

*AUSTIN FIRE FIGHTERS
RELIEF AND RETIREMENT FUND*

ANNUAL REPORT

2011



**AUSTIN FIRE FIGHTERS
RELIEF AND RETIREMENT FUND**

2011

ANNUAL REPORT

AND

PENSION PLAN GUIDE FOR MEMBERS

DECEMBER 31, 2011

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While this report and pension plan guide set forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the report/guide and the statute, the pension statute article 6243e.1, Vernon's Texas Civil Statutes, as amended through the 2011 State Legislature Regular Session, will prevail.

If you have any questions about the plan, please contact the Austin Fire Fighters Relief and Retirement Fund Pension Office, at (512) 454-9567. The Pension Office address is 4101 Parkstone Heights Drive, Suite 270, Austin, Texas 78746. Our email address is: *afdpension@austin.rr.com*. You can also visit our web site at *AFRS.ORG*.

BOARD		Mayor Lee Leffingwell, Chair
OF		Keith A. Johnson, Vice Chair
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		Jeremy E. Burke, Trustee
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FUND CUSTODIAN		State Street Boston, Massachusetts
INVESTMENT CONSULTANT		Summit Strategies Group St. Louis, Missouri
INVESTMENT MANAGERS		
Aether Investment Partners Denver, Colorado	Baillie Gifford Edinburgh, Scotland	Blackstone Alternative Asset Mgmt New York, New York
Brandywine Asset Mgmt. Philadelphia, Pennsylvania	Cross Creek Capital Partners Salt Lake City, UT	DePrince, Race & Zollo, Inc. Winters Park, Florida
Dimensional Fund Advisors Austin, Texas	Evanston Capital Mgmt. Evanston, Illinois	57 Stars Washington D.C.
Greenspring Associates Owings Mills, Maryland	Highclere International Investors London, England	ING Clarion Auburn, California
Intech Palm Beach Gardens, Florida	LGT Capital Partners Inc. New York, New York	Mercator Asset Mgmt. Boca Raton, Florida
Metropolitan Real Estate Mgmt. Boston, Massachusetts	Parnassus Investments San Francisco, California	Partners Group (USA) Inc. New York, New York
PIMCO North Beach, California	Private Equity Investors New York, New York	State Street Global Advisors New York, New York
Westfield Capital Mgmt. Boston, Massachusetts	Westwood Holdings Group, Inc. Dallas, Texas	
LEGAL COUNSEL		Jackson Walker Austin, Texas
PENSION OFFICE STAFF		William E. Stefka Administrator Linda A. Adney Administrative Assistant



City of Austin

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Office (512) 974-2250 • Fax (512) 974-2337 • Lee.Leffingwell@austintexas.gov

September 17, 2012

TO OUR MEMBERSHIP:

I am pleased to present the 2011 annual report to our membership. The 2011 total fund return was (3.4%) on a market value basis. This follows a 13.29% return for 2010.

The results of the latest biennial actuarial valuation dated December 31, 2011 show the plan is actuarially sound being 87% funded with a 20.75 year amortization period. This was welcome news, yet not enough to afford an across the board cost-of-living adjustment for all of our retirees, according to the plan's actuary.

Your pension board has had discussions with your Austin Retired Fire Fighters Association (ARFFA) who recommended that if a COLA was not affordable for everyone then raising the minimum monthly pension to some of our long-time retirees and widows should be considered. This was last addressed 18 years ago in 1994 when the minimum monthly pension was increased from \$1,000.00 to \$1,200.00.

As a result of these discussions and actuarial consent, the pension board was able to approve an increase in the monthly pension benefit up to the amount of \$2,000.00 which was effective July 1, 2012 for all currently retired firefighters and the widows of deceased firefighters who took normal or disability retirement, or who had died in service prior to 1994. This increase applies to those pension recipients who were on the rolls in 1994 when the last adjustment in minimum benefits was approved and whose current gross monthly pension benefit is less than \$2,000.00. After this increase the plan remains actuarially sound with the amortization period moving from 20.75 years to 20.91 years and it does not impair the plan's financial stability in keeping with the governing statute.

It is a pleasure serving as your Mayor and your pension board Chair. We appreciate the job you all have done and continue to do as fire fighters for our great city. Your input concerning your pension plan is always encouraged and appreciated by your Board.

Sincerely,

Mayor Lee Leffingwell, Chairman
Austin Fire Fighters Relief and
Retirement Fund Board of Trustees

*The City of Austin is committed to compliance with the American with Disabilities Act.
Reasonable modifications and equal access to communications will be provided upon request.*

**AUSTIN FIRE FIGHTERS RELIEF
AND RETIREMENT FUND**

BASIC FINANCIAL STATEMENTS

AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

FIGER & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

PARKSTONE OFFICE CENTRE
4101 PARKSTONE HEIGHTS DR., SUITE 220
AUSTIN, TEXAS 78746
TEL. 512.327.2266 FAX 512.327.3493

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Austin Fire Fighters Relief and Retirement Fund
Austin, Texas

We have audited the accompanying statements of plan net assets of the Austin Fire Fighters Relief and Retirement Fund as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Austin Fire Fighters Relief and Retirement Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and preform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Austin Fire Fighters Relief and Retirement Fund as of December 31, 2011 and 2010, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (MD&A) and the required supplementary information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


Figer & Company

August 24, 2012

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

Our discussion and analysis of the Austin Fire Fighters Relief and Retirement Fund's (the Fund) financial performance provides an overview of the Fund's activities for the calendar years 2011 and 2010. This information is provided in conjunction with our financial statements that follow.

FINANCIAL HIGHLIGHTS

- Plan net assets held in trust by the Fund decreased by \$20,711,184 or (3.4%) in 2011 and increased by \$70,586,539 or 13.29% in 2010. The decrease in 2011 was due to negative financial market returns, while the increase in 2010 reflects positive financial market returns.
- Total contributions by the members and the City of Austin increased by 0.5% in 2011 and 0.15% in 2010. The increase for 2011 over 2010 reflects the increase in the contribution rate by the City of Austin from 19.05% to 20.05% in October 2011.
- The amount of benefits paid directly to retired members and their beneficiaries increased by \$3,329,079 in 2011 while increasing by \$1,715,502 in 2010. The increases for both years over the prior years were due to the increase in the number of pension recipients.
- The Fund's rate of return on investments for the year ended December 31, 2011 was (3.4%) on a market value basis which was lower than the return of 13.29% for the year ended December 31, 2010. The assumed actuarial rate of return is 7.75%.
- The funding objective of the Austin Fire Fighters Relief and Retirement Fund is to meet long-term benefit obligations through contributions by the members and the City of Austin as well as from the investment income. As of December 31, 2011, the date of the most recent biennial actuarial valuation, the Fund's funding ratio of actuarial assets as a percentage of actuarial liabilities was 87.3% which is lower than the 88.7% ratio as of December 31, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Fund's financial statements consist of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets, with accompanying Notes to the Financial Statements. The information available in each is summarized below:

The Statement of Plan Net Assets presents the Fund's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement provides a snapshot as of year-end of the Fund's investments, stated at fair value, along with cash and short-term investments, receivables, and other assets and liabilities. Over time, increases or decreases in plan net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

The Statement of Changes in Plan Net Assets presents information showing additions to and deductions from the Fund during a twelve-month period, using the accrual basis of accounting. Thus, additions are reported when earned and deductions when incurred, regardless of when cash is received or paid.

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

Our analysis below focuses on the plan net assets and changes in plan net assets of the Fund.

**Summary of Plan Net Assets
December 31, 2011, 2010 and 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash and receivables	\$ 5,349,948	\$ 9,684,097	\$ 7,463,910
Investments	576,053,022	593,317,017	523,612,722
Other assets	<u>282,124</u>	<u>293,349</u>	<u>1,185,451</u>
Total assets	581,685,094	603,294,463	532,262,083
Total liabilities	<u>562,439</u>	<u>1,460,624</u>	<u>1,014,783</u>
Net assets held in trust for pension benefits	<u>\$581,122,655</u>	<u>\$601,833,839</u>	<u>\$ 531,247,300</u>

Net assets: The net assets of the Fund decreased by \$20,711,184 in 2011 and increased by \$70,586,539 in 2010. The decrease between 2011 and 2010 reflect negative investment returns due to weaker financial markets. The increase between 2010 and 2009 reflect positive investment returns due to stronger financial markets.

Liabilities: The Fund's liabilities decreased by \$898,185 in 2011 primarily due to the decrease in funds payable for securities purchased at year end. Year end liabilities increased by \$445,841 in 2010 from that of 2009 mostly due to an increase in funds payable to the broker for securities purchased from that of 2009.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Additions:			
Contributions	\$ 26,544,252	\$ 25,714,069	\$ 25,504,258
Investment income (loss)	(15,282,530)	71,447,291	63,589,521
Other income	<u>241,887</u>	<u>2,249,577</u>	<u>291,775</u>
Total additions	<u>11,503,609</u>	<u>99,410,937</u>	<u>89,385,554</u>
Deductions:			
Benefit payments and contribution refunds	31,868,942	28,539,863	26,824,361
Administrative expenses	<u>345,851</u>	<u>284,535</u>	<u>272,678</u>
Total deductions	<u>32,214,793</u>	<u>28,824,398</u>	<u>27,097,039</u>
Net increase (decrease)	(20,711,184)	70,586,539	62,288,515
Net assets held in trust for pension benefits:			
Beginning of year	<u>601,833,839</u>	<u>531,247,300</u>	<u>468,958,785</u>
End of year	<u>\$ 581,122,655</u>	<u>\$ 601,833,839</u>	<u>\$ 531,247,300</u>

Additions: Total contributions by the members and the City of Austin for 2011 and 2010 were \$26,544,252 and \$25,714,069 respectively. The increase of \$830,183 in contributions for 2011 represents a .3% increase from 2010. The increase of \$206,811 in contributions for 2010 represents a .08% increase from 2009. The percentage increase in 2011 is primarily due to the increase in the contribution rate by the City of Austin from 19.05% to 20.05% of salary effective October 2011, while the increase in 2010 over 2009 reflects an increase in the contribution rate by the City of Austin from 18.05% to 19.05%. The net investment income for 2011 was (\$15.3) million and \$71.4 million in 2010. The total rate of return in 2011 and 2010 was (3.4%) and 13.29% on a market value basis, respectively.

Deductions: The expenses paid by the pension plan include the benefit payments, refunds of member contributions, and administrative expenses. Benefits paid directly to retired members and their beneficiaries in 2011 were \$31,868,942 compared to \$28,539,863 in 2010. The amount of benefits paid out increased by \$3,329,079 in 2011 from that of 2010, while they increased by \$1,715,502 in 2010 from that of 2009. The increases in both 2011 and 2010 over their prior years were due to the increases in the number of retirees receiving benefits. Administrative expenses increased by \$61,316 or 22% in 2011 from that of 2010. This increase in 2011 over 2010 included greater expenditures for an updated IRS favorable determination letter and custodian bank fees. The increase in administrative expenses in 2010 from that of 2009 is mostly due greater expenditures for printing and outsourcing than that of 2009.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011 AND 2010**

Overall Analysis: As of December 31, 2011, net assets decreased by \$20,711,184 or (3.4%) below the prior year. Also, as of December 31, 2010, net assets increased by \$70,586,539 or 13.29% above the prior year. The latest actuarial valuation dated December 31, 2011 shows the plan's unfunded actuarial liability (UAAL) has increased since the December 31, 2009 valuation. The amortization period or number of years to amortize this UAAL increased from 20.50 years as of December 31, 2009 to 20.91 years as of December 31, 2011. The plan's funded ratio decreased from 88.7% to 87.3% during this same time period. The December 31, 2011 valuation shows the plan to be actuarially sound, but not in a position to afford across the board cost-of-living increases for its retirees and beneficiaries for 2011.

REQUEST FOR INFORMATION

This financial report is intended to provide a general overview of the Austin Firefighters Relief and Retirement Fund's finances and to demonstrate the Fund's accountability for the money it receives. Any questions regarding this report may be addressed to the fund administrator at: 4101 Parkstone Heights Dr., Suite 270, Austin, TX 78746.

AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
 STATEMENTS OF PLAN NET ASSETS
 DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and short-term investments	\$ 4,864,497	\$ 8,325,185
Receivables:		
Due from broker for securities sold	94,078	935,288
Accrued interest and dividends	<u>391,373</u>	<u>423,624</u>
	<u>485,451</u>	<u>1,358,912</u>
Investments, at fair value (See Note B):		
U.S. equities	154,152,615	191,309,142
International equities	34,651,572	51,155,106
Fixed income bond mutual funds	127,787,715	135,083,254
Other commingled funds	102,402,137	108,233,159
Alternatives	<u>157,058,983</u>	<u>107,536,356</u>
	<u>576,053,022</u>	<u>593,317,017</u>
Property and equipment, net of accumulated depreciation of \$102,467 and \$91,063, respectively	<u>282,124</u>	<u>293,349</u>
TOTAL ASSETS	<u>581,685,094</u>	<u>603,294,463</u>
LIABILITIES		
Due to broker for securities purchased	171,985	968,476
Accounts payable	<u>390,454</u>	<u>492,148</u>
TOTAL LIABILITIES	<u>562,439</u>	<u>1,460,624</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 581,122,655</u>	<u>\$ 601,833,839</u>

See accompanying notes to financial statements.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
ADDITIONS		
Contributions:		
Participating fire fighters	\$ 11,961,098	\$ 11,866,663
City of Austin, Texas	<u>14,583,154</u>	<u>13,847,406</u>
	<u>26,544,252</u>	<u>25,714,069</u>
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(25,728,575)	60,526,835
Interest	1,031	5,737
Dividends	<u>13,069,169</u>	<u>13,889,026</u>
	<u>(12,658,375)</u>	<u>74,421,598</u>
Less investment expenses	<u>(2,624,155)</u>	<u>(2,974,307)</u>
	<u>(15,282,530)</u>	<u>71,447,291</u>
Other income	<u>241,887</u>	<u>2,249,577</u>
Total additions	<u>11,503,609</u>	<u>99,410,937</u>
DEDUCTIONS		
Benefits paid directly to participants	31,234,998	28,539,863
Refunds of contributions	<u>633,944</u>	-
	<u>31,868,942</u>	<u>28,539,863</u>
Administrative expenses	<u>345,851</u>	<u>284,535</u>
Total deductions	<u>32,214,793</u>	<u>28,824,398</u>
Net increase (decrease)	(20,711,184)	70,586,539
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>601,833,839</u>	<u>531,247,300</u>
End of year	<u>\$ 581,122,655</u>	<u>\$ 601,833,839</u>

See accompanying notes to financial statements.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS**

NOTE A – DESCRIPTION OF FUND

The Austin Fire Fighters Relief and Retirement Fund (the Fund) is a single employer defined benefit pension plan covering fire fighters employed by the City of Austin, Texas (the City). The Fund was originally established, and may be amended, by acts of the Texas Legislature. The current governing statute is Article 6243e.1, Vernon's Texas Civil Statutes. The Fund is governed by a Board of Trustees.

Membership of the Fund as of December 31 is as follows (unaudited):

	<u>2011</u>	<u>2010</u>
Retirees:		
Retirees and beneficiaries receiving benefits	585	564
Terminated plan members entitled to but not receiving benefits	5	5
Current employees:		
Vested	537	646
Nonvested	<u>426</u>	<u>336</u>
Total members	<u>1,553</u>	<u>1,551</u>

This information is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting.

Fire fighter and City contributions are recognized as revenues in the period in which employee payroll is distributed. Benefits are recognized when the employee becomes eligible for retirement and elects to retire under the system and is paid a benefit. Employee contribution refunds are recognized when the employee leaves the City and elects to withdraw a contribution.

Cash and Short-Term Investments

Cash and short-term investments include deposits in a custodian-managed investment pool from which the Fund may make deposits and withdrawals at any time without prior notice or penalty. The market value of such deposits is equal to cost.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE B – Continued

Investments

The board has adopted a Statement of Investment Policies and Objectives (Investment Policy) to set forth factors involved in the management of investment assets for the Fund. By statute, the board of trustees in its sole discretion may invest, reinvest, or change the assets of the Fund. The board of trustees shall invest in funds in whatever instruments or investments the board considers prudent. In making investments for the Fund, the board of trustees shall discharge its duties with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in the conduct of an enterprise of a similar character and with similar aims.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Limited partnerships are reported at fair value based on the net asset value of the Fund's interest provided by the investee. Investments that do not have an established market are reported at estimated fair value. Realized and unrealized gains and losses as well as other investment adjustments are reported as net appreciation (depreciation) in fair value of investments.

Property and Equipment

Property and equipment are stated at cost. Additions and improvements which significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	40 years
Office furniture and equipment	3 to 15 years

Depreciation expense totaled \$11,404 and \$11,289 for the years ended December 31, 2011 and 2010, respectively.

Fund Administrative Expenses

All administrative expenses are the responsibility of the Fund and are financed through investment income.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE C – DEPOSIT AND INVESTMENT RISK

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact delivery of the Fund's services.

The following summary represents the fair value of the Fund's investments by type as of December 31, 2011 and 2010:

<u>Asset Class</u>	<u>2011</u>	<u>2010</u>
U.S. equities	\$ 154,152,615	\$ 191,309,142
International equities	34,651,572	51,155,106
Fixed income bond mutual funds	127,787,715	135,083,254
Other commingled funds	102,402,137	108,233,159
Alternatives	<u>157,058,983</u>	<u>107,536,356</u>
Total Investments	<u>\$ 576,053,022</u>	<u>\$ 593,317,017</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund 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 Fund has no formal policy regarding custodial credit risk, operating bank account deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured amounts are backed by pledged securities held as collateral. As of December 31, 2011 and 2010, the Fund's operating bank balances of \$4,864,497 and \$8,325,185, 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 Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund and are held by counterparty, its trust or agent, but not in the Fund's name. The Fund's investment securities are not exposed to custodial credit risk because all securities are held by the Fund's custodial bank in the Fund's name. As of December 31, 2011 and 2010, the Fund's investment securities are not exposed to custodial credit risk because all securities are held by the Fund's custodial bank in the Fund's name.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE C – Continued

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund's investment policy establishes asset allocation targets for major classes of invested assets as listed on the table below. As of December 31, 2011 and 2010, there is no security issued by a single issuer that holds more than 5% of the Fund's net assets available for benefits. The Fund is authorized to invest in the following as of December 31, 2011.

<u>Investment Class</u>	<u>Target Range</u>
Equity (Domestic & Foreign)	40-70%
Common Stock	
Convertible Bonds	
Preferred Stocks	
Fixed Income Investments	20-35%
Domestic & Yankee Bonds	
Mortgage and Mortgage Backed Securities	
Asset-Backed Securities	
Cash-Equivalent Securities	
Money Market Funds, Bank STIF and STEP Funds	
Alternatives	0-40%
Open Ended Commingled Real Estate Funds	
Value Added/Oppportunistic Real Estate	
Private Equity	
Absolute Return Strategies	

Market conditions may result in a violation of the above guidelines and as a result the Fund retains the right to temporarily waive the guidelines when it would be prudent to do so.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

As of December 31, 2011, the Fund had the following fixed income investments:

<u>Investment</u>	<u>Fair Value</u>	<u>1 to 10 years</u>	<u>10 to 20 years</u>	<u>20+ years</u>
State Street Bond Funds	\$ 35,978,461	19,784,555	2,651,612	13,542,294
PIMCO Mutual Funds	91,809,254	56,149,714	26,224,133	9,435,407
Totals	<u>\$ 127,787,715</u>	<u>75,934,269</u>	<u>28,875,745</u>	<u>22,977,701</u>

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE C – Continued

As of December 31, 2010, the Fund had the following fixed income investments:

Investment	Fair Value	1 to 10 years	10 to 20 years	20+ years
State Street Bond Funds	\$ 62,758,732	43,103,054	3,218,448	16,437,230
PIMCO Mutual Funds	<u>72,324,522</u>	<u>45,347,475</u>	<u>22,268,720</u>	<u>4,708,327</u>
Totals	<u>\$ 135,083,254</u>	<u>88,450,529</u>	<u>25,487,168</u>	<u>21,145,557</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. It is the Fund's policy to maintain fixed income securities within its portfolio to an average credit rating of investment grade or better.

As of December 31, 2011, the Fund's investments in fixed income securities had the following credit quality ratings:

Standard & Poor's Quality Rating	Total Fair Value	State Street bond funds	PIMCO mutual funds
AAA	\$ 63,612,724	17,910,078	45,702,646
AA	12,395,408	3,489,911	8,905,497
A	21,263,876	5,986,816	15,277,060
BBB	21,979,487	6,188,295	15,791,192
BB	3,731,401	1,050,571	2,680,830
B	2,070,161	582,851	1,487,310
Below B	1,124,532	316,610	807,922
Not rated	<u>1,610,126</u>	<u>453,329</u>	<u>1,156,797</u>
Total	<u>\$ 127,787,715</u>	<u>35,978,461</u>	<u>91,809,254</u>

As of December 31, 2010, the Fund's investments in fixed income securities had the following credit quality ratings:

Standard & Poor's Quality Rating	Total Fair Value	State Street bond funds	PIMCO mutual funds
AAA	\$ 76,831,015	40,827,868	36,003,147
AA	11,251,428	4,235,949	7,015,479
A	19,301,419	7,266,618	12,034,801
BBB	19,950,986	7,511,168	12,439,818
BB	3,387,028	1,275,152	2,111,876
B	1,879,105	707,447	1,171,658
Below B	1,020,748	384,292	636,456
Not rated	<u>1,461,525</u>	<u>550,238</u>	<u>911,287</u>
Total	<u>\$ 135,083,254</u>	<u>62,758,732</u>	<u>72,324,522</u>

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE C – Continued

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange will adversely affect the fair value of an investment or deposit. The Fund does not have a formal investment policy that limits the Fund's exposure related to foreign currency risk.

The fund's exposure to foreign currency risk includes the following international securities as of December 31, 2011 and 2010.

<u>Currency</u>	<u>2011</u>	<u>2010</u>
British Pound Sterling	\$ 3,920,284	\$ 6,433,722
Japanese Yen	7,811,457	13,556,770
EURO Currency	11,761,661	11,935,197
Swiss Franc	4,984,070	8,594,862
Hong Kong Dollar	1,628,792	3,869,208
Australian Dollar	462,265	1,006,522
Singapore Dollar	799,643	1,356,388
South Korean Won	1,221,504	1,477,177
Norwegian Krone	775,557	1,139,870
Indonesian Rupiah	---0---	483,353
Thailand Baht	<u>1,286,339</u>	<u>1,302,037</u>
Totals	<u>\$34,651,572</u>	<u>\$51,155,106</u>

NOTE D – CONTRIBUTIONS

The contribution provision of this Fund is authorized by Article 6243e.1, Vernon's Texas Civil Statutes which provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each member and a percentage of payroll by the City.

The Fund is maintained by biweekly contributions from the earnings of fire fighters and from the City. For the year ended December 31, 2011, the City's contribution rate was 20.05% and fire fighters contribution rate was 16.20% and for the year ended December 31, 2010 the City's contribution rate was 19.05% and fire fighters contribution rate was 15.70% on their earnings excluding overtime, educational incentive pay, assignment pay and temporary pay in higher classifications.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE D – Continued

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Fund be approved by a qualified actuary. The actuary must certify that the contribution commitment by fire fighters and the City provides an adequate financing arrangement. During 2011, contributions were made in accordance with the adopted plans of benefits approved by the Fund's actuary. However, the latest actuarial valuation as of December 31, 2011 determined that the annual required contributions by the City were to be 20.06% of fire fighters' earnings. Because the City's contributions remained at 20.05% and 19.05%, 96% and 91% of the annual required contributions were funded by the City during 2011 and 2010, respectively.

Under statute, the City is required to make the following future minimum contributions:

September 30, 2012	21.05%
September 30, 2013	22.05%

Firefighters' contribution rates will also increase as follows:

September 30, 2012	16.70%
September 30, 2013	17.20%
September 30, 2014	17.70%
September 30, 2015	18.20%
September 30, 2016	18.70%

NOTE E - BENEFITS

The benefit provisions of this plan are authorized by Article 6243e.1, Vernon's Texas Civil Statutes which provides the authority and procedure to amend benefit provisions.

When a member has completed ten years of credited service after entrance into the Fund, the member's account becomes vested and non-forfeitable. Under the terms of the Fund agreement, members or their beneficiaries are eligible for distributions of benefits upon attaining a normal retirement age of 50 with ten years of service, or upon completing 25 years of service regardless of age. In addition, members are eligible for early retirement benefits upon reaching age 45 with at least ten years of service or 20 years of creditable service, regardless of age. Distributions to members or their beneficiaries are also available in the event of total and permanent disability or upon death including survivor (spousal) benefits at 75% of retiree benefits.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE E - Continued

The terms of benefit payments are determined by the member's level of earnings and length of service. With the exception of payments under the Deferred Retirement Option Plan (DROP) feature which provides eligible participants the ability to designate benefits to be disbursed in a single payment or not more than four payments upon leaving active service, distributions of benefits are made in a series of equal installments over a period of time. Payments to members or their beneficiaries may be increased annually by the amount of increase in the Consumer Price Index. Cost-of-living increases must be approved by the Board of Trustees and actuary of the Fund. Contribution refunds are paid with 5% interest.

NOTE F – INCOME TAX STATUS

The Fund is a Public Employee Retirement System and is exempt from federal income taxes and the provisions of the Employee Retirement Income Security Act of 1974.

The Internal Revenue Service has determined and informed the Fund by a letter dated August 22, 1985, that the Fund's plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). The plan has been amended since receiving the determination letter; however, the Fund administrator believes that the plan is currently being operated in compliance with the applicable requirements of the IRC. During 2011, the plan was in the process of obtaining an updated determination letter from the Internal Revenue Service.

NOTE G – FUNDING STATUS AND PROGRESS

Accounting standards require that the statement of plan net assets report assets at fair value and include only benefits due plan members and beneficiaries, as well as accrued expenses as of the reporting date. Information regarding the actuarial funding status of the Fund as of December 31, 2011, the most recent actuarial valuation date, is as follows:

	(dollar amounts in thousands)
Actuarial value of assets	\$ 651,557
Actuarial accrued liability	746,143
Total unfunded actuarial accrued liability	94,568
Actuarial value of assets as a percentage of the actuarial accrued liability	87.3%
Annual covered payroll	76,700
Unfunded actuarial accrued liability as a percentage of annual covered payroll	123.3%

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

NOTE G - Continued

The December 31, 2011 actuarial valuation used the following significant assumptions:

ACTUARIAL VALUATION:

Frequency	Biennial
Latest Date	12/31/11
Cost Method	Entry Age

AMORTIZATION:

Method	Level Percent
Open/Closed	Open
Remaining amortization period	20.91 Years

ASSET VALUATION METHOD:

5-year smoothed market

ASSUMPTIONS:

Investment rate of return*	7.75%
Projected salary increases*	8.0%
*Includes inflation at	3.5%
Payroll Growth Rate	5.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time, relative to the actuarial accrued liabilities for benefits.

NOTE H – SUBSEQUENT EVENT

Subsequent to December 31, 2011, the board adopted a resolution to the Fund providing that all retirees and surviving spouses who are currently receiving normal service retirement or disability benefits that initially commenced prior to January 1, 1994, shall be entitled to receive a benefit that is not less than \$2,000 per month, effective July 1, 2012. This resolution also includes that any future surviving spouse that is predeceased by a retiree as classified above shall also be entitled to receive a benefit that is not less than \$2,000 per month. It is the actuary's opinion that the amount necessary to fund the above stated cost-of-living adjustment will not impair the Fund's financial stability in compliance with Section 9.04 of the Fund Statutes. All other subsequent events have been evaluated through August 24, 2012, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
SCHEDULE OF FUNDING PROGRESS
(Unaudited)
(Dollar amounts in thousands)

Actuarial Valuation Date (1)	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Valuation Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	\$ 651,557	\$ 746,143	\$ 94,568	87.3%	\$ 76,700	123.3%
12/31/09	589,261	664,185	74,924	88.7%	78,980	94.9%
12/31/07	584,420	586,802	2,382	99.6%	76,556	3.1%
12/31/05	493,567	580,054	86,487	85.1%	65,885	131.3%
12/31/03	421,136	452,669	31,533	93.0%	55,939	56.4%
12/31/01	395,371	406,266	10,895	97.3%	49,726	21.9%

(1) Actuarial studies are performed on a biennial basis.

See accompanying independent auditors' report.

AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

<u>Year Ended</u> <u>December 31</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2011	15,167,458	96%
2010	15,031,743	91%
2009	10,065,697	136%
2008	15,885,383	86%
2007	15,885,383	86%
2006	13,346,422	87%

See accompanying independent auditors' report.

**AUSTIN FIRE FIGHTERS RELIEF AND RETIREMENT FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE A – 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.

NOTE B – ACTUARIAL ASSUMPTIONS AND METHODS

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:

ACTUARIAL VALUATION:

Frequency	Biennial
Latest Date	12/31/11
Cost Method	Entry Age

AMORTIZATION:

Method	Level Percent
Open/Closed	Open
Remaining amortization period	20.91 Years

ASSET VALUATION METHOD:

5-year smoothed market

ASSUMPTIONS:

Investment rate of return*	7.75%
Projected salary increases*	8.0%
*Includes inflation at	3.5%
Payroll Growth Rate	5.0%

AUSTIN FIREFIGHTERS'
RELIEF AND RETIREMENT FUND

ACTUARIAL VALUATION
AS OF DECEMBER 31, 2011



May 11, 2012

Mr. William E. Stefka
Austin Firefighters'
Relief and Retirement Fund
4101 Parkstone Heights Drive, Suite 270
Austin, TX 78746

Re: Austin Firefighters' Relief and Retirement Fund

Dear Mr. Stefka:

We are pleased to present to the Board this report of the biennial actuarial valuation of the Austin Firefighters' Relief and Retirement Fund. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year(s).

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects laws and regulations issued to date pursuant to the provisions of the Texas Local Fire Fighters' Retirement Act (TLFFRA) and Vernon's Texas Civil Statutes, as well as applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience.

In conducting the valuation, we have relied on personnel, plan design, financial reports, and asset information supplied by the city of Austin, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

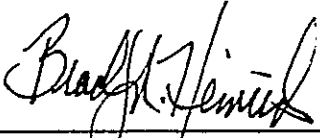
The undersigned is familiar with the immediate and long-term aspects of pension valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster Inc. working on valuations of the program has any direct financial interest or indirect material interest in the city of Austin, nor does anyone at Foster & Foster Inc. act as a member of the Board of Trustees of the Austin Firefighters' Relief and Retirement Fund. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact me at 239-433-5500.

Respectfully submitted,

Foster & Foster Inc.

By: 
Bradley R. Heinrichs, FSA, EA, MAAA
Enrolled Actuary #11-6901

BRH/rv

Enclosures

SUMMARY OF REPORT

The regular annual actuarial valuation of the Austin Firefighters' Relief and Retirement Fund, performed as of December 31, 2011, has been completed and the results are presented in this Report.

The pension costs, compared with those developed in the December 31, 2009 actuarial valuation performed by Buck Consultants, are as follows:

Valuation Date	<u>12/31/11</u>	<u>12/31/09</u>
Normal Cost % of Total Annual Payroll	31.25%	30.22%
Expected Member Contributions * % of Total Annual Payroll	16.33%	15.70%
City Normal Cost Rate % of Total Annual Payroll	14.92%	14.52%
Funding Period To Amortize UAAL * (expressed in number of years)	20.91	20.50


* A detailed list of the currently scheduled contribution rates for the City and Members can be found on page 10.

This is our first actuarial valuation performed for the Austin Firefighters' Relief and Retirement Fund. Since much of the historical data typically shown in our report is not readily available, we are not able to provide all of the information we would like to include. As a result, we have shown an "N/A" where the data was not available. In future years, the N/A's will be replaced with actual results.

The balance of this Report presents additional details of the actuarial valuation and the general operation of the Fund. The undersigned would be pleased to meet with the Board of Trustees in order to discuss the Report and any pending questions concerning its contents.

Respectfully submitted,

FOSTER & FOSTER INC.

By: 
Bradley R. Heinrichs, FSA, EA, MAAA

Fund Changes Since Prior Valuation

Since the prior valuation, an Act was adopted that outlines a schedule for increasing the contribution requirements for both the City and the Members of the Fund. A detailed listing of the scheduled contribution requirements can be found on page 10 of the report.

Additionally, the Board recently adopted a resolution to the Fund providing that all retirees and surviving spouses who are currently receiving normal service retirement or disability benefits that initially commenced prior to January 1, 1994, shall be entitled to receive a benefit that is not less than \$2,000 per month, effective July 1, 2012. Please also note that any future surviving spouse that is predeceased by a retiree as classified above shall also be entitled to receive a benefit that is not less than \$2,000 per month.

It is our opinion that the amount necessary to fund the above stated cost-of-living adjustment will not impair the Fund's financial stability in compliance with Section 9.04 of the Fund Statutes.

Actuarial Assumption/Method Changes Since Prior Valuation

There has been no change in assumptions or methods since the prior valuation.

Comparative Summary of Principal Valuation Results

	New Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2009</u>
A. Participant Data			
Actives	955	955	1,025
Service Retirees + DROP	464	464	451
Beneficiaries	79	79	74
QDRO **	31	31	N/A
Disability Retirees **	17	17	N/A
Terminated Vested	5	5	5
Total	<u>1,551</u>	<u>1,551</u>	<u>1,555</u>
Total Annual Payroll	82,078,344	82,078,344	78,979,991
Payroll Under Assumed Ret. Age	76,700,157	76,700,157	78,979,991
Annual Rate of Payments to:			
Service Retirees **	23,785,865	23,784,383	N/A
Beneficiaries **	2,465,151	2,389,497	N/A
QDRO **	560,444	560,444	N/A
Disability Retirees **	597,611	593,166	N/A
Terminated Vested **	157,112	157,112	N/A
B. Assets			
Actuarial Value	651,557,181	651,557,181	589,261,001
Market Value	581,534,268	581,534,268	530,927,802
C. Liabilities			
Present Value of Benefits **			
Active Members			
Retirement Benefits	632,248,298	632,248,298	N/A
Vested Benefits	1,176,529	1,176,529	N/A
Death Benefits	7,360,590	7,360,590	N/A
Disability Benefits	19,489,678	19,489,678	N/A
Refund of Contributions	609,752	609,752	N/A
Service Retirees + DROP	284,795,266	284,768,102	N/A
Beneficiaries	18,254,676	17,829,606	N/A
QDRO	6,380,958	6,380,958	N/A
Disability Retirees	5,358,264	5,254,061	N/A
Terminated Vested	1,374,992	1,374,992	N/A
Total	<u>977,049,003</u>	<u>976,492,566</u>	<u>895,123,489</u>

* Liabilities shown represent present value of future payments.

** The December 31, 2009 actuarial valuation report provided by Buck Consultants does not include this specific information

	New Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2009</u>
C. Liabilities - (Continued)			
Present Value of Future Salaries	769,821,490	769,821,490	764,130,719
Normal Cost (Entry Age Normal) *			
Retirement Benefits	21,379,598	21,379,598	N/A
Vested Benefits	97,589	97,589	N/A
Death Benefits	483,882	483,882	N/A
Disability Benefits	987,590	987,590	N/A
Refund of Contributions	124,340	124,340	N/A
Total Normal Cost	<u>23,072,999</u>	<u>23,072,999</u>	<u>23,867,753</u>
Present Value of Future Normal Costs	230,905,824	230,905,824	230,938,249
Actuarial Accrued Liability *			
Retirement Benefits	417,043,200	417,043,200	N/A
Vested Benefits	544,051	544,051	N/A
Death Benefits	2,746,603	2,746,603	N/A
Disability Benefits	9,533,803	9,533,803	N/A
Refund of Contributions	111,366	111,366	N/A
Inactives	316,164,156	315,607,719	N/A
Total Actuarial Accrued Liability	<u>746,143,179</u>	<u>745,586,742</u>	<u>664,185,240</u>
Unfunded Actuarial Accrued Liability (UAAL)	94,585,998	94,029,561	74,924,239
D. Actuarial Present Value of Accrued Benefits			
Vested Accrued Benefits *			
Inactives	316,164,156	315,607,719	N/A
Actives	109,222,800	109,222,800	N/A
Member Contributions	<u>169,240,637</u>	<u>169,240,637</u>	<u>N/A</u>
Total	594,627,593	594,071,156	N/A
Non-vested Accrued Benefits *	19,151,050	19,151,050	N/A
Total Present Value Accrued Benefits *	<u>613,778,643</u>	<u>613,222,206</u>	<u>N/A</u>

* The December 31, 2009 actuarial valuation report provided by Buck Consultants does not include this specific information

Valuation Date	New Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2009</u>
E. Pension Cost			
Normal Cost % of Total Annual Payroll*	31.25	31.25	30.22
Expected Member Contributions *** % of Total Annual Payroll*	16.33	16.33	15.70
City Normal Cost Rate % of Total Annual Payroll*	14.92	14.92	14.52
Funding Period to Amortize UAAL **	20.91 years	20.75 years	20.5 years

F. 30-Year Funding Cost

Normal Cost % of Total Annual Payroll*	31.25	31.25	30.22
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 30 years % of Total Annual Payroll*	7.21	7.17	5.54
Total 30-Year Funding Cost % of Total Annual Payroll*	38.46	38.42	35.76

* Contributions developed as of 12/31/11 are expressed as a percentage of projected payroll under assumed retirement age at 12/31/11 of \$76,700,157 and assumed to be made mid-year

** The City is currently scheduled to make annual contributions to the Fund as follows:
 20.05% of total payroll from 10/1/2011 to 9/30/2012
 21.05% of total payroll beginning 10/1/2012 and for 24 pay dates thereafter
 22.05% of total payroll beginning with the 25th pay date of the 2013 fiscal year

*** Active Members are currently scheduled to make regular contributions to the Fund as follows:
 16.20% of Compensation from 10/1/2011 to 9/30/2012
 16.70% of Compensation from 10/1/2012 to 9/30/2013
 17.20% of Compensation from 10/1/2013 to 9/30/2014
 17.70% of Compensation from 10/1/2014 to 9/30/2015
 18.20% of Compensation from 10/1/2015 to 9/30/2016
 18.70% of Compensation on and after 10/1/2016

Valuation Date	New Benefits <u>12/31/2011</u>	Old Benefits <u>12/31/2011</u>
G. Two-Year Projection of Funding Period to Amortize UAAL		
Normal Cost Rate % of Total Annual Payroll	31.26	31.26
City Contribution Rate (Fiscal 2014) % of Total Annual Payroll	22.05	22.05
Member Contribution Rate (Fiscal 2014) % of Total Annual Payroll	17.33	17.33
City Normal Cost Rate % of Total Annual Payroll	13.93	13.93
Projected Funding Period to Amortize UAAL (as of December 31, 2013)	25.00 years	24.79 years

Statement by Enrolled Actuary

This actuarial valuation was prepared and completed by me or under my direct supervision, and I acknowledge responsibility for the results. To the best of my knowledge, the results are complete and accurate, and in my opinion, the techniques and assumptions used are reasonable and meet the requirements and intent of the Texas Local Fire Fighters' Retirement Act (TLFFRA), Vernon's Texas Civil Statutes, and adhere to the Actuarial Standards of Practice. There is no benefit or expense to be provided by the plan and/or paid from the plan's assets for which liabilities or current costs have not been established or otherwise taken into account in the valuation. All known events or trends which may require a material increase in plan costs or required contribution rates have been taken into account in the valuation.



Bradley R. Heinrichs, FSA, EA, MAAA
Enrolled Actuary #11-6901

ACTUARIAL ASSUMPTIONS AND FUNDING METHODS

<u>Mortality Rates – Healthy Lives</u>	RP2000 (Fully Generational) set back two years for males and females -- Sex Distinct.
<u>Mortality Rates – Disabled Lives</u>	RP2000 Disability Mortality Table
<u>Retirement Age</u>	See table below.
<u>Termination Rates</u>	See table on next page.
<u>Disability Rates</u>	See table on next page.
<u>Interest Rate</u>	7.75% per year, compounded annually, net of investment related expenses.
<u>Salary Increases</u>	See table on next page.
<u>Inflation (Payroll Growth)</u>	3.5% per year for amortization of the Unfunded Actuarial Accrued Liability.
<u>Funding Method</u>	Entry Age Normal Actuarial Cost Method
<u>Marital Status</u>	100% of actives are assumed to be married at time of benefit commencement

Retirement Rates

<u>Number of Years After First Eligibility For Early Retirement</u>	<u>Probability of Normal Retirement</u>
0	6.0%
1	2.0%
2	2.0%
3	2.0%
4	2.0%
5	5.0%
6	10.0%
7	10.0%
8	10.0%
9	15.0%
10	15.0%
11	15.0%
12	15.0%
13	30.0%
14	50.0%
15	100.0%

ACTUARIAL ASSUMPTIONS AND FUNDING METHODS
(Continued)

Termination Rates

<u>Years of Service</u>	<u>% of Active Members Separating Within Next Year</u>
0	1.5%
5	0.9%
10	0.6%
15	0.1%
20	0.0%

Disability Rates

<u>Age</u>	<u>% Becoming Disabled During the Year</u>
20	0.014%
25	0.019%
30	0.031%
35	0.052%
40	0.092%
45	0.209%
50	0.379%
55	0.490%
60	0.911%

% Increase in Salary*

<u>Years of Service</u>	<u>Increase</u>
0	9.28%
1	13.10%
2	12.73%
3	1.0%
4	1.0%
5	6.0%
10	1.0%
15	1.0%
20	6.0%
25	1.0%
30	1.0%

* Expected increase in salary in addition to inflation assumption

VALUATION NOTES

Total Annual Payroll is the projected annual rate of pay as of the valuation date of all covered Members.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees and Vested Terminations.

Normal (Current Year's) Cost is determined for each participant as the present value of future benefits, determined as of the Member's entry age, amortized as a level percentage of compensation over the anticipated number of years of participation, determined as of the entry age.

Individual Entry Age Normal Actuarial Cost Method (Level Percent of Compensation) is the method used to determine required contributions under the Fund. The use of this method involves the systematic funding of the Normal Cost (described above) and the Unfunded Accrued (Past Service) Liability. The actuarial accrued liability for active participants is the difference between the present value of future benefits and the present value of future Normal Costs. The actuarial accrued liability for inactive participants is the present value of future benefits.

Unfunded Actuarial Accrued Liability (UAAL) is the difference between the actuarial accrued liability (described above) and the actuarial value of assets.

Austin FireFighters'
Relief and Retirement Fund

BALANCE SHEET
December 31, 2010

<u>ASSETS</u>	COST VALUE	MARKET VALUE
Cash and Cash Equivalents:		
Property, Furniture & Equipment	302,239.01	302,239.01
Checking Account - Expenses	184,793.24	184,793.24
Checking Account - Benefits	496,684.37	496,684.37
Pending Trades Payable	(34,538.94)	(34,538.94)
Cash	7,643,707.37	7,643,707.37
 Total Cash and Equivalents	 8,592,885.05	 8,592,885.05
Receivable:		
Accrued Income	423,623.53	423,623.53
 Total Receivable	 423,623.53	 423,623.53
Investments:		
State Street Securities	531,731,956.03	593,345,116.77
 Total Investments	 531,731,956.03	 593,345,116.77
 TOTAL ASSETS	 540,748,464.61	 602,361,625.35
 <u>LIABILITIES AND NET ASSETS</u>		
Total Liabilities	0.00	0.00
Net Assets:		
Active and Retired Members' Equity	540,748,464.61	602,361,625.35
 Total Net Assets	 540,748,464.61	 602,361,625.35
 TOTAL LIABILITIES AND NET ASSETS	 540,748,464.61	 602,361,625.35

Austin FireFighters'
Relief and Retirement Fund

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2010
Market Value Basis

INCOME		
Contributions:		
Member	11,866,663.40	
City	13,847,406.21	
Total Contributions		25,714,069.61
Earnings from Investments		
Interest & Dividends	13,894,762.98	
Miscellaneous Income	3,127,807.29	
Net Realized Gain (Loss)	54,898,491.16	
Unrealized Gain (Loss)	5,597,397.40	
Total Earnings and Investment Gains		77,518,458.83
EXPENSES		
Administrative Expenses:		
Investment Related*	2,482,626.43	
Other	776,215.85	
Total Expenses		3,258,842.28
Distributions to Members:		
Benefit Payments	24,641,781.12	
Lump Sum DROP Balances	3,898,081.69	
Termination Payments	0.00	
Total Distributions		28,539,862.81
Change in Net Assets for the Year		71,433,823.35
Net Assets Beginning of the Year		530,927,802.00
Net Assets End of the Year		602,361,625.35

*Investment Related expenses include investment advisory, custodial and performance monitoring fees.

Austin FireFighters'
Relief and Retirement Fund

ACTUARIAL ASSET VALUATION
December 31, 2010

Actuarial Assets are developed by recognizing 20% of the investment gain or loss, after taking into consideration contributions, benefit payments, and the expected investment earnings. The actuarial investment gain or loss is defined as the actual Market Value of Assets minus the expected Actuarial Value of Assets. The Actuarial Value used for funding purposes cannot exceed 120% or be less than 80% of the Market Value of Assets.

Development of Investment Gain/Loss

Market Value of Assets, 12/31/2009	530,927,802
Actuarial Value of Assets, 12/31/2009	589,261,001
Contributions Less Benefit Payments	(2,825,793)
Expected Investment Earnings on Actuarial Value*	<u>45,558,228</u>
Expected Actuarial Value of Assets (AVA), 12/31/2010	631,993,436
Actual Market Value of Assets (MVA), 12/31/2010	602,361,625
Excess/(Shortfall) of Actual MVA over Expected AVA	(29,631,810)

*Expected Investment Earnings = 0.0775 * (589,261,001 - .5 * 2,825,793)

Development of Actuarial Value of Assets

Expected Actuarial Value of Assets, 12/31/2010	631,993,436
Adjustment to Expected Value (20% of Excess/(Shortfall))	<u>(5,926,362)</u>
Actuarial Value of Assets, 12/31/2010	626,067,074

(A) 12/31/2009 Actuarial Assets 589,261,001

(I) Net Investment Income:

1. Interest and Dividends	17,022,570
2. Realized Gains (Losses)	54,898,491
3. Change in Actuarial Value	(29,030,353)
4. Investment and Administrative Expenses	<u>(3,258,842)</u>
Total	39,631,866

(B) 12/31/2010 Actuarial Assets 626,067,074

Actuarial Assets Rate of Return = 2I/(A+B-I):	6.7%
Market Value of Assets Rate of Return:	14.2%

12/31/10 Limited Actuarial Assets	626,067,074
(Lesser of Actuarial Assets or 120% of Market Value)	

Austin FireFighters'
Relief and Retirement Fund

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2010
Actuarial Asset Basis

INCOME		
Contributions:		
Member	11,866,663.40	
City	13,847,406.21	
Total Contributions		25,714,069.61
Earnings from Investments		
Interest & Dividends	13,894,762.98	
Miscellaneous Income	3,127,807.29	
Net Realized Gain (Loss)	54,898,491.16	
Change in Actuarial Value	(29,030,353.24)	
Total Earnings and Investment Gains		42,890,708.19
EXPENSES		
Administrative Expenses:		
Investment Related*	2,482,626.43	
Other	776,215.85	
Total Administrative Expenses		3,258,842.28
Distributions to Members:		
Benefit Payments	24,641,781.12	
Lump Sum DROP Balances	3,898,081.69	
Termination Payments	0.00	
Total Distributions		28,539,862.81
Change in Net Assets for the Year		36,806,072.71
Net Assets Beginning of the Year		589,261,001.00
Net Assets End of the Year**		626,067,073.71

*Investment Related expenses include investment advisory, custodial and performance monitoring fees.

**Net Assets may be limited for actuarial consideration

Austin FireFighters'
Relief and Retirement Fund

BALANCE SHEET
December 31, 2011

<u>ASSETS</u>	COST VALUE	MARKET VALUE
Cash and Cash Equivalents:		
Property, Furniture & Equipment	302,239.01	302,239.01
Checking Account - Expenses	129,721.45	129,721.45
Checking Account - Benefits	428,165.35	428,165.35
Pending Trades Payable	(79,257.60)	(79,257.60)
Cash	(465,995.17)	(465,995.17)
 Total Cash and Equivalents	 314,873.04	 314,873.04
Receivable:		
Accrued Income	391,372.62	391,372.62
 Total Receivable	 391,372.62	 391,372.62
Investments:		
State Street Securities	575,373,862.28	580,828,022.52
 Total Investments	 575,373,862.28	 580,828,022.52
 TOTAL ASSETS	 576,080,107.94	 581,534,268.18
 <u>LIABILITIES AND NET ASSETS</u>		
Total Liabilities	0.00	0.00
Net Assets:		
Active and Retired Members' Equity	576,080,107.94	581,534,268.18
 Total Net Assets	 576,080,107.94	 581,534,268.18
 TOTAL LIABILITIES AND NET ASSETS	 576,080,107.94	 581,534,268.18

Austin FireFighters'
Relief and Retirement Fund

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2011
Market Value Basis

REVENUES		
Contributions:		
Member	11,961,097.87	
City	14,583,154.33	
Total Contributions		26,544,252.20
Earnings from Investments		
Interest & Dividends	13,070,199.72	
Miscellaneous Income	108,077.69	
Net Realized Gain (Loss)	30,430,425.73	
Unrealized Gain (Loss)	(56,159,000.50)	
Total Earnings and Investment Gains		(12,550,297.36)
EXPENDITURES		
Expenses:		
Investment Related*	2,448,433.71	
Administrative	510,347.07	
Total Expenses		2,958,780.78
Distributions to Members:		
Benefit Payments	26,527,786.90	
Lump Sum DROP Balances	4,700,800.03	
Termination Payments	633,944.30	
Total Distributions		31,862,531.23
Change in Net Assets for the Year		(20,827,357.17)
Net Assets Beginning of the Year		602,361,625.35
Net Assets End of the Year		581,534,268.18

*Investment Related expenses include investment advisory, custodial and performance monitoring fees.

Austin FireFighters'
Relief and Retirement Fund

ACTUARIAL ASSET VALUATION
December 31, 2011

Actuarial Assets are developed by recognizing 20% of the investment gain or loss, after taking into consideration contributions, benefit payments, and the expected investment earnings. The actuarial investment gain or loss is defined as the actual Market Value of Assets minus the expected Actuarial Value of Assets. In addition, the Actuarial Value used for funding purposes cannot exceed 120% or be less than 80% of the Market Value of Assets.

Development of Investment Gain/Loss

Market Value of Assets, 12/31/2010	602,361,625
Actuarial Value of Assets, 12/31/2010	626,067,074
Contributions Less Benefit Payments	(5,318,279)
Expected Investment Earnings on Actuarial Value*	48,314,115
Expected Actuarial Value of Assets (AVA), 12/31/2011	669,062,910
Actual Market Value of Assets (MVA), 12/31/2011	581,534,268
Excess/(Shortfall) of Actual MVA over Expected AVA	(87,528,642)

*Expected Investment Earnings = $0.0775 * (626,067,074 - .5 * 5,318,279)$

Development of Actuarial Value of Assets

Expected Actuarial Value of Assets, 12/31/2011	669,062,910
Adjustment to Expected Value (20% of Excess/(Shortfall))	(17,505,728)
Actuarial Value of Assets, 12/31/2011	651,557,181

(A) 12/31/2010 Actuarial Assets 626,067,074

(I) Net Investment Income:

1. Interest and Dividends	13,178,277
2. Realized Gains (Losses)	30,430,426
3. Change in Actuarial Value	(9,841,536)
4. Investment and Administrative Expenses	(2,958,781)
Total	30,808,387

(B) 12/31/2011 Actuarial Assets 651,557,181

Actuarial Assets Rate of Return = $2I/(A+B-I)$:	4.9%
Market Value of Assets Rate of Return:	-2.5%

12/31/11 Limited Actuarial Assets	651,557,181
(Lesser of Actuarial Assets or 120% of Market Value)	

Austin FireFighters'
Relief and Retirement Fund

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2011
Actuarial Asset Basis

REVENUES		
Contributions:		
Member	11,961,097.87	
City	14,583,154.33	
Total Contributions		26,544,252.20
Earnings from Investments		
Interest & Dividends	13,070,199.72	
Miscellaneous Income	108,077.69	
Net Realized Gain (Loss)	30,430,425.73	
Change in Actuarial Value	(9,841,535.66)	
Total Earnings and Investment Gains		33,767,167.48
EXPENDITURES		
Expenses:		
Investment Related*	2,448,433.71	
Administrative	510,347.07	
Total Expenses		2,958,780.78
Distributions to Members:		
Benefit Payments	26,527,786.90	
Lump Sum DROP Balances	4,700,800.03	
Termination Payments	633,944.30	
Total Distributions		31,862,531.23
Change in Net Assets for the Year		25,490,107.67
Net Assets Beginning of the Year		626,067,073.71
Net Assets End of the Year**		651,557,181.38

*Investment Related expenses include investment advisory, custodial and performance monitoring fees.

**Net Assets may be limited for actuarial consideration

STATISTICAL DATA

	<u>12/31/2011</u>
Actives	955
Average Current Age	42.8
Average Age at Employment	27.5
Average Past Service	15.3
Average Annual Salary	\$85,946

* Foster & Foster does not have enough historical data to include data prior to 10/1/2011.
We will add historical data going forward

AGE AND SERVICE DISTRIBUTION

PAST SERVICE

AGE	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+	Total
15 - 19	0	0	0	0	0	0	0	0	0	0	0	0
20 - 24	0	0	2	0	0	0	0	0	0	0	0	2
25 - 29	0	0	14	0	13	4	0	0	0	0	0	31
30 - 34	0	0	24	0	48	41	14	0	0	0	0	127
35 - 39	0	0	10	0	28	68	58	13	0	0	0	177
40 - 44	0	0	1	0	11	48	68	87	7	0	0	222
45 - 49	0	0	0	0	0	4	23	70	74	25	0	196
50 - 54	0	0	0	0	0	0	0	7	57	72	12	148
55 - 59	0	0	0	0	0	0	0	0	3	28	16	47
60 - 64	0	0	0	0	0	0	0	0	0	0	5	5
65+	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	51	0	100	165	163	177	141	125	33	955

AUSTIN FIREFIGHTERS'
RELIEF AND RETIREMENT FUND
SUMMARY OF BENEFIT PROVISIONS

<u>Service</u>	Total years and completed months during which a Member makes contributions to the Fund.
<u>Average Monthly Compensation</u>	Average Salary for the highest 36 months of service.
<u>Member Contributions</u>	16.20% of Salary (as of 12/31/2011).
<u>City Contributions</u>	20.05% (as of 12/31/2011).
<u>Normal Retirement</u>	
Date	Earlier of age 50 and 10 years of Service, or 25 years of Service, regardless of age.
Benefit	3.30% of Average Monthly Compensation <u>times</u> Service (\$1,200 minimum).
Form of Benefit	<u>Married</u> : Life Annuity with 75% continued to Surviving Spouse <u>Single</u> : Life Annuity
<u>Early Retirement</u>	
Date	Earlier of age 45 and 10 years of Service, or 20 years of Service, regardless of age.
Benefit	Same for Normal Retirement as shown above. Members who retire under Early Retirement are not eligible to receive any COLA adjustments until the date they would have met Normal Retirement eligibility requirements.

Vesting

Schedule	100% after 10 years of Service.
Benefit Amount	Member will receive his (her) accrued benefit payable at age 50 or the date they would have completed 25 years of Service had they remained employed. Non-vested members receive a refund of member contributions accumulated with 5.0% interest.

Disability

Eligibility	Disability preventing the Member from performing the duties of a firefighter during the two and one-half years after becoming disabled or any employment after the two and one-half years after becoming disabled.
Benefit	Accrued benefit at date of disability, but not less than 66% of Average Monthly Compensation.
Form of Benefit	<u>Married</u> : Life Annuity with 75% continued to Surviving Spouse <u>Single</u> : Life Annuity

Death Benefits

Surviving Spouse of Member:	75% of Member's accrued benefit at date of death, but not less than 49.5% of Average Monthly Compensation.
Dependent Children of Member: (with Surviving Spouse)	Each child is entitled to 15% of the payment paid to the surviving spouse as shown directly above.
Dependent Children of Member: (with no Surviving Spouse)	75% of the payment that would have been paid to a surviving spouse as shown above, split equally among each dependent child.

Cost of Living Adjustment

Eligibility

Normal Retirement.

Amount

Determined by the actuary if providing a COLA will not impair financial stability of the Fund.

DISCLOSURE INFORMATION PER STATEMENT NO. 25 OF THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The schedule provided below has been prepared in accordance with the requirements
of paragraph 37 of Statement No. 25 of the Governmental Accounting Standards Board.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/11	651,557,181	746,143,179	94,585,998	87.32%	76,700,157	123.32%
12/31/09	589,261,001	664,185,240	74,924,239	88.72%	78,979,991	94.86%
12/31/07	584,419,830	586,802,156	2,382,326	99.59%	76,556,061	3.11%

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The schedule provided below has been prepared in accordance with the requirements
of paragraph 38 of Statement No. 25 of the Governmental Accounting Standards Board.

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution (% of Pay)	City Contribution (% of Pay)	Percentage Contributed
2011	20.06%	19.30%	96.21%
2010	20.06%	18.30%	91.23%
2009	13.32%	18.05%	135.51%

PENSION PLAN GUIDE

GOVERNING PENSION LAW

The pension plan was established by an Act of the 45th Legislature of the State of Texas, which met in 1937. The fund was created by state statute article 6243e and the Austin Firefighters Relief and Retirement Fund is currently governed by article 6243e.1. This statute only pertains to the Austin firefighters.

ADMINISTRATION

The fund is administered by a Board of Trustees consisting of five (5) members. The Mayor is the Board Chairman and the City Treasurer is the Secretary-Treasurer of the Board. Members of the fund elect three (3) department members to serve on the Board. The Board elects a Vice-Chairman annually from among their number.

An administrative pension office and staff have been established to better serve the firefighters, retirees, and their beneficiaries. Administrative costs and expenses for professional services rendered are paid by the fund.

INVESTMENT OF FUNDS

The Board is required by law to keep separate from all other city funds all money for the use and benefit of the Firefighters Relief and Retirement Fund. The Board has hired an investment consultant, Summit Strategies, who assists the pension board with the development, enhancement, and monitoring of the plan's investment policies and guidelines. They also assist the Board in researching investment managers and making recommendations in the selection of such investment managers. Surplus pension funds are then invested by these professional investment managers as selected by the pension board.

The fund has an investment custody account agreement with State Street designating them as the master trust custodian for the pension fund. State Street's home office is in Boston, Massachusetts and also has divisions in Winston-Salem, North Carolina, Jacksonville, Florida, and Kansas City, Missouri, which all provide various key services to the fund.

ELIGIBILITY

All commissioned civil service and Texas state-certified firefighters with at least six (6) months of service who are employed by the fire department pursuant to the Firemen's and Policemen's Civil Service Statute.

CONTRIBUTIONS

Per our statute, the firefighter is to contribute 15.70% of their bi-weekly base pay and longevity pay. The City of Austin's pension contributions will increase from 18.05% of salary to 22.05% in a total of four 1% increments by the year 2013. The firefighters' contributions will increase from 15.70% of salary to 18.70% in a total of six ½% increments by the year 2016.

SERVICE CONSIDERED

The period of time for which a member is required to make and does make prescribed contributions. Military service, only which interrupts fire department service, may also be considered under certain circumstances.

COMPENSATION CONSIDERED IN DETERMINING AVERAGE SALARY

Base pay and longevity pay is considered. Overtime, any temporary pay in a higher classification, educational incentive pay, and lump sum payments for accrued sick leave or vacation are not considered.

RETIREMENT BENEFIT

A firefighter is eligible for a normal service retirement benefit once he/she either attains age fifty (50) or accrues twenty-five (25) years of service, regardless of age. The monthly annuity, payable for life, is 3.30% of salary multiplied by years of service considered. Average salary is the monthly average of the firefighter's salary for the highest thirty-six (36) months during his/her period of service, excluding overtime pay, any temporary pay in higher classifications, educational incentive pay, Christmas Day bonus pay, automobile and clothing allowances.

EARLY RETIREMENT BENEFIT

A firefighter is eligible for an early retirement benefit at age forty-five (45), with at least (10) years of service, or twenty (20) years of service regardless of age. The early retirement benefit does not include a reduction in the factor. However, firefighters who retire early or who participate in a deferred retirement option plan (DROP), do not become eligible for cost-of-living adjustments (COLA's) until reaching normal service retirement eligibility at age fifty (50) with at least ten (10) years of service, or twenty-five (25) years of service credit regardless of age; whichever comes first.

DEFERRED RETIREMENT OPTION PLAN

Under this program a member eligible for service retirement may elect to continue in active service as a firefighter but have the fund begin crediting "payments" to a deferred retirement option plan (DROP) account in the member's name as of their eligible retirement (DROP) date. The monthly "payments" would be an amount equal to what the member's monthly annuity would have been if the member had actually retired as of that eligible DROP date. Any eligible cost-of-living adjustments (COLAS) would be applied to the monthly annuity during this DROP period. In addition, during the DROP period, the member would have all of their appropriate pension contributions and applicable annual interest of 5% compounded monthly credited to their account during the DROP period as well. When the member actually retires, by terminating their active service in the fire department, an accumulated lump sum balance may be available to be distributed to the member from the DROP account if the retiree is eligible for such direct distribution by meeting age requirements according to pension board policy. Certain penalties could apply for "early distributions," so the pension board encourages seeking tax advisement when in doubt. The DROP account lump sum may also be "rolled over" into a qualified Individual Retirement Account (IRA) which is typically the option chosen by most firefighters. A third option is for the DROP account lump sum to remain in the fund in the member's name continuing to draw 5% interest compounded monthly until the retiree is ready to have the funds moved elsewhere. At this time of termination for retirement, the member will then begin receiving their ongoing monthly pension benefit payments from the fund as well.

A member who has remained in active service after becoming eligible for service retirement can retroactively establish such a DROP account. That is, in lieu of electing to participate in the DROP before actual retirement, a member who is eligible for normal service retirement may elect to terminate active service as a firefighter and establish the DROP account at termination. This is commonly referred to as a "BACK DROP," whereby the firefighter's DROP account reflects the accrual from the actual termination date back to a date upon or after which they become eligible for normal service retirement. The maximum period under which a firefighter can participate in a DROP is 7 years. A firefighter may elect to establish a DROP account after reaching normal or early service retirement eligibility.

Effective September 1, 2001 all DROP calculations, including "BACK DROP" calculations, have used a 3.30% factor regardless of the actual DROP date. Any firefighter eligible for a DROP who dies before retirement, and who is survived by a spouse, shall have such DROP options extended to their surviving spouse.

DISABILITY BENEFIT

A firefighter is eligible for a disability retirement benefit during the first thirty (30) months of his/her disability if he/she is unable to perform the duties of his/her occupation as a firefighter. After this initial thirty (30) month period, a disability retirement benefit may be continued, reduced, or discontinued according to criteria as established by the American Medical Association and as adopted by the pension board. The annuity is equal to the firefighter's accrued unreduced pension based on the greater of (1) his/her service at time of disability, or (2) twenty (20) years of service.

It is the policy of the Board that no disability retirement benefit shall commence retroactively more than ninety (90) days prior to the date on which the application is filed with the fund.

DEATH BENEFIT

If a firefighter dies either before or after retirement, the firefighter's surviving spouse shall receive seventy-five (75) percent of the member's accrued unreduced pension based on the greater of (1) his/her service at time of death, or (2) twenty (20) years of service. If the member's employment is terminated by death before retirement and he/she leaves no surviving beneficiary entitled to pension benefits, then the member's estate shall receive their contributions with interest. Any lump sum payments to the member's estate will include 5% interest based on a method of application approved by the Board.

VESTED BENEFIT

If the member has at least ten (10) years of service and terminated his/her employment with the fire department, he/she may elect to leave his/her accumulated deposits in the fund. He/She will be entitled to a vested benefit commencing at the earliest of age fifty (50) or at the age which the firefighter would have completed twenty-five (25) years of service regardless of age, whichever occurs first.

SEVERANCE

The severance benefit of a firefighter who subsequently terminates his/her employment before he/she is eligible for retirement shall be an amount equal to the sum total of his/her pension contributions, with interest, which were made while a participating member of the fund.

Severance benefits for such terminating members will include their contributions along with 5% interest and will be based on a method of application approved by the Board.

COST-OF-LIVING ADJUSTMENTS

Cost-of-living adjustments (COLA's) may not be made unless the fund's actuary has advised the pension board that the adjustment would not impair the financial stability of the fund.

Although a COLA has not been able to be actuarially approved consistently in recent years, the pension board remains committed to granting COLA's to retirees as soon as reserves are available and following actuarial certification.

BEFORE-TAX CONTRIBUTIONS

Funds available to pay benefits come from three (3) sources....

- Your contributions
- City of Austin contributions, and
- Investment earnings

You contribute 15.70% of your bi-weekly base pay and longevity pay. The City of Austin contributes 18.05% of base pay and longevity pay for each plan participant (increasing to 22.05% by 2013). For example, if your annual pay is \$40,000.00, you will contribute \$6,280.00 (15.70%) a year and the City of Austin will contribute \$7,220.00 (18.05%). Since January 1, 1986, your contributions into the plan are being made before taxes are figured. This reduces your taxable income, so you pay less federal income tax and your take-home pay is greater. An example follows:

	<u>BEFORE TAX</u>	<u>AFTER TAX</u>
Assume your pay is	\$40,000.00	\$40,000.00
Pre-Tax Contributions	-6,280.00	-0.00
Federal Taxes (Assume 15% bracket)	<u>-5,058.00</u>	<u>-6,000.00</u>
	\$28,662.00	\$34,000.00
After-Tax Contributions	<u>- .00</u>	<u>-6,280.00</u>
Take Home Pay	\$28,662.00	\$27,720.00

RETIREMENT BENEFIT EXAMPLE

Your retirement benefit is based upon three (3) components...

- Years of credited service in plan, multiplied by
- Retirement factor of 3.30%, multiplied by
- Your highest thirty-six (36) months average salary

Assume you are a retiring firefighter who is fifty-five (55) years old with twenty-seven (27) years of credited service, and whose highest thirty-six (36) months average salary is \$4,000.00. Your pension would be calculated as follows:

- Years	27
- Factor	3.30%
- Salary	\$4,000.00
- Monthly Benefit	<u>\$3,564.00</u>

EARLY RETIREMENT BENEFIT EXAMPLE

A firefighter is eligible for an early retirement benefit at age forty-five (45), with at least ten (10) years of service, or twenty (20) years of credited service regardless of age. The early retirement benefit does not include a reduction in the factor. However, firefighters who retire early or who participate in a deferred retirement option plan (DROP) do not become eligible for cost-of-living adjustments (COLA's) until reaching normal service retirement eligibility (age fifty (50) with at least (10) years of service, or twenty-five (25) years of service regardless of age; whichever comes first).

Assume you joined the fire department and pension plan at age twenty-five (25). At age forty-five (45), with twenty (20) years of service, you elect to terminate service in order to begin receiving an early retirement benefit. Also assume your highest thirty-six (36) months average salary is \$4,000.00. The benefit is then calculated as follows:

- Years	20
- Factor	3.30%
- Salary	<u>\$4,000.00</u>
- Monthly Retirement Benefit	<u>\$2,640.00</u>

DISABILITY RETIREMENT EXAMPLE

If a firefighter is eligible for disability benefits but has less than twenty (20) years of credited service, then twenty (20) years is used in the calculation. A disability benefit is calculated the same way a regular retirement benefit is, using the same three (3) components as follows:

- Years (assume 20 if less)	20
- Factor	3.30%
- Salary (assumed)	<u>\$3,000.00</u>
- Monthly Disability	<u>\$1,980.00</u>

SURVIVORS BENEFIT

Benefits are available to eligible dependents of all plan participants should such participant die before or after retirement. Eligible dependents include...

- Spouse, if married to you at time of retirement.
- Spouse, if married to you after retirement and you remained married for at least 24 consecutive months prior to your death.
- Spouse, if married to you at time of your death; and you die before retirement.
- All unmarried children under age twenty-two (22), unless the Board determines to the contrary.
- Dependent parent, if no surviving spouse or children are eligible.
- Designated surviving beneficiaries other than a spouse, child, or dependent parent as explained below.

Effective September 1, 2001, on the death of unmarried members who are retired or who are eligible to retire, designated beneficiaries other than an eligible spouse or children are eligible for survivor benefits; but only if there is no benefit payable to a surviving spouse or children. Since September 1, 1997, eligible spousal benefits are paid for life even after remarriage. Also since September 1, 1997, as mentioned above, spousal benefits apply to those who become married to the retiree after such retiree's retirement and remain married to such retiree at least 24 consecutive months prior to the retiree's death.

After all payments cease any remaining balance of the member's total contributions including interest at the date of the member's death, which exceeds any retirement and death benefits paid, shall go to the member's estate.

SURVIVORS BENEFIT EXAMPLE

Assume you are retired drawing \$3,564.00 per month and pass away, leaving a spouse who is eligible for benefits and have no children. Your spouse will receive seventy-five (75) percent of your benefit as follows:

SURVIVORS BENEFIT EXAMPLE (Continued)

- Your monthly benefit	\$3,564.00
	<u>X 75.00 %</u>
- Your spouse's monthly benefit	\$2,673.00

Assume you pass away before retirement and you are survived by an eligible spouse and child. Suppose your average salary for the highest thirty-six (36) months averaged \$4,000.00, and you had eight (8) years of service at the time of death.

You first calculate the benefit you would have been entitled to at the date of death and then determine the appropriate amount to be paid to your spouse and child.

Your benefit would have been...

- Years (assume 20 if less)	20
- Factor	3.30 %
- Salary	<u>\$4,000.00</u>
- Monthly benefit	\$2,640.00

Your spouse's benefit is...

- Firefighter base benefit	\$2,640.00
- Factor	<u>X 75.00%</u>
- Spousal monthly benefit	\$1,980.00

A minimum monthly benefit of \$1,200.00 was approved by the Board for retirees and spouses effective January 1, 1995. However, this minimum benefit does not necessarily apply to children's benefits and benefits paid according to court orders, divorce decrees, and qualified domestic relations orders.

The retirement factor for the child is actuarially designed to be fifteen (15) percent of the regular retirement factor (3.30%), which is .495 percent. The child receives .495 percent (.00495) of the fire fighter's average salary, multiplied by the number of years of service, assuming twenty (20) years if less.

Your child's benefit is...

- Years (assume 20 if less)	20
- Child's benefit factor	.495 %
- Average salary	<u>\$4,000.00</u>
- Child's monthly benefit	\$396.00

The eligible children, together, will be entitled to a total amount of seventy-five (75) percent of the fire fighter's accrued benefit at the time of death, if there is no surviving spouse.

PERSONNEL RECORDS

A personnel record (Form 500) is to be completed by all firefighters. This information furnishes the pension office necessary data regarding age, years of service, beneficiaries, birth dates, social security numbers and marital status. Updating this information keeps our pension office current for providing accurate data to our actuaries. The actuaries conduct biennial valuations and other occasional studies in order to determine the overall soundness of the fund.

RETIREMENT PROCESS

When a firefighter is ready to retire, there are forms available at the pension office to be completed. There will probably be other information to be furnished to the AFD administrative office as well. Upon retirement, the firefighter will receive a monthly annuity. Deductions can be made for withholding tax, as well as any health or dental insurance available through the City of Austin which the firefighter chooses. Direct deposit is also available. Please contact the pension office with any questions you have regarding your retirement. You can visit our web site at AFRS.ORG for more information about your retirement.

FUND HISTORY

The pension plan was established by an Act of the 45th Legislature of the State of Texas in 1937. The Austin Fire Fighters Pension Fund participated under state statute Article 6243e Vernon' Texas Civil Statutes until 1975. This law covered approximately 38 paid and part paid fire departments around the state. When benefit enhancements were being considered, it was difficult to revise wording which would not disrupt the other pension funds operating under the same statute. In 1975 Article 6243e.1 was established which would only cover the Austin Fire Fighters Pension Fund. The pension plan currently provides retirement, disability, death, and survivor benefits to approximately 1,500 active and retired participants and their eligible beneficiaries.

In 1984 an actuarial study was conducted to adjust all the current retirees' benefits based upon the effect of inflation from their original date of retirement. At that time there were some annuitants on the rolls that retired at the original monthly pension of \$100. Although these retirees had received cost-of-living increases through the years, they were still losing ground to inflation. After the actuarial changes were made, if a retiree's adjusted monthly benefit came to less than \$500, then a minimum monthly pension of \$500 would take effect. This was approved by the pension board in December 1984 and went into effect March 31, 1985. Since that time the minimum benefit has been increased to the current amount of \$1,200. (See Chronology Of Pension Plan Changes below). A full inflation cost-of-living adjustment (COLA) was approved by the pension boards in most years from 1985 through 2002. Since that time, a very challenging financial market environment resulted in the inability to continue that pattern. Providing sound pension benefits and COLA's, when affordable, continues to be a top priority of the pension board.

CHRONOLOGY OF PENSION PLAN CHANGES

Significant plan changes and benefit enhancements since 1975 are as follows:

1975

A 2.0% COLA approved.

The retirement calculations changed from using the highest 5 years' average salary to using the highest 3 years' average salary.

The minimum monthly disability benefit changed from \$100 to \$200.

State statute Article 6243e.1 is created pertaining only to the Austin Firefighters Pension Fund, allowing the plan to branch away from the former statewide system.

1976

A 2.0% COLA approved.

1977

A 2.0% COLA approved.

1978

A 2.0% COLA approved.

The retirement multiplier increased from 2.0% to 2.1%

1979

A 2.0% COLA approved.

The minimum monthly spousal benefit increased from \$100 to \$200.

The minimum children's benefit increased from \$50 to \$100.

1980

A 2.0% COLA approved.

1981

A 2.0% COLA approved.

1982

A 2.0% COLA approved.

CHRONOLOGY OF PENSION PLAN CHANGES (Continued)

The retirement multiplier increased from 2.1% to 2.2%.

1983

A 2.0% COLA approved.

1984

A 2.0% COLA approved.

The retirement multiplier increased from 2.2% to 2.3%.

An actuarial study is conducted to adjust all then current retirees' benefits upward to offset the erosion of their benefits to inflation from their date of original retirement.

1985

A 4.0% COLA approved.

Early retirement eligibility set at age 50 and 25 years of service. (Normal retirement eligibility remained at age 55 or 35 years of service, regardless of age, which had been in effect for many years.)

Contribution rate by city increased from 14.0% to 14.05%.

The retirement multiplier increased from 2.3% to 2.5%

Employee contributions treated as employer contributions (pre-taxed) for federal income tax purposes.

Contributions are paid pre-taxed creating more take home pay.

A special increase for all current retirees to "catch their benefits up" with inflation from the time of their original retirement. If the resulting monthly benefit was less than \$500, then a \$500 minimum monthly benefit was approved where applicable.

1986

A 3.0% COLA approved.

1987

A 1.5% COLA approved.

The retirement multiplier increased from 2.50% to 2.65%.

Normal retirement eligibility lowered from age 55 or 35 years of service, regardless of age to age 55 or 30 years of service, regardless of age.

1988

A 4.0% COLA approved. The retirement multiplier increased from 2.65% to 2.90%.

1989

A 4.25% COLA approved.

The workers' compensation offset for disability benefits was eliminated.

Actuarially, an assumption adopted that 12% of firefighters were assumed to be single at retirement.

1990

A 4.50% COLA approved.

1991

A 6.30% COLA approved.

The minimum monthly pension benefit increased from \$500 to \$850 for normal service retirement, current retirees and spouses.

Normal retirement eligibility reduced from age 55 or 30 years of service, regardless of age to age 53 or 28 years of

CHRONOLOGY OF PENSION PLAN CHANGES (Continued)

service, regardless of age. Surviving children eligible for full spousal benefits in the event there is no surviving spouse. Actuarially, across the board salary increases assumption was decreased from 6.50% to 5.50% annually.

1992

A 2.90% COLA approved.

The minimum monthly pension benefit increased from \$850 to \$1000 for normal service retirement, current retirees and spouses.

Actuarially, a 5% anticipated COLA is extended through 1996.

1993

A 3.20% COLA is approved.

Normal retirement eligibility lowered from age 53 or 28 years of service, regardless of age to age 52 or 27 years of service, regardless of age.

Early retirement eligibility lowered from age 50 with 25 years of service to age 50 or 25 years of service, regardless of age.

The survivor (spousal) benefit is changed to a flat 75% of retiree's benefit.

Contribution refunds are paid with 5% interest.

Actuarially, growth in payroll no longer assumes 1% growth in membership annually.

Actuarially, a 5% anticipated COLA is extended through 1998.

1994

A 2.80% COLA is approved.

The minimum monthly pension benefit is increased from \$1000 to \$1200 for normal service retirement, current retirees and spouses.

City of Austin contributions increased from 14.05% to 16.05% of pay, while the contribution rate by the firefighters remains at 13.70%.

1995

A 2.60% COLA is approved.

Normal retirement eligibility reduced from age 52 to 50 (with at least 10 years of service) or with 25 years of service, regardless of age, down from 27 years of service.

Early retirement eligibility reduced from age 50 to age 48 (with at least 10 years of service) or with 23 years of service regardless of age, down from 25 years of service.

The retirement multiplier was increased from 2.90% to 3.0%.

A deferred retirement option plan (DROP) feature was added allowing up to 2 years of service designated for DROP participation.

City of Austin contributions increased from 16.05% to 18.05% of pay, while the contribution rate by the firefighters remains at 13.70%.

Actuarially, a 5% anticipated COLA is extended through 2002.

1996

A 2.90% COLA is approved.

CHRONOLOGY OF PENSION PLAN CHANGES (Continued)

1997

A 3.0% COLA is approved.

Early retirement eligibility (unreduced by the retirement multiplier) lowered from age 48 to age 45 (with at least 10 years of service), or with 20 years of service regardless of age, down from 23 years of service.

COLAs delayed until normal retirement eligibility is met.

The deferred retirement option plan (DROP) feature is extended from a maximum of 2 years to a maximum of 5 years of service designated for DROP participation.

Benefits made available to surviving spouses of retirees married after retirement.

Eliminate the requirement that a spouse's benefit terminate after remarriage.

Firefighter contributions "bought down" by 2% to 11.70%, while the city contributions increase to 20.05% due to the "meet and confer" agreement. (Firefighters continue to get credit for 13.70% per statute requirements.)

Actuarially, a 5% anticipated COLA is extended through 2004.

1998

A 2.10% COLA is approved.

Actuarially, the retirement incident rate revised to 100% of the members to retire and elect a 5 year DROP one year following the age first eligible for a 5 year DROP.

1999

A 1.50% COLA is approved.

A 3.33% benefit increase is approved September 1, 1999 to all then current retirees at the time based on the percentage increase of the retirement multiplier from 3.0% to 3.10%.

The retirement multiplier increased from 3.0% to 3.10%, effective September 1, 1999.

All DROP calculations including "BACKDROPS" will use a 3.10% multiplier after September 1, 1999, regardless of the DROP date.

The deferred retirement option plan (DROP) benefits made available to eligible survivors of members who die before retirement but after becoming eligible for a DROP.

In November 1999, a new "meet and confer" agreement is set whereby firefighters are to receive a 3% salary increase in November 1999 and every six months going forward, beginning in March of 2000 through March 2002.

Actuarially, mortality tables for actives and non-disabled annuitants were updated to the 1994 Group Annuity Mortality tables, reflecting current industry standards.

2000

A 2.60% COLA approved.

2001

A 3.40% COLA approved.

A 6.45% benefit increase is approved September 1, 2001 to all then current retirees at the time based on the percentage increase of the retirement multiplier from 3.10% to 3.30%.

The retirement multiplier increased from 3.10% to 3.30%.

All DROP calculations including "BACKDROPS" will use a 3.30% multiplier after September 1, 2001, regardless of the DROP date.

Effective September 1, 2001, the deferred retirement option plan (DROP) feature is extended from a maximum of 5 years to a maximum of 7 years of service designated for DROP participation. A survivor benefit is made available for

CHRONOLOGY OF PENSION PLAN CHANGES (Continued)

all unmarried retirees, and for unmarried firefighters who die after becoming eligible to retire, per statute provisions. The percentage will be an actuarial equivalent of 75% of the firefighter's accrued benefit and will be tied to the age difference of the firefighter and the designated beneficiary.

2002

A 2.1% COLA approved.

2003

Effective June 1, 2003 the contribution rate by the firefighters increased from 13.70% to 15.70% of pay, while the contribution rate by the City of Austin remained at 18.05%.

2004

No Changes.

2005

\$32.00 per month increase in benefits for all eligible retirees.

2006

\$100.00 per month increase in benefits for all eligible retirees.

2007

No Changes.

2008

No Changes.

2009

Prudent investor rule adopted in pension statute.

2010

As a result of an agreement between the firefighters and the City of Austin, the City's pension contributions will increase from 18.05% of salary to 22.05% in a total of four 1% increments by the year 2013. In addition, the firefighters elected to increase their contributions from 15.70% to 18.70% in a total of six ½% increments by the year 2016.

2011

No Changes

NOTES: