Robertt W. Baird & Company Inc Milwaukee USA	304,311	12,172	0.040
Rosenblatt Securities LLC 501	966,500	16,361	0.017
SG Cowen and Company	1,499,900	14,971	0.010
Stifel Nicolaus and Company	421,327	16,853	0.040
Suntrust Robinson Humphrey	326,876	12,595	0.039
UBS Warburg LLC	825,286	24,118	0.029
Weeden & Co	1,278,104	26,518	0.021
150 Minor Brokers	142,447,134	210,405	0.001
Total Broker Commissions	**195,034,346**	**$ 741,076**	**$ 0.004**

TOTAL FUND AND PASSIVE INDEX VS. MELLON PUBLIC FUND UNIVERSE



	4Q 2012	1 Year	2 Years	3 Years	5 Years	10 Years
COAERS	2.13%	13.82%	6.23%	9.36%	4.12%	8.47%
Passive	2.06%	12.62%	5.71%	7.64%	2.56%	7.06%
5th Percentile	2.80%	15.44%	8.04%	10.16%	4.95%	8.76%
25th Percentile	2.26%	13.96%	7.05%	9.32%	3.86%	7.87%
Median	1.75%	12.91%	6.60%	8.69%	3.11%	7.31%
75th Percentile	1.05%	11.74%	5.60%	7.86%	2.52%	6.55%
95th Percentile	0.12%	9.40%	3.91%	6.49%	1.31%	5.91%
Observations	312	305	299	285	264	159

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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March 28, 2013

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, 2012

We are pleased to present our report on the actuarial valuation of the City of Austin Employees' Retirement System (COAERS or the System). Based upon this actuarial valuation as of December 31, 2012, 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.

Currently, the total 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 an additional City contribution rate of up to a maximum of 10.0% above the base 8.0% rate. The City is now contributing an additional 10.0%, or a total rate of 18.0%. 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
March 28, 2013
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, 2011. As a result of that study, revised assumptions were adopted by the Board to be effective with this valuation as of December 31, 2012. We believe the assumptions are internally consistent, reasonable, and, where appropriate, based on the actual experience of COAERS.

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

Member data for retired, active and inactive participants was supplied as of December 31, 2012, by the COAERS 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 COAERS staff.

The last actuarial valuation of COAERS was prepared as of December 31, 2011 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

The undersigned are independent actuaries and consultants. Mr. Newton and Mr. Falls are Enrolled Actuaries and Members of the American Academy of Actuaries and both meet the Qualification Standards of the American Academy of Actuaries. Both they and Mr. Ward are experienced in performing valuations for large public retirement systems.

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

Sincerely,

Lewis Ward
Consultant

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

R. Ryan Falls, F.S.A
Senior Consultant

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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, 2012 may be summarized as follows:

	December 31, 2012 (1)	December 31, 2011 (2)
• Members		
— Actives	8,387	8,348
— Retirees and beneficiaries (and disabled)	4,831	4,542
— Vested - terminated*	924	922
— Proportional PSEM and CCSD	124	134
— Total	14,266	13,946
• Covered payroll	$ 470,231,969	$ 451,831,198
• Normal cost	$ 54,554,538	$ 51,058,270
— As % of payroll	11.86%	11.74%
• Actuarial accrued liability	$ 2,968,379,692	$ 2,723,844,815
• Actuarial value of assets	$ 1,897,722,867	$ 1,790,902,641
• Unfunded actuarial accrued liability (UAAL)	$ 1,070,656,825	$ 932,942,173
• Estimated yield on assets		
— Actuarial value basis	7.13%	5.94%
— Market value basis	13.16%	-1.42%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	18.00% **	16.00% **
• Benefit and refund payments	$ 140,200,299	$ 129,669,752
• Amortization period of unfunded actuarial accrued liability	27 years	27 years
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	227.7%	206.5%
— GASB funded ratio	63.9%	65.7%
— GASB Annual Required Contribution (ARC)	17.16%	15.80%

* Includes proportionate members of PSEM and CCSD, 100 in 2012 and 112 in 2011

** Employer rate increased to 16% effective October 1, 2011 and 18% effective October 1, 2012.

INTRODUCTION

This December 31, 2012 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, 2012, determine the funding period of any unfunded liability for the plan year beginning January 1, 2013, 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.

This valuation reflects the revised actuarial assumptions adopted by the Board in November 2012 following the completion of a five-year experience study. The most significant changes are shown below:

- Mortality rates were modified to reflect full generational mortality
- Rates of turnover were decreased
- Rates of salary increase were decreased
- Rates of retirement were decreased

For full details of the analysis and changes in the actuarial assumptions, please see our Experience Study dated March 30, 2012.

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, 2012, is 11.86% of pay. This compares with 11.74% of pay as of the last valuation of December 31, 2011. 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 8.25% of pay. The normal cost for the deferred termination benefits is 0.69% and 2.18% for refunds of terminated employees (both vested and non-vested). The normal cost for disability benefits is 0.51%, and the normal cost for death benefits is 0.23%.

Table 1 illustrates a number of the key actuarial items for the 2012 valuation. As mentioned above, the total normal cost rate is 11.86% of covered payroll. The actuarial accrued liability is $2,968.4 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $1,897.7 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has a $1,070.7 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2011), the System was underfunded by $932.9 million.

As of October 1, 2012, the City is contributing 18% of payroll and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 26.0% of payroll to fund benefits. The current normal cost of the plan is 11.86%, which means that the System is currently receiving contributions in excess of the normal cost equal to14.14% of pay (26.0% less 11.86%). 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 years.

Under the Amended Supplemental Funding Plan (ASFP) the total City contribution rate has increased to 18.0% of pay (the maximum City rate under the ASFP). The additional contribution is intended to stay in place until the ASFP is amended or repealed.

Gabriel Roeder Smith & Company

FUNDED STATUS OF THE PLAN
(Continued)

The funding period of 27 years is the same as the prior valuation.

The GASB annual required contribution (ARC) is also developed in Item 10 on Table 1. The ARC for the 2013 plan year, as determined by the 2012 valuation, is 17.16%.

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.

The reader may notice a slight increase in the normal cost of the System. This is due to the reflection of the new assumptions effective with the December 31, 2012 valuation. The new actuarial assumptions also increased the accrued liabilities of the system by $104.8 million, as shown on Table 8 (see Table 14 for a full listing of the actuarial assumptions).

CHANGE IN ASSETS

Table 4 and Table 5 show the development of the actuarial value of assets. Item 8 of Table 4, shows that the actuarial value of assets as of December 31, 2012 is $1,897.7 million.

The total deferral of all Excess/(Shortfall) investment income for the year (shown in Table 5, Item 5.f.) is ($34.3) million.

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, 2012, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 13.16% on a market value of assets basis. The rate of return for the year ending December 31, 2012, on an actuarial value basis was 7.13%. 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 $11.4 million in 2012. This compares to the $31.3 million loss in 2011.

As part of the Experience Study, the method for determining the actuarial value of assets was modified. The new method offsets excess or shortfalls in the current year's investment income dollar for dollar against prior years' deferred gains or losses. Any remaining amounts from the current or prior years continue to be recognized over a five year period.

Because the system was deferring shortfalls in investment income and 2012 produced excess investment income, the change in the asset method resulted in an increase in the actuarial value of assets of approximately $11.7 million when compared to the asset value that would have been produced by the old method.

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, 2011.

As can be seen in Item 7 of Table 8, the expected value of the unfunded actuarial accrued liability as of December 31, 2012, was an underfunded position of $941.2 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 2012.

Since the actual unfunded actuarial accrued liability as of December 31, 2012 is $1,070.7 million, it represents a total net loss for the period of $129.4 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 $11.4 million as shown in Table 7, a loss on the liability side equal to $13.2 million, and an assumption loss of $104.8 million due to the new actuarial assumptions. 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.

As stated previously, the actuarial assumptions and the actuarial asset method have been revised since the previous valuation. 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.

As the reader may be aware, GASB has recently issued new statements regarding disclosure requirements for governmental pension plans and their sponsors. These disclosure requirements will become effective for COA ERS in calendar year 2014 and for the City in fiscal year 2015.

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.

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 65.7% at the prior valuation to 63.9% at this valuation. Based on the new benefit provisions and the new 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 amortize the unfunded liabilities of the system over a period of less than 30 years, assuming all valuation assumptions are realized in the future. Of course this could change with the addition of any unfunded liabilities (such as cost of living adjustments) or if there is a significant downturn in the financial markets.

ACTUARIAL TABLES

City of Austin Employees' Retirement System **TABLE 1**
Actuarial Valuation - December 31, 2012

SUMMARY OF COST ITEMS

	December 31, 2012		December 31, 2011	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,387		8,348	
b. Terminated vested	924		922	
c. Retired participants and beneficiaries	4,741		4,455	
d. Disabled	90		87	
e. Proportional PSEM and CCSD	124		134	
f. Total	14,266		13,946	
2. Covered Payroll	$ 470,231,969		$ 451,831,198	
3. Averages for Active Participants				
a. Average age	45.1		44.9	
b. Average years of service	9.7		9.7	
c. Average pay	$ 56,067		$ 54,124	
4. Total Normal Cost	$ 54,554,538	11.86% *	$ 51,058,270	11.74% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,520,835,021		$ 1,383,791,695	
b. Terminated vested participants	50,142,940		49,504,249	
c. Refunds of terminated nonvested participants	9,375,936		8,252,703	
d. Retired participants and beneficiaries	1,362,279,838		1,255,155,557	
e. Disabled participants	12,964,872		12,311,797	
f. Proportional PSEM and CCSD	12,781,085		14,828,814	
g. Total	$ 2,968,379,692	631.26%	$ 2,723,844,815	602.85%
6. Actuarial Assets	$ 1,897,722,867	403.57%	$ 1,790,902,641	396.37%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 1,070,656,825	227.69%	$ 932,942,173	206.48%
8. Relative Size of UAAL				
a. As percent of actuarial assets	56.42%		52.09%	
b. As percent of covered payroll	227.69%		206.48%	
9. 30-year amortization of UAAL as % of covered payroll	13.30%		12.06%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	25.16%		23.80%	
b. Employee contribution rate	8.00%		8.00%	
c. ARC (10a. - 10b.)	17.16%		15.80%	

* as % of expected payroll for current active members

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

	Cost as % of Pay	
Benefit Component	December 31, 2012	December 31, 2011
(1)	(2)	(3)
1. Retirement Benefits	8.25%	7.77%
2. Termination - Deferred Benefits	0.69%	0.41%
3. Termination - Refund Benefits	2.18%	2.50%
4. Disability Benefits	0.51%	0.44%
5. Death Benefits	0.23%	0.62%
6. Normal Cost	11.86%	11.74%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

TABLE 3

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

	December 31, 2012 (1)	December 31, 2011 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,786,567,058	$ 1,504,879,327
b. Deferred termination benefits	79,534,766	125,250,051
c. Refund of nonvested terminations	29,405,665	41,536,148
d. Disability benefits	20,963,438	16,332,483
e. Death benefits	22,241,237	38,914,835
f. Total	$ 1,938,712,164	$ 1,726,912,844
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,362,279,838	$ 1,255,155,557
b. Disability retirements	12,964,872	12,311,797
c. Total	$ 1,375,244,710	$ 1,267,467,354
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 50,142,940	$ 49,504,249
b. Nonvested terminations with refunds payable	9,375,936	8,252,703
c. Total	$ 59,518,876	$ 57,756,952
4. Proportional PSEM and CCSD	$ 12,781,085	$ 14,828,814
5. Total actuarial present value of future benefits	$ 3,386,256,835	$ 3,066,965,963
B. Present Value of Future Pay	$ 3,523,416,046	$ 2,922,667,372
C. Normal Cost Rate	11.86%	11.74%
D. Present Value of Future Normal Costs	$ 417,877,143	$ 343,121,149
E. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,938,712,164	$ 1,726,912,844
2. Less present value of future normal costs (Item D)	417,877,143	343,121,149
3. Actuarial accrued liability	$ 1,520,835,021	$ 1,383,791,695
F. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item E.3)	$ 2,968,379,692	$ 2,723,844,815

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DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item		Plan Year Ending December 31, 2012
(1)		(2)
1. Actuarial value of assets, beginning of year	$	1,790,902,641
2. Cash flow during the year		
a. Contribution	$	119,974,844
b. Benefits and Refund Paid		(140,200,299)
c. Total	$	(20,225,455)
3. Expected net investment income at 7.75% earned on:		
a. Actuarial value of assets, beginning of year	$	138,794,955
b. Cash Flow		(331,006)
c. Total		138,463,949
4. Expected actuarial value of assets, end of year	$	1,909,141,135
5. Market value of plan net assets, end of year	$	1,863,468,061
6. Difference between expected actuarial assets and market value of assets (Item 5 - Item 4)	$	(45,673,074)
7. Excess/(shortfall) recognized (Table 4b Item 6)	$	(11,418,268)
8. Preliminary actuarial value of plan assets, end of year (Item 4 + Item 7)	$	1,897,722,867
9. Actuarial value of assets corridor		
a. 80% of market value, end of year	$	1,490,774,449
b. 120% of market value, end of year	$	2,236,161,673
10. Final actuarial value of plan net assets, end of year (Item 8, but recognize 1/3 of any deferred gains or losses outside of Item 9)	$	1,897,722,867
11. Asset gain (loss) for year (Item 10 - Item 4)	$	(11,418,268)

DEVELOPMENT OF AMOUNTS TO BE RECOGNIZED IN THE ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31, 2012
(1)	(2)
1. Remaining deferrals of excess (shortfall) of investment income from prior years	
a. Current year - 4	$ -
b. Current year - 3	-
c. Current year - 2	-
d. Current year - 1	(125,128,218)
e. Total	$ (125,128,218)
2. Current year (Table 4a Item 6 - Table 4b Item 1)	$ 79,455,144
3. Amounts to be immediately recognized by due to an offsetting experience	
a. Current year - 4	$ -
b. Current year - 3	-
c. Current year - 2	-
d. Current year - 1	(79,455,144)
e. Current Year	79,455,144
f. Total	$ -
4. Remaining prior year deferrals:	
a. Current year - 4	$ -
b. Current year - 3	-
c. Current year - 2	-
d. Current year - 1	(45,673,074)
e. Current year	-
f. Total	$ (45,673,074)
5. Deferral of excess (shortfall) of investment income for:	
a. Current year - 4 (0% of Item 4.a.)	$ -
b. Current year - 3 (50% of Item 4.b.)	-
c. Current year - 2 (67% of Item 4.c.)	-
d. Current year - 1 (75% of Item 4.d.)	(34,254,806)
e. Current year (80% of Item 4.e.)	-
f. Total	$ (34,254,806)
6. Total amount recognized in actuarial value of assets (Item 3.f. + Item 4.f. - Item 5.f.)	$ (11,418,268)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012 **TABLE 6**

CHANGE IN NET POSITION

		Valuation Period Ending December 31,	
		2012	2011
		(1)	(2)
1.	Assets in plan at beginning of year **(A)**	$ 1,665,774,423	$ 1,711,577,229
2.	Employer contributions	76,052,465	66,545,903
3.	Employee contributions	43,922,380	41,503,157
4.	Benefit payments made*	135,284,636	125,869,029
5.	Refunds of contributions	4,915,664	3,800,722
6.	Expenses paid from trust	2,279,609	2,217,981
7.	Investment return	220,195,716	(21,965,099)
8.	Other	2,986	965
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 1,863,468,061	$ 1,665,774,423
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 + 8 - 6 = **I**)	$ 217,919,093	$ (24,182,115)
	b. Estimated yield based on **(2I/(A + B - I))**	13.16%	-1.42%

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

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ACTUAL VERSUS EXPECTED ACTUARIAL ASSETS

Item	Plan Year Ending December 31, 2012	Plan Year Ending December 31, 2011
(1)	(2)	(3)
1. Actuarial assets, beginning of year (December 31, 2011 after Mark to Market)	$ 1,790,902,641	$ 1,711,577,229
2. Contributions during year	$ 119,974,844	$ 108,049,060
3. Benefits paid during year	$ (135,284,635)	$ (125,869,030)
4. Refunds paid during year	$ (4,915,664)	$ (3,800,721)
5. Other	$ 0	$ 0
6. Assumed net investment income at	7.75%	7.75%
a. Beginning of year assets	$ 138,794,955	$ 132,647,235
b. Contributions	4,649,025	4,186,901
c. Benefits	(4,805,423)	(4,470,973)
d. Refunds	(174,608)	(135,005)
e. Other	0	0
f. Total	$ 138,463,949	$ 132,228,158
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	$ 1,909,141,135	$ 1,822,184,696
8. Actuarial assets, end of year	$ 1,897,722,867	$ 1,790,902,641
9. Asset gain/(loss) (Item 8 - Item 7)	$ (11,418,268)	$ (31,282,055)

City of Austin Employees' Retirement System **TABLE 8**
Actuarial Valuation - December 31, 2012

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2012

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2012	2011
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 932,942,173	$ 749,087,565
2.	Actual normal cost paid during year	58,353,144	74,772,885
3.	Subtotal (1 + 2)	$ 991,295,317	$ 823,860,450
4.	Interest at prior valuation's rate of 7.75%	74,564,203	60,951,736
5.	Contributions during year	(119,974,844)	(108,049,060)
6.	Interest on contributions for one-half year	(4,649,025)	(4,186,901)
7.	Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 941,235,651	$ 772,576,225
8.	Actual UAAL as of December 31st	1,070,656,825	932,942,173
9.	Actuarial gain/(loss) for the period (7 - 8)	$ (129,421,174)	$ (160,365,948)
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 7)	$ (11,418,268)	$ (31,282,055)
11.	Total liability gain/(loss) for the period (9-10)	(118,002,906)	(129,083,893)
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	(104,778,999)	(135,857,198)
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ (13,223,907)	$ 6,773,305
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ 1,813,440	$ 29,621,427
17.	Service Retirement	(296,878)	4,664,933
18.	Withdrawal	(5,559,620)	(20,664,724)
19.	Disability Retirement	(391,551)	(296,243)
20.	Active Mortality	(105,128)	(299,641)
21.	Retiree Mortality	464,354	529,889
22.	Rehires	(5,203,734)	(5,077,225)
23.	Other (Data) including proportionate program	(3,944,790)	(1,705,111)
24.	Total Liability Experience Gain/(Loss)	$ (13,223,907)	$ 6,773,305

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

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%
2012	1,070,656,825	470,231,969	227.7%	1,897,722,867	56.4%	2,968,379,692	36.1%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

TABLE 10

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending 31-Dec (1)	Active Participants (2)	Covered Payroll (3)	Average Salary (4)	Percent Increase (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%
2012	8,387	470,231,969	56,067	3.6%

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

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

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
2012	405	13,035,228	116	3,011,032	4,831	134,653,163	7.9%	27,873

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

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%
December 31, 2012	417,481,360	1,375,244,710	1,175,653,622	1,897,722,867	100.0%	100.0%	8.9%

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

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%
December 31, 2012	1,897.7	2,968.4	1,070.7	63.9%	470.2	227.7%

Note: Dollar amount in millions.

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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%
2012	$72,825,996	104.43%

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, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	4.50% 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, 2012)

A. ACTUARIAL ASSUMPTIONS

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

   Nominal Return of 7.75% : Includes inflation of 3.25%, gross real return of 4.63%, administrative expenses of -0.13%, investment expenses of -0.30%, and additional return of 0.30% due to alpha.

2. Mortality

   a. Nondisabled annuitants (adopted effective December 31, 2012)

      Healthy retirees and beneficiaries – The RP-2000 Mortality Table with the White Collar adjustment projected using the AA projection table with multipliers based on plan experience. The following are sample rates for the year 2000:

Nondisabled Annuity Mortality Rates Before Projection (but after Multiplier Applied)		
Age	Males	Females
50	0.2176%	0.1907%
55	0.3632%	0.3103%
60	0.6141%	0.5612%
65	1.2167%	1.0381%
70	2.1203%	1.8222%
75	3.6997%	3.0860%
80	6.5353%	5.1696%
85	11.5132%	8.9032%
90	19.6100%	15.1381%
Multiplier	110%	120%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(Continued)

b. Disabled (adopted effective December 31, 2002)

Disabled annuitants – The RP-2000 Mortality Table for Disabled lives projected using the AA projection table with multipliers based on plan experience. The following are sample rates for the year 2000:

Disabled Annuity Mortality Rates Before Projection (but after Multiplier Applied)		
Age	Males	Females
50	4.3463%	1.3842%
55	5.3163%	1.9853%
60	6.3063%	2.6207%
65	7.5261%	3.3631%
70	9.3875%	4.5162%
75	12.3101%	6.2676%
80	16.4058%	8.6774%
85	21.2405%	12.0244%
90	27.5112%	16.8059%
Multiplier	150%	120%

c. Active members (adopted effective December 31, 2012)

Active employees – The RP-2000 Mortality Table for employees projected using the AA projection table with multipliers based on plan experience. The following are sample rates for 2000:

Active Employee Mortality Rates Before Projection (but after Multiplier Applied)		
Age	Males	Females
25	0.0263%	0.0145%
30	0.0311%	0.0185%
35	0.0541%	0.0333%
40	0.0755%	0.0494%
45	0.1056%	0.0787%
50	0.1497%	0.1173%
55	0.2120%	0.1768%
60	0.3415%	0.2752%
65	0.5301%	0.4075%
Multiplier	70%	70%

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(Continued)

3. Retirement Rates: (adopted effective December 31, 2012)
   The following rates of retirement are assumed for members eligible for normal retirement.

Age	Rates of Retirement	
	Males	Females
45 & under	25.0%	27.0%
46	25.0%	27.0%
47	25.0%	27.0%
48	25.0%	27.0%
49	25.0%	27.0%
50	25.0%	26.0%
51	25.0%	26.0%
52	25.0%	26.0%
53	25.0%	26.0%
54	25.0%	26.0%
55	25.0%	25.0%
56	25.0%	25.0%
57	25.0%	25.0%
58	25.0%	25.0%
59	25.0%	25.0%
60	25.0%	24.0%
61	25.0%	24.0%
62	25.0%	24.0%
63	25.0%	24.0%
64	25.0%	24.0%
65	25.0%	21.0%
66	25.0%	21.0%
67	25.0%	21.0%
68	25.0%	21.0%
69	25.0%	21.0%
70	25.0%	20.0%
71	25.0%	20.0%
72	25.0%	20.0%
73	25.0%	20.0%
74 & 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, 2012) (Continued)

4. Rates of Decrement Due to Withdrawal (adopted effective December 31, 2012)

Rates of withdrawal are comprised of a select period for the first 5 years of employment and ultimate rates based on years of service from retirement after the end of the select period. Sample rates during the select period are shown below:

	Males				
	Year of Employment				
Age	1	2	3	4	5
25	0.1771	0.1549	0.1358	0.1145	0.1122
30	0.1610	0.1408	0.1234	0.1040	0.1019
35	0.1532	0.1339	0.1088	0.0855	0.0802
40	0.1389	0.1214	0.0946	0.0736	0.0706
45	0.1256	0.1098	0.0845	0.0675	0.0675
50	0.1155	0.1010	0.0803	0.0666	0.0670
55	0.1094	0.0957	0.0820	0.0699	0.0668
60	0.1125	0.0983	0.0888	0.0769	0.0668

	Females				
	Year of Employment				
Age	1	2	3	4	5
25	0.2072	0.1936	0.1760	0.1461	0.0999
30	0.2012	0.1881	0.1709	0.1418	0.0962
35	0.2000	0.1870	0.1653	0.1222	0.0842
40	0.1842	0.1721	0.1484	0.1087	0.0772
45	0.1642	0.1534	0.1346	0.1021	0.0772
50	0.1381	0.1291	0.1207	0.0976	0.0783
55	0.1329	0.1266	0.1142	0.0911	0.0832
60	0.1404	0.1338	0.1206	0.1005	0.0966

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(Continued)

After the select period ends, rates of withdrawal are based on the number of years from employment. Sample rates are shown below for males and females

Years from Eligibility for Unreduced Retirement	Rates of Withdrawal After Select Period	
	Males	Females
1	0.0112	0.0108
2	0.0153	0.0160
3	0.0182	0.0201
4	0.0207	0.0237
5	0.0228	0.0270
6	0.0248	0.0299
7	0.0265	0.0326
8	0.0281	0.0352
9	0.0296	0.0377
10	0.0310	0.0400
11	0.0323	0.0422
12	0.0336	0.0444
13	0.0348	0.0465
14	0.0360	0.0485
15	0.0371	0.0504
16	0.0381	0.0523
17	0.0392	0.0541
18	0.0402	0.0559
19	0.0411	0.0577
20	0.0421	0.0594
21	0.0430	0.0610
22	0.0439	0.0627
23	0.0448	0.0643
24	0.0456	0.0659
25	0.0464	0.0674

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(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, 2012)

Years of Service	Promotional Rate of Increase	Total Annual Rate of Increase Including 3.25% Inflation Component and 1.75% Productivity Component
1 – 7	1.50%	6.00%
8	1.25%	5.75%
9	0.75%	5.25%
10	0.50%	5.00%
11 - 19	0.25%	4.75%
20 or more	0.00%	4.50%

7. DROP Participation: (adopted effective December 31, 2012)

It was assumed that 15% of retiring active members with at least 20 years of service would elect a “Backward” 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, 2012) (Continued)

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

   100% of the active members are assumed to be married.

9. There will be no recoveries once disabled: (adopted effective December 31, 1997)

10. Spousal Age Difference: (adopted effective December 31, 2012)

    Males are assumed to be three years older than their spouses.

11. 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.

12. 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%.

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

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

14. Individual salaries used to project benefits: (adopted effective December 31, 1997)

    Rates of pay as of the valuation date are reported for all employees.

15. Pay increase timing: (adopted effective December 31, 1997)

    Middle of calendar year.

16. Decrement timing: (adopted effective December 31, 1997)

    Decrements of all types are assumed to occur mid-year.

17. Eligibility testing: (adopted effective December 31, 2002)

    Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(Continued)

18. Decrement relativity: (adopted effective December 31, 2002)

    Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

19. Incidence of Contributions: (adopted effective December 31, 2002)

    Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

20. Benefit Service: (adopted December 31, 1997)

    All members are assumed to accrue 1 year of eligibility service each year.

21. Mortality Improvement:

    The base mortality tables are anchored at the year 2000. To account for future mortality improvement, the base mortality rates shown in Item 2 are projected forward using scale AA for all future years.

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. The expected investment return each year is calculated based on the actuarial value of assets with the difference from actual income smoothed in over five years in 20% increments. If the current year's difference is opposite sign of any of the prior years' deferred Excesses/(Shortfalls), then the prior years' bases (starting with the oldest) are reduced dollar for dollar along with the current year's base. Any remaining bases are then recognized over five years (20% per year) from their initial creation.

If the resulting preliminary asset value is less than 80% or more than 120% of the market value of assets, then 1/3 of the amount outside of the 80%-120% corridor is recognized in the final actuarial value of assets.

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS
(EFFECTIVE AS OF December 31, 2012)
(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, 2012

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, 2012, this additional contribution became 10% of pay, for a total city contribution of 18%. 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, 2012 (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, 2012 (Continued)

iii) Period certain and life annuity with 15 years of payments guaranteed, or

e. Deferred Retirement Option Program (DROP): A member may elect to retroactively participate in the System's DROP (i.e. a Backward 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, 2012
(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, 2012 (Continued)

for Non-contributory time, prior military service purchases, or Supplementary Service Credit.

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, 2012 (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, 2012 (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, 2012 (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, 2012 (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 “Backward” 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, 2012 (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, 2012

TABLE 15

SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2012
(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.

BB. BENEFIT ENHANCEMENTS ENACTED IN 2012

None

DEFINITION OF TERMS

1. ***Actuarial Cost Method***

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

2. ***Present Value of Future Benefits***

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

3. ***Normal Cost***

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

4. ***Actuarial Accrued Liability***

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

5. ***Entry Age Actuarial Cost Method***

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

6. ***Unfunded Actuarial Accrued Liability***

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

7. ***Actuarial Value of Assets***

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

DEFINITION OF TERMS
(Continued)

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

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

Statistical Section

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

STATISTICAL TABLES

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

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2012

TABLE 17A

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2012

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	53	30	12	8	4	0	0	0	0	0	0	0	107	$ 32,413
25-29	143	120	100	41	48	116	0	0	0	0	0	0	568	38,442
30-34	135	96	107	57	106	352	92	2	0	0	0	0	947	45,404
35-39	110	74	87	60	83	353	258	56	2	0	0	0	1,083	52,229
40-44	87	62	59	77	107	320	329	161	52	1	0	0	1,255	56,197
45-49	70	48	67	46	85	276	301	235	142	43	1	0	1,314	59,674
50-54	41	59	51	33	62	266	303	229	177	103	13	0	1,337	62,400
55-59	32	40	37	28	46	205	210	175	152	70	19	1	1,015	63,128
60-64	13	17	17	16	25	121	140	97	70	35	16	4	571	65,101
65 & Over	2	5	6	2	8	42	57	32	21	6	6	3	190	61,856
All Ages	686	551	543	368	574	2,051	1,690	987	616	258	55	8	8,387	$ 56,067

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 17B

DISTRIBUTION OF GROUP A ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2012

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	0	30	12	8	4	0	0	0	0	0	0	0	54	$ 34,290
25-29	0	120	100	41	48	116	0	0	0	0	0	0	425	39,216
30-34	0	96	107	57	106	352	92	2	0	0	0	0	812	46,359
35-39	1	74	87	60	83	353	258	56	2	0	0	0	974	53,122
40-44	0	61	59	77	107	320	329	161	52	1	0	0	1,167	57,106
45-49	0	48	67	46	85	276	301	235	142	43	1	0	1,244	60,336
50-54	0	59	51	33	62	265	303	229	177	103	13	0	1,295	62,611
55-59	0	40	37	28	46	205	210	175	152	70	19	1	983	63,449
60-64	0	17	17	16	25	121	140	97	70	35	16	4	558	65,219
65 & Over	0	5	5	2	8	42	57	32	21	6	6	3	187	61,709
All Ages	1	550	542	368	574	2,050	1,690	987	616	258	55	8	7,699	$ 57,279

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 17C

DISTRIBUTION OF GROUP B ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2012

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	53	0	0	0	0	0	0	0	0	0	0	0	53	$ 30,501
25-29	143	0	0	0	0	0	0	0	0	0	0	0	143	36,143
30-34	135	0	0	0	0	0	0	0	0	0	0	0	135	39,658
35-39	109	0	0	0	0	0	0	0	0	0	0	0	109	44,253
40-44	87	1	0	0	0	0	0	0	0	0	0	0	88	44,137
45-49	70	0	0	0	0	0	0	0	0	0	0	0	70	47,903
50-54	41	0	0	0	0	1	0	0	0	0	0	0	42	55,877
55-59	32	0	0	0	0	0	0	0	0	0	0	0	32	53,261
60-64	13	0	0	0	0	0	0	0	0	0	0	0	13	60,027
65 & Over	2	0	1	0	0	0	0	0	0	0	0	0	3	71,025
All Ages	685	1	1	0	0	1	0	0	0	0	0	0	688	$ 42,506

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 18

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2012

Completed Years of Service	Number of Employees	Total Average Salary
0	686	$ 42,411
1	551	47,111
2	543	49,775
3	368	54,614
4	574	51,533
5-9	2,051	52,891
10-14	1,690	59,731
15-19	987	63,382
20-24	616	69,852
25-29	258	73,249
30-34	55	69,478
35+	8	93,031
All Years	8,387	$ 56,067

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 19

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years Creditable Service						
January 1, 2007 to December 31, 2012	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
Period 01/01/2012 to 12/31/2012							
Average Monthly Benefit	$263	$890	$1,591	$2,366	$3,158	$4,669	$4,490
Average Final Salary	$41,271	$50,472	$55,358	$57,742	$61,017	$74,302	$60,811
Number of Active Retirees	12	46	52	33	109	73	17

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 20

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2012)

Amount of Monthly Benefit	Number of Retired Members	Type of Retirement[a] 1	2	3	4	Option Selected[b] Unmod.	1	2	3	4	5	6	7	8	9
Deferred						824									
$1-250	141	117	9	3	12	83	46	6	2				4		
251-500	230	181	25	11	13	105	83	14	8	4		1	14	1	
501-750	262	196	41	11	14	111	88	25	16	4	4	1	10	1	2
751-1,000	292	217	47	16	12	119	88	26	22	6	5	13	8	1	4
1,001-1,250	279	214	46	14	5	83	98	17	15	8	17	14	10		17
1,251-1,500	362	301	46	13	2	100	137	28	22	4	22	20	12	1	16
1,501-1,750	366	324	35	6	1	104	128	29	24	5	21	25	15	2	13
1,751-2,000	380	330	38	9	3	107	133	38	21	3	27	27	7		17
Over $2,000	2,519	2,379	127	7	6	689	1,011	209	169	31	106	99	82	13	110
Total	**4,831**	**4,259**	**414**	**90**	**68**	**2,325**	**1,812**	**392**	**299**	**65**	**202**	**200**	**162**	**19**	**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 824 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, 2012

TABLE 22

CHANGE IN NET POSITION, LAST TEN FISCAL YEARS

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Member Contributions	$30,449	$32,272	$33,334	$35,791	$39,971	$41,263	$38,752	$40,629	$41,503	$43,922
Employer Contributions	24,907	27,008	27,168	30,610	36,521	40,786	45,263	53,576	66,718	76,217
Investment Income (net of expenses)	246,069	145,631	118,154	179,952	114,931	(435,867)	310,844	230,102	(21,964)	220,204
Total additions	301,426	204,911	178,656	246,353	191,423	(353,818)	394,859	$324,307	$86,257	$340,343
Deductions										
Benefit Payments	77,187	81,426	85,851	90,116	94,627	100,707	108,090	115,665	123,558	131,605
Refunds	4,477	5,112	3,775	4,196	4,438	4,285	4,858	4,205	3,801	4,916
Administrative Expenses	1,553	1,555	1,497	1,671	1,776	1,883	2,032	2,113	2,218	2,280
Lump-sum Payments	1,029	1,343	1,798	2,178	1,328	3,022	3,095	2,013	2,483	3,843
Total deductions	84,246	89,436	92,921	98,161	102,169	109,897	118,075	123,996	132,060	142,644
Change in net position	$217,180	$115,475	$85,735	$148,192	$89,254	($463,715)	$276,784	$200,311	($45,803)	$197,699

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, 2012

TABLE 23

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Type of Benefit										
Age and service benefits:										
Retirees [a]	$75,527	$80,152	$84,003	$88,513	$93,049	$99,219	$106,148	$114,244	$121,366	$130,019
Beneficiaries [a]										
Lump-sum payments	$1,029	$1,343	$1,798	$2,178	$1,328	$3,022	$3,095	$2,011	$2,483	$3,843
In service death benefits: [b]	$1,660	$1,274	$1,848	$1,603	$1,578	$1,489	$1,942	$1,421	$2,192	$1,587
Disability benefits: [c]										
Total benefits	$78,216	$82,769	$87,649	$92,294	$95,955	$103,730	$111,185	$117,676	$126,041	$135,449
Type of Refund										
Death [b]										
Separation	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801	$4,916
Total refunds	$4,477	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801	$4,916

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%
2012	16.00% [c]	"	1.85%	3.00%/2.50% [d]	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; increased to 18.00% effective October 1, 2012; pursuant to Amended Supplemental Funding Plan.

[d] The multiplier was set at 2.50% for those hired on and after January 1, 2012. The multiplier remained at 3.00% for those hired before January 1, 2012.

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.*