2013 Annual Report

Comprehensive Annual Financial Report

City of Austin

Employees' Retirement System

For the Years Ended December 31, 2013 and 2012

Austin, Texas

Introductory Section

City of Austin Employees' Retirement System

May 27, 2014

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, 2013. 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. Retirement benefits are determined by formula considering final average compensation, as defined, and multiplied by the number of years of creditable service. Disability retirement is 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.

Membership in the System is comprised of two benefit tiers: Group A and Group B.

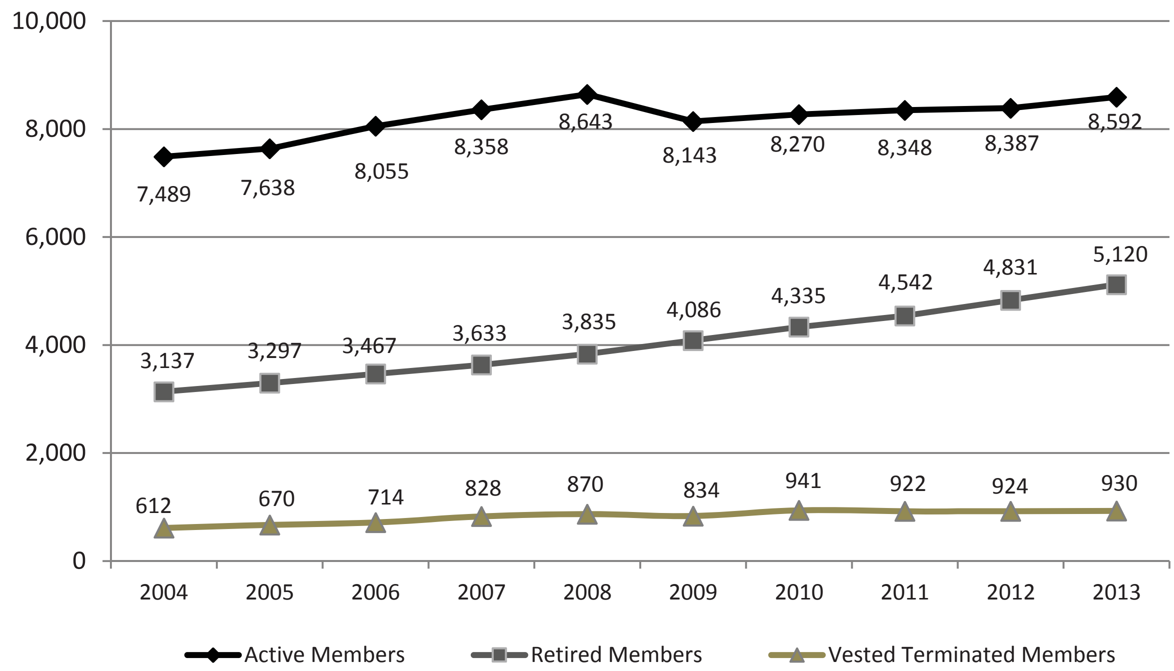
Group A members qualify for normal retirement benefits at age 62; age 55 with 20 years of creditable service; or any age with 23 years of creditable service. Benefits are determined using a multiplier of 3%.

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.

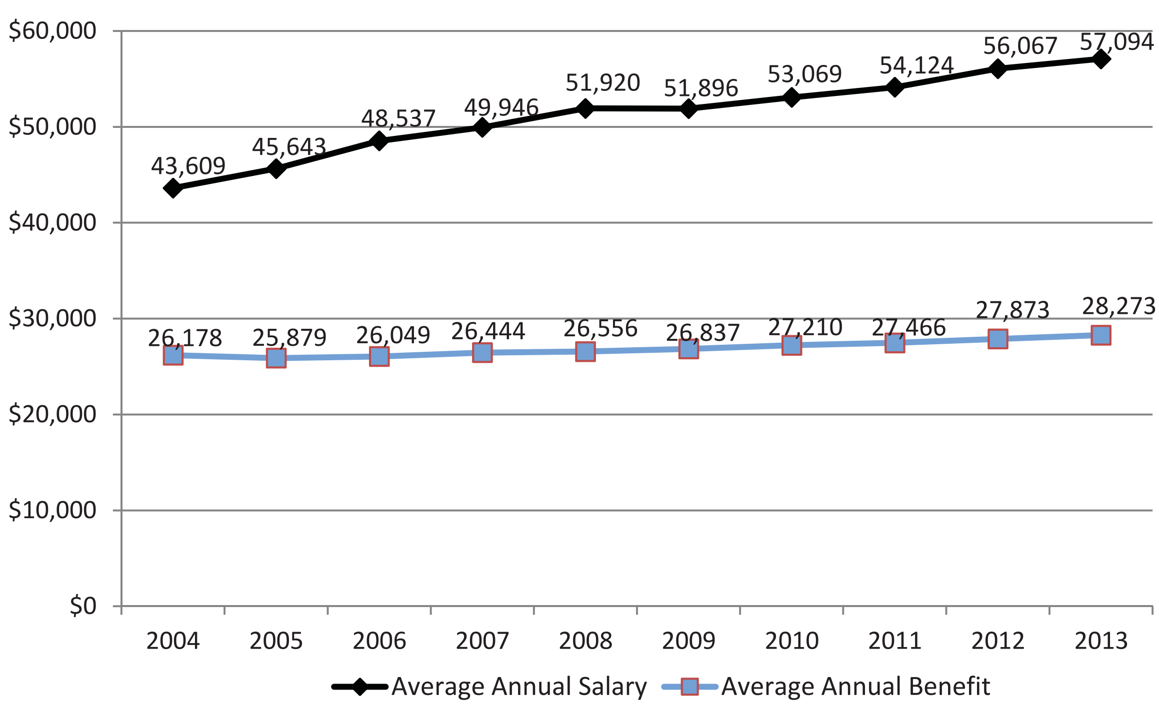
Additional information concerning current COAERS plan provisions is contained in the Summary of Plan Provisions later in this section of the report.

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 2013 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.

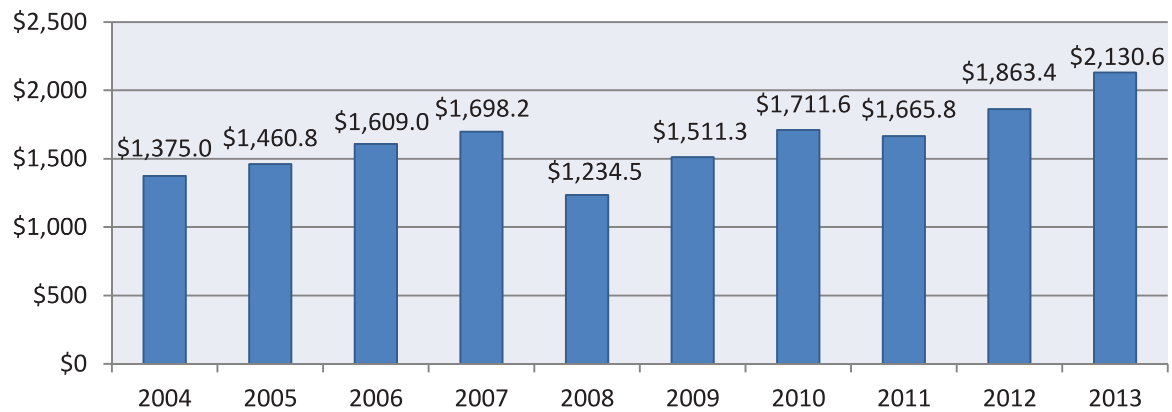
The ***Additions to Net Position*** consist of employer and employee contributions, investment income, and realized and unrealized gain or loss on investments. For 2013, employer and employee contributions totaled $134.1 million; investment, securities lending, and other income was $39.2 million; and net appreciation of plan investments totaled $247.9 million, resulting in a net addition to Net Position of $421.2 million. The ***Deductions from Net Position*****,** totaling $154.0 million, consist of $139.7 million in annuity payments, refunds to terminating members of $4.7 million, Deferred Retirement Option Program (DROP) disbursements of $3.5 million, retiree lump-sum annuity disbursements of $1.3 million, death benefits of $2.3 million, and administrative expenses of $2.5 million. The net increase of $267.2 million results in total assets held in trust of $2.1 billion.

Changes to Net Position

Additions		**Deductions**	
Employer Contributions	$ 86,712,516	Retiree Annuity Payments	$ 139,666,842
Employee Contributions	47,449,413	Refunds to terminating members	4,737,861
Interest, Dividends, Net Securities Lending & Other Income	39,167,019	DROP Disbursements	3,505,569
		Retiree Lump-Sum Annuities	1,352,688
		Death Benefits	2,255,790
Appreciation in Plan Investments (net of investment fees)	247,907,598	General & Administrative Expenses	2,561,407
Total Additions	**$ 421,236,546**	**Total Deductions**	**$ 154,080,157**

The following chart shows the ***Total Net Position*** at the end of each year since 2004. Net Position increased by $267.2 million during 2013, resulting in Total Net Position of $2,130,644,450 at December 31, 2013. Investment returns of the last five years provided recovery from the Great Recession of 2008. The Total Net Position at December 31, 2013, 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, 2013, the investment portfolio of COAERS consisted of 16 mandates managed by 14 investment management firms. The strategic portfolio allocation from the most recent asset liability study, conducted in 2012, which was adopted late in 2012 and adhered to during 2013, is shown below.

COAERS' investments generated a return of 15.54% (net of fees) for 2013, up from 13.31% in 2012. Additional information regarding the investments of the pension trust funds can be found in the Investment Section of this report.

Portfolio Allocation

Investment Style	2013
Domestic Fixed Income	30.00%
International Equities	32.50%
U.S. Equities - Large Cap	24.50%
U.S. Equities - Non-Large Cap	8.00%
Real Estate	5.00%
	100.00%

During 2013, the Board embarked on an extensive review of three proposed new asset categories: risk parity, real assets, and private equity. At year end, selections had been made for a risk parity investment manager and a master limited partnership (MLP) investment manager, but funding for these mandates did not begin until 2014. Due diligence review continues into 2014 for the additional components of the real assets allocation and for the private equity allocation.

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 eighteen percent of base compensation by the City of Austin. Contributions by the City of Austin consist of the statutory base contribution amount of eight percent plus an additional ten percent pursuant to a supplemental funding plan first established in 2005 and amended in 2010. Using the entry age actuarial cost method (EAN), the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability (UAAL), if any, and the number of years needed to amortize the System's UAAL is determined using a level percentage of payroll method. In consultation with its actuary, the Board decided to adopt the use of the Individual Normal Cost EAN method in conjunction for the 2013 actuarial valuation. Because COAERS is a two tier system, the use of the Individual Normal Cost EAN method means that the normal cost will decline over time and the percentage of pay contributed towards the unfunded liability will increase over time. To better model how this financing will pay off the unfunded liabilities of COAERS, the Board has adopted the use of an open group projection in the determination of the System's funding period.

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 26 years, a slight improvement from the prior year.

The overall funded position of the System is 70.4%, up from 63.9% in 2012. A gain on the actuarial value of assets, along with the actuarial cost methodology change described above, contributed to the change in funded position. The actuarial accrued liability and the actuarial value of assets of COAERS, as of December 31, 2013, amounted to $2.91 billion and $2.05 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Major Initiative

In 2012, COAERS launched a Service Delivery & Technology initiative to pursue updated technology for major operational areas, specifically focused in the short term on pension administration software. Working with consultant LRWL, Inc., a review of the current business processes and technology was completed in 2013. An RFP for a pension administration system and related technologies was issued in February 2014. Currently, the initiative is on schedule. Vendor selection, product design, and implementation are estimated to continue through 2016. However, the project is ultimately subject to Board approval.

Awards

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

Government Finance Officers Association

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, 2012

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
_2013_

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.

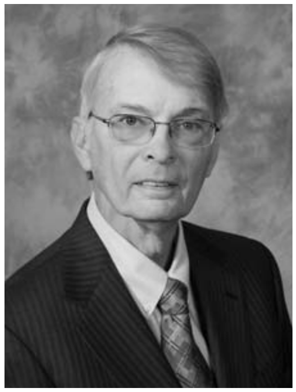
Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

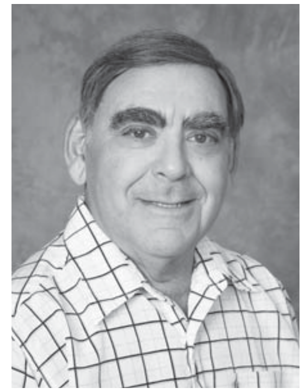
COAERS 2013 BOARD OF TRUSTEES

Francine Gertz
2013 Board Chair



Sam Jones
2013 Board Vice Chair

Reagan David
Trustee



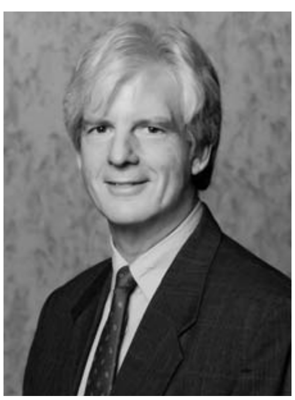
Ed Golden
Trustee

Elizabeth S. Gonzales
Trustee

Chris Noak
Trustee

Peter Rieck
Trustee

Julia Robbins
Trustee



Bill Spelman
Trustee

Ed Van Eenoo
Trustee

Jim Williams
Trustee

COAERS STAFF

Stephen C. Edmonds
Executive Director

Russell Nash
Chief Operations Officer

Donna Durow Boykin
Chief Financial Officer

Kirk Stebbins
Chief Investment Officer

Jo Anne Norton
Manager, Administrative & Support Services

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





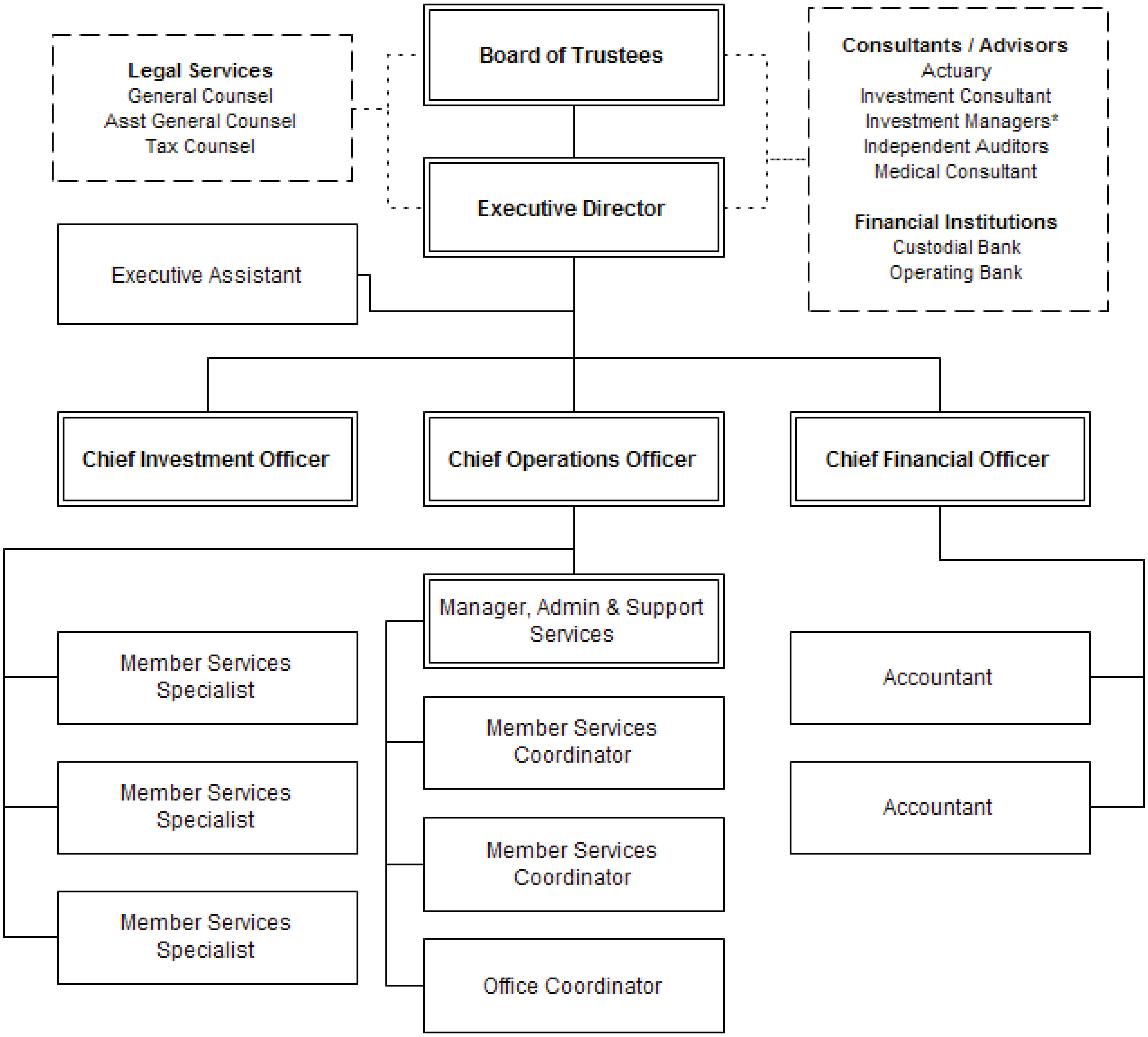









ORGANIZATIONAL CHART



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 LLP

Tax Counsel
Strasburger & Price LLP

Operating Bank
JPMorgan Chase Bank

INVESTMENT MANAGERS

Fixed Income
Agincourt Capital Management LLC
Northern Trust Global Investments - Bond Fund

International Equity
1607 Capital Partners LLC
City of London Investment Management Co LTD
Dimensional Fund Advisors LP
Mondrian Investment Partners LTD
Northern Trust Global Investments - Emerging Markets
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. The current employer contribution, established by City Council Resolution, is 18% of compensation. The employer contribution will remain at this level until the Resolution is amended or repealed.

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), or
- 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 City of Austin 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 interest, as required by law.

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. Two percent is applied for the number of years (prior to 1941) times the average salary for the years 1946 through 1950.

Proportionate Service

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

- 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 granted at retirement to Active-Contributing/Vested Members hired on or before October 1, 1995
- Note: Proportionate service is only used to reach eligibility; it is not used to calculate retirement benefits.

Multiplier 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 basic monthly benefit payable for the life of the Retiree.

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

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

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

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

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

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

A "Pop-up" benefit is provided for Retirees choosing Options I, II, or III as well as Retirees who selected any Joint and Survivor option other than Joint and Last Survivor option. 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 and request a one-time lump-sum payment to be paid at the same time as the Member's first annuity payment. The Member's annuity amount will be actuarially reduced for the lump-sum payment. Members may select a partial lump-sum distribution, or both a partial lump-sum distribution and a DROP, not to exceed 60 months of annuity payments under a basic Member Only Life Annuity benefit

IRS Section 415 Restoration of Retirement Income Plan

Certain highly compensated Members may have their retirement annuity limited because of Section 415(b)(1) of the Internal Revenue Code. A plan amendment, effective January 1, 2000, provides for 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

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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 and changes in net position of the City of Austin Employees' Retirement System (COAERS), as of and for the years ended December 31, 2013 and 2012, and the related 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 the City of Austin Employees' Retirement System as of December 31, 2013 and 2012, 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 Introductory Section on pages 1 to 26, Other Supplementary Information – Investment, General & Administrative, and Consultant Expenses on page 53, the Investment Section on pages 55 to 68, the Actuarial Section on pages 69 to 118, and the Statistical Section on pages 119 to 130 are 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 are 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Austin, Texas
May 27, 2014

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2013 and 2012

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 2013 and 2012. 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 $267.2 million, or 14.3%, in 2013, and increased by $197.7 million, or 11.9%, in 2012. All changes primarily correlate with investment returns.

- Contributions increased by $14.0 million, or 11.7%, in 2013, and by $11.9 million, or 11.0%, in 2012. The 2013 increase was due to an $8.6 million increase in the City's supplemental funding, an increase of $3.6 million in employee and City contributions based on payroll, and an increase of $1.8 million in employee creditable service purchases. 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 amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees, increased approximately $11.2 million, or 7.9% during 2013, and by approximately $10.5 million, or 8.1%, during 2012. 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 $17.4 million in 2013, and by $20.2 million in 2012.

- The System's rate of return on investments for the year ended December 31, 2013, was 15.98% gross of fees, and 15.54% net of fees, on a market value basis, which exceeded the return of 13.82% gross of fees, and 13.31% net of fees, for the year ended December 31, 2012. 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, 2013, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 70.4%, which is up from the 63.9% level at December 31, 2012. The amortization period of the unfunded actuarial accrued liability is 26.0 years at December 31, 2013.

  In October 2012, the City of Austin reached the 10% contribution level prescribed in the Amended Supplemental Funding Plan adopted by the City Council in October 2010. This results in total employer contribution to the System at 18% of base employee compensation.

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2013 and 2012

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, 2013, 2012, 2011

Assets	**2013**	**2012**	**2011**
Cash and receivables	$ 27,598,892	17,540,228	15,755,686
Investments	2,113,757,425	1,852,254,380	1,655,406,896
Invested securities lending collateral	187,326,074	157,614,728	148,049,689
Capital assets, net	948,937	965,542	1,004,177
Total assets	2,329,631,328	2,028,374,878	1,820,216,448
Liabilities			
Total liabilities	198,986,878	164,886,817	154,427,025
Net position held in trust for pension benefits	$ 2,130,644,450	1,863,488,061	1,665,789,423

Assets. As shown in the table above, assets increased $301.2 in 2013, and $208.2 in 2012, primarily due to the increased value of investments.

- During 2013, there was a $10.0 million increase in the net amount of cash and receivables; this was attributable to an increase of $5.4 million in cash held by the System, and a $4.6 million increase in receivables which included a $3.5 million increase in trades pending settlement. In 2012, there was a $1.8 million change in the net amount of cash and receivables at year end; this resulted from a $1.2 million increase in the amount of cash, and a $0.6 million increase in receivables which was the net of a $0.7 million decrease in interest and dividends receivable, a $0.5 increase in retirement contributions receivable, and a $0.8 increase in trades pending settlement.
- In 2013 and 2012, investments increased by $261.5 million and $196.8 million, respectively, reflective of strong capital appreciation in the financial markets.
- The 2013 increase in invested securities lending collateral of $29.7 million reflected the net change in the number of securities on loan at year end; in 2012, the increase was $9.6 million.
- In both 2013 and 2012, the decrease in capital assets reflects depreciation, with additions and retirements being minimal.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2013 and 2012

Liabilities. Liabilities increased $34.1 million in 2013, and in 2012, $10.5 million. 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, 2013, 2012, and 2011

		2013	2012	2011
Additions:				
Contributions	$	134,161,929	120,138,912	108,221,083
Investment income (depreciation)		293,289,672	226,780,192	(15,132,730)
Investment expenses		6,216,050	6,579,477	6,832,369
Net investment income (depreciation)		287,073,622	220,200,715	(21,965,099)
Other income		995	2,986	965
Total additions		421,236,546	340,342,613	86,256,949
Deductions:				
Benefit payments and contribution refunds		151,518,750	140,364,366	129,841,775
General and administrative expenses		2,561,407	2,279,609	2,217,980
Total deductions		154,080,157	142,643,975	132,059,755
Net increase (decrease)		267,156,389	197,698,638	(45,802,806)
Net position held in trust for pension benefits, beginning of year		1,863,488,061	1,665,789,423	1,711,592,229
Net position held in trust for pension benefits, end of year	$	2,130,644,450	1,863,488,061	1,665,789,423

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 2013 and 2012, totaled $134.2 million, and $120.1 million, respectively. The 2013 contributions represent an increase of $14.0 million, or approximately 11.7% above 2012; 2012 contributions represent an increase of $11.9 million, or approximately 11.0% above 2011. The increase in 2013 was due to both an increase in base salaries on which employee and employer contributions are made, and a full year of the increased percentage of payroll being contributed under the Supplemental Funding Plan. The increase in 2012 was primarily due to an increased percentage of payroll being contributed under the Supplemental Funding Plans.

In 2013, COAERS had a net investment gain on the market value of its securities of $287.1 million, an increase of $66.9 million from 2012. In 2012, the net investment gain on the market value of securities was $220.2 million, an increase of $242.2 million from 2011. Interest, dividends and net securities lending income generated 2013 income of $39.2 million, a slight increase from the 2012 income of $39.1 million. Investment managers' fees are based on their cumulative performance; in 2013, fees decreased by $0.4 million; in 2012, fees decreased $0.3 million compared to 2011. The total rate of return (net of fees) for the System's investment portfolio in 2013 was 15.54%; in 2012 it was 13.31%.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis (unaudited)

December 31, 2013 and 2012

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

Benefits paid in 2013 were $146.8 million, an increase of $11.3 million from payments made in 2012, which is consistent with an increase in the number of retirees to 5,120 in 2013. Refunds to terminating employees decreased by $0.2 million. Administrative expenses in 2013 were $2.6 million, an increase of 12.4% from those of 2012.

Benefits paid in 2012 were $135.4 million, an increase of $9.4 million from payments made in 2011, which is consistent with the 2012 increase in the number of retirees to 4,831, from 4,542 in 2011. 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.

Overall Analysis. Overall, as of December 31, 2013, net position increased by $267.2 million, or 14.3%, from the prior year; over the five-year period ending December 31, 2013, net position increased by 72.59%.

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, 2013

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	$ 10,063,233	20,000	10,083,233
Interest and dividends receivable	5,471,788	-	5,471,788
Trades pending settlement	7,109,513	-	7,109,513
Employer contributions receivable	3,419,089	-	3,419,089
Employee contributions receivable	1,515,269	-	1,515,269
Investments, at fair value (note 3):			
Domestic fixed income	561,729,061	-	561,729,061
Real Estate commingled fund	147,914,739	-	147,914,739
U.S. denominated equities	981,268,031	-	981,268,031
International equities	400,548,437	-	400,548,437
Short-term investment funds	22,297,157	-	22,297,157
Total investments	2,113,757,425	-	2,113,757,425
Invested securities lending collateral (note 3)	187,326,074	-	187,326,074
Capital assets, net (note 5)	948,937	-	948,937
Total assets	2,329,611,328	20,000	2,329,631,328
Liabilities			
Accrued expenses	1,509,890	-	1,509,890
Trades pending settlement	8,554,943	-	8,554,943
Securities lending transactions (note 3)	187,326,074	-	187,326,074
Refunds and death benefits payable	1,595,971	-	1,595,971
Total liabilities	198,986,878	-	198,986,878
Net position held in trust for pension benefits	$ 2,130,624,450	20,000	2,130,644,450

See accompanying notes to financial statements.

(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 Changes in Net Position

Year ended December 31, 2013

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 4)	$ 86,556,453	156,063	86,712,516
Employee contributions (note 4)	47,449,413	-	47,449,413
	134,005,866	156,063	134,161,929
Investment income:			
Net appreciation in plan investments	253,827,192	-	253,827,192
Interest	12,364,936	-	12,364,936
Dividends	26,108,899	-	26,108,899
Investment appreciation before expenses and securities lending	292,301,027	-	292,301,027
Securities Lending Activity:			
Securities lending income	988,645	-	988,645
Securities lending fees	(296,456)	-	(296,456)
Net securities lending appreciation	692,189	-	692,189
Investment expenses	(5,919,594)	-	(5,919,594)
Net investment appreciation	287,073,622	-	287,073,622
Other income	995	-	995
Total additions	421,080,483	156,063	421,236,546
Deductions:			
Retirement annuities	139,510,779	156,063	139,666,842
Contributions refunded to terminating employees	4,737,861	-	4,737,861
DROP disbursements	3,505,569	-	3,505,569
Retiree lump-sum annuity	1,352,688	-	1,352,688
Death benefits	2,255,790	-	2,255,790
General and administrative expenses	2,561,407	-	2,561,407
Total deductions	153,924,094	156,063	154,080,157
Net increase	267,156,389	-	267,156,389
Net position held in trust for pension benefits, beginning of year	1,863,468,061	20,000	1,863,488,061
Net position held in trust for pension benefits, end of year	$ 2,130,624,450	20,000	2,130,644,450

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

Notes to Financial Statements

December 31, 2013 and 2012

(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, 2013, 2012, and 2011 membership consisted of the following:

	2013	2012	2011
Retirees and beneficiaries currently receiving benefits	5,120	4,831	4,542
Terminated members entitled to but not yet receiving benefits	930	924	922
Accounts held for terminated members	1,888	1,757	1,791
Current employees	8,592	8,387	8,348
Total	16,530	15,899	15,603

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

Membership in the System is comprised of two benefit tiers: Group A and Group B.

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.

Group B members are employees who were 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.

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CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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, incrementally increased the supplemental contribution to the Plan from 6% of base compensation, initially, to 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 base employee compensation to the Plan, plus a 10% subsidy, as described above, for its fourteen current employees; System employees also contribute 8% of their base 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
2013	$ 206,227	206,227
2012	175,095	175,095
2011	147,703	147,703

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, 2013 and 2012

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, 2013 and 2012, for this Restoration Plan. Assets remaining in this plan as of December 31, 2013 and 2012, were $20,000.

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

	Annual pension cost	Contributions made
2013	$ 156,063	156,063
2012	169,067	169,067
2011	172,023	172,023

At December 31, 2013, 2012, and 2011, membership in the Restoration Plan included the following:

	2013	2012	2011
Retirees and beneficiaries currently receiving benefits	11	12	12
Terminated members entitled to but not yet receiving benefits	-	-	-
Current employees	-	-	-
Total	11	12	12

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, 2013, the balances of Fund 1, Fund 2, and Fund 3 were $436,517,400, $1,694,107,050 and $20,000, respectively. 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.

(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, 2013 and 2012

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, 2013 and 2012, the book balances of the demand deposit accounts totaled $10,082,933 and $4,654,254, respectively.

(c) Investments

The System's equity investments are reported at fair value. Short-term cash investments are reported at cost, which approximates fair value. International securities are reported at fair 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 three funds: one managed by City of London Investment Management, another by Dimensional Fund Advisors, and a third by a Northern Trust Investments Inc. (the Trustee) Collective Emerging Markets Index Fund. These investments are commingled arrangements where assets are pooled with other institutional investors and then unitized with the value of the units determined by the fair 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 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, 2013 and 2012 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, 2013 and 2012

(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.

(h) New Accounting Pronouncements

GASB Statement No. 67, *Financial Reporting for Pension Plans,* was issued June 2012 and is effective for fiscal years beginning after June 15, 2013. This statement amends GASB Statement No. 25 and GASB Statement No. 50, as they relate to pension plans administered through trusts that meet certain criteria. This statement establishes standards for financial reporting and amends note disclosure and supplemental information requirements for defined benefit pension plans administered through qualified trusts. The requirements of this statement will be implemented in 2014.

(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, 2013 and 2012, presents the System's investment mixes.

	2013	2012
Summary of investments by type:		
Domestic fixed income:		
Asset-backed securities	$ -	461
Commercial mortgage-backed securities	18,654,358	17,221,506
Corporate bonds	156,352,863	126,375,539
Government agencies	1,795,150	1,599,475
Government bonds	35,832,121	30,875,605
Government mortgage-backed securities	90,494,103	80,390,594
Other fixed income:		
NT Collective Aggregate Bond Index Fund - Non-Lending	258,600,466	234,213,295
	561,729,061	490,676,475
Real Estate commingled fund	147,914,739	130,072,079
US denominated equities	981,268,031	769,591,343
International equities	400,548,437	433,760,579
Short-term investment funds	22,297,157	28,153,904
Investments at fair value on balance sheet	2,113,757,425	1,852,254,380
Receivables and pending trades, net	4,026,358	4,327,574
Total investments (per investment consultant)	$ 2,117,783,783	1,856,581,954

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, the System's operating bank balances of $10,082,933 and $4,654,254, respectively, were not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and are held by the counterparty, its trust or agent, but not in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name. At December 31, 2013 and 2012, 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, 2013:

(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;

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

5. Investment grade foreign bonds payable in United States dollars;
6. Cash equivalents in the form of commercial paper rated as A1 by Moody's or P1 by Standard & Poor's;
7. Other corporate obligations with an equivalent or higher rating than items 1 through 6 above; or
8. Obligations backed by United States government and investment grade municipal funds.

(b) Domestic Equity Investments

Domestic equity investments 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, 2013 and 2012, 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, 2013 and 2012, the following was the composition of the System's portfolio:

	2013	**2012**
Asset-backed securities	0.00%	0.00%
Commercial mortgage-backed securities	0.88%	0.93%
Corporate bonds	7.40%	6.82%
Government agencies	0.08%	0.09%
Government bonds	1.70%	1.67%
Government mortgage-backed securities	4.28%	4.34%
Other fixed income:		
NT Collective Aggregate Bond Index Fund - Non-Lending	12.23%	12.64%
Real Estate commingled fund	7.00%	7.02%
U.S. denominated equities	46.42%	41.55%
International equities	18.95%	23.42%
Short-term investment funds	1.06%	1.52%
	100.00%	100.00%

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013, 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
Commercial mortgage-backed securities	$ 18,654,358	-	-	-	18,654,358
Corporate bonds	156,352,863	12,199,258	98,168,136	26,169,254	19,816,215
Government agencies	1,795,150	-	1,795,150	-	-
Government bonds	35,832,121	2,004,688	-	24,778,153	9,049,280
Government mortgage-backed securities	90,494,103	-	2,224,528	1,183,350	87,086,225
Other fixed income:					
NT Collective Aggr Bond Index Fund	258,600,466	310,321	132,481,019	94,570,190	31,238,936
	$ 561,729,061	14,514,267	234,668,833	146,700,947	165,845,014

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013, are as follows:

Standard & Poor's Quality Rating	Total fair value	Commercial mortgage-backed	Corporate bonds	US govt & agencies	Municipal Bonds	NT Collective Aggregate Bond Index Fund
AAA	$ 202,341,443	11,287,419	-			191,054,024
AA	117,647,224	4,722,821	11,388,730	90,494,103	1,163,032	9,878,538
A	99,734,456	2,644,118	65,113,325	-	2,470,700	29,506,313
BBB	109,095,731	-	79,138,990	1,795,150	-	28,161,591
BB	711,818	-	711,818	-	-	-
Total credit risk of debt securities	$ 529,530,672	18,654,358	156,352,863	92,289,253	3,633,732	258,600,466
US govt & agencies*	32,198,389					
	$ 561,729,061					

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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	NT Collective 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						

* 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, 2013 and December 31, 2012.

Currency	2013 Fair value	2012 Fair value
British Pound Sterling	$ 123,958,413	134,701,116
EURO Currency	78,051,970	78,381,870
Japanese Yen	63,439,874	79,079,367
Swiss Franc	29,973,682	30,518,991
Hong Kong Dollar	28,030,185	27,653,200
Australian Dollar	24,769,188	29,843,331
Singapore Dollar	22,655,461	24,788,261
Canadian Dollar	12,022,275	10,174,100
Danish Krone	5,588,188	6,964,360
Swedish Krona	4,144,616	3,905,987
South African Rand	3,050,801	3,694,851
New Zealand Dollar	2,255,315	1,720,657
Norwegian Krone	1,602,089	1,053,502
Hungarian Forint	627,227	690,151
Malaysian Ringgit	379,153	590,835
Total securities subject to foreign currency risk	$ 400,548,437	433,760,579

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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 2013 and 2012.

As of December 31, 2013 and 2012, the System owned the following securities that were in possession of a borrowing financial institution:

		2013		2012	
		Market value of loaned securities	Cash collateral received	Market value of loaned securities	Cash collateral received
US agencies	$	1,624,813	1,668,197	-	-
US corporate fixed		11,140,884	11,384,230	4,194,682	4,270,866
US equities		125,949,129	128,687,109	107,550,610	108,869,758
Global stocks		18,388,202	19,431,304	17,086,250	18,048,626
US government fixed		25,593,896	26,155,234	25,869,209	26,425,478
Total	$	182,696,924	187,326,074	154,700,751	157,614,728

Cash collateral received from borrowers of securities is invested in accordance with COAERS' securities lending agreement. As of December 31, 2013 and 2012, cash collateral was invested in the following categories:

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

Investment Category		2013	2012
Cash and other liquid assets	$	71,521,095	75,859,969
Asset-backed securities		12,906,767	1,323,964
Commercial paper		19,500,644	5,484,992
Repurchase agreements		4,477,093	1,922,900
Certificates of deposit		16,016,379	11,553,159
US govt & agencies		1,067,759	9,835,159
Domestic corporate fixed-income securities		61,836,337	51,634,585
Total cash collateral received	$	187,326,074	157,614,728

(4) Contributions Required and Contributions Made

As of December 31, 2013 and 2012, the System's funding policy as guided by state law requires contributions equal to 8% of base 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.

The latest actuarial valuation was as of December 31, 2013; in this valuation, the Plan had an unfunded actuarial accrued liability of $861,988,246. At December 31, 2013 and 2012, employer and employee contributions totaling $134,161,929 and $120,138,912, respectively, were required by the Plan and paid into the System.

In 2005, the City of Austin City Council approved a Supplemental Funding Plan (SFP) relating to the System. The basic elements of this plan provided for an initial 1% contribution from the City beginning in October 2006, and increased 1% each year until reaching a cap of 4%. This additional funding would continue as long as necessary and in an amount necessary up to 4% to sustain a 30-year funding period. While compliance with the SFP continued into 2010, the negative impact of 2008 capital markets on the Plan rendered the effect of SFP, the contributions of which had reached the 4% maximum, inadequate to achieve the System's funding goal.

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

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

(5) Capital Assets

The following summarizes the capital asset account balances as of December 31, 2013, and December 31, 2012, and changes to the accounts during the years then ended:

		Balance December 31, 2011	Net Change	Balance December 31, 2012	Net Change	Balance December 31, 2013
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		594,884	(220,464)	374,420	24,640	399,060
Total capital assets being depreciated		**1,793,809**	**(220,464)**	**1,573,345**	**24,640**	**1,597,985**
Less accumulated depreciation:						
Building		469,923	29,973	499,896	29,973	529,869
Furniture and fixtures		569,673	(211,802)	357,871	11,272	369,143
Total accumulated depreciation		**1,039,596**	**(181,829)**	**857,767**	**41,245**	**899,012**
Total capital assets, net of accumulated depreciation	$	**1,004,177**	**(38,635)**	**965,542**	**(16,605)**	**948,937**

(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.

(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.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

December 31, 2013 and 2012

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 years 2013, 2012, and 2011, were approximately $9,430, $8,790, and $8,450, respectively. In addition, the Plan members receiving this benefit contributed approximately $290 per month in 2013, $265 per month in 2012, and $250 per month in 2011, for individual coverage; dependent coverage paid by these members was approximately $770 per month in 2013, $730 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, 2013 (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)
12/31/2013	2,047.9	2,909.9	862.0	70.4%	490.6	175.7%

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, 2013, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of pay, open
Payroll growth rate for amortization	3.5%
Remaining amortization period	26.0 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, 2013 and 2012

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, 2008 through 2013

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)
12/31/2008	$ 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%
12/31/2013	2,047.9	2,909.9	862.0	70.4%	490.6	175.7%

Note: Dollar amounts in millions.

Schedule of Employer Contributions

Years ended December 31, 2008 through 2013

Fiscal year	Annual required contribution	Employer contributions	Percentage contributed
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%
2013	82,517,152	86,556,453	104.9%

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 10% subsidy) as a percentage of the Annual Required Contribution (ARC) as determined by the prior year's actuarial valuation.

For fiscal year 2013 this percentage is 18% / 17.16% = 104.9%. The current year ARC is calculated by dividing the actual dollar contribution to the Fund, by the Percentage Contributed, $86,556,453 / 104.9%, which produces a 2013 ARC of approximately $82,517,152.

See accompanying independent auditors' report.

(Continued)

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information (unaudited)

December 31, 2013 and 2012

(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, 2013, 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	26.0 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

		2013	2012
Custodial & Transaction Fees			
Northern Trust Investments Inc	$	157,640	162,906
Investment transaction fees		42,848	22,340
		200,488	**185,246**
Investment Manager Fees			
1607 Capital Partners		1,062,366	1,001,417
Agincourt Capital Management LLC		539,384	655,228
AQR Capital Management LLC		516,342	632,507
Aronson + Johnson + Ortiz LP		337,761	82,315
Columbus Circle Investors		484,007	1,036,299
INTECH Investment Management LLC		407,263	480,789
Mondrian Investment Partners LTD		780,431	685,391
Northern Trust Global Investments LTD		147,362	82,828
Sprucegrove Investment Mgmt LTD		597,932	609,357
Walter Scott & Partners LTD		606,570	650,692
Westfield Capital Management Co LP		-	-
Prior-year accrual-to-actual variance		(8,067)	(18,825)
		5,471,351	**5,897,998**
Investment Consulting Fees			
Summit Strategies Group		**220,000**	**221,004**
Legal Fees			
Jackson Walker LLP		**27,755**	-
Total	**$**	**5,919,594**	**6,304,248**

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

General & Administrative Expenses

		2013	2012
Actuary	$	59,669	96,743
Attorney		54,682	42,158
Auditing		74,300	69,600
Banking Services		1,427	1,233
Computer Services		120,304	116,595
Consultants		194,605	17,114
Administrative		1,813,214	1,700,751
Depreciation		43,304	45,983
Insurance		145,087	127,056
Member Communications		22,553	33,445
Continuing Education & Site Visits		32,262	28,931
Total	**$**	**2,561,407**	**2,279,609**

Consultant Expenses

		2013	2012
Actuary			
Gabriel Roeder Smith & Co	**$**	**59,669**	**96,743**
Attorney			
Strasburger & Price LLP		5,156	5,906
McKamie Krueger LLP		49,526	36,252
		54,682	**42,158**
Auditing			
KPMG LLP		43,500	42,600
Padgett Stratemann Co LLP		30,800	27,000
		74,300	**69,600**
Banking Services			
JPMorgan Chase		256	-
National Payment Corporation		1,171	1,233
		1,427	**1,233**
Computer Services			
Austin Web Design		1,308	2,333
Levi Ray & Shoup		82,155	76,907
mindSHIFT Technologies		30,349	31,198
Other		6,492	6,157
		120,304	**116,595**
Other Consultants			
Robert A. Dennison MD		7,246	5,614
Jonathan Decherd MD		659	1,559
Waters Consulting Group		-	5,500
LRWL, Inc.		186,700	-
Other		-	4,441
		194,605	**17,114**
Total	**$**	**504,987**	**343,443**

See accompanying independent auditors' report.

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Investment Section

coaers

City of Austin Employees' Retirement System

April 2014

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, 2013. 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 continue to guide the management of the Fund.

ECONOMIC ENVIRONMENT

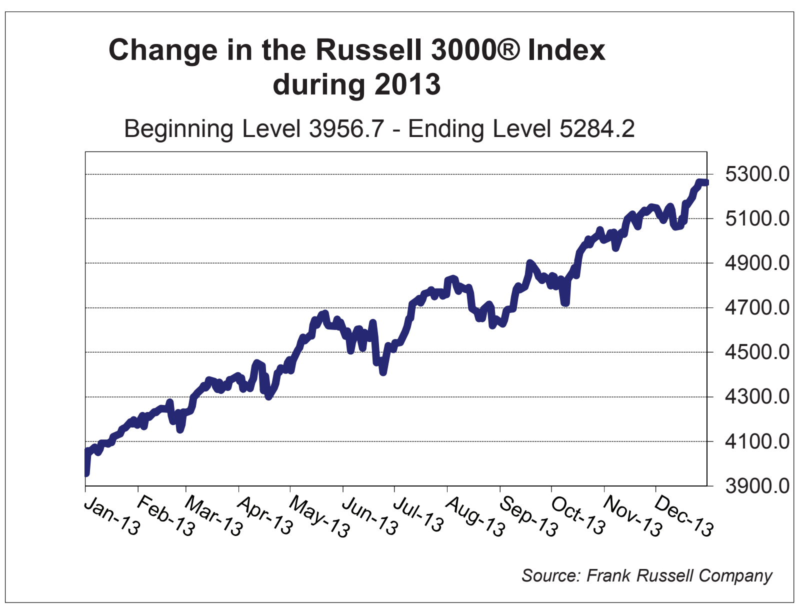
Gaining Confidence

In contrast to prior years since the Great Recession of 2008, calendar year 2013 was relatively calm and mostly constructive especially for the US economy. Like any year there were events and concerns for investors to digest, however, none were significant enough to derail increasing levels of confidence. The year began with positive momentum from 2012, as dealmakers in Washington cooperated to avoid another messy government battle over fiscal affairs. The first major economic milestone during the year came in late May as the Federal Reserve began signaling that it would begin to taper its economic stimulus program known as QE3. While initially causing turmoil in the capital markets, signals from the economy continued to show improvement. Gradually falling unemployment statistics and rising indicators of economic activity and consumer confidence were characteristic of the US economy for most of the year. Internationally, while the European economy remained sluggish as a whole stronger markets like Germany helped Europe to perform better than some economists had anticipated. In Asia, while China's economy did slow, it avoided a hard-landing that some observers had forecast and the significant economic stimulus in Japan, known as "Abenomics" showed some early signs of success in reviving the long depressed Japanese economy.

CAPITAL MARKETS

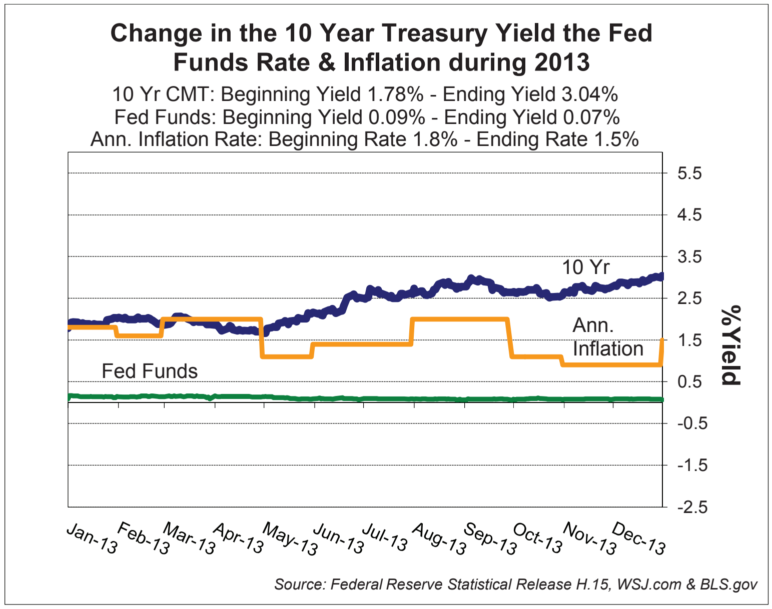
U.S. Stock Market

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 strong uptrend of the year was briefly interrupted in June by fears of the reduction of Federal Reserve stimulus and whether economic strength was sustainable. After shaking off these fears, investors showed an increased appetite for risk during the year as small cap stocks and technology sector stocks performed especially well. Through it all, U.S. stocks earned very strong returns for the year.



Interest Rates

In contrast to the gains in stocks, the rise in interest rates during the year caused high quality bonds to register their first losing year since 1999. 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 jumped from a low of 1.66% in early May to a high of 3.04%, to finish the year a full 126 basis points above where they began. The rise in yields was not accompanied by a rise in inflation. Inflation which began the year at an annualized rate of 1.8% declined by the end of the year to a rate of 1.5%. The beginning of the rise in yields corresponded with the signaling by the Federal Reserve that the QE3 bond buying program would eventually be diminished and wound down as signs of a strengthening economy become more evident. For the fifth 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. Fears to the contrary aside, the economic stimulus measures of the Federal Reserve have not resulted in higher rates of inflation.



INVESTMENT PERFORMANCE

Investment Returns Through December 2013

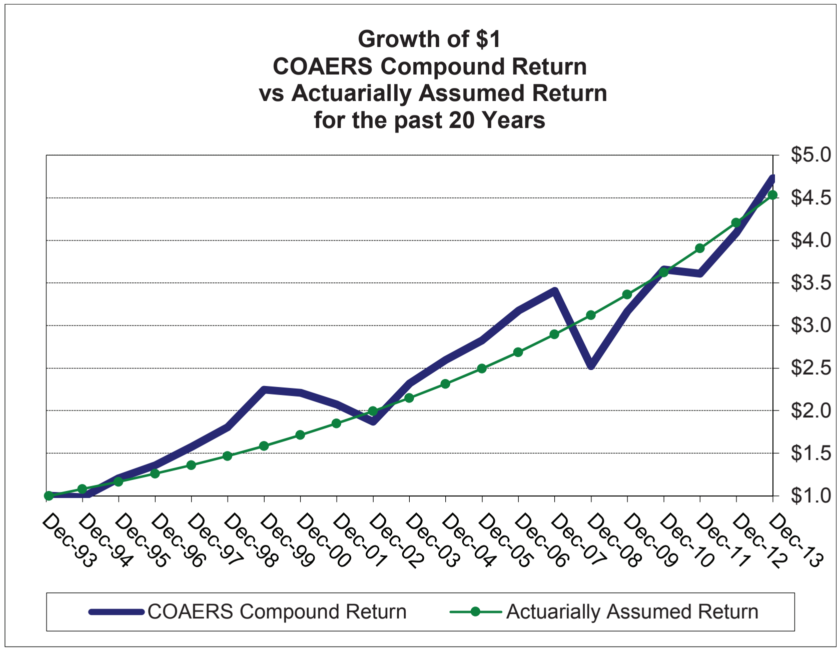
US Fixed Income	Asset Class	1 Year	3 Years	5 Years
3 month Treasury Bills	Cash	0.05%	0.07%	0.10%
Barclays Capital Aggregate Bond Index	Core Bonds	(2.02%)	3.26%	4.44%
Barclays Capital Corporate Bond Index	Corporate Bonds	(1.53%)	5.36%	8.63%
Barclays Capital High Yield Bond Index	High Yield Bonds	5.39%	5.49%	14.66%
City of Austin Employees' Retirement System	**Domestic Fixed Income**	**(1.82%)**	**3.63%**	**5.61%**
US Equity	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
Russell 3000® Index	Broad US Equity	33.55%	16.24%	18.71%
Russell 1000® Index	Large Cap Equity	33.11%	16.30%	18.59%
Russell 1000® Growth Index	Large Cap Growth	33.48%	16.45%	20.39%
Russell 1000® Value Index	Large Cap Value	32.53%	16.06%	16.67%
Russell 2500™ Index	Mid Cap Equity	36.80%	16.28%	21.77%
Russell 2000® Index	Small Cap Equity	38.82%	15.67%	20.08%
City of Austin Employees' Retirement System	**Broad US Equity**	**35.50%**	**16.31%**	**19.32%**
International	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
MSCI ACWI Ex-US	Broad Non-US Equity	15.78%	5.61%	13.32%
MSCI EAFE	Developed Non-US Equity	23.29%	8.66%	12.96%
MSCI Emerging Mkts.	Emerging Non-US Equity	(2.27%)	(1.74%)	15.15%
City of Austin Employees' Retirement System	**International Equity**	**13.04%**	**6.11%**	**16.11%**
Real Estate	**Asset Class**	**1 Year**	**3 Years**	**5 Years**
NCREIF Property Index	Real Estate	10.98%	11.92%	5.69%
City of Austin Employees' Retirement System	**Real Estate**	**14.55%**	**14.64%**	**4.11%**
Policy Weighted Benchmark Index	Multiple	15.45%	8.86%	12.02%
City of Austin Employees' Retirement System	**Total Fund**	**15.98%**	**9.38%**	**13.84%**

Source: Summit Strategies Group

Wide Range of Outcomes

A fundamental rule in investing is that it is important to diversify investments because investment markets often experience periods of widely divergent returns and overconcentration in a few markets can produce elevated levels of portfolio risk. Investors diversify to avoid missing out on the strong performance of markets where one might otherwise have little or no exposure as well as to limit exposure to underperforming markets. The past year was illustrative of a wide range of outcomes across markets. US equity markets experienced their strongest returns since the mid 1990's while US fixed income markets had their worst year in recent memory. International equity markets underperformed their US counterparts in dollar terms and emerging markets were notable laggards. Core US real estate meanwhile produced a solid, steady return during the year.

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 exceeding 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	12/31/13	Target	Max
CASH	0.00%	0.03%	0.00%	0.00%
FIXED INCOME AND REAL ESTATE	32.00%	33.68%	35.00%	43.00%
FIXED INCOME	27.00%	26.70%	30.00%	33.00%
REAL ESTATE	0.00%	6.98%	5.00%	10.00%
COMMON STOCKS	60.00%	66.29%	65.00%	70.00%
DOMESTIC LARGE CAP	17.25%	26.17%	24.50%	27.75%
DOMESTIC NON-LARGE CAP	4.75%	8.52%	8.00%	14.75%
INTERNATIONAL	27.50%	31.60%	32.50%	37.50%

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

RECENT EVENTS AND OUTLOOK

Looking Ahead

While echoes from the 2008 recession are still being felt across the global economy, this past year may have marked a turning point where the focus turns from past events to future possibilities. This past year saw investors turning to smaller company stocks and to technology and biotechnology sectors in search of future growth rather than the previously popular safe, income producing investments. This increased appetite for risk is a sign of greater confidence in the future which, of itself, can be a catalyst for economic growth. Likewise, the concept of future American energy independence linked to enhanced recovery oilfield technology appears to be an enduring narrative with a multitude of potential future benefits. For these reasons among others, 2013 retained a more optimistic outlook than recent past years. Though it may be unlikely that we will soon be achieving strong levels of economic growth associated with past periods, more normal economic growth may return sooner than recently anticipated.

While the outlook has improved, challenges remain. European economic growth remains sluggish with painfully high levels of unemployment among younger workers in some countries and as yet unclear structural reforms that may be forthcoming to strengthen the European Union. The slowdown in China and the way the new regime there manages the transition to a less export oriented economy will be a delicate maneuver. Whether Japan can succeed as it engages in extraordinary measures to return to economic growth remains an open question. Events in Ukraine are not conducive to global stability and economic cooperation between the West and Russia. These issues and others will no doubt keep the economic environment and the investment markets interesting in the near-term future.

The Board has been researching ways to further diversify the fund and enhance returns and has been engaged in evaluating new asset classes beyond those currently in the portfolio. The new asset classes the Board has been reviewing are risk parity, real assets and private equity. Funding of risk parity and the master limited partnership portion of the real assets segment began in the first quarter of 2014.

While the economic environment and investing landscape remains challenging, 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, 2014

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 2012 (up 13.8%). 2013 offered continued strong returns, with the fund up 16.0% gross of fees for the fiscal year ending December 31st. The fund increased from a beginning value of $1.86 billion to its current value of $2.12 billion as a result of outflows of $26 million and income and investment gains of $294 million. The S&P 500 and MSCI EAFE Indices posted returns of 32.4% and 23.3%, respectively, as risk assets rallied across the globe.

As detailed earlier, the COAERS' investment portfolio gained 16.0% for the year ending December 31, 2013. This led the fund's Policy and Passive Indices, and the fund ranked below median as part of the Investment Metrics sample. Specifically, the investment portfolio beat its Policy Index return by 0.5%, the Passive Index return by 1.4%. The outperformance versus Policy is largely attributable to COAERS' underweight to fixed income and overweight to equities and real estate. The underperformance versus peers is driven by asset allocation; COAERS has a higher international equity weighting versus peers, and this was a poor performing equity asset class in 2013. This is in contrast to 2012 when COAERS' overweight to international equities versus peers was a relative addition to the portfolio. Domestic equities shot higher with a 35.5% return in 2013. Real estate continued its strong run in 2013, returning 14.6%. Longer-term results are strong and positive on a relative basis. For the 10-year period, the fund returned 14.5% annualized. In this case, the return exceeded the Policy Index and more than 71% 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 2013, the Board began implementing the approved new target asset allocation. The new allocation targets risk parity, real assets, and private equity for the first time and in 2013 the Board reviewed, completed due diligence, and selected firms for risk parity and real assets.

The results for the past year exceeded the fund's actuarial assumption for long-term investment results. In 2013, markets started off well in the first quarter of the year as the U.S. posted improved economic data. In the second quarter, fears of rising interest rates drop market changes stable to improving economies globally and accommodative monetary policies lead to a strong year for risk assets. Despite a strong 2013, the headwinds, though diminishing, facing the economy continue to be many; 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	37.7%	Core Fixed Income	100%	Real Estate	100%
Non-Large Cap Domestic	12.3%	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
12/31/2013

INVESTMENT POLICY REBALANCING GUIDELINES:	12/31/2013 VALUE	% OF FUND	ASSET ALLOCATION TARGET %	ASSET ALLOCATION TARGET AMOUNT	VARIANCE FROM TARGET AMOUNT	VARIANCE FROM TARGET %
Common Stocks	**$ 1,403,753,962**	**66.29%**	**65.00%**	**1,376,559,459**	**27,194,503**	**1.28%**
Domestic Large Cap Equities	554,129,140	26.17%	24.50%	518,857,027	35,272,113	
Domestic Non-Large Cap Equities	180,535,892	8.53%	8.00%	169,422,703	11,113,189	
International Equities	669,088,930	31.59%	32.50%	688,279,729	(19,190,799)	
Subtotal for Rebalancing	**714,029,821**	**33.71%**	**35.00%**	**741,224,324**	**(27,194,503)**	**-1.28%**
Fixed Income	565,477,814	26.70%	30.00%	635,335,135	(69,857,321)	
Real Estate	147,914,748	6.98%	5.00%	105,889,189	42,025,559	
Cash	637,259	0.03%	0.00%	-	637,259	
TOTAL	**$ 2,117,783,783**	**100.00%**	**100.00%**			

ASSET CLASS / MANAGER					
US EQUITIES (Large)	**$ 554,129,140**	**26.17%**	**24.50%**	**518,857,027**	**35,272,113**
INTECH INVESTMENT MANAGEMENT LLC (large cap - core)	277,155,100	13.09%	12.2500%	259,428,513	17,726,587
WESTFIELD CAPITAL MGMT COMPANY LP (large cap - growth)	137,440,094	6.49%	6.1250%	129,714,257	7,725,837
ARONSON+JOHNSON+ORTIZ LP (large cap - value)	139,533,946	6.59%	6.1250%	129,714,257	9,819,689
US EQUITIES (Non-Large)	**180,535,892**	**8.53%**	**8.00%**	**169,422,703**	**11,113,189**
COLUMBUS CIRCLE INVESTORS (small cap - growth)	89,557,337	4.23%	4.0000%	84,711,351	4,845,986
AQR CAPITAL MANAGEMENT LLC (small cap - value)	90,978,555	4.30%	4.0000%	84,711,352	6,267,203
INTERNATIONAL EQUITIES	**669,088,930**	**31.59%**	**32.50%**	**688,279,729**	**(19,190,799)**
WALTER SCOTT & PARTNERS LTD (dvlp mkt - growth)	127,893,767	6.04%	6.190%	131,090,816	(3,197,049)
SPRUCEGROVE INVESTMENT MGMT LTD (dvlp mkt - value)	133,933,433	6.32%	6.190%	131,090,816	2,842,617
1607 CAPITAL PARTNERS LLC (non-correlated alpha)	87,783,274	4.15%	3.870%	81,958,232	5,825,042
MONDRIAN INVESTMENT PARTNERS LTD (dvlp mkt - small cap)	109,342,454	5.16%	5.000%	105,889,189	3,453,265
CITY OF LONDON INVESTMENT MGMT CO LTD (emerging markets)	63,347,571	2.99%	3.250%	68,827,973	(5,480,402)
NTI EMERG MKTS INDEX FUND - NON-LENDING (emerging markets)	89,506,199	4.23%	4.750%	100,594,730	(11,088,531)
DIMENSIONAL FUND ADVISORS LP (emerging markets)	57,282,232	2.70%	3.250%	68,827,973	(11,545,741)
DOMESTIC FIXED INCOME	**565,477,814**	**26.70%**	**30.00%**	**635,335,135**	**(69,857,321)**
AGINCOURT CAPITAL MANAGEMENT LLC (core)	306,877,257	14.49%	15.00%	317,667,568	(10,790,311)
NT COLL AGG BOND INDEX FUND - NON-LENDING (core index)	258,600,557	12.21%	15.00%	317,667,567	(59,067,010)
REAL ESTATE	**147,914,748**	**6.98%**	**5.00%**	**105,889,189**	**42,025,559**
PRINCIPAL GLOBAL INVESTORS LLC	147,914,748	6.98%	5.00%	105,889,189	42,025,559
CASH	**637,259**	**0.03%**	**0.00%**	**0**	**637,259**
CASH	637,259	0.03%	0.00%	-	637,259
TOTAL	**$ 2,117,783,783**	**100.00%**			

Reconciliation to Statement of Net Position:

Interest and dividends receivable	**$**	**5,471,788**
Trades pending settlement (net)		**(1,445,430)**
Investments		**2,113,757,425**
Total investments (per investment consultant)	**$**	**2,117,783,783**

SCHEDULE OF INVESTMENT RESULTS

	Balance 12/31/12	Balance 12/31/13	2013 Gross Return (%)	2013 Mgmt Fees (Cash Basis)	After-Fees Return (%) 2013	After-Fees Return (%) 3 Years	After-Fees Return (%) 5 Years
FIXED INCOME GROUP	**$498,579,872**	**$565,477,814**	**(1.8)%**	**$644,324**	**(1.9)%**	**3.5 %**	**5.5 %**
Agincourt Capital Mgmt LLC	$264,366,487	$306,877,257	(1.4)%	$553,584	(1.6)%	3.7 %	6.4 %
BC Aggregate			(2.0)%		(2.0)%	3.3 %	4.4 %
NT Coll Agg Bond Index Fund	$234,213,385	$258,600,557	(2.3)%	$90,740	(2.3)%	3.2 %	4.5 %
BC Aggregate			(2.0)%		(2.0)%	3.3 %	4.4 %
INTERNATIONAL	**$600,036,549**	**$669,088,930**	**13.0 %**	**$4,173,866**	**12.3 %**	**5.4 %**	**15.4 %**
Walter Scott & Partners LTD	$151,434,924	$127,893,767	13.1 %	$622,991	12.5 %	7.1 %	12.9 %
EAFE			23.3 %		23.3 %	8.7 %	13.0 %
Sprucegrove Investment Mgmt Inc	$147,027,219	$133,933,433	17.8 %	$609,731	17.3 %	7.5 %	15.0 %
EAFE			23.3 %		13.3 %	8.7 %	13.0 %
Mondrian Investment Partners LTD	$97,436,560	$109,342,455	18.5 %	$761,465	17.6 %	10.2 %	-
MSCI EAFE Small Cap			29.7 %		29.7 %	9.6 %	18.9 %
1607 Capital Partners	$92,655,267	$87,783,274	26.7 %	$1,077,814	25.2 %	9.8 %	-
90% MSCI EAFE/10% Emerging Mkts			20.0 %		20.0 %	7.1 %	-
City of London	$57,185,164	$63,347,570	3.0 %	$718,856	1.7 %	(3.0)%	15.2 %
MSCI Emerging Markets			(2.3)%		(2.3)%	(1.7)%	15.2 %
DFA Emerging Markets	$54,297,415	$57,282,232	(3.2)%	$326,387	(3.8)%	(5.1)%	14.9 %
MSCI Emerging Markets			(2.3)%		(2.3)%	(1.7)%	15.2 %
NT Emerging Markets Index Fund	$0	$89,506,199	-	$56,622	-	-	-
MSCI Emerging Markets			-		-	-	-
DOMESTIC EQUITY	**$624,725,107**	**$734,665,032**	**35.5 %**	**$1,818,404**	**35.1 %**	**15.9 %**	**18.9 %**
US EQUITIES LARGE	**$451,371,572**	**$554,129,140**	**35.6 %**	**$652,999**	**35.4 %**	**16.8 %**	**17.9 %**
INTECH Enhanced Invst Technologies LLC	$230,658,912	$277,155,100	32.8 %	$400,772	32.6 %	16.8 %	18.2 %
S&P 500			32.4 %		32.4 %	16.2 %	17.9 %
Westfield Capital	$107,329,859	$137,440,094	38.4 %	$0	38.4 %	-	-
Russell 1000 Growth			33.5 %		33.5 %	16.5 %	20.4 %
Aronson+Johnson+Ortiz	$113,382,801	$139,533,946	38.6 %	$252,227	38.3 %	18.3 %	17.3 %
Russell 1000 Value			32.5 %		32.5 %	16.1 %	16.7 %
US EQUITIES NON-LARGE	**$173,353,535**	**$180,535,892**	**35.2 %**	**$1,165,405**	**34.3 %**	**13.7 %**	**21.7 %**
AQR Capital Management	$83,546,748	$90,978,555	37.9 %	$509,474	37.1 %	12.8 %	18.8 %
Russell 2000 Value			34.5 %		34.5 %	14.5 %	17.6 %
Columbus Circle	$89,806,787	$89,557,337	32.8 %	$655,931	31.8 %	14.5 %	22.9 %
Russell 2000 Growth			43.3 %		43.3 %	16.8 %	22.6 %
REAL ESTATE	**$130,072,088**	**$147,914,748**	**14.5 %**	**$1,108,898**	**13.7 %**	**13.7 %**	**3.2 %**
Principal Global Investment	$130,072,088	$147,914,748	14.6 %	$1,108,898	13.7 %	13.7 %	3.2 %
NCREIF Property			11.0 %		11.0 %	11.9 %	5.7 %
CASH	**$3,168,337**	**$637,259**	**1.4 %**	**N/A**	**1.4 %**	**0.8 %**	**0.6 %**
90 Day T-Bills			0.0 %		0.0 %	0.1 %	0.1 %
Total Fund	**$1,856,581,954**	**$2,117,783,783**	**16.0 %**	**$7,745,492**	**15.5 %**	**8.9 %**	**13.4 %**
**Policy Index*			15.5 %		15.5 %	8.9 %	12.0 %

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 12/12
24.50% S&P 500, 8.00% Russell 2000, 32.50% MSCI AC World ex US, 30% BC Aggregate, 5% NCREIF, 01/13 to present

LARGEST PORTFOLIO HOLDINGS

TOP TEN EQUITY HOLDINGS

Shares	Stock		Fair Value	% of Fund
20,971	Apple Inc Com	$	11,767,038	0.56%
104,000	Exxon Mobil Corp Com		10,524,800	0.50%
56,455	Celgene Corp Com		9,538,637	0.45%
7,629	Google Inc Class A Com		8,549,897	0.40%
105,340	Novartis AG CHF0.50 (REGD)		8,433,359	0.40%
32,955	VISA Inc Class A Com		7,338,419	0.35%
114,500	Comcast Corp New-Class A Com		5,949,993	0.28%
111,835	Koninklijke Boskalis Westminster NV CVA		5,918,327	0.28%
70,870	Home Depot Inc Com		5,835,436	0.27%
58,740	Hershey Company Com		5,711,290	0.27%
	Top 10 Stock Holdings	**$**	**79,567,196**	**3.76%**
	Total COAERS Investment Portfolio 12-31-2013	**$**	**2,117,783,783**	**100.00%**

Full listing available upon request.

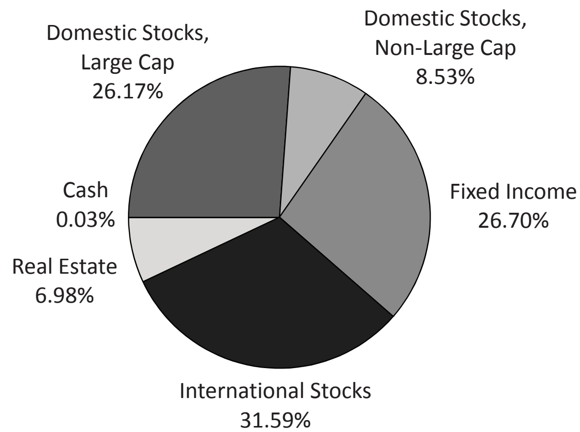
TOP TEN BOND HOLDINGS

	Par	Bond		Fair Value	% of Fund
$	24,545,877	GNMA II Gtd CTF Multi Issuer Gold Pool #MA0783 3.5% 02-20-2043	$	24,801,130	1.17%
	23,145,000	US Treasury Notes Dtd 00306 2.625% Due 8-15-2020 REG		23,615,121	1.11%
	7,590,512	Federal Home Loan Mtg Corp Pool #C0-9022 3% 01-01-2043 BEO		7,200,056	0.34%
	7,329,712	Federal Home Loan Mtg Corp Pool #C0-4444 3% 01-01-2043 BEO		6,952,672	0.33%
	6,682,992	FNMA Pool #AB2092 4% Due 01-01-2041 BEO		6,885,353	0.32%
	5,935,000	US Treasury Sec 4.5% Due 08-15-2039 REG		6,578,580	0.31%
	5,205,995	FNMA Gtd Mtg Pool #AH2366 3.5% 01-01-2026 BEO		5,447,850	0.26%
	4,433,097	Federal Home Loan Mtg Corp Pool #E0-9015 2.5% 12-01-2027		4,398,350	0.21%
	3,982,604	FNMA Pool #995024 5.5% 08-01-2037 BEO		4,380,410	0.21%
	3,465,000	Bear Stearns Cos Inc 6.4% Due 10-02-2017		4,021,344	0.19%
		Top 10 Bond Holdings	**$**	**94,280,866**	**4.45%**
		Total COAERS Investment Portfolio 12-31-2013	**$**	**2,117,783,783**	**100.00%**

INVESTMENT SUMMARY AT FAIR MARKET VALUE

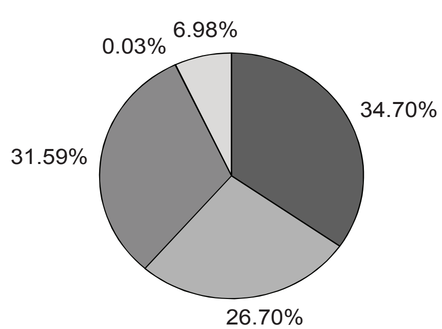
COAERS Investment Portfolio

Asset Class	Fair Value	Percentage of Total Fair Value
Domestic Stocks, Large Cap	$554,129,140	26.17%
Domestic Stocks, Non-Large Cap	180,535,892	8.53%
Fixed Income	565,477,814	26.70%
International Stocks	669,088,930	31.59%
Real Estate	147,914,748	6.98%
Cash	637,259	0.03%
	$2,117,783,783	100.00%



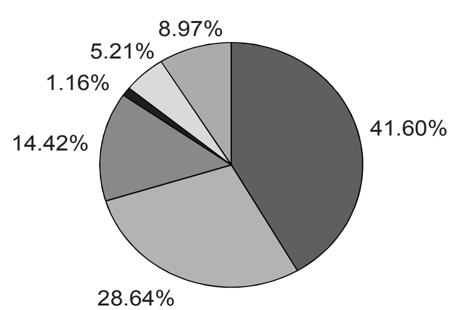
ALLOCATION BY SECTOR

COAERS Asset Allocation



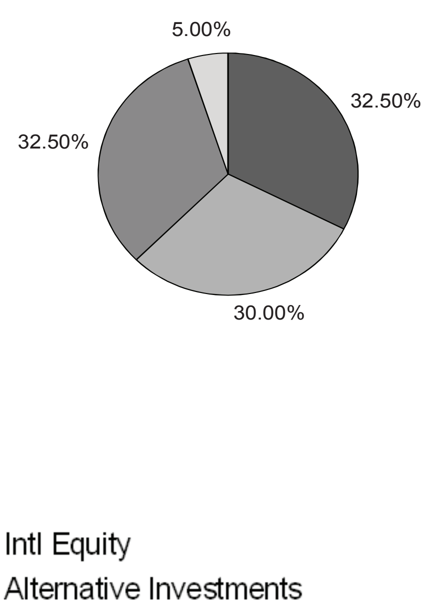
Market Value: $2.118 Billion

Mellon Median Public Fund Asset Allocation



Market Value: $1.37 Trillion

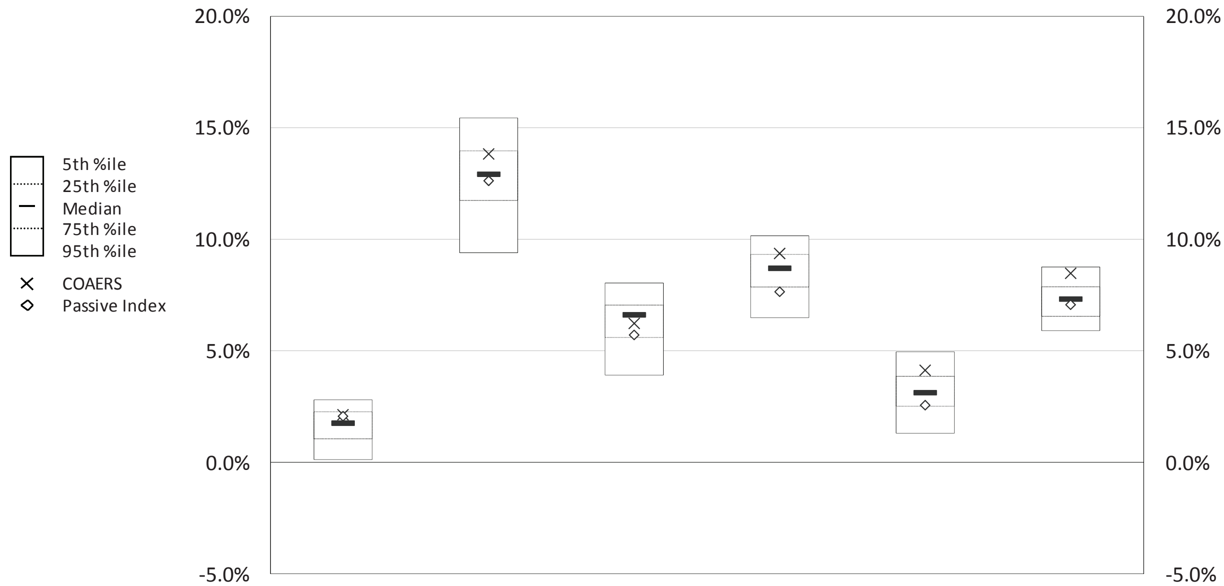
Target Allocation



BROKER COMMISSIONS OVER $10,000

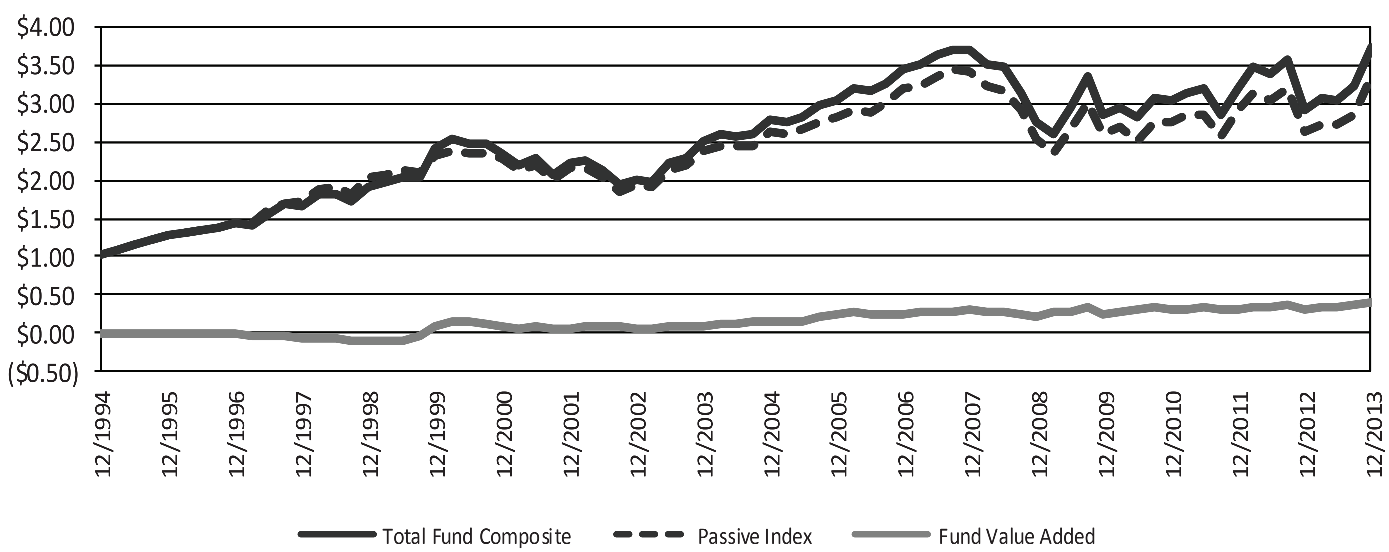
Broker Name	# of Shares Traded	Commission Paid	Cost per Share
Barclays Capital LE	1,218,787	$ 25,641	$ 0.021
Bear Stearns 57079	4,002,850	15,129	0.004
Bernstein, Sanford C. & Co	781,280	18,976	0.024
Canaccord Genuity Limited	1,914,100	12,859	0.007
Cap Institutional Services Inc	987,405	19,923	0.020
Credit Suisse First Boston Corporation	9,401,648	37,577	0.004
Deutsche Bank Securities Inc	8,092,643	52,719	0.007
Guzman & Company	713,962	14,475	0.020
HSBC Bank PLC	2,743,100	19,482	0.007
Instinet	1,524,310	31,487	0.021
Instinet Europe Limited	412,762	14,862	0.036
Investment Technology Group Inc	1,165,762	20,585	0.018
Investment Technology Group Limited	478,700	10,573	0.022
Jefferies & Company	26,016,870	36,341	0.001
JP Morgan Securities PLC	2,884,734	29,663	0.010
Knight Equity Markets LP	330,937	12,361	0.037
Liquidnet Inc	1,047,069	21,439	0.020
Lynch Jones & Ryan	1,676,899	47,827	0.029
Merrill Lynch Pierce Fenner & Smith	5,442,077	16,375	0.003
Oppenheimer and Company	346,534	13,861	0.040
Piper Jaffray Inc	876,902	23,038	0.026
Rbc Dain Rauscher	3,572,584	15,953	0.004
Robert W. Baird & Company Inc Milwaukee USA	326,067	13,043	0.040
Rosenblatt Securities LLC 501	1,149,000	19,619	0.017
SG Cowen And Company	2,361,214	22,629	0.010
Stifel Nicolaus and Company	1,871,927	25,277	0.014
Suntrust Robinson Humphrey	335,955	13,438	0.040
UBS Warburg LLC	1,402,653	35,700	0.025
Wedbush Morgan Securities, Inc	295,187	11,807	0.040
Weeden & Co	736,096	21,381	0.029
160 Minor Brokers	299,012,148	295,639	0.001
Total Broker Commissions	**383,122,162**	**$ 969,679**	**$ 0.003**

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

GRS

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April 8, 2014

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, 2013

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, 2013, 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
April 8, 2014
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Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2011. As a result of that study, revised assumptions were adopted by the Board effective with the valuation as of December 31, 2012. Except as noted below, these assumptions and methods continue to be used. We believe the assumptions are internally consistent, reasonable, and, where appropriate, based on the actual experience of COAERS.

In the prior valuation, the Entry Age Normal (EAN) actuarial cost method was used. In particular, a variant of this method known as the Ultimate Normal Cost EAN (or replacement life) method was used. In consultation with its actuary, the Board has decided to adopt the use of the Individual Normal Cost EAN method in conjunction with this valuation. Because COAERS is a two tier system the use of the Individual Normal Cost EAN method means that the normal cost will decline over time and the percentage of pay contributed towards the unfunded liability will increase over time. To better model how this financing will pay off the unfunded liabilities of COAERS, the Board has adopted the use of an open group projection in the determination of the System's funding period.

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, 2013, 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, 2012 by Gabriel, Roeder, Smith & Company. Valuations are prepared annually as of December 31st.

The undersigned are independent actuaries and consultants. Mr. Falls is an Enrolled Actuary and a Member of the American Academy of Actuaries and he meets the Qualification Standards of the American Academy of Actuaries. Both Mr. Falls and Mr. Ward are experienced in performing valuations for large public retirement systems.

Mr. Stephen Edmonds
April 8, 2014
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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

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

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

The key results from the valuation of the City of Austin Employees' Retirement System as of December 31, 2013 may be summarized as follows:

	December 31, 2013 (1)	December 31, 2012 (2)
• Members		
— Actives	8,592	8,387
— Retirees (including disabled) and beneficiaries	5,120	4,831
— Vested - terminated*	930	924
— Proportional PSEM and CCSD	113	124
— Total	14,755	14,266
• Covered payroll	$ 490,553,170	$ 470,231,969
• Normal cost	$ 82,485,334	$ 54,554,538
— As % of payroll	17.21%	11.86%
• Actuarial accrued liability	$ 2,909,917,750	$ 2,968,379,692
• Actuarial value of assets	$ 2,047,929,504	$ 1,897,722,867
• Unfunded actuarial accrued liability (UAAL)	$ 861,988,246	$ 1,070,656,825
• Estimated yield on assets		
— Actuarial value basis	8.87%	7.13%
— Market value basis	15.34%	13.16%
• Contribution rate		
— Employee	8.00%	8.00%
— Employer	18.00%	18.00%
• Benefit and refund payments	$ 151,362,687	$ 140,200,299
• Amortization period of unfunded actuarial accrued liability	26 years	27 years
• GASB No. 25 disclosure		
— UAAL as a % of Payroll	175.7%	227.7%
— GASB funded ratio	70.4%	63.9%
— GASB Annual Required Contribution (ARC)	N/A	17.16%

* Includes vested proportionate members of PSEM and CCSD, 87 in 2013 and 100 in 2012

INTRODUCTION

This December 31, 2013 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, 2013, determine the funding period of any unfunded liability for the plan year beginning January 1, 2014, 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 adoption of the Individual EAN cost method, replacing the Ultimate EAN cost method used in the prior year. The valuation also reflects the adoption of the use of an open group projection for the determination of the funding period. A further discussion of these two changes is included in Sections C and E.

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, 2013, is 17.21% of pay. This compares with 11.86% of pay as of the last valuation on December 31, 2012. This normal cost is developed based on the Individual Entry Age Normal (EAN) actuarial cost method, whereas the prior year's normal cost was developed using the Ultimate EAN actuarial cost method. As may be seen in Item 1, the normal cost for the retirement benefits is 13.92% of pay. The normal cost for the deferred termination benefits is 1.22% and 1.47% for refunds of terminated employees (both vested and non-vested). The normal cost for disability benefits is 0.35%, and the normal cost for death benefits is 0.25%.

Table 1 illustrates a number of the key actuarial items for the 2013 valuation. As mentioned above, the total normal cost rate is 17.21% of covered payroll. The actuarial accrued liability is $2,909.9 million as shown in Item 5 and as detailed in Table 3. The actuarial value of assets equals $2,047.9 million, as shown in Item 6. Item 7 of Table 1 shows that the plan has an $862.0 million unfunded liability (i.e. liabilities exceed plan assets) as of the valuation date. As of the last valuation (December 31, 2012), the System was underfunded by $1,070.7 million. Although the System showed favorable asset experience, the primary reason for the decrease in the unfunded liability is the effect on the accrued liability due of the funding method change, as described in greater detail below.

On October 1, 2012, the City began contributing 18% of payroll and the employees are contributing 8% of payroll. Combining the employees' contributions with the City contribution, the System will have 26.00% of payroll to fund benefits. The current normal cost of the plan is 17.21%, which means that the System is currently receiving contributions in excess of the normal cost equal to 8.79% of pay (26.00% less 17.21%). 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 26 years.

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

FUNDED STATUS OF THE PLAN
(Continued)

With the adoption of GASB 67 for the plan year ending December 31, 2014, the GASB annual required contribution (ARC) is no longer required to be determined. Therefore, it has not been determined in this valuation.

The normal cost was determined using the Individual Entry Age Normal Cost (IEANC) actuarial cost method. This method determines the normal cost for all employees on an individual basis, based on the benefits applicable to each individual member. In prior valuations, the Ultimate Normal Cost (UNC) actuarial cost method was used. With the UNC method, normal cost was determined as if all members were in the same benefit tier as new hires. This method change causes a significant increase in the normal cost percentage since the normal cost for Group A members is now based on their own benefit structure, rather than that of the Group B members. However, the actuarial cost method does not affect the calculation of the total present value of future benefits. A higher normal cost percentage translates to higher future normal costs, and thus a lower actuarial accrued liability than would be determined using the UNC method. This, along with a gain on the actuarial value of assets, has contributed to the increase in the funded ratio from 63.9% to 70.4%.

Because employees hired on or after January 1, 2012 (Group B) have a less valuable benefit tier than employees hired prior to that date (Group A), the normal cost for Group B is less than the normal cost of Group A. With the adoption of the Individual EAN method the normal cost is equal to the average of the individual members' normal costs. Since the current group of employees is primarily Group A, this means that the average normal costs for the group will decline over time as Group B employees replace Group A employees.

Because the contributions to the System are a fixed percentage of payroll, this means that the percentage of payroll that will go to pay off the unfunded liability will increase in the future as the average normal cost decreases. This result makes it difficult to calculate the funding period using a mathematical formula since the amount of contributions to pay off the unfunded liability will not be either a constant dollar amount or a constant percentage of payroll in the future. For this reason we are using an open group projection to determine when the System is expected to pay off its unfunded liability. The open group projection assumes a constant active population and that there will be no actuarial gains or losses on liabilities or the actuarial value of assets. Based on the open group projection the funding period of the System as of the valuation date is 26 years.

CHANGE IN ASSETS

Table 4 shows the development of the actuarial value of assets. Item 11 of Table 4, shows that the actuarial value of assets as of December 31, 2013 is $2,047.9 million. Table 4 also shows the development of the gain/(loss) on the actuarial value of assets for the prior plan year. As shown in Item 12, the System had a gain on an actuarial asset basis of $20.7 million in 2013. This compares to the $11.4 million loss in 2012.

The method for determining the actuarial value of assets offsets excesses 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. Since the current year provided excess income and the prior years have deferred shortfalls, we will offset the current year's excess against the prior years' shortfalls. This resulted in the elimination of all of the prior years' bases with a remaining current year base of $103.4 million as shown in Item 8, Column 3 of Table 4. We then recognize 20% of this base in this year's actuarial value of assets and defer the remaining 80%.

The total deferral of all Excess/(Shortfall) investment income for the year (shown in Table 4, Column 6 of Item 8) is $82.7 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 5. The estimated average annual rate of return for the year ending December 31, 2013, assuming that income, revenue, and expenditures are evenly distributed throughout the year is 15.34% on a market value of assets basis. The rate of return for the year ending December 31, 2013, on an actuarial value basis was 8.87%. This compares with the actuarial assumed investment return of 7.75%.

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, 2012.

As can be seen in Item 7 of Table 6, the expected value of the unfunded actuarial accrued liability as of December 31, 2013, was an underfunded position of $1,080.6 million. This expected value reflects an assumed investment return assumption of 7.75% on the beginning of year unfunded actuarial accrued liability, normal cost, and contributions during 2013.

Since the actual unfunded actuarial accrued liability as of December 31, 2013 is $862.0 million, it represents a total net gain for the period of $218.6 million, as shown in Item 9 of Table 6. That is, the unfunded actuarial accrued liability is less than expected. The net actuarial gain includes an asset gain of $20.7 million as shown in Table 4, an experience gain on the liability side equal to $16.6 million, and a gain due to the method change of $181.3 million. The experience liability gain is broken out by source in Items 16-23 of Table 6. As can be seen on Table 6, there were many offsetting gains and losses with the largest liability gain due to lower than expected salary increases and the largest liability loss due to changes in data and other miscellaneous items including the proportionate program.

Please see Table 12 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 7 through 10 of Section I contain certain actuarial trend information which may be of interest.

Table 7 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 8 through 10 provide information which should be included in your annual report. Table 8 provides a schedule of active member valuation data. Table 9 provides a schedule of retirees and beneficiaries added to and removed from payment rolls. Solvency test results are presented in Table 10.

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 11a. Table 11b is the schedule of annual required contributions required by GASB No. 25. Table 11c 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 has resulted in a gradual 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.

As a result of the funding method change and positive actuarial experience, the overall funded position of the System increased from 63.9% at the prior valuation to 70.4% at this valuation. Using an open group projection, we have determined that the System is expected to be fully funded in 26 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, 2013

SUMMARY OF COST ITEMS

	December 31, 2013		December 31, 2012	
	Cost Item	Cost as % of Pay	Cost Item	Cost as % of Pay
	(1)	(2)	(3)	(4)
1. Participants				
a. Active	8,592		8,387	
b. Terminated vested	930		924	
c. Retired participants and beneficiaries	5,019		4,741	
d. Disabled	101		90	
e. Proportional PSEM and CCSD	113		124	
f. Total	14,755		14,266	
2. Covered Payroll	$ 490,553,170		$ 470,231,969	
3. Averages for Active Participants				
a. Average age	45.1		45.1	
b. Average years of service	9.6		9.7	
c. Average pay	$ 57,094		$ 56,067	
4. Total Normal Cost	$ 82,485,334	17.21% *	$ 54,554,538	11.86% *
5. Actuarial Accrued Liability				
a. Active participants	$ 1,359,821,471		$ 1,520,835,021	
b. Terminated vested participants	51,809,428		50,142,940	
c. Refunds of terminated nonvested participants	8,580,561		9,375,936	
d. Retired participants and beneficiaries	1,463,142,223		1,362,279,838	
e. Disabled participants	15,003,796		12,964,872	
f. Proportional PSEM and CCSD	11,560,271		12,781,085	
g. Total	$ 2,909,917,750	593.19%	$ 2,968,379,692	631.26%
6. Actuarial Assets	$ 2,047,929,504	417.47%	$ 1,897,722,867	403.57%
7. Unfunded Actuarial Accrued Liability (UAAL)	$ 861,988,246	175.72%	$ 1,070,656,825	227.69%
8. Relative Size of UAAL				
a. As percent of actuarial assets	42.09%		56.42%	
b. As percent of covered payroll	175.72%		227.69%	
9. 30-year amortization of UAAL as % of covered payroll	10.26%		13.30%	
10. GASB Annual Required Contribution (ARC)				
a. Total contribution rate (Item 4 as % of Pay + Item 9)	N/A		25.16%	
b. Employee contribution rate	N/A		8.00%	
c. ARC (10a. - 10b.)	N/A		17.16%	

* as % of expected payroll for current active members

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City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2013

TABLE 2

ANALYSIS OF NORMAL COST BY COMPONENT

Benefit Component	Cost as % of Pay December 31, 2013	Cost as % of Pay December 31, 2012
(1)	(2)	(3)
1. Retirement Benefits	13.92%	8.25%
2. Termination - Deferred Benefits	1.22%	0.69%
3. Termination - Refund Benefits	1.47%	2.18%
4. Disability Benefits	0.35%	0.51%
5. Death Benefits	0.25%	0.23%
6. Normal Cost*	17.21%	11.86%

* Reflects change in funding method from Ultimate Entry Age to Individual Entry Age effective December 31, 2013.

City of Austin Employees' Retirement System
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TABLE 3

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

	December 31, 2013 (1)	December 31, 2012 (2)
A. Present Value of Future Benefits		
1. Active participants		
a. Retirement benefits	$ 1,832,549,105	$ 1,786,567,058
b. Deferred termination benefits	79,755,943	79,534,766
c. Refund of nonvested terminations	33,468,975	29,405,665
d. Disability benefits	22,379,820	20,963,438
e. Death benefits	22,973,577	22,241,237
f. Total	$ 1,991,127,420	$ 1,938,712,164
2. Retired participants		
a. Service retirements and beneficiaries	$ 1,463,142,223	$ 1,362,279,838
b. Disability retirements	15,003,796	12,964,872
c. Total	$ 1,478,146,019	$ 1,375,244,710
3. Inactive participants		
a. Vested terminations with deferred benefits	$ 51,809,428	$ 50,142,940
b. Nonvested terminations with refunds payable	8,580,561	9,375,936
c. Total	$ 60,389,989	$ 59,518,876
4. Proportional PSEM and CCSD	$ 11,560,271	$ 12,781,085
5. Total actuarial present value of future benefits	$ 3,541,223,699	$ 3,386,256,835
B. Normal Cost Rate*	17.21%	11.86%
C. Present Value of Future Normal Costs*	$ 631,305,949	$ 417,877,143
D. Actuarial Accrued Liability for Active Members		
1. Present value of future benefits (Item A.1.f.)	$ 1,991,127,420	$ 1,938,712,164
2. Less present value of future normal costs (Item C)	631,305,949	417,877,143
3. Actuarial accrued liability	$ 1,359,821,471	$ 1,520,835,021
E. Total Actuarial Accrued Liability (Item A.2.c + Item A.3.c + Item A.4. + Item D.3)*	$ 2,909,917,750	$ 2,968,379,692

* Reflects change in funding method from Ultimate Entry Age to Individual Entry Age effective December 31, 2013.

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System **TABLE 4**
Actuarial Valuation - December 31, 2013

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

		Year Ending December 31, 2013
1. Actuarial value of assets at beginning of year	$	1,897,722,867
2. Net new investments		
a. Contributions	$	134,005,867
b. Benefits and refunds paid	$	(151,362,687)
c. Subtotal	$	(17,356,820)
3. Assumed investment return rate for fiscal year		7.75%
4. Expected net investment income	$	146,889,721
5. Expected actuarial value at end of year (Item 1+ Item 2 + Item 4)	$	2,027,255,768
6. Market value of assets at end of year	$	2,130,624,450
7. Difference (Item 6 - Item 5)	$	103,368,682

8. Development of amounts to be recognized as of December 31, 2013:

Fiscal Year End	Remaining Deferrals of Excess (Shortfall) of Investment Income	Offsetting of Gains/(Losses)	Net Deferrals Remaining	Years Remaining	Recognized for this valuation	Remaining after this valuation
	(1)	(2)	(3) = (1) + (2)	(4)	(5) = (3) / (4)	(6) = (3) - (5)
2009	$ 0	$ 0	$ 0	1	$ 0	$ 0
2010	0	0	0	2	0	0
2011	(34,254,806)	34,254,806	0	3	0	0
2012	0	0	0	4	0	0
2013	137,623,488	(34,254,806)	103,368,682	5	20,673,736	82,694,946
Total	$ 103,368,682	$ 0	$ 103,368,682		$ 20,673,736	$ 82,694,946

9. Preliminary actuarial value of plan assets, end of year (Item 6 + Item 8)	$	2,047,929,504
10. Actuarial value of assets corridor		
a. 80% of market value, end of year	$	1,704,499,560
b. 120% of market value, end of year	$	2,556,749,340
11. Final actuarial value of plan net assets, end of year (Item 9, but recognize 1/3 of any deferred gains or losses outside of Item 10)	$	2,047,929,504
12. Asset gain (loss) for year (Item 11 - Item 5)	$	20,673,736
13. Asset gain (loss) as % of final actuarial value of assets		1.01%
14. Ratio of actuarial value to market value		96.1%

Notes: Remaining deferrals in Column (1) for prior years are from Table 5 in last year's report. The number in the current year is the differnce between the remaining deferrals for prior years and Item 7 (which is the difference between the market value of assets and the expected actuarial valye of assets). Column 2 is a direct offset of the current year's excess/(shortfall) return against prior years' excess/(shortfall) of the opposite type.

City of Austin Employees' Retirement System
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TABLE 5

CHANGE IN NET POSITION

		Valuation Period Ending December 31, 2013 (1)	Valuation Period Ending December 31, 2012 (2)
1.	Assets in plan at beginning of year **(A)**	$ 1,863,468,061	$ 1,665,774,423
2.	Employer contributions	$ 86,556,453	76,052,464
3.	Employee contributions	$ 47,449,414	43,922,380
4.	Benefit payments made*	$ 146,624,826	135,284,635
5.	Refunds of contributions	$ 4,737,861	4,915,664
6.	Expenses paid from trust	$ 2,561,407	2,279,609
7.	Investment return	$ 287,074,616	220,198,702
8.	Other	0	0
9.	Assets in plan at end of year **(B)** (1 + 2 + 3 - 4 - 5 - 6 + 7 + 8)	$ 2,130,624,450	$ 1,863,468,061
10.	Approximate rate of return on average invested assets		
	a. Net investment income (7 - 6 = **I**)	$ 284,513,209	$ 217,919,093
	b. Estimated yield based on **(2I/(A + B - I))**	15.34%	13.16%

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

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TABLE 6

ACTUARIAL GAIN OR LOSS AS OF DECEMBER 31, 2013

	CALCULATION OF TOTAL ACTUARIAL GAIN OR LOSS	2013	2012
1.	Unfunded actuarial accrued liability (UAAL) as of prior year	$ 1,070,656,825	$ 932,942,173
2.	Actual normal cost paid during year	63,687,150	58,353,144
3.	Subtotal (1 + 2)	$ 1,134,343,975	$ 991,295,317
4.	Interest at prior valuation's rate of 7.75%	85,443,781	74,564,203
5.	Contributions during year	(134,005,867)	(119,974,844)
6.	Interest on contributions for one-half year	(5,192,727)	(4,649,025)
7.	Expected UAAL as of December 31st (3 + 4 + 5 + 6)	$ 1,080,589,162	$ 941,235,651
8.	Actual UAAL as of December 31st	861,988,246	1,070,656,825
9.	Actuarial gain/(loss) for the period (7 - 8)	$ 218,600,916	$ (129,421,174)
	SOURCE OF GAINS AND LOSSES		
10.	Asset gain/(loss) (See Table 4)	$ 20,673,736	$ (11,418,268)
11.	Total liability gain/(loss) for the period (9-10)	197,927,180	(118,002,906)
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	181,349,121	(104,778,999)
15.	Liability experience gain/(loss) (11 - 12 - 13 - 14)	$ 16,578,059	$ (13,223,907)
	SOURCE OF LIABILITY GAINS AND LOSSES		
16.	Salary Increases	$ 27,407,515	$ 1,813,440
17.	Service Retirement	10,834,088	(296,878)
18.	Withdrawal	(7,568,843)	(5,559,620)
19.	Disability Retirement	(263,081)	(391,551)
20.	Active Mortality	154,291	(105,128)
21.	Retiree Mortality	(957,344)	464,354
22.	Rehires	(3,348,380)	(5,203,734)
23.	Other (Data) including proportionate program	(9,680,187)	(3,944,790)
24.	Total Liability Experience Gain/(Loss)	$ 16,578,059	$ (13,223,907)

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2013

TABLE 7

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)
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%
2013	861,988,246	490,553,170	175.7%	2,047,929,504	42.1%	2,909,917,750	29.6%

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City of Austin Employees' Retirement System
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TABLE 8

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending 31-Dec	Active Participants	Percent Change	Covered Payroll	Percent Change	Average Salary	Percent Change
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1998	6,311	-7.2%	219,326,742	0.1%	34,753	7.8%
1999	6,512	3.2%	244,538,110	11.5%	37,552	8.1%
2000	6,894	5.9%	268,635,564	9.9%	38,967	3.8%
2001	7,713	11.9%	316,793,390	17.9%	41,073	5.4%
2002	7,647	-0.9%	322,007,672	1.6%	42,109	2.5%
2003	7,432	-2.8%	312,790,966	-2.9%	42,087	-0.1%
2004	7,489	0.8%	326,590,164	4.4%	43,609	3.6%
2005	7,638	2.0%	348,619,141	6.7%	45,643	4.7%
2006	8,055	5.5%	390,963,991	12.1%	48,537	6.3%
2007	8,358	3.8%	417,450,797	6.8%	49,946	2.9%
2008	8,643	3.4%	448,740,469	7.5%	51,920	4.0%
2009	8,142	-5.8%	422,539,199	-5.8%	51,896	0.0%
2010	8,270	1.6%	438,877,002	3.9%	53,069	2.3%
2011	8,348	0.9%	451,831,198	3.0%	54,124	2.0%
2012	8,387	0.5%	470,231,969	4.1%	56,067	3.6%
2013	8,592	2.4%	490,553,170	4.3%	57,094	1.8%

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TABLE 9

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)
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
2013	387	12,451,142	98	2,176,950	5,120	144,755,297	7.5%	28,273

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TABLE 10

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, 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%
December 31, 2013	436,164,975	1,478,146,019	995,606,756	2,047,929,504	100.0%	100.0%	13.4%

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City of Austin Employees' Retirement System
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TABLE 11a

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, 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%
December 31, 2013	2,047.9	2,909.9	862.0	70.4%	490.6	175.7%

Note: Dollar amount in millions.

TABLE 11b

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

Fiscal Year	Annual Required Contribution	Percentage Contributed
(1)	(2)	(3)
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%
2013	$82,517,152	104.90%

TABLE 11c

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, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Pay, open
Payroll growth rate for amortization	3.50%
Remaining amortization period	26 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, 2013)

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, with generational improvements projected from the year 2000 using the AA projection table with multipliers based on plan experience (see Item 21 for further discussion of mortality improvement). 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, 2013)
(Continued)

b. Disabled (adopted effective December 31, 2012)

Disabled annuitants – The RP-2000 Mortality Table for Disabled lives projected using the AA projection table from the year 2000 with multipliers based on plan experience (see Item 21 for further discussion). 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 from the year 2000 with multipliers based on plan experience (see Item 21 for further discussion). 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, 2013)
(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, 2013)
(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

City of Austin Employees' Retirement System
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TABLE 12

STATEMENT OF ACTUARIAL METHODS AND ASSUMPTIONS (EFFECTIVE AS OF December 31, 2013) (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, 2013) (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 1.25% 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, 2013)
(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, 2013) (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 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, 2013)
(Continued)

C. ACTUARIAL FUNDING METHOD

The 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 Individual Entry Age 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 benefit provisions that are applicable to each individual member. The unfunded actuarial accrued liability is the excess of the actuarial accrued liability over the actuarial value of assets.

D. FUNDING PERIOD

The funding period is determined using an open group projection. In the open group projection, the demographic assumptions are applied to the current active employees and any employees that are assumed to leave employment are replaced one for one with a new employee. Over time this results in the change of the employee group from mostly Group A members to Group B members. The projection is built to assume no gains or losses on the actuarial accrued liability or the actuarial value of assets. The funding period is the length of time it takes in the open group projection for the actuarial value of assets to exceed the actuarial accrued liability.

In the projection, new members' pay are assumed to increase at 3.75% year over year (i.e. a new employee in 2014 is assumed to be hired at a salary that is 3.75% greater than a new employee hired in 2013. The 3.75% growth rate is between our inflation assumption of 3.25% and our wage inflation assumption of 4.50% (ultimate salary increase assumption showing in Item A.6.) This new entrant salary growth rate is expected to produce a payroll with grows at a compounded rate of approximately 3.50% over the length of the funding period.

E. CHANGES IN ASSUMPTIONS AND METHODS

There have been no changes in the actuarial assumptions since the prior valuation. The actuarial cost method was changed from the Ultimate Entry Age Normal Cost method to the Individual Entry Age Normal Cost method.

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2013

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, 2013 (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, 2013
(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, 2013
(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 for Non-contributory time, prior military service purchases, or Supplementary Service Credit.

SUMMARY OF BENEFIT PROVISIONS
OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2013
(Continued)

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, 2013 (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, 2013 (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, 2013 (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, 2013
(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, 2013 (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

SUMMARY OF BENEFIT PROVISIONS OF THE RETIREMENT PLAN AS OF DECEMBER 31, 2013 (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

CC. BENEFIT ENHANCEMENTS ENACTED IN 2013

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, 2013

TABLE 15A

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2013

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	72	27	9	6	2	1	0	0	0	0	0	0	117	$ 33,074
25-29	203	113	88	72	37	104	0	0	0	0	0	0	617	39,417
30-34	153	124	86	95	49	374	73	1	0	0	0	0	955	46,357
35-39	125	94	70	81	56	382	240	56	2	0	0	0	1,106	53,594
40-44	102	89	57	63	65	360	306	186	64	0	0	0	1,292	57,317
45-49	63	62	47	57	49	335	261	226	149	26	1	0	1,276	60,803
50-54	71	46	51	54	34	297	279	235	186	92	12	0	1,357	63,165
55-59	49	30	46	40	25	225	210	188	148	87	18	1	1,067	64,258
60-64	19	19	22	21	16	150	121	100	70	29	18	4	589	65,700
65 & Over	6	3	6	5	3	54	64	28	22	17	4	4	216	65,764
All Ages	863	607	482	494	336	2,282	1,554	1,020	641	251	53	9	8,592	$ 57,094

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 15B

DISTRIBUTION OF GROUP A ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2013

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	0	9	6	2	1	0	0	0	0	0	0	18	$ 35,625
25-29	0	1	88	72	37	104	0	0	0	0	0	0	302	41,265
30-34	0	1	86	95	49	373	73	1	0	0	0	0	678	47,915
35-39	2	1	70	81	56	382	240	56	2	0	0	0	890	54,992
40-44	0	1	56	63	65	360	306	186	64	0	0	0	1,101	58,610
45-49	0	0	47	57	49	334	261	226	149	26	1	0	1,150	61,859
50-54	0	1	51	54	34	295	279	235	186	92	12	0	1,239	64,126
55-59	0	0	46	40	25	225	210	188	148	87	18	1	988	64,749
60-64	0	0	21	21	16	149	121	100	70	29	18	4	549	66,110
65 & Over	0	0	6	4	3	54	64	28	22	17	4	4	206	66,262
All Ages	2	5	480	493	336	2,277	1,554	1,020	641	251	53	9	7,121	$ 59,482

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 15C

DISTRIBUTION OF GROUP B ACTIVE PARTICIPANTS BY AGE AND LENGTH OF SERVICE AS OF DECEMBER 31, 2013

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	72	27	0	0	0	0	0	0	0	0	0	0	99	$ 32,610
25-29	203	112	0	0	0	0	0	0	0	0	0	0	315	37,644
30-34	153	123	0	0	0	1	0	0	0	0	0	0	277	42,542
35-39	123	93	0	0	0	0	0	0	0	0	0	0	216	47,834
40-44	102	88	1	0	0	0	0	0	0	0	0	0	191	49,863
45-49	63	62	0	0	0	1	0	0	0	0	0	0	126	51,158
50-54	71	45	0	0	0	2	0	0	0	0	0	0	118	53,075
55-59	49	30	0	0	0	0	0	0	0	0	0	0	79	58,119
60-64	19	19	1	0	0	1	0	0	0	0	0	0	40	60,083
65 & Over	6	3	0	1	0	0	0	0	0	0	0	0	10	55,501
All Ages	861	602	2	1	0	5	0	0	0	0	0	0	1,471	$ 45,537

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 16

DISTRIBUTION OF ALL ACTIVE PARTICIPANTS BY SERVICE AND CURRENT RATE OF PAY AS OF DECEMBER 31, 2013

Completed Years of Service	Number of Employees	Total Average Salary
0	863	$ 45,854
1	607	44,888
2	482	50,661
3	494	52,503
4	336	57,201
5-9	2,282	54,786
10-14	1,554	61,525
15-19	1,020	63,865
20-24	641	70,650
25-29	251	74,315
30-34	53	68,919
35+	9	88,141
All Years	8,592	$ 57,094

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
Actuarial Valuation - December 31, 2013

TABLE 17

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Retirement Effective Dates	Years Creditable Service						
January 1, 2008 to December 31, 2013	0-4	5-9	10-14	15-19	20-24	25-29	30+
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
Period 01/01/2013 to 12/31/2013							
Average Monthly Benefit	$249	$701	$1,541	$2,325	$3,330	$4,714	$5,418
Average Final Salary	$38,808	$43,790	$54,621	$57,891	$64,170	$76,055	$71,320
Number of Active Retirees	19	43	43	47	140	46	17

Gabriel Roeder Smith & Company

City of Austin Employees' Retirement System
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TABLE 18

RETIRED MEMBERS BY TYPE OF BENEFIT (AS OF DECEMBER 31, 2013)

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						843									
$1-250	152	127	9	3	13	88	49	7	3				5		
251-500	246	195	25	12	14	111	92	15	8	4		1	14	1	
501-750	274	208	42	11	13	113	95	25	16	5	4	2	11	1	2
751-1,000	305	230	46	17	12	127	95	27	21	6	4	12	8	1	4
1,001-1,250	285	220	41	17	7	87	103	16	16	10	15	14	8		16
1,251-1,500	381	312	52	14	3	106	142	29	26	5	24	20	12	1	16
1,501-1,750	378	333	37	8	0	105	129	36	26	5	19	27	16	2	13
1,751-2,000	390	340	38	9	3	115	134	41	20	4	25	25	7		19
Over $2,000	2,709	2,561	131	10	7	775	1,085	230	179	32	100	98	88	14	108
Total	**5,120**	**4,526**	**421**	**101**	**72**	**2,470**	**1,924**	**426**	**315**	**71**	**191**	**199**	**169**	**20**	**178**

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 843 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, 2013

TABLE 20

CHANGE IN NET POSITION, LAST TEN FISCAL YEARS

	Fiscal Year									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Member Contributions	$32,272	$33,334	$35,791	$39,971	$41,263	$38,752	$40,629	$41,503	$43,922	$47,449
Employer Contributions	27,008	27,168	30,610	36,521	40,786	45,263	53,576	66,718	76,217	86,713
Investment Income (net of expenses)	145,631	118,154	179,952	114,931	(435,867)	310,844	230,102	(21,964)	220,199	287,075
Total additions to plan net assets	204,911	178,656	246,353	191,423	(353,818)	394,859	$324,307	$86,257	$340,338	$421,237
Deductions										
Benefit Payments	81,426	85,851	90,116	94,627	100,707	108,090	115,665	123,558	131,606	141,923
Refunds	5,112	3,775	4,196	4,438	4,285	4,858	4,205	3,801	4,916	4,738
Administrative Expenses	1,555	1,497	1,671	1,776	1,883	2,032	2,113	2,218	2,280	2,561
Lump-sum Payments	1,343	1,798	2,178	1,328	3,022	3,095	2,013	2,483	3,843	4,858
Total deductions from plan net assets	89,436	92,921	98,161	102,169	109,897	118,075	123,996	132,060	142,645	154,080
Change in net assets	$115,475	$85,735	$148,192	$89,254	($463,715)	$276,784	$200,311	($45,803)	$197,693	$267,157

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, 2013

TABLE 21

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

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Type of Benefit										
Age and service benefits:										
Retirees [a]	$80,152	$84,003	$88,513	$93,049	$99,219	$106,148	$114,244	$121,366	$130,019	$139,667
Beneficiaries [a]										
Lump-sum payments	$1,343	$1,798	$2,178	$1,328	$3,022	$3,095	$2,011	$2,483	$3,843	$4,858
In service death benefits: [b]	$1,274	$1,848	$1,603	$1,578	$1,489	$1,942	$1,421	$2,192	$1,587	$2,256
Disability benefits: [c]										
Total benefits	$82,769	$87,649	$92,294	$95,955	$103,730	$111,185	$117,676	$126,041	$135,449	$146,781
Type of Refund										
Death [b]										
Separation	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801	$4,916	$4,738
Total refunds	$5,112	$3,775	$4,196	$4,438	$4,285	$4,858	$4,205	$3,801	$4,916	$4,738

Notes: Dollar amounts in thousands

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

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

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

Includes benefit payments from 415 Restoration Plan

Excludes administrative expenses

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES

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

HISTORY OF CONTRIBUTIONS AND BENEFIT RATES, CONTINUED

Year	Employer Contribution Rate	Member Contribution Rate	Interest Paid on Member Deposits	Benefits Multiplier	Cost of Living Adjustment
1981	6.00%	6.00%	8.14%	"	3.00%
1982	6.60%	6.60%	8.21%	"	3.00%
1983	"	"	8.39%	"	3.00%
1984	7.00%	7.00%	8.29%	1.85%	3.00%
1985	"	"	8.22%	2.00%	3.00%
1986	"	"	8.00%	"	3.00%
1987	6.20%	6.20%	8.00%	"	1.50%
1988	7.00%	7.00%	8.00%	"	3.00%
1989	"	"	8.00%	"	3.00%
1990	"	"	8.00%	2.10%	3.00%
1991	"	"	6.50%	"	3.00%
1992	"	"	6.00%	"	4.00%
1993	"	"	5.00%	2.20%	3.10%
1994	"	"	6.00%	"	6.00%
1995	"	"	6.75%	2.30%	6.00%
1996	"	"	6.75%	"	6.00%
1997	"	"	6.75%	2.60%	6.00%
1998	"	"	5.00%	"	5.00%
1999	"	8.00%	6.25%	2.70%	3.00%
2000	8.00%	"	5.75%	2.98%	0.00%
2001	"	"	4.25%	"	3.50%
2002	"	"	3.75%	3.00%	2.50%
2003	"	"	3.75%	"	0.00%
2004	"	"	3.75%	"	0.00%
2005	"	"	4.50%	"	0.00%
2006	9.00%[b]	"	4.50%	"	0.00%
2007	"	"	4.50%	"	0.00%
2008	10.00%[b]	"	4.00%	"	0.00%
2009	12.00%[b]	"	3.25%	"	0.00%
2010	12.00%[c]	"	2.75%	"	0.00%
2011	14.00%[c]	"	2.25%	"	0.00%
2012	16.00%[c]	“	1.85%	3.00%/2.50%[d]	0.00%
2013	18.00%	“	2.17%	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.*