

AUSTIN POLICE
RETIREMENT SYSTEM

ACTUARIAL VALUATION
AS OF DECEMBER 31, 2013



July 11, 2014

Mr. Sam Jordan, CEO
Austin Police Retirement System
2520 South IH 35, Suite 100
Austin, TX 78704

Re: Austin Police Retirement System

Dear Mr. Jordan:

We are pleased to present to the Board this report of the annual actuarial valuation of the Austin Police Retirement System. 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 applicable laws and regulations issued to date at the state and federal level. 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 System, 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 Police Retirement System. 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/lke

Enclosures

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SUMMARY OF REPORT

The regular annual actuarial valuation of the Austin Police Retirement System, performed as of December 31, 2013, has been completed and the results are presented in this Report.

The pension costs, compared with those developed in the December 31, 2012 actuarial valuation report, are as follows:

| Valuation Date | New Assums <u>12/31/13</u> | Old Assums <u>12/31/13</u> | Old Assums <u>12/31/12</u> |
|---|-------------------------------|-------------------------------|-------------------------------|
| Normal Cost % of Total Annual Payroll | 21.775% | 22.324% | 21.743% |
| Expected Member Contributions % of Total Annual Payroll | 13.000% | 13.000% | 13.000% |
| City Normal Cost Rate % of Total Annual Payroll | 8.775% | 9.324% | 8.743% |
| Funding Period To Amortize UAAL (expressed in number of years) | 28.9 | 32.4 | 29.4 |

As can be seen above, the funding period required to amortize the Unfunded Actuarial Accrued Liability initially increased from 29.4 to 32.4 years since the prior valuation. This increase is the result of a 6.8% investment return (Actuarial Asset Basis) that fell short of the 8.0% assumption, combined with the utilization of a more conservative approach in the manner that the present value of future salaries are calculated. The increase in the funding period was partially offset by favorable employee turnover experience, and average increases in compensation that were lower than the assumed rate.

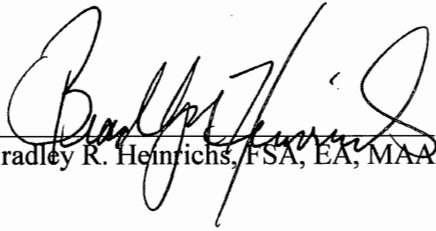
In addition, the Board of Trustees approved reducing the general wage inflation assumption from 4.0% to 3.75% per year for purposes of projecting future individual salary increases. As shown, this resulted in a 3.5 year reduction in the required funding period. The details of the impact associated with implementing this assumption change are displayed in the comparative summary section of this report.

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 answer any pending questions concerning its contents.

Respectfully submitted,

FOSTER & FOSTER INC.

By:



Bradley R. Heinrichs, FSA, EA, MAAA

CHANGES SINCE PRIOR REPORT

1. Benefit Provisions

There have been no changes in benefits since the prior valuation.

2. Actuarial Assumptions/Methods

As approved by the Board of Trustees, there has been one change to the actuarial assumptions since the prior valuation, as follows:

- The expected increase in salary due to general wage increases has been lowered from 4.0% to 3.75% per year.

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS
(Exclusive of Retiree Death Benefit Fund)

| Valuation Date | New Assums <u>12/31/2013</u> | Old Assums <u>12/31/2013</u> | Old Assums <u>12/31/2012</u> |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| A. Participant Data | | | |
| Actives | 1,732 | 1,732 | 1,709 |
| Service Retirees + DROP | 606 | 606 | 575 |
| Beneficiaries | 46 | 46 | 44 |
| QDRO | 27 | 27 | 25 |
| Disability Retirees | 4 | 4 | 4 |
| Terminated Vested | 26 | 26 | 23 |
| Total | <u>2,441</u> | <u>2,441</u> | <u>2,380</u> |
| Total Annual Payroll | 147,138,718 | 147,138,718 | 141,561,047 |
| Payroll Under Assumed Ret. Age | 145,794,226 | 145,794,226 | 141,561,047 |
| Annual Rate of Payments to: | | | |
| Service Retirees + DROP | 38,015,613 | 38,015,613 | 35,193,018 |
| Beneficiaries | 1,963,282 | 1,963,282 | 1,916,217 |
| QDRO | 404,654 | 404,654 | 355,420 |
| Disability Retirees | 136,509 | 136,509 | 136,509 |
| Terminated Vested | 690,455 | 690,455 | 601,903 |
| B. Assets | | | |
| Actuarial Value | 604,841,897 | 604,841,897 | 558,475,643 |
| Market Value | 594,421,396 | 594,421,396 | 538,295,885 |
| C. Liabilities | | | |
| Present Value of Benefits | | | |
| Active Members | | | |
| Retirement Benefits | 776,861,808 | 793,234,565 | 763,007,423 |
| Vested Benefits | 1,578,491 | 1,592,402 | 1,576,678 |
| Death Benefits | 14,450,551 | 14,712,995 | 14,023,341 |
| Disability Benefits | 15,854,778 | 16,073,636 | 15,479,539 |
| Refund of Contributions | 3,311,001 | 3,318,373 | 3,177,242 |
| Service Retirees + DROP | 409,602,939 | 409,602,939 | 379,302,484 |
| Beneficiaries | 16,565,761 | 16,565,761 | 15,910,016 |
| QDRO | 4,231,168 | 4,231,168 | 3,736,704 |
| Disability Retirees | 1,576,892 | 1,576,892 | 1,589,185 |
| Terminated Vested | 2,653,245 | 2,653,245 | 1,798,204 |
| Total | <u>1,246,686,634</u> | <u>1,263,561,976</u> | <u>1,199,600,816</u> |

| Valuation Date | New Assums <u>12/31/2013</u> | Old Assums <u>12/31/2013</u> | Old Assums <u>12/31/2012</u> |
|---|---------------------------------|---------------------------------|---------------------------------|
| C. Liabilities - (Continued) | | | |
| Present Value of Future Salaries | 1,607,918,167 | 1,635,619,798 | 1,682,723,298 |
| Normal Cost (Entry Age Normal) | | | |
| Retirement Benefits | 28,232,155 | 28,976,799 | 27,412,662 |
| Vested Benefits | 130,716 | 131,907 | 129,014 |
| Death Benefits | 658,332 | 670,525 | 628,536 |
| Disability Benefits | 981,039 | 992,092 | 933,921 |
| Refund of Contributions | 488,679 | 489,248 | 457,658 |
| Total Normal Cost | <u>30,490,921</u> | <u>31,260,571</u> | <u>29,561,791</u> |
| Present Value of Future Normal Costs | 335,642,480 | 349,090,483 | 343,023,990 |
| Actuarial Accrued Liability | | | |
| Retirement Benefits | 460,859,526 | 464,289,317 | 439,356,351 |
| Vested Benefits | 703,721 | 701,456 | 721,723 |
| Death Benefits | 7,459,487 | 7,484,536 | 7,015,678 |
| Disability Benefits | 6,588,624 | 6,571,116 | 6,366,009 |
| Refund of Contributions | 802,791 | 795,063 | 780,472 |
| Inactives | 434,630,005 | 434,630,005 | 402,336,593 |
| Total Actuarial Accrued Liability | <u>911,044,154</u> | <u>914,471,493</u> | <u>856,576,826</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | 306,202,257 | 309,629,596 | 298,101,183 |
| D. Actuarial Present Value of Accrued Benefits | | | |
| Vested Accrued Benefits | | | |
| Inactives | 434,630,005 | 434,630,005 | 402,336,593 |
| Actives | 136,872,536 | 136,667,075 | 138,294,726 |
| Member Contributions | <u>139,714,509</u> | <u>139,714,509</u> | <u>129,963,192</u> |
| Total | 711,217,050 | 711,011,589 | 670,594,511 |
| Non-vested Accrued Benefits | 26,535,280 | 26,509,367 | 21,034,476 |
| Total Present Value Accrued Benefits | <u>737,752,330</u> | <u>737,520,956</u> | <u>691,628,987</u> |

| Valuation Date | New Assums <u>12/31/2013</u> | Old Assums <u>12/31/2013</u> | Old Assums <u>12/31/2012</u> |
|---|---------------------------------|---------------------------------|---------------------------------|
| E. Pension Cost | | | |
| Normal Cost (with interest) % of Payroll Under Assumed Ret. Age* | 21.775 | 22.324 | 21.743 |
| Expected Member Contributions % of Total Annual Payroll | 13.000 | 13.000 | 13.000 |
| City Normal Cost Rate % of Total Annual Payroll | 8.775 | 9.324 | 8.743 |
| Funding Period to Amortize UAAL ** | 28.9 years | 32.4 years | 29.4 years |

F. 30-Year Funding Cost

| | | | |
|--|--------|--------|--------|
| Normal Cost (with interest) % of Payroll Under Assumed Ret. Age* | 21.775 | 22.324 | 21.743 |
| Payment Required to Amortize Unfunded Actuarial Accrued Liability over 30 years % of Total Annual Payroll | 12.506 | 12.646 | 12.655 |
| Total 30-Year Funding Cost % of Total Annual Payroll | 34.281 | 34.970 | 34.398 |

* Contributions developed above include 0.025% of payroll for assumed additional administrative expenses for participation in the Proportionate Retirement Program

** The period required to amortize the UAAL was calculated based on the City's currently scheduled annual contribution rate to the Fund of 21.63% of total payroll, less the calculated contribution rate required to fund the Retiree Death Benefit Fund.

COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS
(Retiree Death Benefit Fund)

| Valuation Date | New Assums <u>12/31/2013</u> | Old Assums <u>12/31/2013</u> | Old Assums <u>12/31/2012</u> |
|--|---------------------------------|---------------------------------|---------------------------------|
| Present Value of Benefits | | | |
| Active Members | 1,108,914 | 1,108,914 | 1,078,255 |
| Retired and Terminated Vested Members | 1,900,139 | 1,900,139 | 1,768,327 |
| Total | <u>3,009,053</u> | <u>3,009,053</u> | <u>2,846,582</u> |
| Present Value of Future Normal Costs | 461,737 | 467,799 | 473,410 |
| Normal Cost | 43,669 | 43,836 | 41,981 |
| Actuarial Accrued Liability | 2,547,316 | 2,541,254 | 2,373,172 |
| Asset Value of Fund | 689,006 | 689,006 | 601,764 |
| Unfunded Actuarial Accrued Liability (UAAL) | 1,858,310 | 1,852,248 | 1,771,408 |
| Payment Required to Amortize Unfunded Actuarial Accrued Liability over 22 years (as of 12/31/13) | | | |
| % of Total Annual Payroll | 0.090 | 0.090 | 0.087 |
| Normal Cost (with interest) | | | |
| % of Total Annual Payroll | 0.031 | 0.031 | 0.031 |
| Total Required City Contribution Rate Allocated to the Retiree Death Benefit Fund | | | |
| % of Total Annual Payroll | 0.121 | 0.121 | 0.118 |

* The Retiree Death Benefit Fund was established effective September 1, 2003. The Fund operates as a separate account within the system that is used to advance fund and to pay the \$10,000 post-retirement lump sum death benefits for retirees.

GAIN/LOSS ANALYSIS
(Exclusive of Retiree Death Benefit Fund)

a. Total Gain/(Loss)

| | |
|--|-----------------|
| 1. UAAL, Beginning of Year | 298,101,183 |
| 2. Normal Cost Applicable for Year | 29,561,791 |
| 3. Interest on (1) and (2) | 26,213,038 |
| 4. Contributions During Year | 50,475,335 |
| 5. Interest on (4) | 1,980,172 |
| 6. Expected UAAL, End of Year: (1)+(2)+(3)-(4)-(5) | 301,420,505 |
| 7. Actual UAAL, End of Year (Before Assumption Change) | 309,629,596 |
| Total Actuarial Gain/(Loss) | (8,209,091) |

b. Gain/(Loss) on Assets

| | |
|---|-----------------|
| 1. Actuarial Value of Assets (AVA), Beginning of Year | 558,475,643 |
| 2. Contributions Less Benefit Payments | 7,714,635 |
| 3. Expected Investment Earnings | 44,980,700 |
| 4. Expected AVA, End of Year: (1)+(2)+(3) | 611,170,978 |
| 5. Actual Actuarial Value of Assets, End of Year | 604,841,897 |
| Gain/(Loss) on Assets | (6,329,081) |

c. Gain/(Loss) on Liabilities

| | |
|--|-----------------|
| 1. Expected Actuarial Accrued Liability: a(6)+b(4) | 912,591,483 |
| 2. Actual Actuarial Accrued Liability (Before Assumption Change) | 914,471,493 |
| Gain/(Loss) on Liabilities | (1,880,010) |

ACTUARIAL ASSUMPTIONS AND METHODS

| | |
|--------------------------------------|--|
| <u>Mortality Rates – All Lives</u> | RP-2000 Combined Healthy without projection – Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. |
| <u>Interest Rate</u> | 8.0% per year, compounded annually, net of all expenses. |
| <u>Core Inflation</u> | 3.75% per year. |
| <u>Payroll Growth</u> | 3.5% per year for amortization of the Unfunded Actuarial Accrued Liability. |
| <u>Administrative Expenses (PRP)</u> | 0.025% of payroll for assumed additional administrative expenses for participation in the Proportionate Retirement Program. |
| <u>DROP Election</u> | 75% of those assumed to retire who are 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 following tables for allocation between RETRO and FORWARD. |
| <u>DROP Period Election</u> | Members elect the maximum period eligible (up to 36 months for RETRO and up to 60 months for FORWARD). |
| <u>PROP Investment Accounts</u> | 75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 4.0%. |
| <u>Marital Status</u> | 85% of actives are assumed to be married at time of benefit commencement. Females are assumed to be 3 years younger than Males. |
| <u>Funding Method</u> | Entry Age Normal Actuarial Cost Method |
| <u>Actuarial Asset Method</u> | All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets. |
| <u>Retirement Rates</u> | See following tables. |
| <u>Termination Rates</u> | See following tables. |

Disability Rates

See following tables. 55% of disablements are assumed to be service related.

Salary Increases

See following tables.

Pre-Retirement Death Payment Form

Married: Joint and 100% to Survivor
Single: 15-Year Certain and Life Annuity

Retirement Rates

| For Entry Ages Under 32 ¹ | | | | For Entry Ages 33 and Above ³ | | | |
|--------------------------------------|-------------------|-------------------|-------------------|--|-------|-------|-----------|
| APRS Service | 22 & Under | 23-27 | 28-32 | AGE | 33-37 | 38-42 | 43 & Over |
| 0-22 | 0.05 | 0.05 | 0.05 | 33-37 | 0.10 | | |
| 23 | 0.15 | 0.15 | 0.225 | 38-42 | 0.10 | 0.10 | |
| 24 | 0.10 | 0.10 | 0.15 | 43-47 | 0.10 | 0.10 | 0.10 |
| 25 | 0.10 | 0.10 | 0.15 | 48 | 0.10 | 0.10 | 0.10 |
| 26 | 0.15 | 0.15 | 0.25 | 49 | 0.10 | 0.10 | 0.10 |
| 27 | 0.15 | 0.15 | 0.25 | 50 | 0.10 | 0.10 | 0.10 |
| 28 | 0.25 | 0.25 | 0.25 | 51 | 0.10 | 0.10 | 0.10 |
| 29 | 0.25 | 0.25 | 0.30 | 52 | 0.10 | 0.10 | 0.10 |
| 30 | 0.30 | 0.30 | 0.40 | 53 | 0.10 | 0.10 | 0.10 |
| 31 | 0.30 | 0.30 | 0.50 | 54 | 0.10 | 0.10 | 0.10 |
| 32 | 0.30 | 0.30 | 1.00 ² | 55 | 0.20 | 0.10 | 0.10 |
| 33 | 0.30 | 0.30 | | 56 | 0.25 | 0.10 | 0.10 |
| 34 | 0.40 | 0.40 | | 57 | 0.30 | 0.10 | 0.10 |
| 35 | 0.40 | 0.50 | | 58 | 0.35 | 0.10 | 0.10 |
| 36 | 0.40 | 0.50 | | 59 | 0.50 | 0.10 | 0.10 |
| 37 | 0.50 | 1.00 ² | | 60 | 1.00 | 0.50 | 0.10 |
| 38 | 0.50 | | | 61 | | 0.35 | 0.10 |
| 39 | 0.50 | | | 62 | | 0.35 | 0.80 |
| 40 | 0.50 | | | 63 | | 0.35 | 0.40 |
| 41 | 0.50 | | | 64 | | 0.35 | 0.40 |
| 42 | 1.00 ² | | | 65 | | 1.00 | 1.00 |

¹ Rates are based on APRS service only and apply after a Member is eligible for retirement with combined APRS and Proportionate Retirement Program (PRP) service. Entry ages are determined based on APRS service only.

² 100% retirement rate will be effective at age 60, if earlier.

³ Rates are based on age and apply after a Member is eligible for retirement with combined APRS and PRP service. Entry ages are determined based on APRS service only.

Termination Rates

| <u>Combined Years of Service¹</u> | <u>Probability of Termination During Year</u> |
|--|---|
| 0 | 0.05 |
| 1 | 0.02 |
| 2 | 0.02 |
| 3 | 0.02 |
| 4 | 0.02 |
| 5 | 0.02 |
| 6 | 0.02 |
| 7 | 0.02 |
| 8 | 0.02 |
| 9 | 0.02 |
| 10 | 0.01 |
| 11 | 0.01 |
| 12 | 0.005 |
| 13 | 0.005 |
| 14 | 0.005 |
| 15 & Above | 0 |

¹ APRS service combined with Proportionate Retirement Program service.

Disability Rates

| <u>Age</u> | <u>Probability of Disablement During Year</u> |
|------------|---|
| 20 | 0.00014 |
| 22 | 0.00016 |
| 24 | 0.00018 |
| 26 | 0.00021 |
| 28 | 0.00025 |
| 30 | 0.00031 |
| 32 | 0.00040 |
| 34 | 0.00049 |
| 36 | 0.00054 |
| 38 | 0.00062 |
| 40 | 0.00092 |
| 42 | 0.00132 |
| 44 | 0.00173 |
| 46 | 0.00255 |
| 48 | 0.00334 |
| 50 | 0.00379 |
| 52 | 0.00404 |
| 54 | 0.00456 |
| 56 | 0.00532 |
| 58 | 0.00660 |
| 60 | 0.00911 |
| 62 & Above | 0 |

Salary Increases

| <u>Years of Service</u> | <u>Increase in Salary¹</u> |
|-------------------------|---------------------------------------|
| 0 | 18.0% |
| 1 | 11.2 |
| 2 | 5.8 |
| 3 | 0.9 |
| 4 | 0.9 |
| 5 | 7.1 |
| 6 | 0.5 |
| 7 | 0.5 |
| 8 | 0.5 |
| 9 | 7.1 |
| 10 | 0.3 |
| 11 | 0.3 |
| 12 | 0.3 |
| 13 | 7.1 |
| 14 | 0.2 |
| 15 | 7.2 |
| 16 | 0.2 |
| 17 | 0.1 |
| 18 | 0.1 |
| 19 | 0.1 |
| 20 | 0.1 |
| 21 | 0.1 |
| 22 | 0.1 |
| 23 | 0.1 |
| 24 | 0.1 |
| 25 & Above | 0.0 |

¹ Expected increases in salary as shown above are in addition to 3.75% (previously 4.0%) increase per year due to general wage increases.

Retirement Option Election

| <u>Service at Termination of Employment</u> | <u>No DROP Elected</u> ¹ | <u>RETRO DROP Elected</u> | <u>FORWARD DROP Elected</u> |
|---|---|-------------------------------|---------------------------------|
| 23 or less | 100% | 0% | 0% |
| 24 | 25 | 75 | 0 |
| 25 | 25 | 65 | 10 |
| 26 | 25 | 60 | 15 |
| 27 | 25 | 55 | 20 |
| 28 | 25 | 55 | 20 |
| 29 | 25 | 55 | 20 |
| 30 | 25 | 55 | 20 |
| 31 | 25 | 55 | 20 |
| 32 | 25 | 55 | 20 |
| 33 | 25 | 60 | 15 |
| 34 | 25 | 65 | 10 |
| 35 | 25 | 75 | 0 |
| 36 | 25 | 75 | 0 |
| 37 | 25 | 75 | 0 |
| 38 | 25 | 75 | 0 |
| 39 | 25 | 75 | 0 |
| 40 | 25 | 75 | 0 |
| 41 | 25 | 75 | 0 |
| 42 | 25 | 75 | 0 |

¹ Police officers elect a type of service retirement benefit that does not include payment of a lump sum distribution.

VALUATION NOTES

Total Annual Payroll is the annual rate of pay as of the valuation date of all active participants.

Payroll under Assumed Retirement Age is the annual rate of pay as of the valuation date of all active participants who are not subject to a 100% probability of retirement on the valuation date.

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.

Entry Age Normal Cost Method - Under this method, the normal cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate, multiplied by the participant's current compensation. The funding span utilized in determination of the normal cost rate for each benefit is to the last age at which that benefit is payable.

(a) The normal cost accrual rate equals:

(i) the present value of future benefits for the participant, determined as of the participant's entry age, divided by

(ii) the present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age .

(b) In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation.

(c) The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value at the participant's attained age of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets.

(d) Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

| <u>ASSETS</u> | MARKET VALUE |
|--------------------------------------|----------------|
| Cash and Cash Equivalents: | |
| Short Term Investments | 8,627,567.48 |
| Checking Account | 119,553.73 |
| Prepaid Expenses | 5,467.00 |
| Total Cash and Equivalents | 8,752,588.21 |
| Receivables: | |
| Member Contributions | 881,414.79 |
| Member Buy-Back Contributions | 10,157.01 |
| City Contributions | 1,466,538.60 |
| Investment Income | 2,638,959.91 |
| Total Receivable | 4,997,070.31 |
| Investments: | |
| Partnership Interests | 39,800,964.00 |
| Corporate Bonds | 31,313,961.00 |
| Corporate Stocks | 262,015,944.83 |
| International Stocks | 32,018,930.00 |
| International Government Securities | 36,834,768.79 |
| Real Estate Interests | 129,019,250.00 |
| Mutual Funds: | |
| Alternatives | 51,580,614.00 |
| Total Investments | 582,584,432.62 |
| Retiree Death Benefit Fund | 689,005.84 |
| Net Fixed Assets | 528,700.69 |
| Total Assets | 597,551,797.67 |
| <u>LIABILITIES</u> | |
| Payables: | |
| Refunds of Member Contributions | 126,060.46 |
| Other | 2,315,335.19 |
| Total Liabilities | 2,441,395.65 |
| NET POSITION RESTRICTED FOR PENSIONS | 595,110,402.02 |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2013
Market Value Basis

ADDITIONS

Contributions:

| | |
|---|---------------|
| Member | 18,731,630.86 |
| Buy-Back | 736,328.70 |
| City | 30,136,241.70 |
| City for Proportionate Retirement Program | 871,133.99 |
| City for Retiree Death Benefit | 153,388.67 |

Total Contributions 50,628,723.92

Investment Income:

| | |
|---|----------------|
| Net Increase in Fair Value of Investments | 46,660,294.84 |
| Interest & Dividends | 5,189,718.18 |
| Less Investment Expense ¹ | (2,325,862.97) |

Net Investment Income 49,524,150.05

Total Additions 100,152,873.97

DEDUCTIONS

Distributions to Members:

| | |
|--------------------------------------|---------------|
| Benefit Payments | 36,291,927.75 |
| Lump Sum DROP and PROP Distributions | 5,515,025.38 |
| Retiree Death Benefits | 64,565.22 |
| Refunds of Member Contributions | 953,746.74 |

Total Distributions 42,825,265.09

Administrative Expense 1,114,855.97

Total Deductions 43,940,121.06

Net Increase in Net Position 56,212,752.91

NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year 538,897,649.11

End of the Year 595,110,402.02

¹Investment Related expenses include investment advisory, custodial and performance monitoring fees.

ACTUARIAL ASSET VALUATION

December 31, 2013

Actuarial Assets for funding purposes are developed by recognizing the total actuarial investment gain or loss for each Plan Year over a five year period. In the first year, 20% of the gain or loss is recognized. In the second year 40%, in the third year 60%, in the fourth year 80%, and in the fifth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return. Actuarial Assets shall not be less than 80% nor greater than 120% of Market Value of Assets.

| Plan Year Ending | Gain/(Loss) | <u>Gains/(Losses) Not Yet Recognized</u> | | | | |
|---------------------|--------------|--|--------------|-----------|---------|------|
| | | Amounts Not Yet Recognized by Valuation Year | | | | |
| | | 2014 | 2015 | 2016 | 2017 | 2018 |
| 12/31/2010 | 16,389,018 | 3,277,804 | 0 | 0 | 0 | 0 |
| 12/31/2011 | (56,982,781) | (22,793,112) | (11,396,556) | 0 | 0 | 0 |
| 12/31/2012 | 8,502,880 | 5,101,728 | 3,401,152 | 1,700,576 | 0 | 0 |
| 12/31/2013 | 4,991,349 | 3,993,079 | 2,994,809 | 1,996,540 | 998,270 | 0 |
| Total | | (10,420,501) | (5,000,595) | 3,697,116 | 998,270 | 0 |

Development of Investment Gain/Loss

| | |
|--|------------------|
| Market Value of Assets, including Retiree Death Benefit Fund, 12/31/2012 | 538,897,649 |
| Contributions Less Benefit Payments | 7,803,459 |
| Expected Investment Earnings* | 43,417,945 |
| Actual Net Investment Earnings | 48,409,294 |
| 2014 Actuarial Investment Gain/(Loss) | <u>4,991,349</u> |

*Expected Investment Earnings = $0.08 * 538,897,649 + [(1 + 0.08)^{0.5} - 1] * 7,803,459$

Development of Actuarial Value of Assets

| | |
|--|--------------------|
| (1) Market Value of Assets, including Retiree Death Benefit Fund, 12/31/2013 | 595,110,402 |
| (2) Gains/(Losses) Not Yet Recognized | (10,420,501) |
| (3) Actuarial Value of Assets, 12/31/2013, (1) - (2) | <u>605,530,903</u> |
| (A) 12/31/2012 Actuarial Assets, including Retiree Death Benefit Fund: | 559,077,407 |
| (I) Net Investment Income: | |
| 1. Interest, Dividends and Misc Income | 6,911,061 |
| 2. Realized Gains (Losses) | 27,223,004 |
| 3. Change in Actuarial Value | 7,869,448 |
| 4. Investment and Administrative Expenses | (3,440,719) |
| Total | <u>38,562,795</u> |
| (B) 12/31/2013 Actuarial Assets, including Retiree Death Benefit Fund: | 605,530,903 |

Actuarial Assets Rate of Return = $2I/(A+B-I)$: 6.8%

Market Value of Assets Rate of Return: 8.9%

12/31/2013 Limited Actuarial Assets, including Retiree Death Benefit Fund: 605,530,903

12/31/2013 Limited Net Actuarial Assets, excluding Retiree Death Benefit Fund: 604,841,897

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2013
Actuarial Asset Basis

REVENUES

| | | |
|---|---------------|-----------------------|
| Contributions: | | |
| Member | 18,731,630.86 | |
| Buy-Back | 736,328.70 | |
| City | 30,136,241.70 | |
| City for Proportionate Retirement Program | 871,133.99 | |
| City for Retiree Death Benefit | 153,388.67 | |
| Total Contributions | | 50,628,723.92 |
| Earnings from Investments: | | |
| Interest & Dividends | 5,189,718.18 | |
| Miscellaneous Income | 1,721,343.24 | |
| Net Realized Gain (Loss) | 27,223,004.08 | |
| Change in Actuarial Value | 7,869,448.45 | |
| Total Earnings and Investment Gains | | 42,003,513.95 |
| EXPENDITURES | | |
| Distributions to Members: | | |
| Benefit Payments | 36,291,927.75 | |
| Lump Sum DROP and PROP Distributions | 5,515,025.38 | |
| Retiree Death Benefits | 64,565.22 | |
| Refunds of Member Contributions | 953,746.74 | |
| Total Distributions | | 42,825,265.09 |
| Expenses: | | |
| Investment Related ¹ | 2,325,862.97 | |
| Administrative | 1,114,855.97 | |
| Total Expenses | | 3,440,718.94 |
| Change in Net Assets for the Year | | 46,366,253.84 |
| Net Assets Beginning of the Year | | 558,475,643.34 |
| Net Assets End of the Year² | | 604,841,897.18 |

¹Investment Related expenses include investment advisory, custodial and performance monitoring fees.

²Net Assets may be limited for actuarial consideration, and exclude the Retiree Death Benefit Fund of \$689,005.84.

VALUATION PARTICIPANT RECONCILIATION

1. Active lives

| | |
|---|------|
| a. Number in prior valuation 12/31/12 | 1709 |
| b. Terminations | |
| i. Vested (partial or full) with deferred benefits | 6 |
| ii. Non-vested or full lump sum distribution received | 18 |
| c. Deaths | |
| i. Beneficiary receiving benefits | 0 |
| ii. No future benefits payable | 1 |
| d. Disabled | 0 |
| e. Retired | 37 |
| f. DROP | 3 |
| g. Continuing participants | 1644 |
| h. New entrants | 88 |
| i. Total active life participants in valuation | 1732 |

2. Non-Active lives (including beneficiaries receiving benefits)

| | <u>Service Retirees, DROP Participants</u> | <u>Receiving Death Benefits</u> | <u>Receiving Disability Benefits</u> | <u>Receiving QDRO Benefits</u> | <u>Vested Deferred</u> | <u>Total</u> |
|-----------------------------|--|---|--|--|----------------------------|--------------|
| a. Number prior valuation | 575 | 44 | 4 | 25 | 23 | 671 |
| b. In | 40 | 4 | 0 | 2 | 6 | 52 |
| c. Out | 9 | 2 | 0 | 0 | 3 | 14 |
| d. Number current valuation | 606 | 46 | 4 | 27 | 26 | 709 |

STATISTICAL DATA

| | <u>12/31/2011</u> | <u>12/31/2012</u> | <u>12/31/2013</u> |
|---------------------------|-------------------|-------------------|-------------------|
| Actives | 1,679 | 1,709 | 1,732 |
| Average Current Age | 39.7 | 39.6 | 39.9 |
| Average Age at Employment | 28.0 | 28.1 | 28.3 |
| Average Past Service | 11.7 | 11.5 | 11.6 |
| Average Annual Salary | \$79,636 | \$82,079 | \$84,221 |

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 | 6 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 |
| 25 - 29 | 22 | 37 | 43 | 8 | 18 | 23 | 0 | 0 | 0 | 0 | 0 | 151 |
| 30 - 34 | 38 | 28 | 37 | 12 | 45 | 157 | 15 | 2 | 0 | 0 | 0 | 334 |
| 35 - 39 | 11 | 15 | 12 | 12 | 24 | 81 | 165 | 26 | 0 | 0 | 0 | 346 |
| 40 - 44 | 3 | 4 | 5 | 3 | 27 | 53 | 134 | 145 | 17 | 0 | 0 | 391 |
| 45 - 49 | 1 | 0 | 1 | 1 | 16 | 24 | 65 | 90 | 91 | 2 | 0 | 291 |
| 50 - 54 | 0 | 0 | 0 | 0 | 9 | 6 | 20 | 26 | 59 | 35 | 0 | 155 |
| 55 - 59 | 0 | 0 | 0 | 0 | 7 | 2 | 3 | 6 | 20 | 9 | 3 | 50 |
| 60 - 64 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 1 | 3 |
| 65+ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 81 | 87 | 100 | 36 | 148 | 346 | 402 | 295 | 187 | 46 | 4 | 1,732 |

AUSTIN POLICE RETIREMENT SYSTEM
SUMMARY OF BENEFIT PROVISIONS

| | |
|-----------------------------------|---|
| <u>Creditable Service</u> | Total years and completed months (excluding a month in which service amount to fewer than 15 days) during which a Member makes contributions to the System. |
| <u>Earnings</u> | Base pay, plus longevity pay. |
| <u>Average Final Compensation</u> | Average Earnings for the highest 36 months over the last 120 months of service. |
| <u>Member Contributions</u> | 13.0% of Earnings. |
| <u>City Contributions</u> | 21.63%, effective October 1, 2012. |
| <u>Normal Retirement</u> | |
| Date | Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age (excluding military service). |
| Benefit | 3.20% of Average Final Compensation <u>times</u> Creditable Service. |
| Form of Benefit | Modified Cash Refund (options available). |
| <u>Vesting</u> | |
| Schedule | 100% after 10 years of Creditable Service. |
| Benefit Amount | Member will receive his (her) accrued benefit payable at the Normal Retirement Date based upon actual Creditable Service prior to termination. Non-vested members receive a refund of accumulated contributions. |
| <u>Disability</u> | |
| Eligibility | Total and permanent as determined by the Board. Members must have 10 years of Creditable Service if the disability was non-service related. |
| Benefit | Accrued benefit at date of disability, but not less than 64% of Average Final Compensation for service related disablements. |

Form of Benefit

Modified Cash Refund (options available).

Death Benefits

Before Retirement Eligibility

Twice the amount of the Member's accumulated contributions, subject to a minimum of \$10,000.

After Retirement Eligibility

Member's accrued benefit as of the date of death, payable based on optional annuity selected either by Member or beneficiary. Additionally, a lump sum death benefit is payable in the amount of \$10,000.

Retiree Death Benefit Fund

Effective September 1, 2003, a separate fund (funded as a portion of the City's contribution rate) was established to pay post-retirement lump sum death benefits. Effective September 1, 2007, the amount of these benefits was increased to \$10,000.

Cost of Living Adjustment

Eligibility

Normal Retirement.

Amount

Determined by the actuary if providing a COLA (not to exceed 6.0% per year) will not impair financial stability of the System. Post-Retirement benefit increases will automatically be provided when the System's benefit accrual rate is increased.

Proportionate Retirement Program

Effective September 1, 2009, the System and the City began participating in the statewide Proportionate Retirement Program (PRP). Service in other participating public employee retirement systems can be combined with service in the System to satisfy the System's requirements for service retirement eligibility and for eligibility for vested benefits of a terminated Member. The participating systems, in addition to the System, are the six statewide systems, the City of Austin Employees' Retirement System, and the systems for the City of El Paso employees.

Forward DROP

| | |
|----------------------|---|
| Eligibility | Completion of 23 years of Creditable Service, excluding military service. |
| Participation Period | Not to exceed 60 months. |
| Rate of Return | 5.0%, compounded annually. |
| Form of Distribution | Cash lump sum (or rollover to PROP account) at termination of employment. |

Retro DROP

| | |
|----------------------|---|
| Eligibility | Completion of 23 years of Creditable Service, excluding military service. |
| Participation Period | Upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months. |
| Rate of Return | 5.0%, compounded annually. |
| Form of Distribution | Cash lump sum (or rollover to PROP account) at termination of employment. |

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) |
|--------------------------------|--|--|------------------------------------|--------------------------|---------------------------|--|
| 12/31/13 | 604,841,897 | 911,044,154 | 306,202,257 | 66.4% | 147,138,718 | 208.1% |
| 12/31/12 | 558,475,643 | 856,576,826 | 298,101,183 | 65.2% | 141,561,047 | 210.6% |
| 12/31/11 | 553,701,976 | 815,258,776 | 261,556,800 | 67.9% | 134,843,931 | 194.0% |
| 12/31/10 | 546,956,628 | 776,231,027 | 229,274,399 | 70.5% | 127,731,696 | 179.5% |
| 12/31/09 | 518,111,923 | 733,634,660 | 215,522,737 | 70.6% | 122,928,285 | 175.3% |
| 12/31/08 | 464,230,585 | 693,202,499 | 228,971,914 | 67.0% | 122,735,216 | 186.6% |

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 September 30 | Annual Required Contribution (% of Pay) | City Contribution (% of Pay) | Percentage Contributed |
|-------------------------------|---|------------------------------------|---------------------------|
| 2013 | 20.343% | 21.527% | 105.8% |
| 2012 | 19.698% | 20.778% | 105.5% |
| 2011 | 19.360% | 19.782% | 102.2% |
| 2010 | 20.291% | 18.788% | 92.6% |
| 2009 | 16.776% | 18.254% | 108.8% |
| 2008 | 17.846% | 17.900% | 100.3% |

DISCLOSURE INFORMATION PER STATEMENT NO. 27 OF THE
GOVERNMENTAL ACCOUNTING STANDARDS BOARD

ANNUAL PENSION COSTS AND RELATED INFORMATION

THREE YEAR TREND INFORMATION

| Fiscal Year <u>Ending</u> | Annual Pension Cost <u>(APC)</u> | Percentage of APC <u>Contributed</u> | Net Pension <u>Obligation</u> |
|------------------------------|--|--|----------------------------------|
| 9/30/2013 | 28,686,821 | 106.9% | (9,028,066) |
| 9/30/2012 | 26,409,663 | 105.3% | (7,039,826) |
| 9/30/2011 | 22,269,355 | 117.3% | (5,640,531) |

DEVELOPMENT OF NET PENSION OBLIGATION (NPO)

| Fiscal Year Ending | <u>9/30/2011</u> | <u>9/30/2012</u> | <u>9/30/2013</u> |
|--------------------------------|------------------|------------------|------------------|
| Annual Required | | | |
| Contribution (ARC - %) | 16.776% | 19.698% | 20.343% |
| City Contribution Rate (%) | 19.630% | 20.630% | 21.630% |
| Actual Contributions Made (\$) | 26,111,254 | 27,808,958 | 30,675,061 |
| City ARC (\$) | 22,314,946 | 26,552,635 | 28,849,874 |
| Interest on NPO | (143,891) | (451,242) | (563,186) |
| Adjustment to ARC | 98,300 | 308,270 | 400,133 |
| | ----- | ----- | ----- |
| Annual Pension Cost | 22,269,355 | 26,409,663 | 28,686,821 |
| Contributions Made | 26,111,254 | 27,808,958 | 30,675,061 |
| | ----- | ----- | ----- |
| Increase in NPO | (3,841,899) | (1,399,295) | (1,988,240) |
| NPO Beginning of Year | (1,798,632) | (5,640,531) | (7,039,826) |
| | ----- | ----- | ----- |
| NPO End of Year | (1,798,632) | (5,640,531) | (9,028,066) |