

**AUSTIN POLICE RETIREMENT SYSTEM**

**ACTUARIAL VALUATION**

**AS OF**

**DECEMBER 31, 2006**

**AUGUST 13, 2007**

# Rudd and Wisdom, Inc.

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August 13, 2007

Police Retirement Board  
Austin Police Retirement System  
Post Office Box 684808  
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Re: Actuarial Valuation as of December 31, 2006

Members of the Board of Trustees:

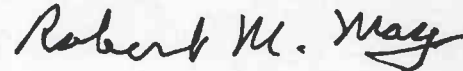
In accordance with the requirements of Article 6243n-1, which is the state law governing the Austin Police Retirement System (System), an actuarial valuation of the System as of December 31, 2006 has been completed. The data for police officers, pensioners, and assets used in the valuation were provided on behalf of the Board of Trustees by Sam Jordan, Pension Administrator for the System.

The results of the December 31, 2006 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2005 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a 25-year projection of the assets of the System. Exhibits 3 through 6 summarize the System's assets and development of the actuarial value of assets. Data on both police officers and pensioners are contained in Exhibits 7 through 11. Exhibit 12 shows a historical comparison of the actuarial accrued liability and the actuarial value of assets.

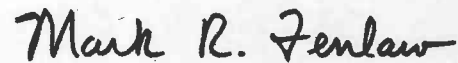
A summary plan description based on the current plan is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of assumption changes since the prior valuation. Exhibit 20 defines certain actuarial terms used in this report.

The disclosures required in accordance with Statement Number 25 of the Governmental Accounting Standards Board (GASB) for the System's annual report are needed for the System's financial statements. They are included in Exhibit 21. The disclosures required in accordance with GASB Statement Number 27 are needed for the City of Austin's financial statements. They are included in Exhibit 22.

Respectfully submitted,



Robert M. May  
Fellow, Society of Actuaries  
Enrolled Actuary



Mark R. Fenlaw  
Fellow, Society of Actuaries  
Enrolled Actuary

RMM;MRF:ph

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## Summary

### *Austin Police Retirement System Results of December 31, 2006 Actuarial Valuation*

The valuation balance sheet as of December 31, 2006, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability (UAAL) of \$158,841,480. Total contributions of 29% of pay (11% by the police officers and 18% by the City of Austin) through September 30, 2007 and 31% of pay (13% by the police officers and 18% by the City of Austin) thereafter are contributed to the System. Effective September 1, 2003, a very small portion of the city's biweekly contributions began to be allocated by the Board to a Retiree Death Benefit Fund (account) within the System, which is being used to pay the post-retirement lump sum death benefits after that date. Effective September 1, 2007, the amount of this post-retirement lump sum death benefit was increased from \$7,500 to \$10,000 as the result of passage of an amendment to the state law governing the System.

The normal cost for the projected benefits for each police officer based on the current plan provisions is 21.691% of pay. Since total contributions on behalf of each police officer are more than the normal cost, the remaining portion can be used to amortize the plan's UAAL. Assuming that the total payroll increases at the rate of 4% per year in future years attributable to general pay increases, the UAAL will be amortized in 29.7 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the System on December 31, 2006 with the condition on December 31, 2005. The December 31, 2005 valuation is based on the plan provisions which are in effect on that date. The December 31, 2006 valuation is based on the plan provisions, summarized in Exhibit 13.

Between these two valuations, the period for amortizing the UAAL has decreased by 8.6 years (from 38.3 years to 29.7 years). The most significant events that have occurred since the prior valuation are the increase in the police officers' contribution rate from 9% to 13% in two steps, the increase in the multiplier from 3.0% to 3.2% of final average pay per year of service, and the companion 6.67% increase in the monthly benefit of pensioners. In a special study based on the August 31, 2005 actuarial valuation, we determined that these changes reduced the amortization period from 38.3 years to 33.0 years.

Since one year has passed since the prior valuation date, a one-year reduction in the amortization period to 32.0 years would be expected if the experience of the System had been exactly as anticipated (including an 8% rate of investment return on the AVA). For the reasons described below, the System's amortization period was 2.3 years less than expected.

1. The rate of investment return, net of all expenses, on the market value of assets during 2006 was 16.7%. However, the actuarial value of assets (AVA) used in the valuation and the determination of the amortization period is based on an adjusted market value. In particular, the AVA defers recognition of portions of the significant gains in the years 2003 through 2006 but recognizes the remaining portion of the previously partially deferred large loss in 2002. The rate of investment return on the AVA, net of expenses, for 2006 was 10.6% compared to the assumed rate of return of 8%.



Therefore, the AVA as of December 31, 2006 is larger than expected and caused a **decrease** in the amortization period of 4.8 years.

2. Police officers received a 5.5% general pay increase on October 1, 2006. The pay increase was greater than expected because we assumed that general pay would increase by 4% in 2006. This caused the amortization period to **increase** 2.1 years.
3. The covered payroll increased by 7.1% since the prior valuation, more than the assumed 4.0% increase. The higher payroll **decreased** the amortization period by 1.3 years.
4. The demographic experience in the aggregate was slightly adverse, **increasing** the amortization period by 1.4 years.
5. The net change in assumptions had the effect of **increasing** the amortization period by 0.3 of a year.

In summary, this valuation reveals that the actuarial value of assets plus future investment income received by the System and future contributions that will be provided by the police officers and the City of Austin will be adequate to pay the benefits provided by the state law and board rules governing the System. In order for the System to have an adequate financing arrangement, contributions must be made that are sufficient to pay for the System's normal cost and amortize its unfunded actuarial accrued liability over an acceptable period of time. Based on the Texas State Pension Review Board guidelines, our professional judgment, and the actuarial assumptions and cost methods used in this valuation, we consider periods of 25 years to 30 years to be preferable for the System and 40 years to be the maximum acceptable period.

The total contributions to the System are sufficient to pay for the System's normal cost and provide an additional amount that will result in amortization of the unfunded actuarial accrued liability in 29.7 years. In addition, we believe that it is appropriate to assume that the police officers and the City will be able to maintain their commitment in future years to contribute 13% and 18%, respectively, of compensation into the System. Consequently, we are of the opinion that the System has an adequate financing arrangement based on the levels of benefits and contributions recognized in this valuation.

### **Projected Actuarial Valuation Results**

In addition to completing this actuarial valuation, we did an analysis to estimate the amortization periods over the next four years. We did these projections because the significant actuarial investment gains that the System experienced in each of the years 2003-2006 have been only partially recognized as of December 31, 2006. As shown in Exhibit 5, a smoothing method is used to determine the actuarial value of assets (AVA) that is used in this valuation. This method phases in over a five-year period any investment gains or losses (actual net investment return greater or less than the actuarially assumed net investment return) that the System has had. The AVA used in this current valuation is deferring recognition of a portion of the investment gains in 2003-2006. (There were no investment losses during that period.) The AVA used in this valuation is \$417,283,844. The method used to determine this amount is shown in Exhibit 5. The

market value of assets, excluding the Retiree Death Benefit Fund, is \$460,990,292. The difference between this market value and the AVA, \$43,706,448, is the total of the deferred gains that will be recognized in actuarial valuations over the next four years.

For the purpose of projecting the amortization period in the future, we have assumed that the System would have an annual rate of investment return, net of all expenses, equal to the expected actuarial assumed investment rate of 8% per year. The projections also reflect the valuation assumption of a 4% annual covered payroll growth and assume that no future ad hoc cost-of-living adjustments will be granted. The projected amortization periods are not actual amortization periods from completed actuarial valuations but are projected from the completed December 31, 2006 actuarial valuation, showing the expected effects of the recognition over the next four years of the portions of the past investment gains and losses that are deferred as of December 31, 2006.

Valuation Date	Amortization Period	
	Actual	Projected
December 31, 2006	29.7	
December 31, 2007		22.8
December 31, 2008		18.8
December 31, 2009		16.0
December 31, 2010		13.8

The amortization period is projected to decrease more rapidly than the expected one year between valuation dates because all of the investment loss from 2002 has been fully recognized in the December 31, 2006 valuation and the remaining portions of the investment gains from 2003, 2004, 2005 and 2006 are projected to be recognized in valuations in the next four years, thereby reducing the amortization period by a much greater than expected number of years. If in 2007 and later the System has investment experience above the assumed 8% or greater payroll growth than the assumed 4% caused by an increase in the number of active member police officers, the amortization periods could be less than shown above. On the other hand, investment experience or payroll growth less than assumed would cause the amortization periods to be greater than shown above. The System's other non-investment experience will also affect the future amortization periods.

### **Retiree Death Benefit Fund**

The statute established a Retiree Death Benefit Fund effective September 1, 2003. This fund is a separate account within the System used to pay post-retirement lump sum death benefits. The amount of these benefits was increased from \$7,500 to \$10,000 effective September 1, 2007 by an amendment to the statute. The Retiree Death Benefit Fund is funded by a portion of the city's total contribution rate of 18%. As part of this December 31, 2006 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund has been re-determined to be 0.100%. We recommend that this new rate be effective January 1, 2008, replacing the rate of 0.081% effective for 2007 that was determined based on the prior \$7,500 death benefit amount and the December 31, 2005 actuarial valuation.

The remaining 17.900% (18% less 0.100%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.100% city contribution rate is comprised of the normal cost percentage plus an additional amount to amortize the unfunded actuarial accrued liability for only the \$10,000 post-retirement lump sum death benefits over 30 years as shown below. The amortization of this unfunded liability is determined as a level percentage of payroll assuming that the payroll will increase 4% per year.

<b>Allocated City Contribution Effective January 1, 2008 for the Retiree Death Benefit Fund</b>	
Normal cost	0.029%
Thirty-year amortization of unfunded actuarial accrued liability	<u>0.071</u>
Total city contribution rate allocated to the Retiree Death Benefit Fund as of January 1, 2008	0.100%

The 0.100% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2006 actuarial valuation for the System. In particular, the Entry Age Actuarial Cost Method is used with the normal cost determined as a level percentage of payroll. The RP-2000 Mortality Tables for males and females projected to 2006 are used for both active and retired members. The following is a summary of the actuarial valuation results of the liabilities for the \$10,000 post-retirement lump sum death benefits.

<b>Actuarial Valuation Results of the Retiree Death Benefit Fund as of December 31, 2006</b>	
1. Actuarial present value of future benefits	
a. Current retired members	\$ 908,324
b. Current active members	<u>828,878</u>
c. Total	\$1,737,202
2. Actuarial present value of future normal cost contributions	\$ 303,657
3. Actuarial accrued liability (Item 1c – Item 2)	\$1,433,545
4. Assets of fund	\$ 189,240
5. Unfunded actuarial accrued liability (Item 3 – Item 4)	\$1,244,305



## Exhibit 1

### *Austin Police Retirement System Actuarial Valuation Balance Sheets*

	<u>December 31, 2005<sup>1</sup></u>	<u>December 31, 2006<sup>2</sup></u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 190,436,407	\$ 225,435,369
b. Payable to police officers	<u>513,336,405</u>	<u>593,172,782</u>
c. Total	\$ 703,772,812	\$ 818,608,151
2. Actuarial present value of future normal cost contributions	\$ 209,131,956	\$ 242,482,827
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 494,640,856	\$ 576,125,324
4. Actuarial value of assets	\$ 371,504,533	\$ 417,283,844
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 123,136,323	\$ 158,841,480
6. Total contributions (percent of payroll) <sup>3</sup>	26.919%	30.900%
7. Normal cost (percent of payroll)	20.241%	21.691%
8. Percent of payroll available to amortize the UAAL	6.678%	9.209%
9. Annualized covered payroll	\$ 93,428,957	\$ 100,090,151
10. Present annual amount available to amortize the UAAL	\$ 6,239,186	\$ 9,217,302
11. Years to amortize the UAAL	38.3 Years	29.7 Years <sup>4</sup>

<sup>1</sup> Reflects plan provisions effective September 1, 2003 and excludes the \$7,500 post-retirement lump sum death benefit.

<sup>2</sup> Reflects plan provisions effective December 1, 2007 and excludes the \$10,000 post-retirement lump sum death benefit effective September 1, 2007.

<sup>3</sup> The total contribution rate of 27% (9% by members and 18% by the city) in the December 31, 2005 valuation and 31% (13% by members and 18% by the city) in the December 31, 2006 valuation is reduced by the calculated city contribution rate for the separate Retiree Death Benefit Fund used to pay \$7,500 post-retirement lump sum death benefits in the December 31, 2005 valuation and the \$10,000 post-retirement lump sum death benefits in the December 31, 2006 valuation.

<sup>4</sup> Calculated to reflect the increase in the police officers' contribution rate from 11% of covered compensation to 13% effective October 2007.

**Exhibit 2**  
**Austin Police Retirement System**  
**25-Year Projection**

<i>Year</i>	<i>Market Value of Fund at Beginning of Year</i>	<i>Contributions by City and Police Officers</i>	<i>Net Investment Income</i>	<i>Monthly Benefit Payments</i>	<i>Lump Sum Payments</i>	<i>Market Value of Fund at End of Year</i>	<i>Ratio of Fund to Payments</i>
2002	\$ 264,452,675	\$ 19,914,403	\$ -20,876,785	\$ 13,074,962	\$ 1,430,698	\$ 248,984,633	17.16
2003	248,984,633	21,340,424	46,292,722	13,394,684	1,792,121	301,430,974	19.85
2004	301,430,974	22,598,861	41,612,897	15,971,005	656,667	349,015,060	20.99
2005	349,015,060	24,167,426	35,273,986	18,022,569	744,770	389,689,133	20.76
2006	389,689,133	26,857,508	65,521,438	19,381,191	1,507,356	461,179,532	22.08
2007	461,179,532	29,526,595	36,960,848	23,290,561	4,573,910	499,802,504	17.94
2008	499,802,504	32,269,065	40,066,806	27,099,537	3,104,397	541,934,441	17.94
2009	541,934,441	33,559,828	43,385,598	29,477,010	3,311,741	586,091,116	17.87
2010	586,091,116	34,902,221	46,869,225	31,925,597	3,428,220	632,508,745	17.89
2011	632,508,745	36,298,310	50,519,051	34,373,987	3,965,545	680,986,574	17.76
2012	680,986,574	37,750,242	54,357,900	36,783,456	3,992,437	732,318,823	17.96
2013	732,318,823	39,260,252	58,405,379	39,178,604	4,584,821	786,221,029	17.97
2014	786,221,029	40,830,662	62,660,345	41,388,255	5,375,830	842,947,951	18.03
2015	842,947,951	42,463,888	67,176,670	43,603,135	5,339,915	903,645,459	18.46
2016	903,645,459	44,162,444	72,038,564	45,873,521	4,615,744	969,357,202	19.20
2017	969,357,202	45,928,942	77,234,328	48,286,938	5,498,220	1,038,735,314	19.31
2018	1,038,735,314	47,766,100	82,750,566	51,056,342	5,416,226	1,112,779,412	19.70
2019	1,112,779,412	49,676,744	88,620,352	54,340,882	5,385,885	1,191,349,741	19.95
2020	1,191,349,741	51,663,814	94,774,003	58,121,640	6,891,589	1,272,774,329	19.58
2021	1,272,774,329	53,730,367	101,149,543	62,213,796	8,326,663	1,357,113,780	19.24
2022	1,357,113,780	55,879,582	107,808,431	66,890,692	8,005,675	1,445,905,426	19.31
2023	1,445,905,426	58,114,765	114,784,730	71,590,895	8,716,477	1,538,497,549	19.16
2024	1,538,497,549	60,439,356	122,071,781	76,348,075	9,291,843	1,635,368,768	19.10
2025	1,635,368,768	62,856,930	129,754,153	81,249,827	8,490,811	1,738,239,213	19.37
2026	1,738,239,213	65,371,207	137,852,771	86,203,545	9,326,809	1,845,932,837	19.32
2027	1,845,932,837	67,986,055	146,427,570	90,827,600	8,334,880	1,961,183,982	19.78
2028	1,961,183,982	70,705,497	155,511,470	94,958,079	10,328,638	2,082,114,232	19.78
2029	2,082,114,232	73,533,717	165,141,516	98,577,961	10,646,326	2,211,565,178	20.25
2030	2,211,565,178	76,475,066	175,536,017	101,564,992	9,640,006	2,352,371,263	21.15
2031	2,352,371,263	79,534,069	186,784,077	104,179,096	10,495,566	2,504,014,747	21.84

A. Data for years 2002 through 2006 were taken from the annual reports for those years. Fund balance at beginning and end of year reflects the total market value of the System's assets including the Retiree Death Benefit Fund (account).

B. Assumptions for years 2007 through 2031:

1. Benefits will be paid in accordance with the demographic and economic assumptions used in this December 31, 2006 actuarial valuation and include benefit payments from the Retiree Death Benefit Fund (account).
2. Contributions will be 29% of payroll (11% of pay by the police officers and 18% by the city) through 10/1/2007 and 31% of payroll (13% of pay by the police officers and 18% by the city) thereafter.
3. Annual payroll for 2007 will be \$100,090,151. It will increase 4% per year thereafter.
4. Investment income (net of expenses) will be 8% of the average fund balance in each year.
5. No ad hoc COLAs were assumed beginning January 1, 2007 or thereafter.

### Exhibit 3

*Austin Police Retirement System  
Net Market Value of Assets as of December 31, 2005 and 2006  
Including the Retiree Death Benefit Fund*

	<u>December 31, 2005</u>	<u>December 31, 2006</u>
<b><i>Assets</i></b>		
<b>Investments</b>		
Real Estate Interests	\$ 115,002,500	\$ 136,499,681
Corporate Stocks	115,543,092	149,039,163
International Stocks	43,164,151	56,518,146
U.S. Government Bonds	41,764,468	34,917,124
International Government Securities	42,582,710	49,266,965
Short-Term Investment Funds	11,560,198	12,389,657
Partnership Interests	8,114,779	11,382,743
Corporate Bonds	3,063,102	0
Alternatives	<u>8,866,173</u>	<u>9,064,000</u>
Total Investments	\$ 389,661,173	\$ 459,077,479
<b>Other Assets</b>		
Interest and Dividends Receivable	\$ 3,096,186	\$ 683,149
Cash	1,025,907	1,158,384
Fixed Assets	435,166	405,217
Contributions Receivable	487,408	640,415
Other Assets	<u>9,572</u>	<u>31,813</u>
Total	\$ 5,054,239	\$ 2,918,978
<b>Total Assets</b>	<b><u>\$ 394,715,412</u></b>	<b><u>\$ 461,996,457</u></b>
<b><i>Liabilities</i></b>		
Contributions Refundable	\$ 93,271	\$ 273,669
Other Payables	<u>4,933,008</u>	<u>543,256</u>
<b>Total Payables</b>	<b><u>\$ 5,026,279</u></b>	<b><u>\$ 816,925</u></b>
<b>Net Market Value of Assets (Assets Minus Liabilities)</b>	<b><u>\$ 389,689,133<sup>1</sup></u></b>	<b><u>\$ 461,179,532<sup>2</sup></u></b>

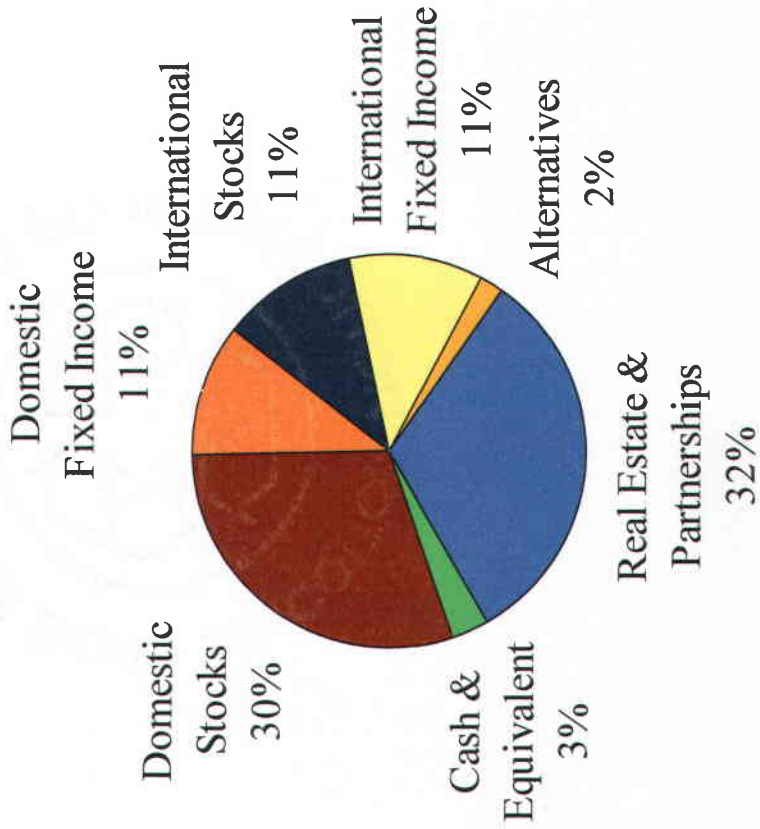
<sup>1</sup> Includes \$109,374 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$389,579,759.

<sup>2</sup> Includes \$189,240 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$460,990,292.

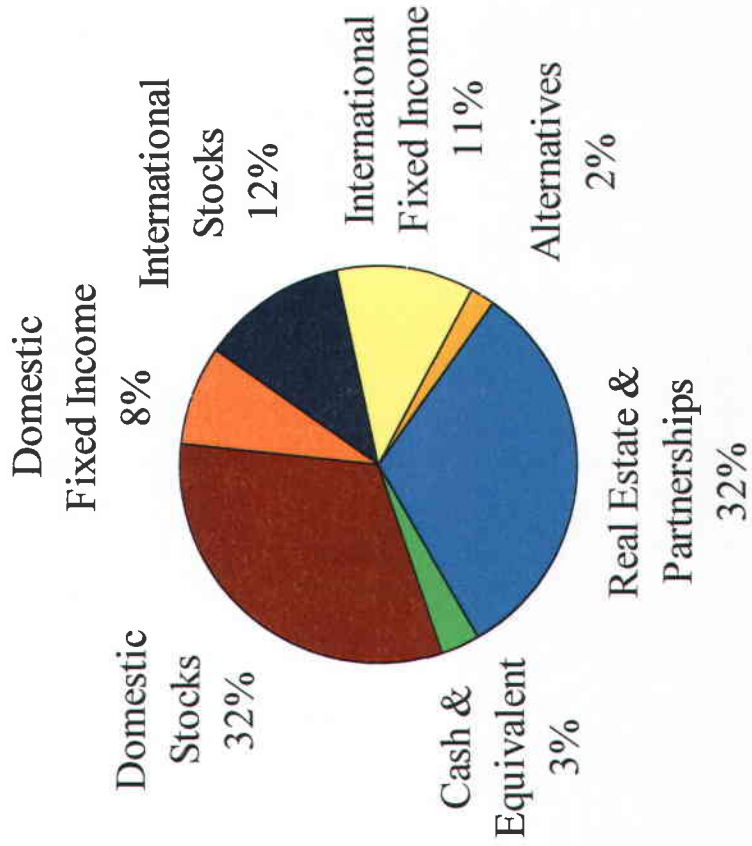
Exhibit 4

*Austin Police Retirement System  
Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates*

**December 31, 2005**



**December 31, 2006**





**Exhibit 5**  
**Austin Police Retirement System**  
**Development of Actuarial Value of Assets**

Calculation of Actuarial Investment Gain/(Loss) Based on Total Market Value for Plan Years	2006	2005	2004	2003
Market Value of Assets as of beginning of year	\$ 389,689,133	\$ 349,015,060	\$ 301,430,974	\$ 248,984,633
City of Austin Contributions	17,033,469	15,840,395	14,794,834	13,950,555
Police Officer Contributions	9,824,039	8,327,031	7,804,027	7,389,869
Benefit Payments and Contribution Refunds	(20,888,547)	(18,767,339)	(16,627,672)	(15,186,805)
Expected Investment Return*	31,409,296	28,133,053	24,348,731	20,160,180
Expected Market Value of Assets as of end of year	\$ 427,067,390	\$ 382,548,200	\$ 331,750,894	\$ 275,298,432
Actual Market Value of Assets as of end of year	461,179,532	389,689,133	349,015,060	301,430,974
Actuarial Investment Gain/(Loss)	\$ 34,112,142	\$ 7,140,933	\$ 17,264,166	\$ 26,132,542
Market Value Rate of Return Net of Expenses	16.7%	10.0%	13.7%	18.4%
Rate of Actuarial Investment Gain/(Loss)	8.7%	2.0%	5.7%	10.4%

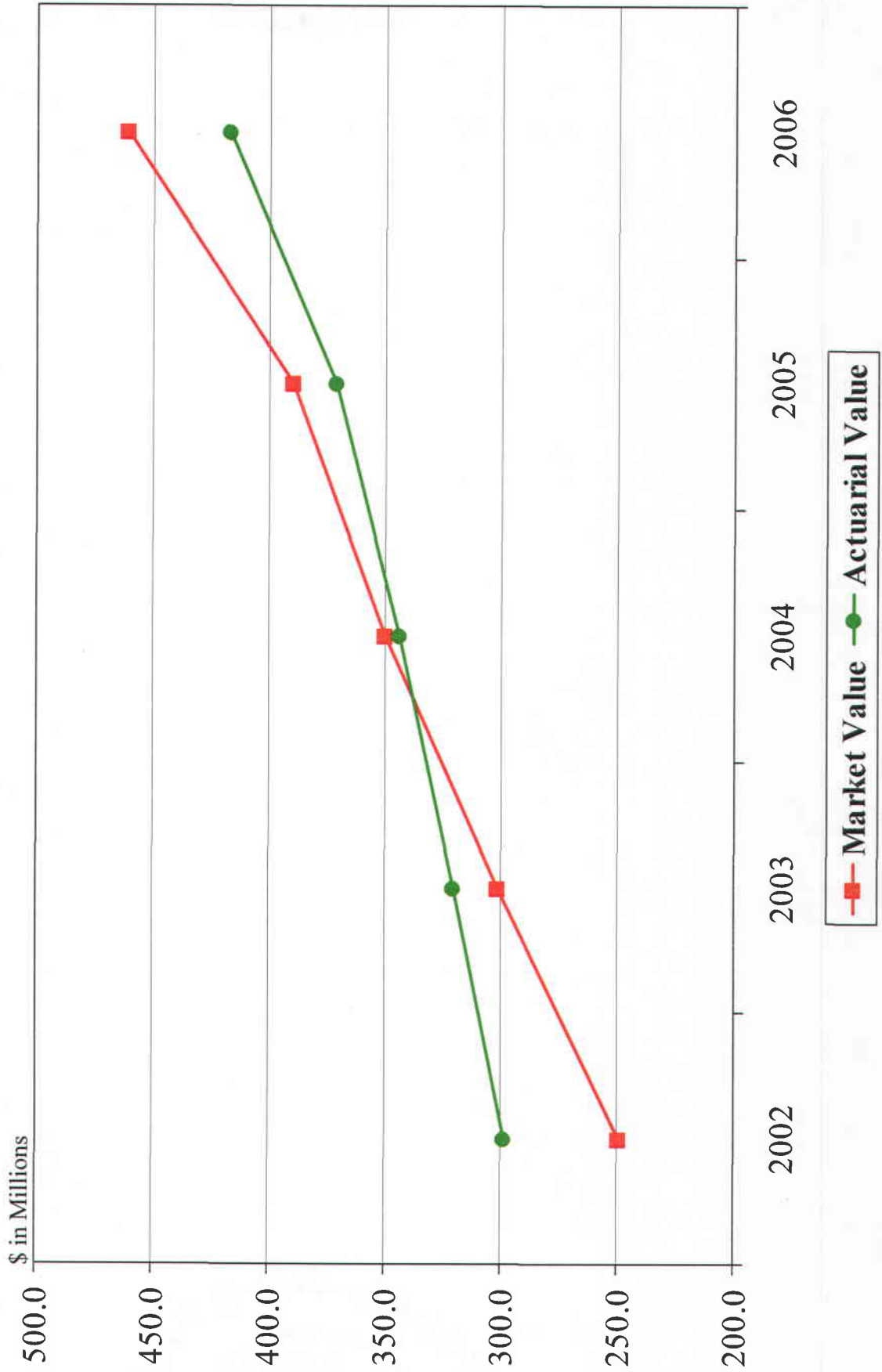
\*Assuming (1) uniform distribution of contributions and payments during the plan year and (2) expected investment rate of return of 8.00%.

	Deferred Actuarial Investment Gains/(Losses) to be Recognized in Future Years	
	Plan Year	Deferred Gain (Loss) Amount as of December 31, 2006
2006	\$ 34,112,142	\$ 27,289,714
2005	7,140,933	\$ 4,284,560
2004	17,264,166	\$ 6,905,666
2003	26,132,542	\$ 5,226,508
Total		\$ 43,706,448
Actuarial Value of Assets as of December 31, 2006		
1. Market Value of Assets as of December 31, 2006		\$461,179,532
2. Deferred Gain/(Loss) to be recognized in future		\$ 43,706,448
3. Preliminary Value (Item 1 - Item 2)		\$417,473,084
4. 80% of Market Value as of December 31, 2006		\$368,943,626
5. 120% of Market Value as of December 31, 2006		\$553,415,438
6. Total Actuarial Value as of December 31, 2006		\$417,473,084
7. Retiree Death Benefit Fund as of December 31, 2006		\$ 189,240
8. Net Actuarial Value as of December 31, 2006 (Item 6-Item 7)		\$417,283,844



**Exhibit 6**

***Austin Police Retirement System  
Historical Comparison of Market and Actuarial Value of Assets  
(Valuations as of December 31)***



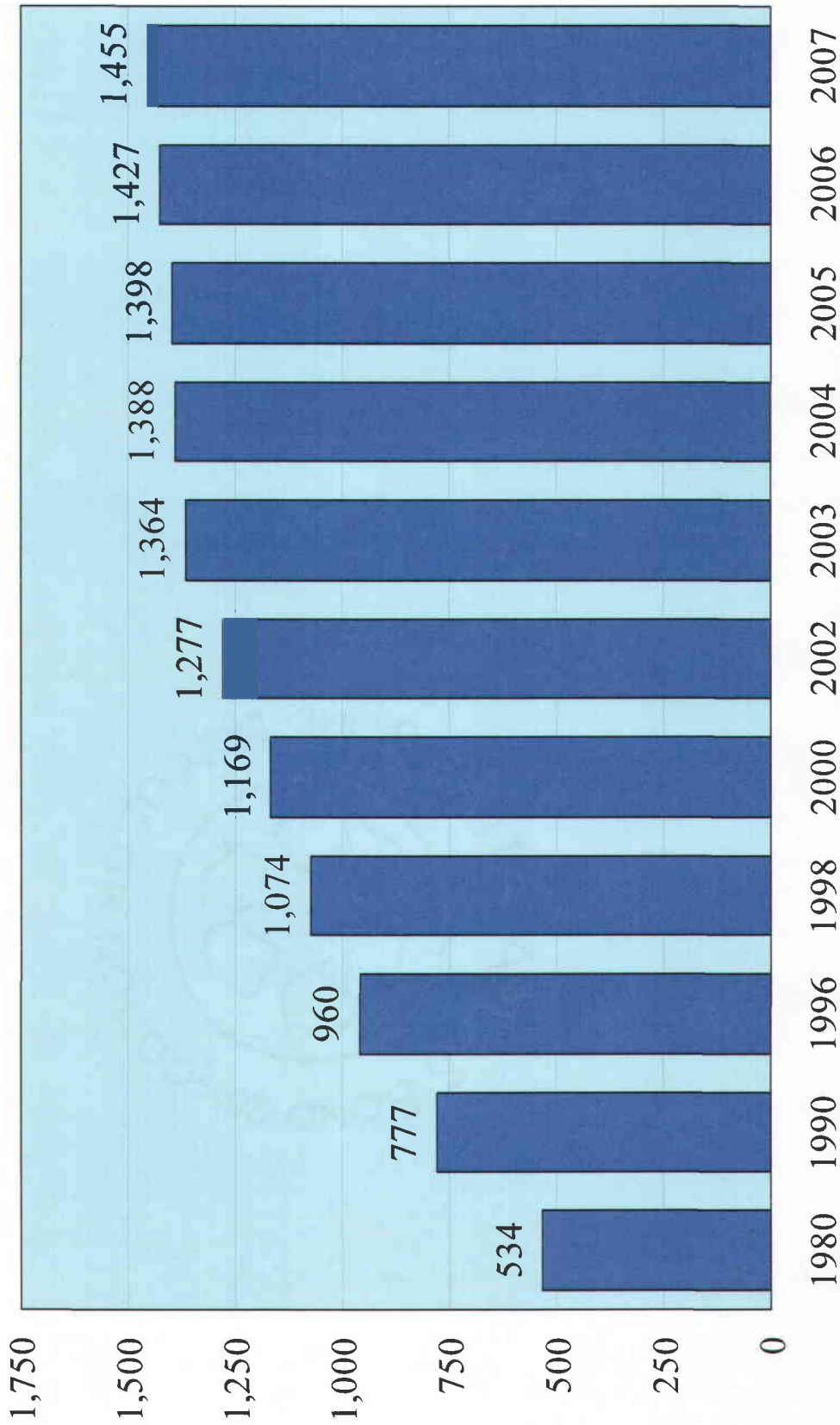
## Exhibit 7

### *Austin Police Retirement System Distribution of Police Officers by Age and Service as of December 31, 2006 with Average Annual Salary*

Years of Service	Attained Age									Total	Average Annual Salary
	Under 25	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60 or Over		
0	19	34	14	14	4	2	0	0	0	87	\$32,124
1	5	30	15	6	6	0	0	0	0	62	46,925
2	0	25	14	13	1	0	0	0	0	53	52,499
3	0	16	24	23	9	0	0	0	0	72	58,563
4	0	11	31	5	5	0	0	0	0	52	58,674
5	0	22	43	26	6	5	0	0	0	102	58,954
6	0	16	45	26	9	4	0	0	0	100	59,341
7	0	2	18	14	2	2	0	0	0	38	63,683
8	0	1	37	35	20	3	0	0	0	96	64,670
9	0	0	33	34	16	2	2	0	0	87	65,538
10	0	0	28	29	7	1	0	0	0	65	66,049
11	0	1	8	36	13	0	1	0	0	59	70,919
12	0	0	6	32	24	5	1	0	0	68	72,825
13	0	0	0	25	15	7	0	0	0	47	74,640
14	0	0	0	20	25	14	4	0	0	63	77,633
15	0	0	0	10	13	5	1	0	0	29	81,309
16	0	0	0	8	28	14	5	0	0	55	83,520
17	0	0	0	2	1	1	2	0	0	6	95,911
18	0	0	0	0	14	4	5	1	0	24	86,007
19	0	0	0	0	8	2	1	0	0	11	91,681
20-24	0	0	0	0	31	105	41	3	0	180	90,948
25-29	0	0	0	0	0	17	54	14	3	88	93,307
30-34	0	0	0	0	0	0	3	6	0	9	92,866
35-39	0	0	0	0	0	0	0	1	1	2	106,461
40-44	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Totals	24	158	316	358	257	193	120	25	4	1,455	68,790
Average Annual Salary	\$35,265	\$49,897	\$59,844	\$65,374	\$74,154	\$85,074	\$90,018	\$92,861	\$111,230	\$68,790	

**Exhibit 8**

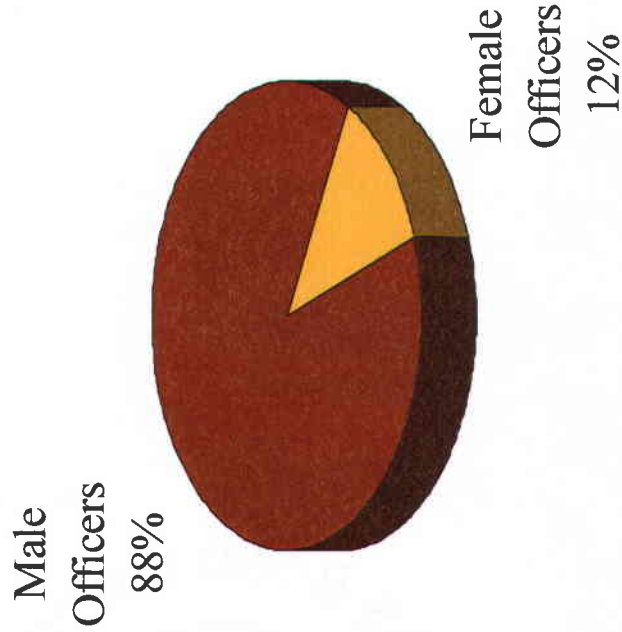
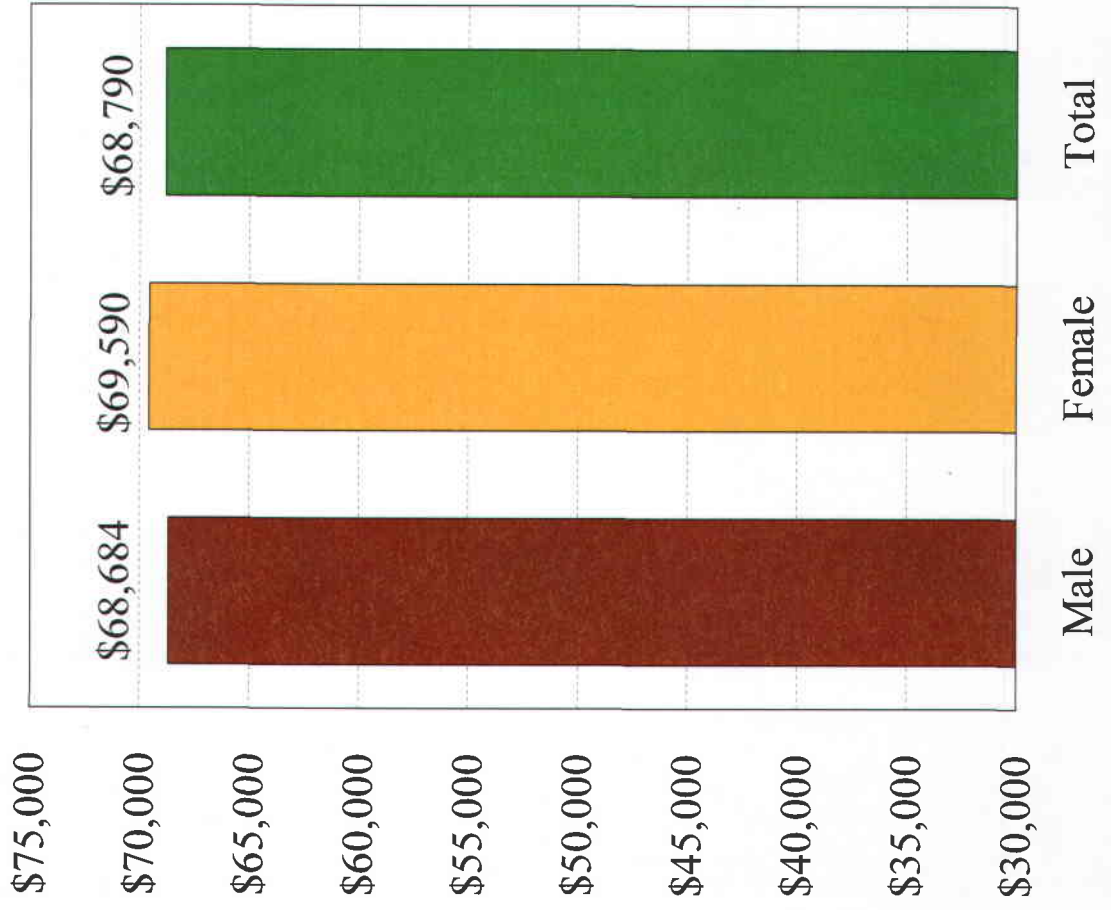
***Austin Police Retirement System  
Historical Summary of Growth in Number of Contributing Members  
as of January 1***



Average annual increase over:  
5-year period 2002-2007: 2.6%  
11-year period 1996-2007: 3.9%  
27-year period 1980-2007: 3.8%

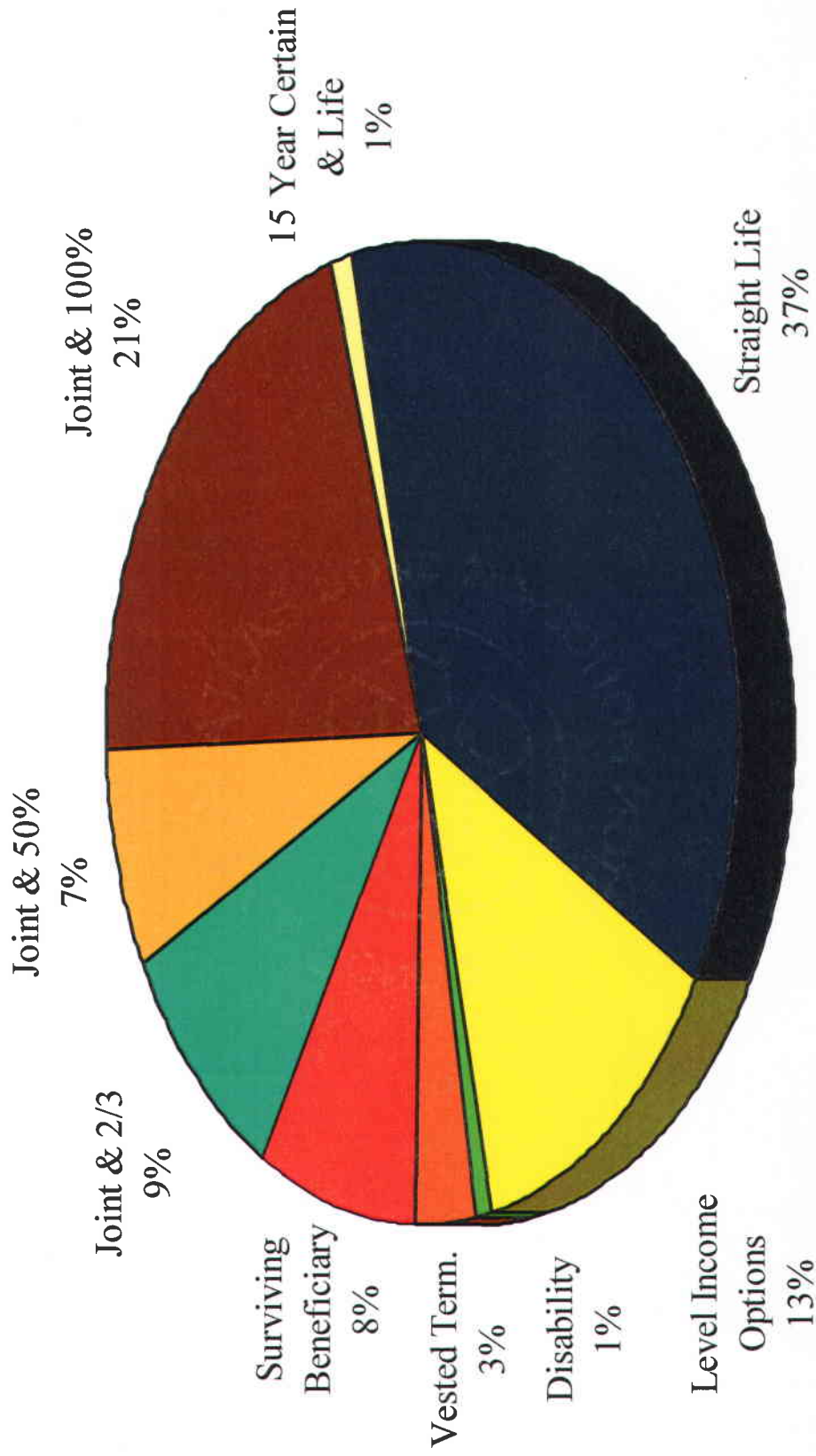
**Exhibit 9**

***Austin Police Retirement System  
Breakdown by Sex of Number of Officers and Average Annual Rate  
of Pay as Reported for the December 31, 2006 Valuation***



**Exhibit 10**

***Austin Police Retirement System  
Breakdown of Pensioners by Type and Annuity Option***





**Exhibit 11**

*Austin Police Retirement System  
Summary Data of Police Officers and Pensioners  
as of the December 31, 2006 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,284	171	1,455
Annualized Reported Payroll	\$88,190,184	\$11,899,967	\$100,090,151
Average Annual Rate of Pay	\$68,684	\$69,590	\$68,790

Pensioners and Vested Terminated Officers	Number	Monthly Payment	Actuarial Present Value of Benefits
<b>Service Retirements by Type of Annuity</b>			
Straight Life	155	\$648,499	\$87,978,036
Joint and 100%	97	388,617	56,293,587
Joint and 50%	32	140,430	19,405,449
Joint and Two-Thirds Beneficiary	40	166,479	23,508,067
Joint and Two-Thirds Last Survivor	1	4,426	531,069
Level Income Straight Life	16	58,960	5,762,310
Level Income Joint and Two-Thirds	29	99,372	10,743,295
Level Income Joint and 100%	10	38,026	4,629,555
Fifteen Year Certain and Life	3	11,281	1,466,163
<b>Total Service Retirements</b>	<b>383</b>	<b>1,556,090</b>	<b>210,317,531</b>
Disability Retirements	4	9,401	1,372,775
Surviving Beneficiaries	34	115,589	12,916,845
Vested Terminated Officers	11	20,116	828,218
<b>Total</b>	<b>432</b>	<b>\$1,701,196</b>	<b>\$225,435,369</b>

**Exhibit 11 (continued)**

***Austin Police Retirement System  
Police Officer and Pensioners Reconciliation***

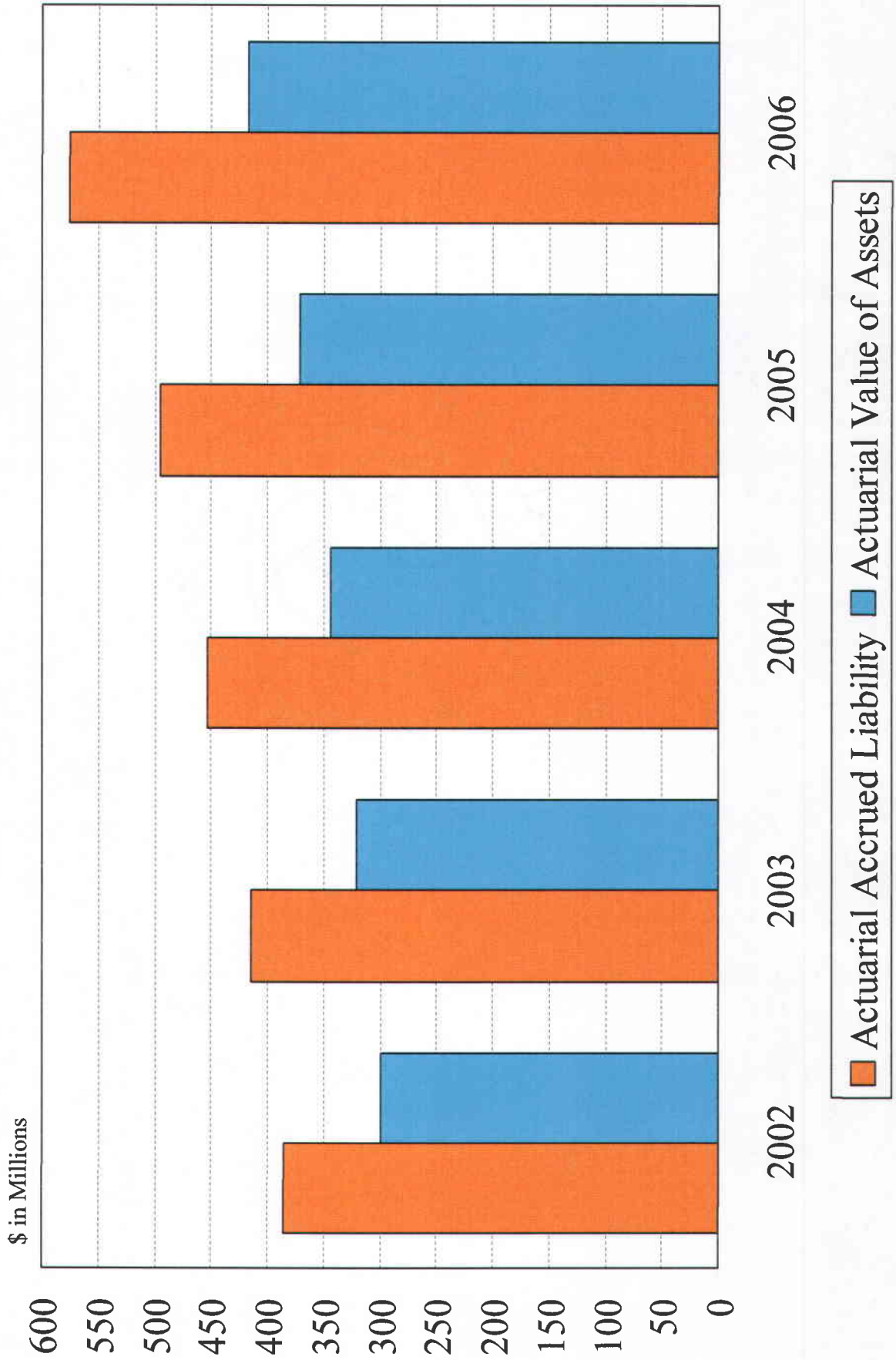
	Police Officers	Current Payment Status	Vested Terminated Police Officers	Total
1. As of December 31, 2005	1,427	386 <sup>1</sup>	11	1,824
2. Change of status				
a. retirement	(31)	32	(1)	0
b. disability	(2)	2	0	0
c. death	(1)	0	0	(1)
d. withdrawal	(26)	0	0	(26)
e. vested termination	(1)	0	1	0
f. new QDRO	0	2	0	2
g. completion of payment	<u>0</u>	<u>(1)</u>	<u>0</u>	<u>(1)</u>
h. net changes	(61)	35	0	(26)
3. New police officers	<u>89</u>	<u>0</u>	<u>0</u>	<u>89</u>
4. As of December 31, 2006	1,455	421 <sup>2</sup>	11	1,887

<sup>1</sup> Includes 10 alternate payees of QDROs.

<sup>2</sup> Includes 12 alternate payees of QDROs.

**Exhibit 12**

***Austin Police Retirement System  
Historical Comparison of Actuarial Accrued Liability and Actuarial Value of Assets  
(Valuations as of December 31)***



## Exhibit 13

### *Austin Police Retirement System Summary Plan Description*

***Date System Began:*** January 1, 1980

***Plan Effective Date:*** December 1, 2007

***Administration:*** The fund is administered by a retirement board consisting of 11 members. Funds are held by the retirement board, as trustee.

***Employees Included:*** All regular and permanent full-time police officers or cadets who are employed by the police department. In addition, employees of the System's administrative staff are also included.

***Employee Contributions:*** 11% of each police officer's "Compensation Considered" through September 2007 and 13% thereafter.

***City Contributions:*** 18% of "Compensation Considered" for all "Employees Included" effective as of October 1, 1996 and thereafter. Since September 1, 2003, a very small portion of the city contribution has been allocated by the Board to the Retiree Death Benefit Fund (account) administered by the System.

***Service Considered:*** The number of months during which a member is required to make and does make prescribed contributions plus (a) any creditable service received as a result of the provisions for establishing credit for certain military service, cadet service, or probationary service, (b) any previously forfeited service that is reinstated according to the provisions for reinstatement, and (c) any "permissive service credit" that is purchased according to plan provisions.

***Compensation Considered:*** Base pay and longevity pay.

***Average Final Compensation:*** The highest monthly average of the "Compensation Considered" for 36 months of the last 120 months during which the member contributed to the system or during the months of service for which he did contribute, if less than 120.

## Exhibit 13 (continued)

### *Austin Police Retirement System Summary Plan Description*

**Normal Retirement Date:** The first day of the month following the earliest month in which (a) the member has completed at least 23 years of creditable service not reflecting any military service credit; or (b) the member has attained age 55 and completed at least 20 years of creditable service not reflecting any military service credit; or (c) the member has reached age 62.

**Normal Service Retirement Benefit:** A member is eligible for a normal service retirement benefit after having reached his normal retirement date. The monthly annuity, payable as a life annuity (modified cash refund), is, effective December 1, 2007, 3.20% of "Average Final Compensation" multiplied by years and months of "Service Considered."

**Disability Benefit:** A member is eligible for a disability benefit (a) at any age provided he has completed ten years of service and (b) has a total and permanent disability from any cause. A member with less than 10 years of service is also eligible for a disability benefit if his disability is total and permanent and is the result of his duties as a police officer. The annuity is based on credited service and compensation to date of disability; however, not less than 20 years of service will be credited for an occupational disability.

**Death Benefits:** If death occurs before eligibility for retirement, the member's beneficiary receives a benefit equal to twice the accumulated member contributions made plus allowable interest. This benefit will not be less than \$10,000.

If death occurs before retirement but after eligibility for retirement and the member had elected an optional annuity, the member's beneficiary will be entitled to a monthly annuity calculated as if the member had retired at the end of the month in which he died. A \$10,000 lump-sum death benefit is also payable to the beneficiary.

If death occurs before retirement but after eligibility for retirement and prior to selection of an optional annuity and, if the member leaves a lawfully married spouse surviving, then the surviving spouse may select an optional annuity or select a lump sum benefit equal to twice the accumulated member contributions made plus allowable interest. If the lawfully married surviving spouse dies before having received benefits equal to the amount of accumulated member contributions, the excess of such accumulated deposits over the benefits actually received will be refunded in one sum to the member's estate. If the member leaves no surviving spouse, then the member's designated beneficiary, or if no beneficiary exists, the executor or administrator of the estate, may select either the Fifteen Year Certain and Life Annuity or a lump sum benefit equal to twice the accumulated



## Exhibit 13 (continued)

### *Austin Police Retirement System Summary Plan Description*

member contributions made plus allowable interest. If an optional annuity is selected in lieu of a lump sum benefit, a \$10,000 lump sum death benefit is payable to the beneficiary.

If death occurs after retirement, under certain optional pension forms the beneficiary will also be entitled to receive a monthly annuity for life or for the remainder of a certain period. If no monthly annuity is payable, the member's beneficiary receives a lump sum benefit equal to the excess, if any, of the accumulated member contributions plus allowable interest over any benefits actually received.

***Retiree Death Benefit Fund:*** Effective September 1, 2003, a separate fund was established to pay \$7,500 post-retirement lump sum death benefits. This fund is funded by city contributions. Effective September 1, 2007, the amount of these benefits was increased to \$10,000.

***Termination Benefit:*** A member terminating employment with less than 10 years of service for reasons other than service retirement, disability retirement or death will receive an amount equal to his contributions to the retirement system and accumulated interest. Interest is credited at the end of each calendar year at a rate determined by the system's board of trustees on the member's beginning-of-year account balance. Effective September 1, 2007, interest will not be credited to members with less than 10 years of service.

If the terminating member has 10 or more years of service, he may elect to leave his accumulated contributions with the retirement system. He will be entitled to a deferred benefit commencing at the normal retirement date based upon his service and compensation prior to termination.

***Optional Payments:*** A retiring member may elect an optional form of annuity payment rather than the standard Life Annuity. Such options are a Joint and 100% to Survivor, Joint and 50% to Survivor, Joint and Two-Thirds to Survivor, Joint and Two-Thirds to Last Survivor or 15-Year Certain and Life Annuity.

A retroactive deferred retirement option plan (RETRO DROP) can also be elected by retiring members meeting certain eligibility requirements. This option provides the member with a monthly annuity and a lump sum. The RETRO DROP benefit computation date elected by the member (1) may not be earlier than the date the member completed 23 years of creditable service not reflecting any military service credit and (2) may not be earlier than 36 months prior to the date of retirement.

## Exhibit 13 (continued)

### *Austin Police Retirement System Summary Plan Description*

Beginning in 2007, a FORWARD DROP can be elected by a member who has at least 23 years of creditable service not reflecting any military service credit. This option provides the member at retirement with a monthly annuity and a lump sum. The monthly benefit is determined at the election date as if the member had retired on that date. The amount of the lump sum depends upon the period between the election date and the actual date of retirement. The maximum lump sum possible is provided if the member retires five years after the election date.

***Postretirement Cost-of-Living Increases:*** The Board may authorize an annual ad hoc cost-of-living adjustment (COLA), subject to actuarial approval, not to exceed 6% per year. No COLAs were given January 1, 2007 and January 1, 2006. COLAs of 1.75%, 3.00%, and 1.50% were given January 1, 2005, 2004, and 2003, respectively. Postretirement benefit increases will automatically be provided when the system's benefit formula as a percent of average compensation for years of service increases. Therefore, effective December 1, 2007, monthly benefits of pensions will increase 6.67% because of the increase in the benefit formula from 3.0% to 3.2% of average compensation.

#### ***Changes Since Prior Valuation:***

- Increase in benefit multiplier from 3.0% to 3.2% of average compensation effective December 1, 2007
- Increase in monthly benefits of pensioners of 6.67% effective December 1, 2007
- Increase in police officers' contribution rate from 9% to 11% in October 2006 and from 11% to 13% in October 2007
- Addition of FORWARD DROP as an option beginning in 2007
- Increase in Retiree Death Benefit from \$7,500 to \$10,000 effective September 1, 2007
- Increase in death benefit for death occurring before retirement but while eligible to retire from \$7,500 to \$10,000 effective September 1, 2007
- Change in interest crediting so that effective September 1, 2007, interest will not be credited on member contributions for members with less than 10 years of service

## Exhibit 14

### *Austin Police Retirement System Summary of Actuarial Methods and Assumptions*

- |  |  |
|--|--|
| 1. Actuarial Cost Method                                     | Entry Age Actuarial Cost Method <ul style="list-style-type: none"><li>• The normal cost is calculated to be a level percent of compensation over a member's career.</li><li>• The unfunded actuarial accrued liability is assumed to be funded by level percent contributions of employee payroll based on annual payroll growth of 4% per year due to general wage increases.</li></ul> |
| 2. Asset Valuation Method                                    | Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years. The actuarial value will not be less than 80% or more than 120% of the market value of assets.  |
| 3. Investment Return (Interest Rate)                         | 8% per year, net of all expenses   |
| 4. Inflation   | 4% per year  |
| 5. Salary Increase Due to General Wage Increases             | 4% per year  |
| 6. Salary Increases Due to Promotion and Longevity Increases | 2.8% per year average over 25-year career. See Exhibit 16 for the promotion and longevity salary increases by year of service.   |
| 7. Total Salary Increase                                     | 6.8% per year average over 25-year career. See Exhibit 16 for the total salary increases by year of service.   |
| 8. Interest Credited on Officer's Accumulated Contributions  | 3% per year  |
| 9. Mortality   |  |
| a. Active and Retired  | RP-2000 Mortality Tables for males and females projected to 2006   |
| b. Disabled  | RP-2000 Mortality Tables for males and females projected to 2006   |

**Exhibit 14 (continued)**

***Austin Police Retirement System  
Summary of Actuarial Methods and Assumptions***

- |  |  |
|--|--|
| 10. Retirement Rates   | Expected average retirement age of 53.4 based on the officers included in the December 31, 2006 valuation. See Exhibit 17 for service and age-related rates.   |
| 11. Withdrawal Rates   | Expected number of terminations of 26 in 2007 based on the officers included in the December 31, 2006 valuation. See Exhibit 18 for service-related rates.   |
| 12. Disability Rates   | See Exhibit 19 for age-related rates.  |
| 13. Future Pre-Employment Military Service Purchase for Officers Who Have Told System They Have Military Service and Have Not Yet Purchased Credit | <ul style="list-style-type: none"><li>• 100% of officers will purchase</li><li>• All of military service will be purchased up to allowable 24 months</li><li>• Officers will pay 25% of estimated cost</li></ul> |
| 14. Future Pre-Employment Military Service Purchase for Officers Who Have Not Told System Whether They Have Such Service                           | <ul style="list-style-type: none"><li>• 35% of officers will purchase</li><li>• 22 months purchased on average</li><li>• Officers will pay 25% of estimated cost</li></ul>                                       |
| 15. DROP Election  | 55% of those eligible for at least a 12-month DROP lump sum will make such an election (RETRO) or will have made such an election (FORWARD). See Exhibit 17A for the allocation between RETRO and FORWARD.       |
| 16. DROP Period Election   | Members elect the maximum period eligible (up to 36 months for RETRO and up to 60 months for FORWARD).   |
| 17. Percent Single after Eligible for Service Retirement   | 15%  |
| 18. Age of Spouse of Officer Who Dies While Eligible to Retire   | Female 3 years younger than male   |

**Exhibit 14 (continued)**

***Austin Police Retirement System  
Summary of Actuarial Methods and Assumptions***

- |   |  |
|---|--|
| 19. Payment Form Election for Pre-Retirement Death Benefits   | Joint and 100% to Survivor<br>15-Year Certain and Life Annuity   |
| a. Married Members  |  |
| b. Single Members   |  |
| 20. Ad Hoc Cost-of-Living Increases for Pensioners  | None   |
| 21. Cadet Service Purchase  | <ul style="list-style-type: none"><li>• 100% of officers who have not yet purchased the credit will purchase their cadet service in the future.</li><li>• Officer purchase amount based on officer contribution rate and cadet pay at time of cadet service.</li></ul> |
| 22. Forfeited Service Purchase, Probationary Service Purchase, and Uniform Military Leave of Service Purchase | 100% of officers with such eligible service will purchase the respective service.  |
| 23. DROP Lump Sums Left with the System for Investment after Retirement (PROP)                                | <ul style="list-style-type: none"><li>• 40% of officers retiring with DROP will leave their lump sum in the System until age 60.</li><li>• Average annual rate credited to the PROP accounts will be 7%.</li></ul>   |
| 24. Contributions (% of Covered Payroll)  |  |
| a. City   | <ul style="list-style-type: none"><li>• 18%</li></ul>  |
| b. Police Officers  | <ul style="list-style-type: none"><li>• 11% through September 2007 and 13% thereafter</li></ul>  |



## Exhibit 15

### *Austin Police Retirement System Changes in Actuarial Methods and Assumptions*

	December 31, 2005 Actuarial Assumption	December 31, 2006 Actuarial Assumption
• Retirement Rates	Reflecting only the RETRO DROP (Exhibit 17B)	Reflecting both the RETRO and FORWARD DROPS (Exhibit 17)
• DROP Election	65% (RETRO)	55% (allocated between RETRO and FORWARD DROPS in Exhibit 17A)
• Mortality for Active and Retired	RP-2000 Mortality Tables for males and females	RP-2000 Mortality Tables for males and females projected to 2006
• Mortality for Disabled	RP-2000 Mortality Tables for males and females	RP-2000 Mortality Tables for males and females projected to 2006

**Exhibit 16**

*Austin Police Retirement System  
Salary Rate of Increase Assumption from Year t-1 to Year t*

Year of Service t	Salary Increases Due to	
	Promotion and Longevity Increases	Total Increases
1	18.0%	22.7%
2	11.2	15.6
3	5.8	10.0
4	0.9	4.9
5	0.9	4.9
6	7.1	11.4
7	0.5	4.5
8	0.5	4.5
8	0.5	4.5
10	7.1	11.4
11	0.3	4.3
12	0.3	4.3
13	0.3	4.3
14	7.1	11.4
15	0.2	4.2
16	7.2	11.5
17	0.2	4.2
18	0.1	4.1
19	0.1	4.1
20	0.1	4.1
21	0.1	4.1
22	0.1	4.1
23	0.1	4.1
24	0.1	4.1
25	0.1	4.1
26-45	0.0	4.0

## Exhibit 17

### *Austin Police Retirement System Assumed Service Retirement Rates Per 1,000 Members\**

For Entry Ages Under 32				For Entry Ages 33 and Above			
Service	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
23	50	75	100	43			
24	150	150	150	44			
25	200	200	200	45			
26	250	250	250	46			
27	450	350	300	47			
28	500	400	400	48			
29	500	400	500	49			
30	500	500	500	50			
31	500	500	500	51			
32	500	500	1000**	52			
33	500	500		53			
34	500	500		54			
35	600	500		55	200		
36	600	500		56	250		
37	600	1000**		57	300		
38	600			58	350		
39	600			59	500		
40	600			60	1000	500	
41	600			61		350	
42	1000**			62		350	800
				63		350	400
				64		350	400
				65		1000	1000

\* Rates are applicable after officer is or would be eligible for retirement.

\*\* 100% retirement rate will be effective at age 60 if earlier.

**Exhibit 17A**

***Austin Police Retirement System  
Assumed Distribution of Retirements by Option Elected***

Service at Employment Termination	No DROP Elected <sup>(1)</sup>	RETRO DROP Elected	FORWARD DROP Elected	Total
23 or less	100%	0%	0%	100%
24	45	45	10	100
25	45	35	20	100
26	45	25	30	100
27	45	20	35	100
28	45	20	35	100
29	45	20	35	100
30	45	20	35	100
31	45	20	35	100
32	45	20	35	100
33	45	25	30	100
34	45	35	20	100
35	45	45	10	100
36	45	55	0	100
37	45	55	0	100
38	45	55	0	100
39	45	55	0	100
40	45	55	0	100
41	45	55	0	100
42	45	55	0	100%

<sup>(1)</sup> Police officers elect a type of service retirement benefit that does not include payment of a lump sum distribution.

## Exhibit 17B

### *Austin Police Retirement System Comparison of 12/31/2005 Assumed Service Retirement Rates Per 1000 with 12/31/2006 Assumed Service Retirement Rates <sup>(1)</sup>*

Shaded Rates are Rates that Have Been Reduced to Reflect Fewer Retirements  
Due to Election of the New FORWARD DROP

Service	For Entry Ages Under 33 <sup>(2)</sup>								
	22 and Under			23 – 27			28 – 32		
	12/31/2005	12/31/2006	Difference	12/31/2005	12/31/2006	Difference	12/31/2005	12/31/2006	Difference
23	50	50	0	75	75	0	100	100	0
24	200	150	50	200	150	50	200	150	50
25	250	200	50	250	200	50	250	200	50
26	300	250	50	300	250	50	300	250	50
27	500	450	50	400	350	50	350	300	50
28	500	500	0	400	400	0	400	400	0
29	500	500	0	400	400	0	500	500	0
30	500	500	0	500	500	0	500	500	0
31	500	500	0	500	500	0	500	500	0
32	500	500	0	500	500	0	1000 <sup>(3)</sup>	1000 <sup>(3)</sup>	0
33	500	500	0	500	500	0			
34	500	500	0	500	500	0			
35	600	600	0	500	500	0			
36	600	600	0	500	500	0			
37	600	600	0	1000 <sup>(3)</sup>	1000 <sup>(3)</sup>	0			
38	600	600	0						
39	600	600	0						
40	600	600	0						
41	600	600	0						
42	1000 <sup>(3)</sup>	1000 <sup>(3)</sup>	0						

<sup>(1)</sup> Rates are applicable after an officer is or would be eligible for retirement.

<sup>(2)</sup> Rates for entry ages 33 and above are not changed.

<sup>(3)</sup> 100% retirement rate will be effective at age 60 if earlier.



**Exhibit 18**

***Austin Police Retirement System  
Assumed Withdrawal Rates Per 1,000 Members***

Years of Service	Withdrawal Rates
0	100
1	20
2	20
3	20
4	20
5	20
6	20
7	20
8	20
9	20
10	20
11	17
12	14
13	10
14	5
15	0
16	0
17	0
18	0
19	0

**Exhibit 19**

***Austin Police Retirement System  
Assumed Disability Rates Per 1,000 Members\****

Age	Disability Rates	Age	Disability Rates
20	0.14	40	0.92
21	0.15	41	1.14
22	0.16	42	1.32
23	0.17	43	1.48
24	0.18	44	1.73
25	0.19	45	2.09
26	0.21	46	2.55
27	0.23	47	2.98
28	0.25	48	3.34
29	0.28	49	3.62
30	0.31	50	3.79
31	0.35	51	3.92
32	0.40	52	4.04
33	0.45	53	4.24
34	0.49	54	4.56
35	0.52	55	4.90
36	0.54	56	5.32
37	0.57	57	5.86
38	0.62	58	6.60
39	0.73	59	7.53
		60	9.11
		61	11.72
		62 and later	0.00

\* Rates are for disability due to all causes, and occupational disability rates are assumed to be 55% of all cause rates. Rates are not applicable after an officer is or would be eligible for retirement.

## Exhibit 20

### *Austin Police Retirement System Definitions*

1. ***Actuarial cost method*** – A procedure for determining the actuarial present value of pension plan benefits and for developing an actuarially equivalent allocation of such value to time periods in the form of a normal cost contribution rate and an actuarial accrued liability.
2. ***Actuarially equivalent*** – Of equal actuarial present value, determined as of a given date with each value based on the same set of actuarial assumptions.
3. ***Actuarial present value*** – The value of an amount or series of amounts payable or receivable at various times in the future, determined as of a given date (the valuation date) by the application of the actuarial assumptions.
4. ***Entry age actuarial cost method*** – A method under which the actuarial present value of projected benefits of each individual included in the valuation is allocated on a level basis over the earnings of the individual between the entry age and assumed exit. Entry age is calculated as the difference between the attained age and the years of service credit as of the valuation date. Service is assumed to be continuous.
5. ***Normal cost contribution rate*** – That portion of the actuarial present value of benefits which is allocated to a valuation year by the Entry Age Actuarial Cost Method. It is expressed as a percent of compensation and is equal to the actuarial present value at hire of projected benefits divided by the actuarial present value at hire of anticipated future compensation. It is calculated for each individual and summed for the entire group.
6. ***Actuarial accrued liability*** – That portion, as determined by the Entry Age Actuarial Cost Method, of the actuarial present value of benefits which is not provided for by future normal cost contributions.
7. ***Unfunded actuarial accrued liability*** – The excess of the total actuarial present value of future benefits over the sum of the tangible assets and the actuarial present value of future normal cost contributions.
8. ***Actuarial value of assets*** – The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an actuarial valuation.
9. ***Actuarial gain or loss*** – A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates.
10. ***Amortization period*** – The period determined in an actuarial valuation as the number of years required, beginning with the valuation date, to amortize the unfunded actuarial accrued liability with a level percent of payroll that is the difference between the expected total contribution rate and the normal cost contribution rate.

## Exhibit 21

### *Austin Police Retirement System Disclosures in Accordance with GASB Statement No. 25 Required Supplementary Information for the System's Financial Statements for Fiscal Year Ending December 31, 2006*

#### I. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>1</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/01	\$284,761,203	\$347,548,177	\$62,786,974	81.9%	\$69,706,749	90.1%
12/31/02 <sup>2</sup>	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 <sup>3</sup>	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8
12/31/05 <sup>3</sup>	371,504,533	494,640,856	123,136,323	75.1	93,428,957	131.8
12/31/06 <sup>3,4</sup>	417,283,844	576,125,324	158,841,480	72.4	100,090,151	158.7

<sup>1</sup> The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

<sup>2</sup> Reflects changes in plan benefit provisions effective September 1, 2003.

<sup>3</sup> Some of the actuarial assumptions were revised.

<sup>4</sup> Reflects changes in plan benefit provisions effective September 1, 2007 and December 1, 2007.

#### II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution <sup>1</sup>	Percentage Contributed
2001	18%	\$11,178,204	100%
2002	18	12,566,293	100
2003	18.000/17.906 <sup>2</sup>	13,929,724 <sup>3</sup>	100
2004	17.906	14,714,174 <sup>4</sup>	100
2005	17.902	15,754,922 <sup>5</sup>	100
2006	17.906	16,945,167 <sup>6</sup>	100

<sup>1</sup> The annual required contribution is based on actual covered payroll.

<sup>2</sup> Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund.

<sup>3</sup> The employer's total contribution during 2003 including the Retiree Death Benefit Fund was \$13,950,555.

<sup>4</sup> The employer's total contribution during 2004 including the Retiree Death Benefit Fund was \$14,794,834.

<sup>5</sup> The employer's total contribution during 2005 including the Retiree Death Benefit Fund was \$15,840,395.

<sup>6</sup> The employer's total contribution during 2006 including the Retiree Death Benefit Fund was \$17,033,469.

**Exhibit 21 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 25  
Required Supplementary Information  
for the System's Financial Statements for Fiscal Year  
Ending December 31, 2006***

**III. Notes to Required Supplementary Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	December 31, 2006
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Amortization period	29.7 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market

**Actuarial assumptions:**

- Investment rate of return, net of expenses 8.0%
- Projected salary increases including promotion and longevity 4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year 4.0%
- Postretirement cost-of-living adjustments None

**IV. Actuarial Information for Notes to the Financial Statement as Required by Paragraph 32 of GASB 25**

**A. PLAN DESCRIPTION**

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). The actuarial valuation as of December 31, 2006 recognized that the monthly benefit will be equal to 3.2% of the highest 36-month average salary multiplied by years and months of service and that pensioners will receive a 6.67% increase in monthly benefits effective December 1, 2007.



**Exhibit 21 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 25  
Required Supplementary Information  
for the System's Financial Statements for Fiscal Year  
Ending December 31, 2006***

The DROP provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant either elects for the RETRO DROP benefit computation date or elects to enter the FORWARD DROP. Further, the DROP provisions may be changed in the future by Board rule with approval by the System's actuary. Similarly, the eligibility requirement for service retirement may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of service may not be changed.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the DROP lump sum account and can also elect to delay payment of the entire DROP lump sum. Interest credits are paid on the participant's DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits are granted based on an annual rate determined from time to time by Board Rule.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

A \$10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System. The following membership status of the System was reflected in the actuarial valuation as of December 31, 2006:

Retirees and beneficiaries currently receiving benefits (421) and terminated employees entitled to future monthly benefits (11)	432
Current participating members	<u>1,455</u>
Total	1,887

**Exhibit 21 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 25  
Required Supplementary Information  
for the System's Financial Statements for Fiscal Year  
Ending December 31, 2006***

**B. CONTRIBUTIONS**

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect on December 31, 2006, participants are required to contribute 9% of their basic compensation to the System before October 2006, 11% from October 2006 through September 2007, and 13% thereafter. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions. Since September 1, 2003, a portion of the City's total 18% contribution has been allocated to the Retiree Death Benefit Fund. This portion, redetermined annually, was 0.094% for 2006 based on the December 31, 2004 actuarial valuation and is 0.081% for 2007 based on the December 31, 2005 actuarial valuation. This portion was redetermined based on the December 31, 2006 actuarial valuation to be 0.100% for 2008.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased from 9% to 11% effective October 2006 and to 13% effective October 2007 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement at the time any change is made. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2006 and the plan provisions recognized in that valuation, the normal cost was 21.691% of pay and the amortization period was 29.7 years.

## Exhibit 22

### *Austin Police Retirement System Disclosures in Accordance with GASB Statement No. 27 Notes to the Financial Statements for the City of Austin for the Fiscal Year Ending September 30, 2007*

#### I. Annual Pension Cost

For the fiscal year ending September 30, 2007, the City's Annual Pension Cost (APC) for the Austin Police Retirement System is \$\_\_\_\_\_ as described below in footnote 4 of Trend Information. The total contributions by the City are a fixed 18% of the basic compensation, consisting of base pay and longevity pay, of the members of the System (including both police cadets and officers). However, since September 1, 2003, a portion of the city's contribution is allocated to a separate Retiree Death Benefit Fund (account). This portion, redetermined annually, was 0.094% for 2006 based on the December 31, 2004 actuarial valuation and is 0.081% for 2007 based on the December 31, 2005 actuarial valuation. Therefore, the contributions for the fiscal year ending September 30, 2007 were equal to 17.906% of payroll for the period October 1, 2006 through December 31, 2006, 17.919% of payroll for the period January 1, 2007 through September 30, 2007.

The annual required contributions (ARC) by the city for the fiscal year ending September 30, 2007 were based on the actuarial valuations as of December 31, 2004 and as of December 31, 2005 using the entry age actuarial cost method and were determined in compliance with the GASB Statement No. 27 parameters, including a maximum amortization period of 30 years for the ARC for the fiscal year ending September 30, 2007. The actuarial methods and assumptions used for the three most recent valuations are shown below:

Valuation date	12/31/2004	12/31/2005	12/31/2006
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent of payroll, open	Level percent of payroll, open	Level percent of payroll, open
Amortization period for ARC	30 years	30 years	30 years
Asset valuation method	5-year adjusted market value	5-year adjusted market value	5-year adjusted market value
<b>Actuarial Assumptions</b>			
• Investment return	8.0%	8.0%	8.0%
• Projected salary increases	4.0% plus promotion and longevity	4.0% plus promotion and longevity	4.0% plus promotion and longevity
• Inflation	4.0%	4.0%	4.0%
• Cost-of-living increases	0.0%	0.0%	0.0%
• Payroll increases	4.0%	4.0%	4.0%
• ARC as a percent of payroll	18.148%	18.775%	17.846%

**Exhibit 22 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 27  
Notes to the Financial Statements for the City of Austin  
for the Fiscal Year Ending September 30, 2007***

**II. Three-Year Trend Information for the  
Austin Police Retirement System**

Fiscal Year Ending	Annual Pension Cost (APC)	Contributions as a Percentage of Payroll	Percentage of APC Contributed	Net Pension Obligation
09/30/2005	\$ <sup>1,2</sup>	17.906/17.902%	100%	\$0
09/30/2006	<sup>1,3</sup>	17.902/17.906	100	0
09/30/2007	<sup>4</sup>	17.906/17.919	<sup>5</sup>	<sup>6</sup>

<sup>1</sup> City will be able to determine these amounts from their accounting system since there is no net pension obligation.

<sup>2</sup> APC was equal to the ARC, which is 17.906% of payroll for the period October 1, 2004 through December 31, 2004 plus 17.902% of payroll for the period January 1, 2005 through September 30, 2005, which is the actual contributions.

<sup>3</sup> APC was equal to the ARC, which is 17.902% of payroll for the period October 1, 2005 through December 31, 2005 plus 17.906% of payroll for the period January 1, 2006 through September 30, 2006, which is the actual contributions.

<sup>4</sup> APC was equal to the ARC, which is 18.148% of payroll for the period October 1, 2006 through December 31, 2006 plus 18.775% of payroll for the period January 1, 2007 through September 30, 2007, which is more than the actual contributions. There is no interest on the Net Pension Obligation (NPO) nor an NPO-related adjustment to the ARC, since the NPO was zero at the beginning of the year.

<sup>5</sup> The percentage of APC contributed is the actual contributions divided by the APC.

<sup>6</sup> The NPO as of September 30, 2007 is equal to the APC less the actual city contributions to the System in excess of the portion of contributions for the Retiree Death Benefit Fund. The NPO at the beginning of the year was zero.

**III. Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>1</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/01	\$284,761,203	\$347,548,177	\$62,786,974	81.9%	\$69,706,749	90.1%
12/31/02 <sup>2</sup>	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6
12/31/04 <sup>3</sup>	343,446,574	451,579,880	108,133,306	76.1	86,673,590	124.8
12/31/05 <sup>3</sup>	371,504,533	494,640,856	123,136,323	75.1	93,428,957	131.8
12/31/06 <sup>3,4</sup>	417,283,844	576,125,324	158,841,480	72.4	100,090,151	158.7

<sup>1</sup> The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

<sup>2</sup> Reflects changes in plan benefit provisions effective September 1, 2003.

<sup>3</sup> Some of the actuarial assumptions were revised.

<sup>4</sup> Reflects changes in plan benefit provisions effective September 1, 2007 and December 1, 2007.



**Exhibit 22 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 27  
Notes to the Financial Statements for the City of Austin  
for the Fiscal Year Ending September 30, 2007***

**IV. Actuarial Information for Notes to the Financial Statement as  
Required by Paragraph 20 of GASB 27**

**A. PLAN DESCRIPTION**

The Board of Trustees of the City of Austin Police Retirement System is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's financial reporting entity and is included in the City's financial reports as a pension trust fund. The Plan issues a stand alone report that is available from the Retirement Board.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). The actuarial valuation as of December 31, 2006 recognized that the monthly benefit will be equal to 3.2% of the highest 36-month average salary multiplied by years and months of service and that pensioners will receive a 6.67% increase in monthly benefits effective December 1, 2007.

The DROP provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant either elects for the RETRO benefit computation date or elects to enter the FORWARD DROP. Further, the DROP provisions may be changed in the future by Board rule with approval by the System's actuary. Similarly, the eligibility requirement for service retirement may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of service may not be changed by Board rule.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the DROP lump sum account and can also elect to delay payment of the entire DROP lump sum. Interest credits are paid on the participant's DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits are granted based on an annual rate determined from time to time by Board Rule.



**Exhibit 22 (continued)**

*Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 27  
Notes to the Financial Statements for the City of Austin  
for the Fiscal Year Ending September 30, 2007*

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

A \$10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System.

**B. CONTRIBUTIONS**

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions in effect during the fiscal year ending September 30, 2007, participants were required to contribute 11% of their basic compensation to the System. Beginning in October 2007, participants are required to contribute 13% of their basic compensation to the System. The City is required to make contributions equal to at least 18% of basic compensation. Since September 1, 2003, a portion of the City's total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was 0.094% for the period October 1, 2006 through December 31, 2006 and was 0.081% for the period January 1, 2007 through September 30, 2007.

The total City contribution rate of at least 18% is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased from 9% to 11% effective October 2006 and to 13% effective October 2007 by a recommendation of the Retirement Board and an approving vote of the participating members in accordance with the state law governing the System. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

**Exhibit 22 (continued)**

***Austin Police Retirement System  
Disclosures in Accordance with GASB Statement No. 27  
Notes to the Financial Statements for the City of Austin  
for the Fiscal Year Ending September 30, 2007***

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement at the time any change is made. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2006 and the plan provisions recognized in that valuation, the normal cost was 21.691% of pay and the amortization period was 29.7 years.