

*Austin Police  
Retirement System*

---



**ANNUAL REPORT**  
**2001**

---

**AUSTIN**

**POLICE RETIREMENT**

**SYSTEM**

**2001 ANNUAL REPORT  
AND MEMBERS BENEFIT GUIDE**

**DECEMBER 31, 2001**

## Table of Contents

	PAGE
Retirement Board.....	3
Pension Office Staff.....	3
Custodian.....	4
Performance Evaluation.....	4
Actuary.....	4
Auditor.....	4
Investment Managers.....	5
Letter to Members.....	7
Auditor's Report.....	8
Actuarial Review and Report.....	21
Summary of Investments.....	57
Interest Paid to Members.....	58
Comparative Statement of Membership.....	59
Benefit Guide.....	60
Improvements to System.....	69

POLICE RETIREMENT SYSTEM BOARD OF TRUSTEES

Police Member	Sgt. Peter Morin Chairman
Police Member	Det. Catherine Haggerty Vice Chairperson
Police Member	Lt. Michael Jung
Police Member	Lt. Cathy Ellison
Police Member	Sgt. Sean Mannix
Retired Police Member	Kendall Thomas
Retired Police Member	John Ross
Citizen Member	Chesley Wood
City Member	Art Alfaro Financial Services Office
City Member	Vanessa Downey-Little City Managers Office
City Member	Danny Thomas Councilman

PENSION OFFICE STAFF

Sampson (Sam) K. Jordan-Administrator  
Stephanie Schkade Willie-Assistant Administrator  
Jeremy Woodard-Accountant  
Barbara Pantano-Secretary

**CUSTODIAN**

The Northern Trust Company  
Chicago, Illinois

**PERFORMANCE EVALUATION**

The Monroe Vos Consulting Group  
Houston, Texas

**ACTUARY**

Rudd & Wisdom, Inc.  
Austin, Texas

**AUDITOR**

Montemayor & Associates, CPA  
Austin, Texas

## INVESTMENT MANAGERS

### Equity

Arbor Capital Management  
Minneapolis, Minnesota

Brandes Investments Partnership, Inc.  
San Diego, California

Crescendo Fund II  
Minneapolis, Minnesota

Davis, Hamilton, Jackson & Associates  
Houston, Texas

Eubel, Brady & Suttman Asset Management  
Dayton, Ohio

Navellier & Associates Management  
Reno, Nevada

Nicholas Applegate Management  
San Diego, California

Private Capital Management  
Naples, Florida

### Fixed Income

Ashmore Investment Management  
Greenwich, Connecticut

GMAC Institutional Advisors, LLC  
Alpharetta, Georgia

Hoisington Investment Management  
Austin, Texas

UBS-RII/World Timber Funds, Inc.  
West Lebanon, New Hampshire

Wachovia Bank, Evergreen Timberland Management  
Atlanta, Georgia

INVESTMENT MANAGERS (continued)

Real Estate

C B Richard Ellis Strategic Partners, LP  
Los Angeles, California

Edison Investments, L.P.  
Wichita, Kansas

Lend Lease Real Estate Investments, LP  
Atlanta, Georgia

New Boston Fund, LP  
Boston, Massachusetts

Sentinel Real Estate, L.P.  
New York, New York



CITY OF AUSTIN  
POLICE RETIREMENT SYSTEM

2001 ANNUAL REPORT  
LETTER TO MEMBERS

Dear Members,

The Board of Trustees of the Austin Police Retirement System is pleased to present our 2001 Annual Report.

As the December 31, 2001 year-ended, the Market value of the 'System' assets stood at more than \$264 million, which was a 3.4% decline from year-end 2000. However, the total average annual rate of return of the 'System's' audited net assets were 10.45% over the last five years.

At our November 2001 Board Meeting, the Trustees approved a 3% 2001 cost of living adjustment for retirees and beneficiaries effective January 1, 2002 and a 4% interest rate for use in crediting interest on members' accumulated contributions.

There were two important pension benefit enhancements that took place during 2001. Effective September 1, 2001 the service retirement eligibility was set at 23 years (excluding pre-membership military service) at any age and a Post Retirement Option Plan (PROP) was created that allows retirees who elect DROP to leave their monies on deposit and receive interest earnings at competitive market rates.

As of June 30, 2002 there were 1333 police officers and cadets who were members of the 'System.' There were 284 retired police officers and beneficiaries of police officers receiving monthly benefits and 11 vested members entitled to future benefits but not yet receiving them.

The Board of Trustees continues to work hard to ensure police plan participants and beneficiaries have a financially and actuarially sound retirement plan during these challenging financial times.

Your comments and suggestions will always be appreciated.

Sincerely,

A handwritten signature in cursive script, appearing to read "Peter Morin".

Peter Morin  
Chairman, Board of Trustees  
Austin Police Retirement System

Pension Office  
3520 S. IH 35, Ste. 205  
Austin, Texas 78704  
512/416-7672  
FAX 512/416-7138

Mailing Address  
EO. Box 41089  
Austin, Texas 78704





Arturo Montemayor III  
CERTIFIED PUBLIC ACCOUNTANT, P.C.

CITY OF AUSTIN  
POLICE RETIREMENT SYSTEM

FINANCIAL STATEMENTS  
WITH SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2001 AND 2000

# POLICE RETIREMENT SYSTEM

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Net Assets Held in Trust Available for Pension Benefits	2
Statement of Changes in Net Assets Held in Trust Available for Pension Benefits	3
Notes to Financial Statements	4-9
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress (Unaudited)	10
Schedule of Employer Contributions (Unaudited)	10
Notes to Required Supplementary Information	11



Montemayor & Associates, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
The City of Austin Police Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net assets held in trust available for pension benefits of the City of Austin Police Retirement System (System) as of December 31, 2001 and 2000 and the related statement of changes in net assets held in trust available for pension benefits for the year ended December 31, 2001. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2001 and 2000 and the changes in its financial status for the year ended December 31, 2001 in conformity with U.S. generally accepted accounting principles.

The supplementary schedules and information on pages 10 and 11 are not a required part of the basic financial statements of the System, but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit this information and express no opinion on it.

*Montemayor & Associates, P.C.*

22 May 2002  
Austin, Texas

907 SOUTH CONGRESS AVENUE  
SUITE A-100  
AUSTIN, TEXAS 78704  
PHONE: 512.442.0380  
FAX: 512.442.0817

**CITY OF AUSTIN  
POLICE RETIREMENT SYSTEM**

**STATEMENT OF NET ASSETS HELD IN TRUST  
AVAILABLE FOR PENSION BENEFITS**

DECEMBER 31, 2001 AND 2000

ASSETS	<u>2001</u>	<u>2000</u>
Investments, at fair value		
Corporate stocks	\$105,806,557	\$105,427,226
International stocks	51,736,728	60,755,098
Real estate interests	42,177,893	39,742,698
Short-term investment funds	13,747,879	10,575,260
U.S. Government securities	28,926,494	32,172,957
International government securities	10,867,246	8,683,105
Corporate bonds	2,576,526	3,774,868
Partnership interests	<u>6,631,912</u>	<u>10,284,571</u>
Total investments	262,471,235	271,415,783
Cash	163,075	84,412
Interest and dividends receivable	1,058,419	1,319,082
Employer contributions receivable	262,797	203,363
Employee contributions receivable	525,794	406,724
Fixed assets	493,097	523,057
Other	<u>4,052</u>	<u>4,023</u>
Total assets	<u>264,978,469</u>	<u>273,956,444</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	478,563	411,175
Refunds payable	<u>47,231</u>	<u>74,255</u>
Total liabilities	<u>525,794</u>	<u>485,430</u>
<b>NET ASSETS HELD IN TRUST AVAILABLE FOR PENSION BENEFITS</b>	<u>\$264,452,675</u>	<u>\$273,471,014</u>

The accompanying notes are an integral part of this financial statement presentation.

CITY OF AUSTIN  
POLICE RETIREMENT SYSTEM

STATEMENT OF CHANGES IN NET ASSETS HELD IN TRUST  
AVAILABLE FOR PENSION BENEFITS

YEAR ENDED DECEMBER 31, 2001

Additions to net assets available for benefits:

Contributions:

Employer contributions	\$11,178,204
Employee contributions	<u>5,735,996</u>
Total contributions	<u>16,914,200</u>

Investment income/(loss):

Net depreciation in plan investments	(21,751,520)
Realized gain on investments	4,544,009
Interest and dividends	6,516,056
Securities lending	<u>254,143</u>
Total investment loss before expenses	(10,437,312)
Investment expenses	<u>(1,593,337)</u>
Net loss from investments	<u>(12,030,649)</u>
Total additions	<u>4,883,551</u>

Deductions from net assets available for benefits:

Benefit payments	12,956,819
Contributions refunded to terminating employees	264,778
General and administrative expenses	<u>680,293</u>
Total deductions	<u>13,901,890</u>

Net decrease in net assets available for benefits	(9,018,339)
Net assets available for benefits, beginning of year	<u>273,471,014</u>
Net assets available for benefits, end of year	<u>\$264,452,675</u>

The accompanying notes are an integral part of this financial statement presentation.

# POLICE RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

### NOTE 1: PLAN DESCRIPTION

The Board of Trustees (Board) of the City of Austin Police Retirement System (System) is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's (City) 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 age 55 with 20 years of service, with 23 years of service, excluding any military service, regardless of age, or at age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of July 31, 2001, the monthly benefit is equal to 3.00% of the highest 36-month average salary multiplied by years and months of service.

Effective September 1, 2001 the RETRO DROP provisions were changed to 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 elects for the RETRO DROP benefit computation date. Further, the selection of RETRO DROP benefit computation date may be changed in the future by Board rule with approval by the System's actuary. Also effective September 1, 2001, changes were made allowing the eligibility requirement for Service Retirement to be changed in future by rule of the System's Board with approval by the System's actuary, except the age 63 minimum eligibility regardless of services could be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced allowing an option for participant's to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of entire RETRO DROP lump sum. Interest credits will be paid on the participant's RETRO DROP lump sum account following the participant's retirement until the entire lump sum is paid. The interest credits will be granted 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 or decreased annually on an ad hoc basis by the amount of increase or decrease in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Board and the actuary.

**POLICE RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2001**

**NOTE 1: PLAN DESCRIPTION**

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, 2001:

Retirees and beneficiaries currently receiving benefits (279) and terminated employees entitled to benefits but not yet receiving them (10)	289
Current employees	<u>1,277</u>
Total	<u>1,566</u>

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING**

The System's financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenues in the period in which the related employees's payroll is earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**ESTIMATES**

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

**METHOD USED TO VALUE INVESTMENTS**

The System's investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized in the period earned and purchased and sales of investments are recorded on a trade-date basis. Net appreciation (depreciation) in plan investments includes both realized and unrealized gains and losses.

**CONTRIBUTIONS RECEIVABLE**

The final biweekly payroll contributions of employees for the year ended December 31, 2001 and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable.

POLICE RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2001

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SYSTEM EXPENSES

All System administrative costs are the responsibility of the System and are financed through investment earnings.

NOTE 3: INVESTMENTS

The System is authorized as an independent, defined benefit plan as described in Article 6243n-1, Vernon's Annotated Texas Civil Statutes, that was signed into law on June 11, 1991. The Board is the trustee of System funds and has the power to invest and reinvest such funds in instruments or investments the Board considers prudent in accordance with the System's investment policy.

The System's investments are categorized to give an indication of the level of risk assumed by the System at year end. Category 1 includes investments that are insured or registered, or for which the securities are held by the System's agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by the System's agent, but not in the System's name. All System investments are considered to be Category 1 investments.

Included in net depreciation in plan investments is net appreciation (depreciation) in the fair value of investments held at December 31, 2001 and 2000 of:

Securities traded on a national or international exchange:	<u>2001</u>	<u>2000</u>
U.S. Government securities	(5626,768)	\$5,553,819
Corporate bonds	822,535	45,033
Corporate stocks	(7,429,394)	(446,856)
International investments	(12,273,721)	(8,335,025)
Short-term investment funds	316,593	(362,934)
Investments reported at fair value:		
Real estate interests	905,822	2,118,861
Partnerships interests	(3,466,587)	(3,653,497)
Total	<u>\$21,751,520</u>	<u>\$5,080,599</u>



**POLICE RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2001**

**NOTE 3: INVESTMENTS**

All investments and securities on loan (Note 7) represent securities that are either insured, registered, or are held by the System's agent in the System's name. As of December 31, 2001 and 2000, there were no investments (other than U.S. Government issued or guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

**NOTE 4: FEDERAL INCOME TAXES**

The System is a Public Employee Retirement System and is exempt from Federal income taxes. A favorable determination letter from the Internal Revenue Service was issued on September 27, 1997.

**NOTE 5: FIXED ASSETS**

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the asset's estimated useful life of 30 years for the building and 5 to 7 years for furniture and equipment. Fixed asset activity for the year ended December 31, 2001 consisted of:

	<u>1-1-2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2001</u>
Land	\$150,000	\$0	\$0	\$150,000
Buildings and improvements	457,955	0	0	457,955
Furniture and equipment	215,399	13,134	0	228,533
Leasehold improvements	49,807	0	(1,316)	48,491
Accumulated depreciation	<u>(350,104)</u>	<u>(41,778)</u>	<u>0</u>	<u>(391,882)</u>
Net Fixed Assets	<u>\$523,057</u>	<u>(\$28,644)</u>	<u>(\$1,316)</u>	<u>\$493,097</u>

**NOTE 6: 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, 2001, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation.

**POLICE RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2001**

**NOTE 6: CONTRIBUTIONS**

The City contribution rate is required by the state law governing the System as of December 31, 2001 and may be amended by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased to 9%, effective October 1993, by a recommendation of the Retirement Board and an approving vote of the participating employees in accordance with the state law governing the System. The participant contribution rate may be amended by the Legislature of the State of Texas or by appropriate actions of the Retirement Board and the participating employees in accordance with the state law governing the System.

While contribution requirements are not actuarially determined, state law requires that each System 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. 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. 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, 2001 and the System provisions at that date, the normal cost was 20.143% of pay and the amortization period was 18.8 years.

**NOTE 7: SECURITIES ON LOAN**

The System participates in a securities lending program sponsored by its custodian (The Northern Trust Company) under which, for an agreed-upon fee, System owned investments are lent to a borrowing financial institution. Under this agreement the borrowed securities are ultimately returned to the System. As of December 31, 2001, \$56,052,566 of the System-owned investments were in possession of a borrowing financial institution.

Securities are loaned versus collateral that may include cash, U.S. government securities and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of System's overall loans was 41 days.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 40 days as of this statement date. Cash collateral may also be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

**POLICE RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2001**

**NOTE 7: SECURITIES ON LOAN**

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing to the securities lent. Securities lending earnings are credited to the System's account on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

**CITY OF AUSTIN POLICE RETIREMENT SYSTEM**

**DISCLOSURES IN ACCORDANCE WITH GASB STATEMENT NO. 25  
REQUIRED SUPPLEMENTARY INFORMATION**

**I. Schedule of Funding Progress (Unaudited)**

Actuarial Valuation Date <sup>1</sup>	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>2</sup> (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/97 <sup>3,4</sup>	\$168,601,584	\$222,703,396	\$54,101,812	75.7%	\$47,188,812	114.6%
12/31/99 <sup>3,5</sup>	226,913,439	257,850,162	30,936,723	88.0	54,695,072	56.6
12/31/01 <sup>3,6</sup>	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1

<sup>1</sup> The System has biennial valuations.

<sup>2</sup> The covered payroll is based on the annual rate of base pay and longevity pay as of the valuation date.

<sup>3</sup> Economic and demographic assumptions were revised.

<sup>4</sup> Changes in plan benefit provisions were effective September 1, 1997.

<sup>5</sup> Changes in plan benefit provisions were effective September 1, 1999.

<sup>6</sup> Changes in plan benefit provisions were effective September 1, 2001.

**II. Schedule of Employer Contributions (Unaudited)**

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll <sup>1</sup>	Annual Required Contribution <sup>2</sup>	Percentage Contributed
1996	16/18%	6,154,935	100%
1997	18	6,952,258	100
1998	18	8,254,861	100
1999	18	9,288,148	100
2000	18	10,046,065	100
2001	18	11,178,204	100

<sup>1</sup> When two percentages are shown for a year, the first one was effective for the months January through September, and the second one was effective for the months October through December.

<sup>2</sup> The annual required contribution is based on actual covered payroll.

See independent auditors' report.

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

DISCLOSURES IN ACCORDANCE WITH GASB STATEMENT NO. 25  
REQUIRED SUPPLEMENT INFORMATION

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 (the System has biennial valuations)	December 31, 2001
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	18.8 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
- Investment rate of return, net of expenses, compounded annually	8.0%
- Projected salary increases including promotion and longevity	4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year	4%
- Postretirement cost-of-living adjustments	None

See independent auditors' report.

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION  
AS OF  
DECEMBER 31, 2001

AUGUST 20, 2002

# Rudd and Wisdom, Inc.

## CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.  
Amanda L. Chipuk, A.S.A.  
Philip S. Dial, F.S.A.  
Charles V. Faerber, F.S.A., A.C.A.S.  
Mark R. Fenlaw, F.S.A.  
Carl L. Frammolino, F.S.A.  
Joe C. Lopez, A.S.A.  
Robert M. May, F.S.A.

7718 Wood Hollow Drive, Suite 200  
Austin, Texas 78731-1601  
Post Office Box 26008  
Austin, Texas 78755-0008  
Phone: (512) 346-1590  
Fax: (512) 345-7437  
E-mail: [rw@ruddwisdom.com](mailto:rw@ruddwisdom.com)

J. Christopher McCaul, F.S.A.  
Edward A. Mire, F.S.A.  
Rebecca B. Morris, A.S.A.  
Michael J. Muth, F.S.A.  
Julie L. Normand, A.S.A.  
Robyn C. Richards, A.S.A.  
Ronald W. Tobleman, F.S.A.  
David G. Wilkes, F.S.A.

August 20, 2002

Police Retirement Board  
Austin Police Retirement System  
Post Office Box 684808  
Austin, Texas 78768

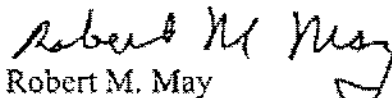
### Members of the Board of Trustees:

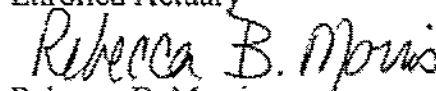
In accordance with the requirements of Article 6243n-1 in the state law, which governs the Austin Police Retirement System, an actuarial valuation of the System as of December 31, 2001 has been completed.

The results of the December 31, 2001 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 1999 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a fifteen-year projection of the growth of the System. Exhibits 3 through 6 summarize the System's assets and development of the actuarial value of assets. Data on both active and retired police officers is contained in Exhibits 7 through 11 with Exhibit 12 showing a historical comparison of the actuarial accrued liability for the active and retired officers.

A summary plan description based on the plan effective September 1, 2001 is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of the assumptions that have changed 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 for the System's annual report are in Exhibit 21. The disclosures required in accordance with Statement Number 27 of the Governmental Accounting Standards Board for the City of Austin's financial statements are included in Exhibit 22.

Respectfully submitted,

  
Robert M. May  
Fellow, Society of Actuaries  
Enrolled Actuary

  
Rebecca B. Morris  
Associate, Society of Actuaries  
Enrolled Actuary

RMM;RBM:jt  
Enclosure

## Table of Contents

### *Austin Police Retirement System Actuarial Valuation as of December 31, 2001*

SUMMARY - Results of December 31, 2001 Valuation .....	1
EXHIBIT 1 - Actuarial Valuation Balance Sheets .....	3
EXHIBIT 2 - Fifteen-Year Projection .....	4
EXHIBIT 3 - Market Value of Assets as of December 31, 2001 .....	5
EXHIBIT 4 - Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates .....	6
EXHIBIT 5 - Development of Actuarial Value of Assets .....	7
EXHIBIT 6 - Historical Comparisons of Market and Actuarial Asset Values .....	8
EXHIBIT 7 - Distribution of Police Officers by Age and Service .....	9
EXHIBIT 8 - Historical Summary of Growth in Number of Contributing Members .....	10
EXHIBIT 9 - Breakdown by Sex of Number of Officers and Average Annual Rate of Pay .....	11
EXHIBIT 10 - Breakdown of Pensioners by Type and Annuity Option .....	12
EXHIBIT 11 - Summary Data of Active Police Officers and Pensioners .....	13
EXHIBIT 12 - Historical Comparisons of Actuarial Accrued Liability for Active Officers and Pensioners .....	14
EXHIBIT 13 - Summary Plan Description .....	15
EXHIBIT 14 - Summary of Actuarial Methods and Assumptions .....	19
EXHIBIT 15 - Changes in Actuarial Methods and Assumptions .....	20
EXHIBIT 16 - Salary Rate of Increase .....	21
EXHIBIT 17 - Service Retirement Rates .....	22
EXHIBIT 18 - Withdrawal Rates .....	23
EXHIBIT 19 - Disability Rates .....	24
EXHIBIT 20 - Definitions .....	25
EXHIBIT 21 - Disclosures in Accordance with GASB Statement No. 25 .....	26
EXHIBIT 22 - Disclosures in Accordance with GASB Statement No. 27 .....	30



## Summary

### *Austin Police Retirement System Results of December 31, 2001 Valuation*

The valuation balance sheet as of December 31, 2001, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$62,786,974 based on audited assets. Total contributions of 27% of pay, 9% by the police officers and 18% by the City of Austin, are contributed to the System each year. The normal cost (defined in Exhibit 21) of present benefits for each police officer is 20.143% of pay.

Since the 27% of pay contributed on behalf of each police officer is more than the normal cost, the remaining 6.857% of pay can be applied against the plan's unfunded actuarial accrued liability. Assuming that the total payroll increases at the rate of 4% per year in future years attributable to general wage increases, application of this percentage of payroll will cause the unfunded actuarial accrued liability to be amortized in 18.8 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2001 with the condition on December 31, 1999. The valuation as of December 31, 2001 is based on the plan provisions effective on September 1, 2001 (summarized in Exhibit 13). This valuation does reflect ad hoc pensioner COLAs granted January 1, 2002 but does not reflect any ad hoc pensioner COLAs which may be granted January 1, 2003 or annually thereafter. The results shown for the December 31, 1999 valuation include adjustments made to reflect the September 1, 2001 statute changes and the ad hoc pensioner COLAs granted effective January 1, 2001 and 2002.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$12,480,260 (from \$50,306,714 to \$62,786,974). The primary reasons for this change, which have offsetting effects, are as follows:

1. The general wage increases for officers on October 1, 2000, April 1, 2001, October 1, 2001 and April 1, 2002 were 5.4%, 1%, 4% and 4%, respectively. Since the actuarially assumed general wage increase was 4% per year, the unfunded liability is approximately \$17,200,000 more than expected. Although the change in the UAAL is significant because the pay increases resulted in greater than expected projected benefit payments, the aggregate payroll also grew as a result of these pay increases. Therefore more contributions will be made to the fund and the portion of the total contributions in excess of the normal cost percentage available to amortize the UAAL increases and partially offsets the increasing effect on the amortization period. The net effect of the larger than expected pay increases resulted in an increase in the amortization period of 3 years.
2. The average annual market value rate of return, net of all expenses, during the two year period is estimated at 1.2%. However, the actuarial value of assets used in the valuation and the determination of the amortization period is based on an adjusted market value. In the last valuation, the actuarial value of assets was less than the market value. In the current valuation, the actuarial value of assets is greater than the market value because a larger portion of the gain in 1999 is now recognized while only

small portions of the relatively small loss in 2000 and relatively large loss in 2001 are now recognized. The resulting average annual rate of return on the actuarial value of assets, net of expenses, as of December 31, 2001 is estimated at 10.5% compared to the assumed rate of return of 8.25%. Therefore, the actuarial value of assets as of December 31, 2001 is larger than expected and caused a decrease in the UAAL of approximately \$11,200,000 and caused a decrease in the amortization period of approximately 5 years.

3. The change in the actuarial assumption of the assumed rate of investment return from 8.25% to 8% caused an increase in the UAAL of \$8,800,000 and caused the amortization period to increase by approximately 6 years.
4. Total contributions in excess of those required to pay the annual normal cost decreased the UAAL approximately \$10,400,000.
5. Interest accumulation on the unfunded actuarial accrued liability during the two year period between the valuations had the effect of increasing the UAAL approximately \$8,600,000.

The balance sheets in Exhibit 1 indicate that the number of years required to amortize the system's UAAL has decreased from 20.3 years as of December 31, 1999 (based on the plan provisions effective September 1, 2001 and reflecting the previous COLAs provided) to 18.8 years as of December 31, 2001. Since two years have passed since the last valuation, a two-year reduction in the amortization period to 18.3 years would be expected if the experience of the system had been exactly as anticipated. While the plan's UAAL increased for the reasons described above, the change in the actuarial valuation software to PROVAL resulted in a lower normal cost percentage. Therefore, the net result of the increase in the UAAL and the decrease in the normal cost percentage is an amortization period of 18.8 years.

In summary, this valuation reveals that the tangible assets plus future investment income received by the System and future contributions that will be provided by the members and the City of Austin will be adequate to pay the benefits provided by the state law governing the System as of December 31, 2001. 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 and the actuarial assumptions and cost methods used in this valuation, periods of 25 years to 30 years are preferable and 40 years is the maximum.

The total contributions of 27% of covered payroll 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 18.8 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 9% and 18%, respectively, of compensation into the System. Consequently, we are of the opinion that the System has an adequate financing arrangement.

**Exhibit 1**

*Austin Police Retirement System  
Actuarial Valuation Balance Sheets*

	<u>December 31, 2001</u>	<u>December 31, 1999*</u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 126,231,618	\$ 105,252,643
b. Payable to active members	<u>376,344,983</u>	<u>279,564,124</u>
c. Total	\$ 502,576,601	\$ 384,816,767
2. Actuarial present value of future normal cost contributions	\$ 155,028,424	\$ 107,596,614
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 347,548,177	\$ 277,220,153
4. Actuarial value of assets	\$ 284,761,203	\$ 226,913,439
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 62,786,974	\$ 50,306,714
6. Total contributions (percent of payroll)	27.000%	27.000%
7. Normal cost (percent of payroll)	20.143%	20.203%
8. Percent of payroll available to amortize the UAAL	6.857%	6.797%
9. Annualized covered payroll	\$ 69,706,749	\$ 54,695,072
10. Present annual amount available to amortize the UAAL	\$ 4,779,792	\$ 3,717,624
11. Years to amortize the UAAL	18.8 Years	20.3 Years

\*Reflects plan provisions effective September 1, 2001, and COLAs of 3% for pensioners effective both January 1, 2001 and January 1, 2002.

Exhibit 2

Austin Police Retirement System  
Fifteen-Year Projection of Present Plan

Year	Fund at Beginning of Year	Contributions by City and Employees	Net Investment Income	Monthly Benefit Payments & Refunds	Estimated RETRO DROP Lump Sums	Fund at End of Year	Ratio of Fund to Payments	Increase in Fund for Year	
								Amount	Percent
1997	\$ 162,927,075	\$ 10,523,302	\$ 19,784,502	\$ 7,092,191	\$ 205,479	\$ 185,937,209	25.48	\$ 23,010,134	14.12 %
1998	185,937,209	12,664,793	20,063,218	8,233,738	879,805	209,551,677	22.99	23,614,468	12.70
1999	209,551,677	14,048,633	36,935,854	9,221,426	438,297	250,876,441	25.97	41,324,764	19.72
2000	250,876,441	15,336,155	19,199,820	9,894,431	2,046,971	273,471,014	22.90	22,594,573	9.01
2001	273,471,014	16,914,200	-12,710,942	11,769,207	1,452,390	264,452,675	20.00	-9,018,339	-3.30
2002	264,452,675	18,820,822	21,251,000	12,845,216	3,605,962	288,073,319	17.51	23,620,644	8.93
2003	288,073,319	19,573,655	23,065,079	16,090,377	3,002,944	311,618,732	16.32	23,545,413	8.17
2004	311,618,732	20,356,601	24,920,353	17,677,215	2,908,025	336,310,446	16.34	24,691,714	7.92
2005	336,310,446	21,170,865	26,854,890	19,335,046	3,084,463	361,916,692	16.14	25,606,246	7.61
2006	361,916,692	22,017,700	28,869,184	21,002,311	3,119,175	388,682,090	16.11	26,765,398	7.40
2007	388,682,090	22,898,408	30,995,704	22,503,608	2,866,381	417,206,213	16.44	28,524,123	7.34
2008	417,206,213	23,814,344	33,251,886	24,080,794	2,848,832	447,342,817	16.61	30,136,604	7.22
2009	447,342,817	24,766,918	35,614,533	25,975,884	3,113,335	478,635,049	16.45	31,292,232	7.00
2010	478,635,049	25,757,595	38,054,255	28,086,286	3,585,041	510,775,572	16.13	32,140,523	6.72
2011	510,775,572	26,787,899	40,547,988	30,308,591	4,330,751	543,472,117	15.69	32,696,545	6.40
2012	543,472,117	27,859,415	43,115,152	32,404,448	4,520,405	577,521,831	15.64	34,049,714	6.27
2013	577,521,831	28,973,792	45,808,094	34,324,901	4,490,215	613,488,601	15.81	35,966,770	6.23
2014	613,488,601	30,132,744	48,694,362	36,038,071	3,712,823	652,564,813	16.42	39,076,212	6.37
2015	652,564,813	31,338,054	51,805,862	37,895,011	3,426,117	694,387,601	16.80	41,822,788	6.41
2016	694,387,601	32,591,576	55,123,529	39,875,727	3,402,823	738,824,156	17.07	44,436,555	6.40

A. Data for years 1997 through 2001 was taken from the annual reports for those years. Fund balance at beginning and end of year reflect the market value of the system's assets.

B. Assumptions for years 2002 through 2016:

1. Benefits are assumed to commence in accordance with the demographic assumptions used in this December 31, 2001 actuarial valuation.
2. Contributions will be 9% of pay by the members and 18% of pay by the city.
3. Pay, covered payroll and contributions to the system will increase 4% per year.
4. Investment income (net of expenses) will be 8% of the average fund balance in each year.
5. A 3% ad hoc COLA for pensioners as of January 1, 2002 was reflected but no ad hoc COLAs were assumed beginning January 1, 2003 or thereafter.

### Exhibit 3

#### *Austin Police Retirement System Market Value of Assets as of December 31, 2001*

#### *Assets*

##### Investments

Corporate Stocks	\$ 105,806,557
International Stocks	51,736,728
Real Estate Interests	42,177,893
Short-Term Investment Funds	13,747,879
U.S. Government Securities	28,926,494
International Securities	2,576,526
Corporate Bonds	10,867,246
Partnership Interests	<u>6,631,912</u>
Total Investments	\$ 262,471,235

##### Other Assets

Cash	\$ 163,075
Interest and Dividends Receivable	1,058,419
Contributions Receivable	788,591
Fixed Assets	493,097
Other Assets	<u>4,052</u>
Total	\$ 2,507,234

##### Total Assets

\$ 264,978,469

#### *Liabilities*

Contributions Refundable	\$ 47,231
Other Liabilities	<u>478,563</u>
Total Liabilities	<u>\$ 525,794</u>

#### *Net Market Value of Assets (Assets Minus Liabilities)*

\$ 264,452,675

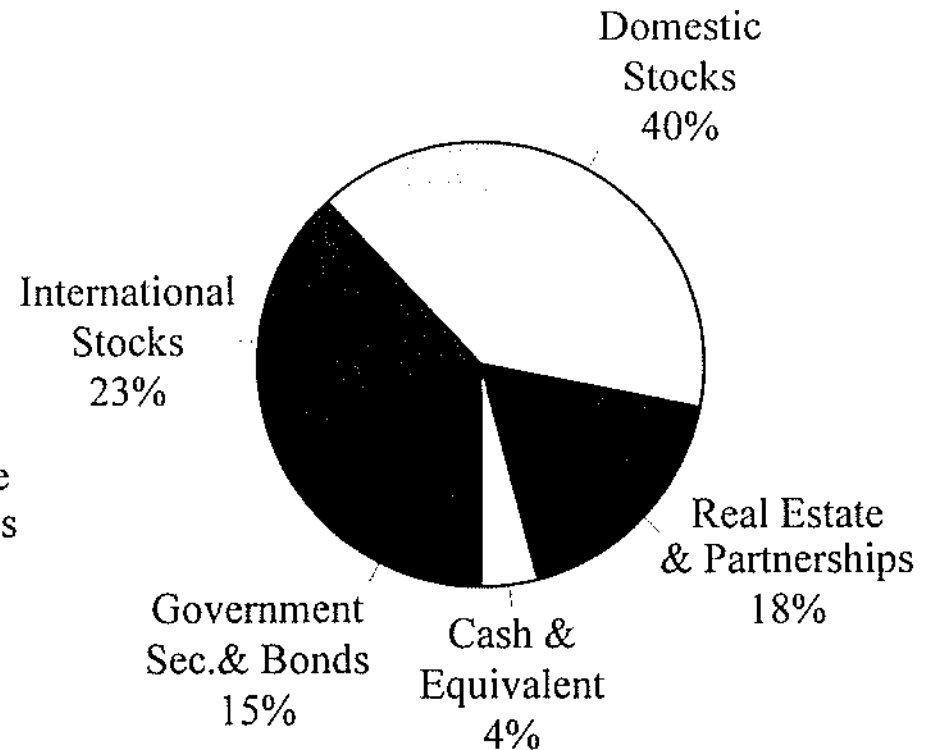
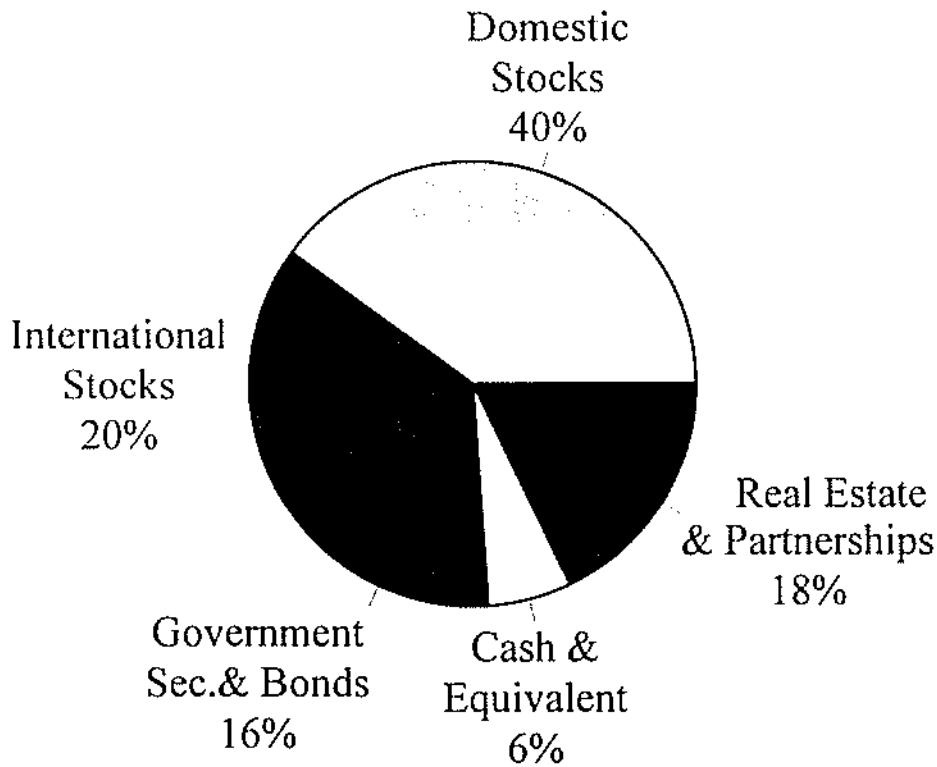
**Exhibit 4**

*Austin Police Retirement System*

*Comparison of Market Value Asset Allocation as of the Prior and Current Actuarial Valuation Dates*

December 31, 2001

December 31, 1999



**Exhibit 5**

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

***Calculation of 2001 Actuarial Investment Gain/(Loss)***

Market Value of Assets as of December 31, 2000	\$ 273,471,014
2001 City of Austin Contributions	11,178,204
2001 Officer Contributions	5,735,996
2001 Benefit Payments and Contribution Refunds	(13,221,597)
Expected Investment Return at 8.25% during 2001	<u>22,710,660</u>
Expected Market Value of Assets as of December 31, 2001	\$ 299,874,277
Actual Market Value of Assets as of December 31, 2001	<u>264,452,675</u>
2001 Actuarial Investment Gain/(Loss)	\$ (35,421,602)

***Calculation of 2000 Actuarial Investment Gain/(Loss)***

Market Value of Assets as of December 31, 1999	\$ 250,876,441
2000 City of Austin Contributions	10,046,065
2000 Officer Contributions	5,290,090
2000 Benefit Payments and Contribution Refunds	(11,941,402)
Expected Investment Return at 8.25% during 2000	<u>20,834,565</u>
Expected Market Value of Assets as of December 31, 2000	\$ 275,105,759
Actual Market Value of Assets as of December 31, 2000	<u>273,471,014</u>
2000 Actuarial Investment Gain/(Loss)	\$ (1,634,745)

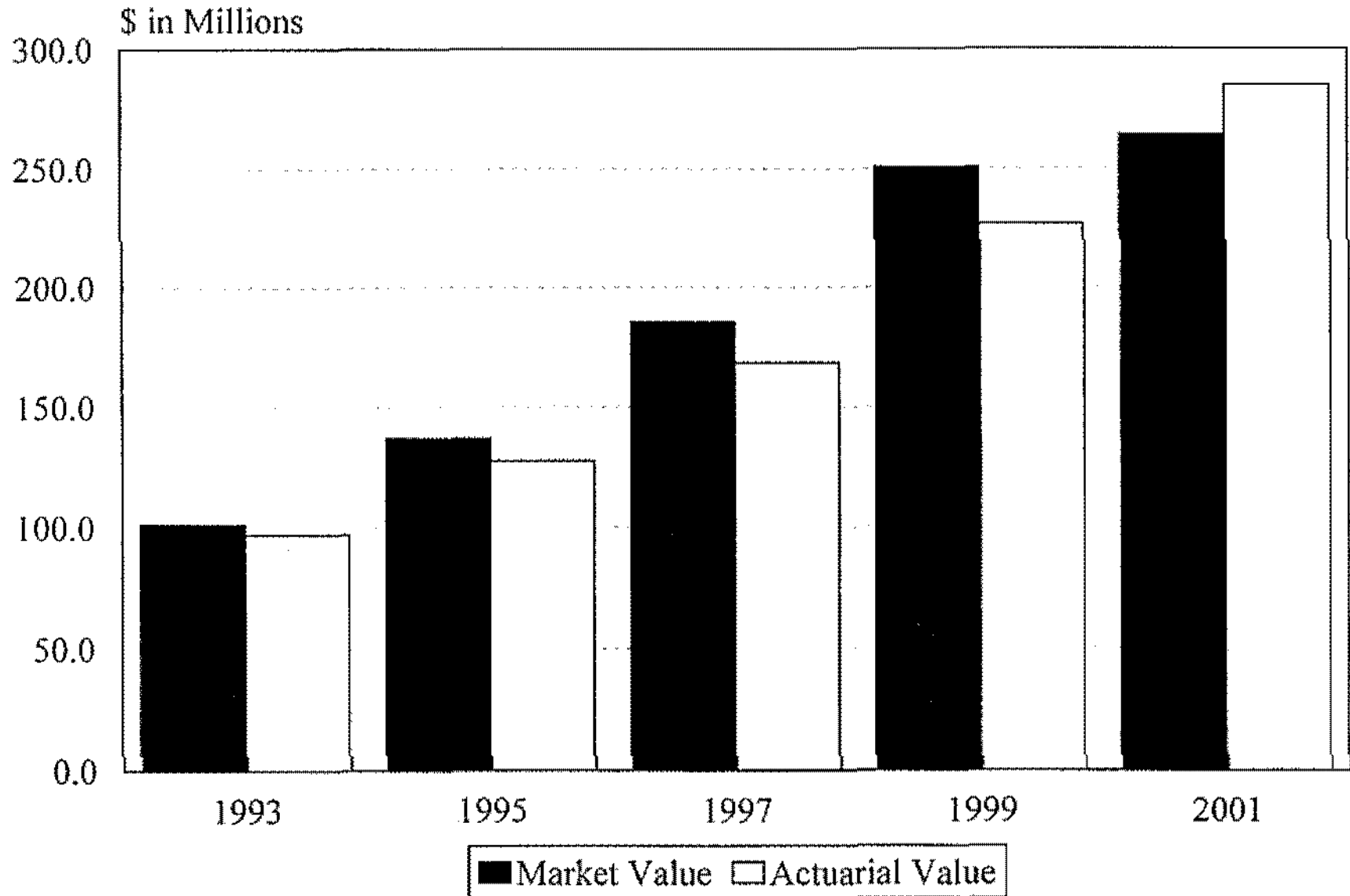
***History of Actuarial Investment Gains/(Losses)***

<u>Year</u>	<u>Total Gain/(Loss)</u>	<u>Deferred Percentage</u>	<u>Deferred Gain/(Loss) Amount as of December 31, 2001</u>
2001	\$ (35,421,602)	80%	\$ (28,337,282)
2000	(1,634,745)	60	(980,847)
1999	19,999,541	40	7,999,816
1998	5,048,924	20	<u>1,009,785</u>
			\$ (20,308,528)

***Actuarial Value of Assets***

Market Value as of December 31, 2001	\$ 264,452,675
Deferred Gain/(Loss) to be Recognized in Future	<u>-(20,308,528)</u>
Total	284,761,203
80% of Market Value as of December 31, 2001	211,562,140
120% of Market Value as of December 31, 2001	317,343,210
Actuarial Value as of December 31, 2001	\$ 284,761,203

**Exhibit 6**  
*Austin Police Retirement System*  
*Historical Comparisons of Market and Actuarial Asset Values*  
*(Valuation as of December 31)*



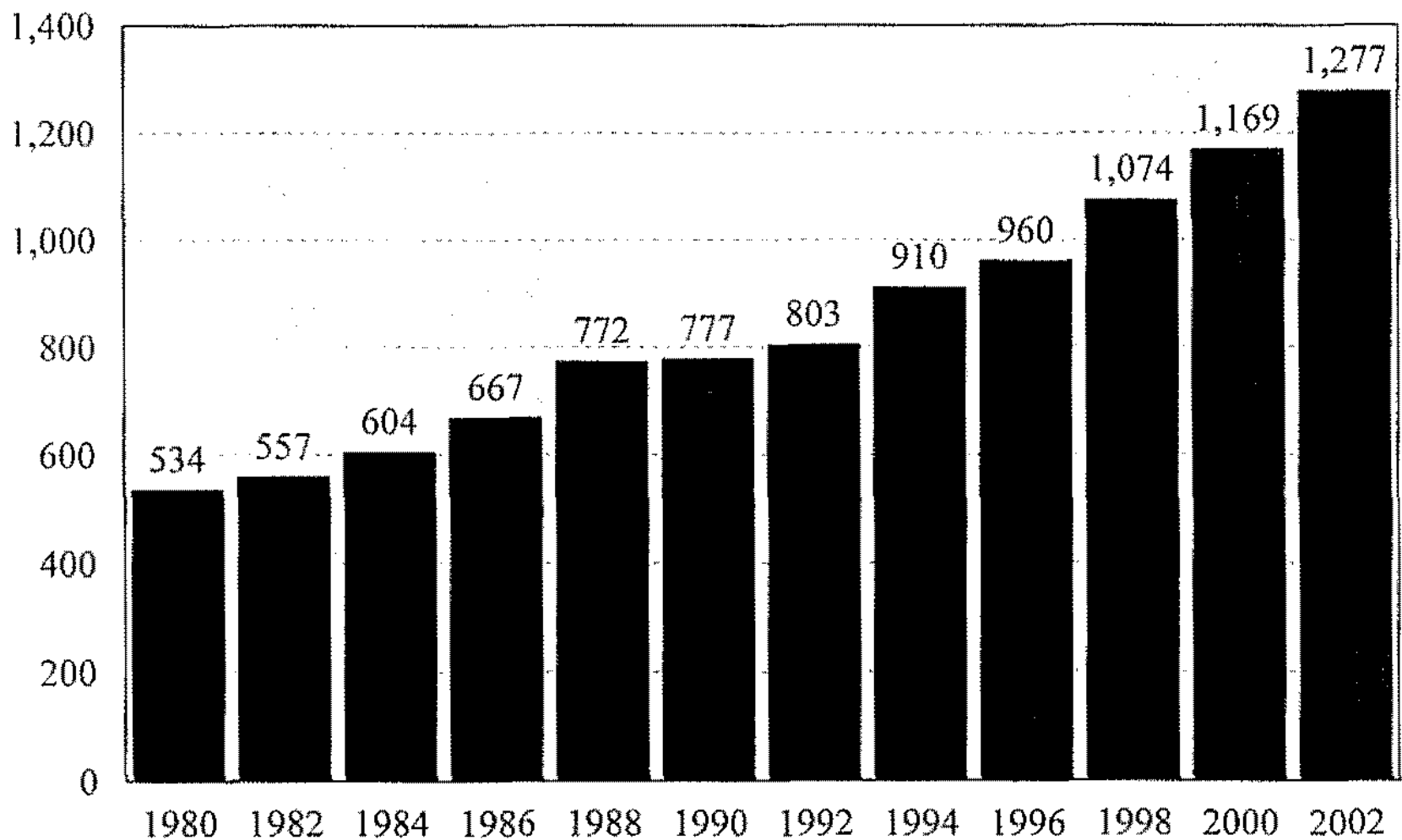


**Exhibit 7**

*Austin Police Retirement System  
Distribution of Police Officers by Age and Service*

Years of Service	Attained Age											Total
	Under 20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 or Over	
0	0	12	25	9	2	3	0	0	0	0	0	51
1	0	19	50	29	11	6	0	0	0	0	0	115
2	0	2	21	16	3	2	0	0	0	0	0	44
3	0	0	37	37	21	4	0	1	0	0	0	100
4	0	0	36	38	16	3	2	0	0	0	0	95
5	0	0	29	28	8	1	0	0	0	0	0	66
6	0	0	8	35	12	0	1	0	0	0	0	56
7	0	0	5	35	24	6	1	0	0	0	0	71
8	0	0	0	29	18	6	1	0	0	0	0	54
9	0	0	1	18	30	14	3	0	0	0	0	66
10	0	0	0	11	11	6	1	0	0	0	0	29
11	0	0	0	9	30	15	6	0	0	0	0	60
12	0	0	0	0	1	0	1	0	0	0	0	2
13	0	0	0	0	13	4	5	1	0	0	0	23
14	0	0	0	0	10	3	1	0	0	0	0	14
15	0	0	0	0	16	26	6	1	1	0	0	50
16	0	0	0	0	15	34	9	1	1	0	0	60
17	0	0	0	0	2	28	11	4	0	1	0	46
18	0	0	0	0	1	25	17	3	0	0	0	46
19	0	0	0	0	0	1	1	0	0	0	0	2
20-24	0	0	0	0	0	25	102	34	5	0	0	166
25-29	0	0	0	0	0	0	20	30	4	0	0	54
30-34	0	0	0	0	0	0	1	4	1	0	0	6
35-39	0	0	0	0	0	0	0	0	1	0	0	1
40-44	0	0	0	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0	0	0	0
50+	0	0	0	0	0	0	0	0	0	0	0	0
Totals	0	33	212	294	244	212	189	79	13	1	0	1277
Average Monthly Salary	\$0	\$2,999	\$3,564	\$3,977	\$4,410	\$5,137	\$5,675	\$5,883	\$5,978	\$5,099	0	\$4,549

**Exhibit 8**  
*Austin Police Retirement System*  
*Historical Summary of Growth in Number of Contributing Members*



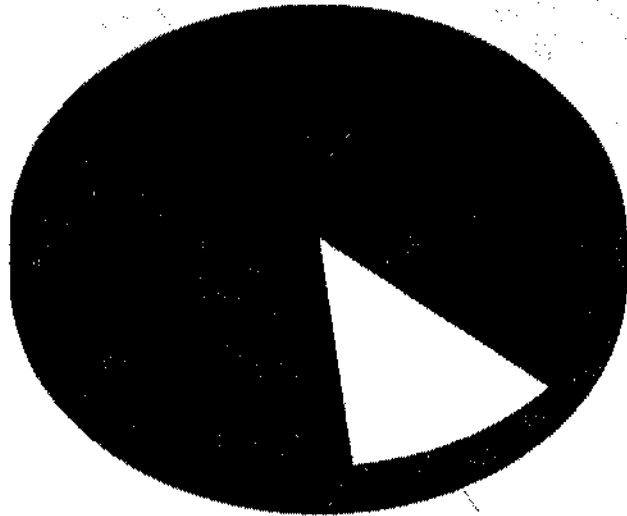
Average annual increase over:

- 6-year period 1996-2002: 4.9%
- 10-year period 1992-2002: 4.7%
- 20-year period 1982-2002: 4.2%

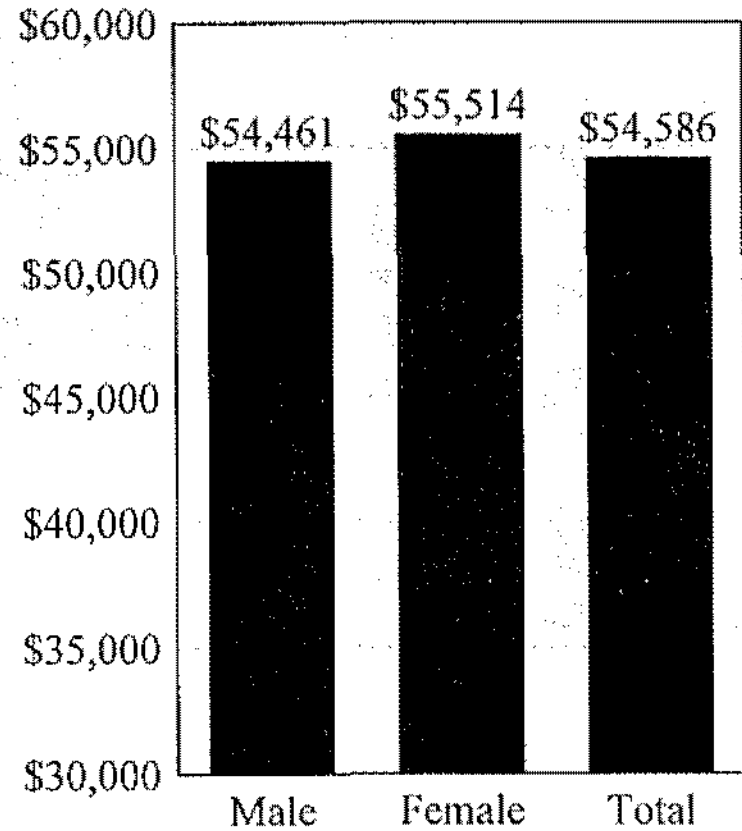
Exhibit 9

*Austin Police Retirement System  
Breakdown by Sex of Number of Officers and Average Annual Rate  
of Pay as Reported for the December 31, 2001 Valuation*

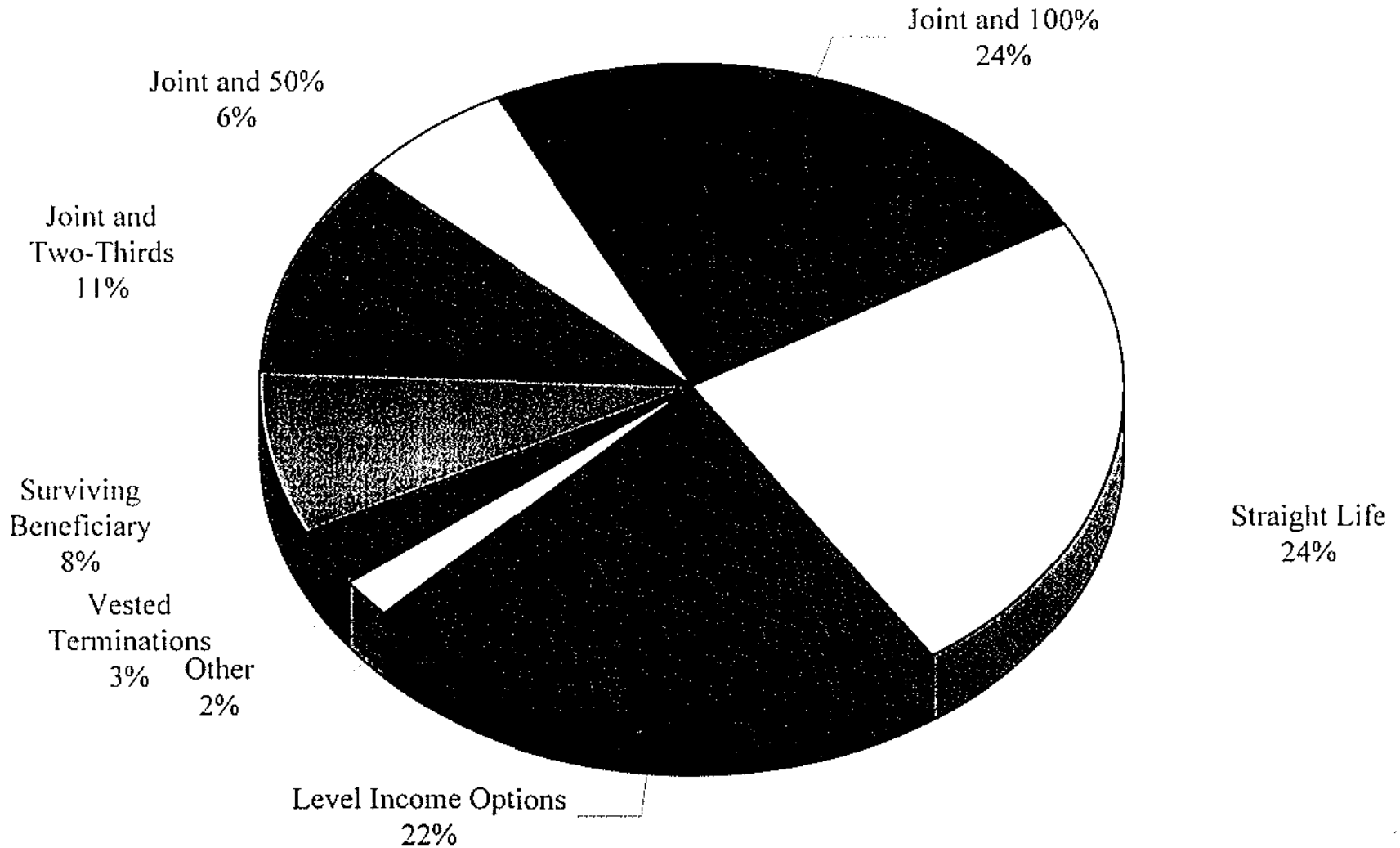
Male Officers  
88%



Female Officers  
12%



**Exhibit 10**  
*Austin Police Retirement System*  
*Breakdown of Pensioners by Type and Annuity Option*



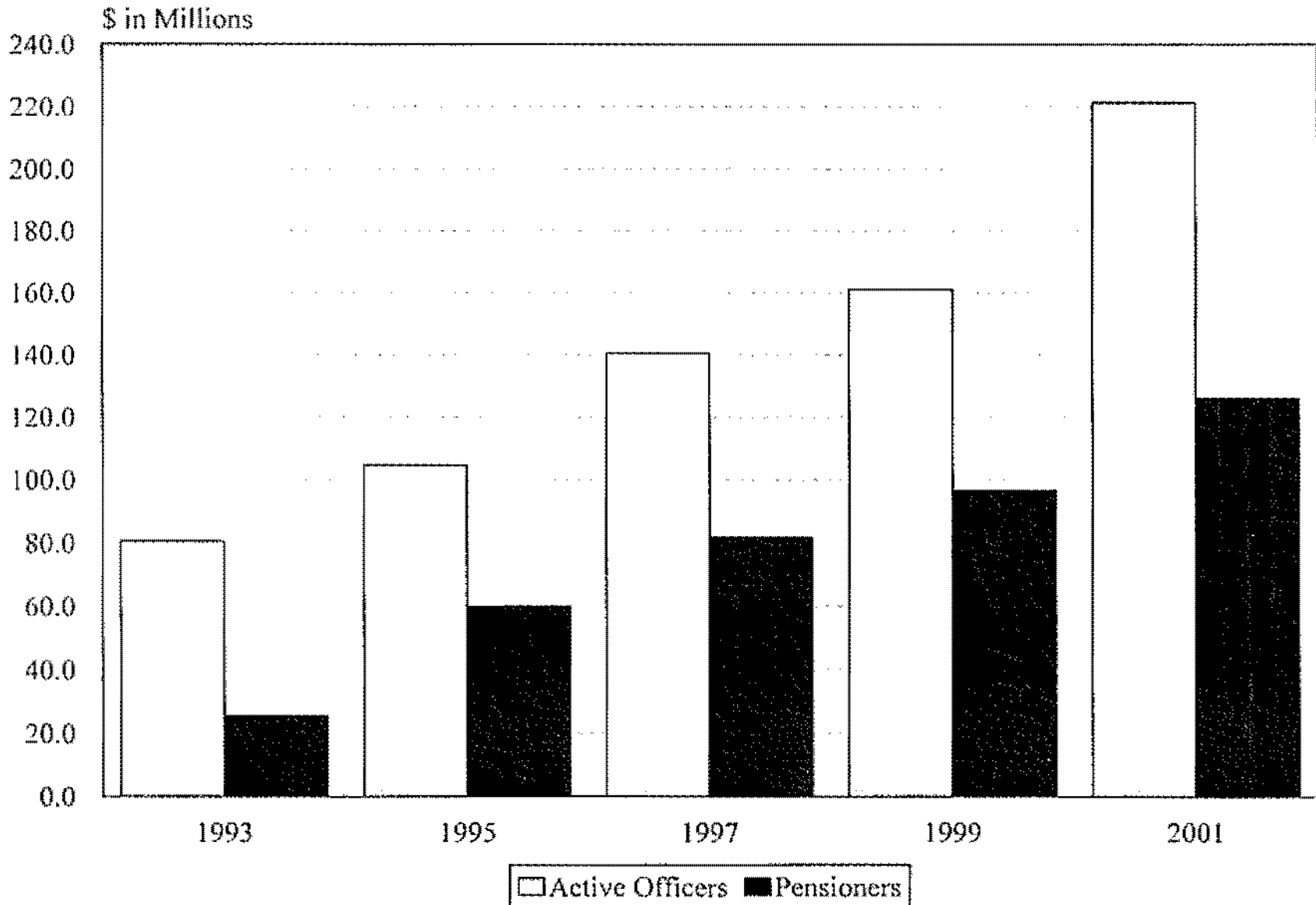
**Exhibit 11**

*Austin Police Retirement System  
Summary Data of Active Police Officers and Pensioners  
as Reported for the December 31, 2001 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,125	152	1,277
Annualized Reported Payroll	\$61,268,670	\$8,438,079	\$69,706,749
Average Annual Rate of Pay	\$54,461	\$55,514	\$54,586

Pensioners	Number	Monthly Payment	Actuarial Present Value of Benefits
<b>Service Retirements by Type of Annuity</b>			
Straight Life	70	\$253,465	\$31,632,659
Joint and 100%	69	249,791	34,702,603
Joint and 50%	16	65,464	7,933,643
Joint and Two-Thirds Beneficiary	32	123,686	16,005,229
Joint and Two-Thirds Last Survivor	1	4,160	513,227
Level Income Straight Life	18	66,251	6,551,255
Level Income Joint and Two-Thirds	32	102,654	11,831,809
Level Income Joint and 100%	12	48,707	5,903,290
Fifteen Year Certain and Life	<u>2</u>	<u>7,594</u>	<u>961,117</u>
<b>Total Service Retirements</b>	<b>252</b>	<b>921,772</b>	<b>116,034,832</b>
Disability Retirements	3	5,267	598,242
Surviving Beneficiaries	24	75,949	8,797,009
Vested Terminated Officers	<u>10</u>	<u>15,995</u>	<u>801,535</u>
<b>Total</b>	<b>289</b>	<b>\$1,018,983</b>	<b>\$126,231,618</b>

**Exhibit 12**  
*Austin Police Retirement System*  
**Historical Comparisons of Actuarial Accrued Liability for Active Officers and Pensioners**  
*(Present Plan Valuations as of December 31)*



## Exhibit 13

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

#### *Effective Date*

January 1, 1980

#### *Effective Date of Most Recent Amendment*

September 1, 2001

#### *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 police system's administrative staff are also included.

#### *Employee Contributions*

9% of each police officer's "Compensation Considered".

#### *City Contributions*

18% of "Compensation Considered" for all "Employees Included" effective as of October 1, 1996 and thereafter.

#### *Service Considered*

The number of months during which a member is required to make and does make prescribed contributions plus any creditable service received as a result of the provisions for establishing credit for certain military service, cadet service, probationary service following the commission date when no contributions were made or reinstating previously forfeited service.

## Exhibit 13 (continued)

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

#### *Compensation Considered*

Basic hourly earnings consisting of 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.

#### *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; 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 3.00% of "Average Final Compensation" multiplied by years and months of "Service Considered."

#### *Disability Benefit*

A member is eligible for a disability benefit at any age provided he has completed ten years of service, because of 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 computed considering service and compensation to date of disability; however, not less than 20 years of service will be used for an occupational disability.



## Exhibit 13 (continued)

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

#### *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.

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 \$7,500 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 member contributions made plus allowable interest. If an optional annuity is selected in lieu of a lump sum benefit, a \$7,500 lump sum death benefit is payable to the beneficiary.

If death occurs after retirement, the member's beneficiary receives a benefit equal to the excess, if any, of the accumulated member contributions plus allowable interest over the benefits actually received. A \$7,500 lump-sum death benefit is also payable upon the death of a retired member. 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.

#### *Vested Benefit*

If the member has 10 years of service, he may elect to leave his accumulated deposits 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.

## Exhibit 13 (continued)

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

#### *Termination of Employment*

A member terminating employment 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 will be 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.

#### *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 may not be earlier than the date the member completed 23 years of creditable service not reflecting any military service credit or may not be earlier than 36 months prior to the date of retirement.

#### *Postretirement Cost-of-Living Increases*

The Board may authorize an annual cost-of-living adjustment, subject to actuarial approval, not to exceed 6% per year. Postretirement benefit increases will automatically be provided when the system's benefit formula as a percent of average compensation for years of service increases.

## Exhibit 14

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

- |   |   |
|---|---|
| 1. Actuarial Cost Method                                    | Entry Age Actuarial Cost Method   |
| 2. Amortization of Unfunded Actuarial Accrued Liability     | 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.  |
| 3. Asset Valuation  | 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. |
| 4. Investment Return (Interest Rate)                        | 8.0% per year, net of expenses  |
| 5. Inflation  | 4% per year   |
| 6. Salary Increase Due to General Wage Increase             | 4% per year   |
| 7. Salary Increase Due to Promotion and Longevity Increases | 2.8% per year average. See Exhibit 16 for the promotion and longevity only salary increases by year of service.   |
| 8. Total Salary Increase                                    | 6.8% per year average. See Exhibit 16 for the total salary increases by year of service.  |
| 9. Interest Credited on Officer's Accumulated Contributions | 5% per year   |
| 10. Mortality   |   |
| a. Active   | UP-1994 Mortality Tables for males and females with no projections  |
| b. Retired  | UP-1994 Mortality Tables for males and females with no projections  |
| c. Disabled   | 85% of 1965 RRB Disabled Annuitants Mortality Table   |
| 11. Retirement Rates  | Expected average retirement age of 52.5. See Exhibit 17 for age-related rates.  |
| 12. Withdrawal Rates  | Expected average annual number of terminations with a refund of contributions of 27.8 per year based on the officers included in the December 31, 2001 valuation. See Exhibit 18 for service-related rates.   |
| 13. Disability Rates  | See Exhibit 19 for age-related rates.   |

**Exhibit 15**

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

	December 31, 2001 Actuarial Assumption	December 31, 1999 Actuarial Assumption
Investment Return (Interest Rate) per year, net of expenses	8.00%	8.25%
Salary Increase due to Promotion and Longevity (Primarily Step) Increase	2.8% per year average (See Exhibit 16)	2.6% per year average (See Exhibit 16)
Salary Increase Total	6.8% per year average	6.6% per year average
Retirement Rates	Rates which produce an average expected retirement age of 52.5* (See Exhibit 17)	Rates which produce an average expected retire- ment/RETRO DROP age of 50.6* (See Exhibit 17)

\* Based on those officers included in the December 31, 2001 valuation.

Exhibit 16

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

Year of Service t	Used in December 31, 2001 Actuarial Valuation		Used in December 31, 1999 Actuarial Valuation	
	Salary Increases Due to		Salary Increases Due to	
	Promotion and Longevity Increases	Total Increases	Promotion and Longevity Increases	Total Increases
1	18.0%	22.0%	13.8%	17.8%
2	11.2	15.2	14.9	18.9
3	5.8	9.9	8.5	12.5
4	0.9	4.9	0.9	4.9
5	0.9	4.9	0.9	4.9
6	7.1	11.1	5.1	9.1
7	0.5	4.5	0.5	4.5
8	0.5	4.5	0.5	4.5
9	0.5	4.5	0.5	4.5
10	7.1	11.1	7.1	11.1
11	0.3	4.3	0.3	4.3
12	0.3	4.3	0.3	4.3
13	0.3	4.3	0.3	4.3
14	7.1	11.1	7.1	11.1
15	0.2	4.2	0.2	4.2
16	7.2	11.2	0.2	4.2
17	0.2	4.2	0.2	4.2
18	0.1	4.1	7.0	11.0
19	0.1	4.1	0.1	4.1
20	0.1	4.1	0.1	4.1
21	0.1	4.1	0.1	4.1
22	0.1	4.1	0.1	4.1
23	0.1	4.1	0.1	4.1
24	0.1	4.1	0.1	4.1
25	0.1	4.1	0.1	4.1
26-45	0.0	4.0	0.0	4.0

Exhibit 17

Austin Police Retirement System  
Service Retirement Rates Per 1,000 Members

Age	Used In Analysis of Legislative Changes Effective September 2001 for December 31, 1999 Actuarial Valuation					
	Entry Age Group					
	22 & Under	23-27	28-32	33-37	38-42	43 & Over
43	500					
44	500					
45	500					
46	500					
47	500					
48	500	500				
49	500	500				
50	500	400				
51	500	400				
52	500	400				
53	500	400	500			
54	500	400	500			
55	600	500	325	600		
56	600	500	325	400		
57	600	500	350	300		
58	600	500	350	300	300	
59	600	500	350	300	300	
60	1000	1000	1000	1000	325	
61					325	
62					350	800
63					350	400
64					350	400
65					1000	1000
Overall Weighted Average Expected Retirement/RETRO DROP Age <sup>3</sup>						50.6

Service	Used for December 31, 2001 Actuarial Valuation						
	For Entry Ages Under 32			For Entry Ages 33 and Above			
	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
23	50	75	100	43			
24	200	200	200	44			
25	250	250	250	45			
26	300	300	300	46			
27	500	400	350	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 <sup>2</sup>	52			
33	500	500		53			
34	500	500		54			
35	600	500		55	200		
36	600	500		56	250		
37	600	1000 <sup>2</sup>		57	300		
38	600			58	350		
39	600			59	500		
40	600			60	1000	500	
41	600			61		350	
42	1000 <sup>2</sup>			62		350	800
				63		350	400
				64		350	400
				65		1000	1000
Overall Weighted Average Expected Retirement Age <sup>3</sup>							52.5

<sup>1</sup> Additional assumptions include 75% of those retiring after the first year eligible to retire will elect the RETRO DROP and are assumed to elect the maximum RETRO DROP period allowable.  
<sup>2</sup> 100% retirement rate will be effective at age 60 if earlier.  
<sup>3</sup> Based on December 31, 2001 officer data.

Exhibit 18

*Austin Police Retirement System  
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  
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.



## 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.

**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, 2001*

**I. Schedule of Funding Progress**

Actuarial Valuation Date <sup>1</sup>	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>2</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/97 <sup>3,4</sup>	\$168,601,584	\$222,703,396	\$54,101,812	75.7%	\$47,188,812	114.6%
12/31/99 <sup>3,5</sup>	226,913,439	257,850,162	30,936,723	88.0	54,695,072	56.6
12/31/01 <sup>3,6</sup>	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1

<sup>1</sup>The System has biennial valuations.

<sup>2</sup>The covered payroll is based on the annual rate of base pay and longevity pay as of the valuation date.

<sup>3</sup>Economic and demographic assumptions were revised.

<sup>4</sup>Changes in plan benefit provisions were effective September 1, 1997.

<sup>5</sup>Changes in plan benefit provisions were effective September 1, 1999.

<sup>6</sup>Changes in plan benefit provisions were effective September 1, 2001.

**II. Schedule of Employer Contributions**

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll <sup>1</sup>	Annual Required Contribution <sup>2</sup>	Percentage Contributed
1996	16/18%	\$ 6,154,935	100%
1997	18	6,952,258	100
1998	18	8,254,861	100
1999	18	9,288,148	100
2000	18	10,046,065	100
2001	18	11,178,204	100

<sup>1</sup>When two percentages are shown for a year, the first one was effective for the months January through September, and the second one was effective for the months October through December.

<sup>2</sup>The annual required contribution is based on actual covered payroll.

**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, 2001*

**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, 2001
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	18.8 years
Asset valuation method	5-year smoothed market value
Actuarial assumptions:	
- Investment rate of return, net of expenses, compounded annually	8.0%
- Projected salary increases including promotion and longevity	4.0% to 22.0% per year, averaging 6.8%
- Inflation rate per year	4%
- Postretirement cost-of-living adjustments	None

**IV. Actuarial Information Needed for Notes to the Financial Statement  
as Required by Paragraph 32 of GASB 25 (Additional Information  
Required by Paragraph 32 Should be Provided by the System's  
Auditors)**

**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

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, 2001*

service. Participants may retire with 23 years of service excluding any military service credit regardless of age, or at age 55 with 20 years of service or at age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of December 31, 2001, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service. Effective September 1, 2001, the RETRO DROP provisions were changed to 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 elects for the RETRO DROP benefit computation date.

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 or decreased annually on an ad hoc basis by the amount of increase or decrease in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

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, 2001:

Retirees and beneficiaries currently receiving benefits (279) and terminated employees entitled to future monthly benefits (10)	289
Current participating members	<u>1,277</u>
Total	1,566

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, 2001*

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, 2001, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions.

The City contribution rate is required by the state law governing the System as of December 31, 2001 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 to 9% effective October 1993 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 requirements are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of 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, 2001 and the Plan provisions at that date, the normal cost was 20.143% of pay and the amortization period was 18.8 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, 2002*

### I. Annual Pension Cost

For the fiscal year ending September 30, 2002, the City's annual pension cost of \$       \* for the Austin Police Retirement System was equal to the City's required and actual contributions. While the required contributions were not actuarially determined but were a fixed 18% of the basic compensation, consisting of base pay and longevity pay of police cadets and police officers, the plan of benefits has been approved by the Retirement Board's actuary as having an adequate financing arrangement. The required contributions were reflected in the December 31, 2001 actuarial valuation, which satisfied the parameters of the Governmental Accounting Standards Board (GASB) Statement No. 27. The Entry Age Actuarial Cost Method was used, with the normal cost calculated as a level percentage of payroll.

The actuarial assumptions included an investment return assumption of 8.0% per year (net of administrative expenses), projected salary increases ranging from 4% to 22% and averaging 6.8% per year, and no postretirement cost-of-living adjustments. An inflation assumption of 4% per year is included in the investment return and salary increase assumptions. The actuarial value of assets was determined using a method that smooths the effects of short-term volatility in the fair value of investments over a five-year period. The unfunded actuarial accrued liability (UAAL) is amortized with the excess of the total contribution rate over the normal cost rate. The number of years needed to amortize the UAAL is determined using an open, level percentage of payroll method, assuming that the payroll will increase 4% per year, and was 18.8 years in the December 31, 2001 actuarial valuation.

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Contribution as a Percentage of Payroll	Net Pension Obligation
09/30/2000	\$ <u>      *</u>	100%	18%	\$0
09/30/2001	<u>      *</u>	100	18	0
09/30/2002	<u>      *</u>	100	18	0

\*City will be able to determine these amounts from their accounting system since there is no net pension obligation.

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, 2002*

**III. Schedule of Funding Progress**

Actuarial Valuation Date <sup>1</sup>	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>2</sup> (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/97 <sup>3,4</sup>	\$168,601,584	\$222,703,396	\$54,101,812	75.7%	\$47,188,812	114.6%
12/31/99 <sup>3,5</sup>	226,913,439	257,850,162	30,936,723	88.0	54,695,072	56.6
12/31/01 <sup>3,6</sup>	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1

<sup>1</sup>The System has biennial valuations.

<sup>2</sup>The covered payroll is based on the annual rate of base pay and longevity pay as of the valuation date.

<sup>3</sup>Economic and demographic assumptions were revised.

<sup>4</sup>Changes in plan benefit provisions were effective September 1, 1997.

<sup>5</sup>Changes in plan benefit provisions were effective September 1, 1999.

<sup>6</sup>Changes in plan benefit provisions were effective September 1, 2001.

**IV. Actuarial Information Needed 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 with 23 years of service excluding any military service credit regardless of age, or at age 55 with 20 years of service or at age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of December 31, 2001, the monthly benefit is equal to 3.0% of the highest 36-month average salary multiplied by years and months of service.

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, 2002*

Effective September 1, 2001, the RETRO DROP provisions were changed to 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 elects for the RETRO DROP benefit computation date.

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 or decreased annually on an ad hoc basis by the amount of increase or decrease in the Consumer Price Index, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

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, 2001:

Retirees and beneficiaries currently receiving benefits (279) and terminated employees entitled to future monthly benefits (10)	289
Current participating members	<u>1,277</u>
Total	1,566

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, 2001, participants are required to contribute 9% of their basic compensation to the System. The City is required to make contributions equal to 18% of basic compensation and may authorize additional contributions.

The City contribution rate is required by the state law governing the System as of December 31, 2001 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



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, 2002*

increased to 9% effective October 1993 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 requirements are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of 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, 2001 and the Plan provisions at that date, the normal cost was 20.143% of pay and the amortization period was 18.8 years.

SUMMARY OF INVESTMENTS  
DECEMBER 31, 2001

	<u>Market Value</u>	<u>Percent Of Market Value</u>
Corporate stocks	105,806,557	40.3%
International stocks	51,736,728	19.7%
Real estate interests	42,177,893	16.1%
Short-term investment funds	13,747,879	5.3%
U.S. Government securities	28,926,494	11.0%
Int'l Government securities	10,867,247	4.1%
Corporate bonds	2,576,526	1.0%
Partnership interests	<u>6,631,912</u>	<u>2.5%</u>
Total	262,471,235	100%

SUMMARY OF INVESTMENTS  
DECEMBER 31, 2000

	<u>Market Value</u>	<u>Percent of Market Value</u>
Corporate stocks	105,427,226	38.8%
International stocks	60,755,098	22.4%
Real estate interests	39,742,698	14.6%
Short-term investment funds	10,575,260	3.9%
U.S. Government securities	32,172,957	11.9%
Int'l Government securities	8,683,105	3.2%
Corporate bonds	3,774,868	1.4%
Partnership interests	<u>10,284,571</u>	<u>3.8%</u>
Total	271,415,783	100%

INTEREST PAID TO MEMBERS  
(10 Year History)

<u>Year</u>	<u>Interest Paid</u>
2001	4.0%
2000	5.0%
1999	5.0%
1998	5.0%
1997	5.0%
1996	5.0%
1995	5.0%
1994	5.0%
1993	4.5%
1992	5.5%

**HOW IS THE AMOUNT OF INTEREST PAID ON RETIREMENT CONTRIBUTIONS DETERMINED?**

The Board of Trustees annually determines the amount of interest paid on members' accumulated deposits, taking into consideration the performance of the Fund's investments and the actuary's recommendations. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current officers who will someday retire.

Retirement interest is paid at the end of the calendar year based on the amount that each officer had in the system on the first day of that calendar year. For instance, if you had \$1,000 on January 1, and on December 31, you had \$1,500, your interest for that year would be based on the \$1,000 you had in the system on January 1. In order to obtain that interest, your money must have remained on deposit for the entire calendar year.

COMPARATIVE STATEMENT OF MEMBERSHIP

RETIREMENT SYSTEM 2001      2000

Total Number of Members, January 1	1183	1169
Add: New Members	192	86
Deduct: Members Terminated	(39)	(40)
Members Transferred to Retiree System	(31)	(22)
Total Membership, December 31	1305	1193
Deduct: Inactive Vested Members	(10)	(10)
TOTAL ACTIVE MEMBERS, DECEMBER 31	<u>1295</u>	<u>1183</u>

RETIREE SYSTEM

Total Number of Members, January 1	249	230
Add: Members Transferred to System	31	22
Deduct: Members Deceased	(2)	(3)
TOTAL RETIRED MEMBERS, DECEMBER 31	<u>278</u>	<u>249</u>

## PENSION PLAN GUIDE

### GOVERNING PENSION LAW

The City of Austin Police Retirement System was established on November 29, 1979 by authority of a state law passed in 1979 (Vernon's Annotated Civil Statutes, Article 6243-L), and became statutorily governed by Article 6243n-1 on August 26, 1991.

### ADMINISTRATION

The fund is administered by a Board of Trustees consisting of (11) members; five active police officers and two retired police officers elected from among its membership, one qualified voter appointed by the Board of Trustees, the City Manager (or designee), the Director of Finance (or designee), and one Council Member.

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

### RETIREMENT FUND INVESTING

The COA-Police Retirement System's Fund monies are invested according to requirements prescribed by the system's statutory plan and further defined in the Board's 'Statement of Investment Policy and Guidelines'. The investments provide returns that help fund the monthly retirement allowances and other benefits paid by the system to its members and beneficiaries.

### MEMBERSHIP REQUIREMENTS

All Cadets, effective April 1998, enrolled in the Police Academy Training while employed with the City of Austin Police Department and who thereafter are commissioned officers, become members upon date of employment with the Police Retirement System.

All full time staff employees who have successfully completed six months of probationary service at the Pension Office.

### CONTRIBUTIONS

**Police Officer:** Each member of the system contributes 9% of base pay each pay period by payroll deduction. Overtime or special pay is not included. Contributions continue until a member's withdrawal by termination or retirement.

**City of Austin:** The City of Austin contributes 18% of every member's base pay each pay period. Once it becomes a part of the retirement fund, the City's contribution is invested for the benefit of all active employees and made available to pay benefits to them at retirement. Most retirees receive benefits equal to all their own contributions and interest, through their monthly annuity payments, within two or three years after retirement. Because of the contributions made by the City and the interest earned on the Fund's investments, money is available to continue paying each retiree monthly benefits according to their selected option as long as they live, long after their own contributions have been received. We are also able to provide on-going lifetime benefits to the surviving beneficiaries of deceased retirees according to their selected option as well as provide a cost of living adjustment (COLA) for retirees.

### RETIREMENT ELIGIBILITY

Normal, unreduced retirement:

Officers are eligible for normal, unreduced retirement when they meet one of the following age and service requirements:

- \* Age 55 and 20 years creditable service
- \* Any age and 23 years creditable service.
- \* Age 62 and any number years of creditable service.

### CREDITABLE SERVICE

Creditable service is service that is used in computing retirement benefits. There are five types of creditable service:

1. **Membership Service**-The employment period during which a member makes payroll contributions to the fund.
2. **Probationary Service**-Credited service may be purchased from commission date to retire start date in the event they are not the same date.
3. **Premembership Military Service**-Credited service may be purchased for up to two years of active federal duty military service prior to employment.
4. **Current Military Service**-Credited service may be purchased for approved absence from City employment for military service within 5 years of reemployment.
5. **Forfeiture Service**-Credited service may be purchased for prior Austin Police Retirement System membership.
6. **Cadet Service**-Credit service may be purchased from cadet enrollment date to commission date in the event they are not the same date.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

Basic retirement benefit Life Annuity are calculated using the following formula:

<u>\$5000.00</u>	
Average monthly salary for highest 36 months of last 10 years of contributing service	
<u>23</u>	x 3.0% =
Total years of membership service	<u>\$3450.00</u>
	Basic monthly life annuity

3.0% multiplied by years of membership service times averaged monthly salary for the highest 36 months of the last ten years of contributing service.

RETIREMENT OPTIONS

The Police Retirement System provides several options under which monthly benefits may be paid. The options below require submission of verifiable information to determine calculation. Note: A member may not change their chosen option once they have already retired.

Life Annuity - Basic monthly benefit entitlement based on service and average salary, payable only to the member for life.

- Option I - 100% Joint and Survivor Benefit
- Option II - 50% Joint and Survivor Benefit
- Option III - 66 2/3% Joint and Survivor Benefit
- Option IV - Joint and 66 2/3% Last Survivor Benefit
- Option V - Fifteen year Certain and Life Annuity

The options which include benefits to a survivor are figured according to the ages of both member and surviving beneficiary included in the plan. A member's benefit is permanently reduced if an option is chosen that provides survivor benefits to a beneficiary. This reduction is applied to the member's basic benefit relative to the option the member chooses. The reduction of member benefits is necessary to pay for the continued benefits the surviving beneficiary is expected to receive.

## RETROACTIVE DEFERRED RETIREMENT OPTION PLAN

The retroactive deferred retirement option plan, referred to as RETRO DROP Option, is a one-time benefit paid at retirement with a reduced monthly retirement benefit. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military service credit. The maximum amount of service to be used in computation of the RETRO DROP after normal service retirement of 23 years, excluding pre-membership service credit is 36 months.

On the election of RETRO DROP and the selection of the RETRO DROP benefit computation date, the member's monthly retirement option is computed as if the member had retired on the RETRO DROP benefit computation date. The RETRO DROP benefit balance will include the accumulated monthly benefits after 23 years with retiree COLA'S, multiplier increases, member contributions and a 5% simple interest calculation on December 31<sup>st</sup> for balances on deposit as of January 1<sup>st</sup> of the same calendar year.

A member who elects RETRO DROP receives a one-time benefit with a reduced monthly retirement benefit at retirement date.

Certain selections of options and beneficiary designations other than a surviving spouse may have adverse consequences under the Internal Revenue Code of 1986, which may cause a reduction in the amount of benefit payable. You are urged to consult your attorney or tax advisor prior to a final selection of an option.

## RETRO DROP BALANCE OPTION PLAN or (PROP)

### Post Retirement Option Plan

Instead of a single lump-sum payment, a member may elect to receive partial payments from the member's RETRO-DROP balance or PROP account for each calendar year, in an amount elected by the member. A member who elects partial payments in the PROP account may, at any time, elect to receive the member's entire remaining PROP account balance in a single lump-sum payment, with the payment to be made under rules adopted by the board.

If a member elects partial payments, the member's RETRO DROP balance or PROP account shall be credited with earnings or losses of the system while funds remain in the account. These earnings or losses will be determined at an annual rate established under a rule adopted by the board, which can be amended by board rule.

## RETIREMENT OPTION'S AFFECT ON BENEFICIARY

If a retiring member selects the Life Annuity the monthly benefit stops at the death of the member, at which time an amount equal to the excess, if any, of the member's accumulated deposits over the amount of payments which have been made to the member will be paid in a lump sum to the member's designated beneficiaries or estate.

If the member chooses an option providing benefits to a survivor, then at the member's death the benefit specified in the option will be paid



to the designated beneficiary for life. If the nominee does not survive the member, monthly benefits cease. The amount equal to the excess, if any, of the members accumulated deposits over the amount of payments which have been made to both the member and the beneficiary combined will be paid in a lump sum to other designated beneficiaries, or to the estate of the deceased member.

### DISABILITY BENEFITS

To be eligible for disability retirement, the applicant must be unable to perform employment duties due to medical or emotional restrictions and/or diagnosis. The disability must be considered a permanent job performance disability. The disability must also be subsequent to the members effective date of membership AND,

1) if a member has less than 10 years of creditable service, has, become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation as a direct result of injuries sustained subsequent to the member's effective date of membership in the police retirement system, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the injury sustained was as a direct or proximate result of the performance of the member's employment duties with the City or with the System; that it is likely to result in the member's inability to perform the duties of a position offered to the member in the system, the police department, or any other department in the city; that pays as much or more than the current pay of the position the member was holding on the date of the member's disability.

2) if a member has more than 10 years of creditable service AND, has become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the incapacity is likely to result in the member's inability to perform the duties of a position offered to such member in the system, the police department, or any other department in the city, that pays as much or more than the current pay of the position the member was holding on the date of the member's disability.

Disability applications are presented to the 'Disability Committee', whose recommendations are reported to the Retirement Board. The Board has the final authority in granting disability retirement benefits.

On award of disability retirement benefits, the member shall receive a disability retirement computed in the same manner that a service retirement benefit is computed subject to a minimum of 20 years of creditable service.

A member approved for disability retirement will have the option to select an unreduced basic Life Annuity benefit, 100% Joint and Survivor Annuity; 50% Joint and Survivor Annuity; 66 2/3% Joint and Survivor Annuity; Joint and 66 2/3% Last Survivor Annuity; and Fifteen Year Certain and Life Annuity.

Disability retirees are required annually to provide proof of continued disability and financial need to the Retirement Board.

**FOR RETIREE OR ELIGIBLE RETIREE'S BENEFICIARY**

At the death of a retiree, a death benefit of \$7,500 is paid to the retiree's designated beneficiary(ies) or estate.

**FOR ACTIVE & VESTED MEMBER'S BENEFICIARY**

At the death (whether on or off the job) of an active member: Who is not yet eligible for retirement, the designated beneficiary(ies) is entitled to a lump sum payment consisting of a return of the member's accumulated deposits (contributions and interest) and a death benefit from the Fund of an amount equal to the deposits. The death benefits may not be less than \$7,500. When the \$7,500 minimum is payable, the amount payable from the fund is \$7,500 minus that accumulated deposits standing to the member's credit.

**At the death of a vested member:**

Who has terminated employment, but left their contributions in the Fund waiting to become eligible for retirement. If such a vested member dies before the annuity payment begins, their beneficiary would receive in a lump sum amount twice the deceased vested member's accumulated deposits.

**If a member has met the requirements of retirement eligibility prior to death:** The surviving designated beneficiary will be entitled to receive monthly payments under a retirement option in lieu of the return of member accumulated deposits and lump sum death benefit.

In the event a member who is eligible for retirement dies without making a written selection of a retirement option and the member leaves a lawfully married surviving spouse, the surviving spouse may select a retirement option in the same manner as if the member had made the selection or may select a lump sum payment equal to twice the member's accumulated deposits.

If there is no surviving spouse, the deceased member's beneficiary may elect to receive payment under Option VII, a Fifteen Year Certain and Life Annuity, which will pay monthly benefits for a period of fifteen years, or a lump sum payment equal to twice the member's accumulated deposits.

When monthly benefits are payable in lieu of a lump sum, a \$7,500 death benefit will be paid to the beneficiary(ies).

**SELECTION OF RETIREMENT OPTIONS AND DESIGNATING A BENEFICIARY**

Within one year prior to the date on which a member becomes eligible for retirement, the member may file a written statement selecting one of the retirement options and designating a beneficiary, or stating that the member has been afforded an opportunity to select an option but does not desire to do so. The member shall retain the right to make a final selection until the date of retirement.

## HEALTH INSURANCE

Basic medical and dental insurance coverage is available through the City of Austin Human Resources Benefits Division.

Retirees have several choices of insurance carriers and coverage options. Any questions about carriers and plan coverage choices should be directed to the City of Austin Benefits Office at II Commodore Plaza, 9<sup>th</sup> Street & Brazos, 14<sup>th</sup> floor, P.O. Box 1088, Austin, Texas 78767 or by phone at (512) 974-3284.

## DEFINITION OF A VESTED MEMBER

When you have ten years of service credit in the Austin Police Retirement System, you become a vested member of the retirement system. This means that you have a right to receive a monthly annuity when you reach retirement eligibility. Even if you leave City employment before reaching eligibility, if you are vested, you can decide to leave your contributions in the system, and begin drawing your annuity when you reach age 62, or when you meet other age and service requirements for retirement eligibility. It is important to note that, although retirement contributions for inactive members draw interest during the years between the member's termination and retirement, no cost of living increases are applied to these contributions.

## RETIREMENT BENEFITS RETURNED TO MEMBER

When you leave City employment, you will fill out a form instructing the Pension Office as to the distribution method and direction to send your retirement contributions. Your choices will be:

1. Have your contributions refunded as soon as possible after you terminate employment. Your retirement contribution check will be issued two weeks after you receive your final check. It will be mailed to the address you give. (Federal Income Tax will be withheld on all Untaxed contributions and interest at 20% of the total taxable amount.)
2. You may decide to leave your contributions in the retirement system through the end of the calendar year. By doing this, you will receive interest on your contributions. Once the year has ended, your refund check will be issued to you in January. (Federal Income Tax will be withheld on all untaxed contributions and interest at 20% of the total taxable amount).
3. You may have your contributions transferred to an I.R.S. Qualified Retirement Plan through a direct rollover by leaving a letter of transfer with the Pension office. (Federal Income Tax will not be withheld but the monies will be made payable and moved to the qualified retirement plan in your behalf).
4. If you have ten or more years service, you can choose to take advantage of your vested right to an annuity when you reach retirement eligibility. If you indicate that you want to vest your benefits, your contributions will remain in the retirement system until you reach retirement eligibility and request that your monthly annuity begin.

Your contributions will continue to earn interest until your monthly annuity begins. One thing to remember, should you choose to vest, is that when you reach eligibility, your benefits will be based on the eligibility and calculation criteria in effect at the time you terminated employment. There are no cost of living increases applied to your benefits after you have left City employment and before the date your annuity payments begin.

#### RETIREMENT REFUND CHECKS ISSUED AFTER WITHDRAWING CONTRIBUTIONS

With your final paycheck, one final contribution will be made to the retirement fund. After that check is issued, the exact amount of your total refund can be determined. Retirement refund checks are issued every two weeks, at the same time regular payroll checks are issued. Therefore, a member's retirement refund check will be issued the payday following the issuance of that member's final paycheck.

#### NOTE:

Your final timesheet must be properly coded before your retirement refund check can be issued. If you have ten or more years of service at termination, contact the Pension Office regarding your option to receive a vested accrued retirement benefit.

#### LEAVING THE CITY AND WITHDRAWING MY ACCUMULATED DEPOSITS

Every payday the City contributes an amount to the retirement fund that is 18% of the total of all members' payroll. This money becomes a part of the retirement fund. Whereas each member's own contributions are individually accounted for, the amount paid in by the City belongs to all the members of the retirement system and is not specifically assigned to individual members.

If you leave the City before you become eligible for retirement, all of your own contributions and interest are returned to you, and no City contributions will be paid to you.

#### RETIREMENT FUND LOANS AND WITHDRAWALS

Our retirement system is an approved I.R.S. qualified pension plan designed to provide income to members who retire from the City. It is not meant to be a savings account. Because of this, members are not allowed to borrow or withdraw funds as long as they are still working.

#### DETERMINING YOUR COA-POLICE RETIREMENT SYSTEM'S DEPOSIT AMOUNT

The City of Austin provides year to date contribution amounts on bi-weekly payroll earnings statements.

Members receive an 'Annual Statement' from Austin Police Retirement System in January each year which provides information on total accumulated deposits and interest along with total credited service years.

WHO SHOULD I CONTACT FOR MEMBER SERVICES

A Pension Office has been established to serve the membership. Group and individual counseling is provided to members by this office. Prior to your retirement, a retirement counselor will prepare a schedule of your benefits under each of the options and advise you in your preparation to retire.

The Pension Office personnel can be reached at (512) 416-7672 and their address is 2520 South I.H. 35, Suite 205, Austin, Texas 78704.

This booklet has been prepared to help you better understand how the pension plan works. While this guide sets forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the guide and the statute, the Article 6243n-1, Vernon's Texas Civil Statutes, as amended will prevail. If you have any questions about the plan, please contact the City of Austin Police Retirement System Pension Office, at (512) 416-7672. The Pension Office address is 2520 South IH-35, Suite 205, Austin, Texas 78704.

IMPROVEMENTS TO SYSTEM  
(Last 10 Years)

NOVEMBER 1992

A full time Pension Administrator was hired.

AUGUST 1993

Purchased building at 2520 South IH-35 to permanently house the Pension Office.

OCTOBER 1993

Member contribution rate was increased from 6% to 9%.

OCTOBER 1994

The City's contribution rate was increased from 12% to 14%.

SEPTEMBER 1995

Provision added for retirement eligibility with unreduced benefits to include members who have 25 years of creditable service.

Benefit formula multiplier was increased from 2.3% to 2.8%.

Special increase granted to retirees based on benefit formula multiplier in use at date of Retirement.

The retiree death benefit is increased to \$5,000 from \$2,000.

OCTOBER 1995

The City's contribution rate was increased from 14% to 16%.

OCTOBER 1996

The City's contribution rate was increased from 16% to 18%.

## SEPTEMBER 1997

Benefit formula multiplier was increased from 2.8% to 2.88%.

Special Ad hoc increase granted to retirees based on benefit multiplier 2.88% divided by benefit multiplier 2.8%, minus one, and multiplied by 100.

The retiree death benefit is increased to \$7,500 from \$5,000.

Retroactive Deferred Retirement Option Plan (RETRO DROP) provision added for retirement lump sum distribution with a reduced benefit.

## APRIL 1998

Officers who had non-membership time after they were enrolled in Cadet class are now able to buy back that non-membership time as retirement service credit.

Cadets are now members of the retirement system at enrollment date and upon contributing 9% of their biweekly payroll.

## SEPTEMBER 1999

Board Membership changed to allow for greater membership participation by adding one active officer and one retired officer position to the Board of Trustees.

## JULY 2000

Benefit formula multiplier was increased from 2.88% to 3.0%.

Special Ad hoc increase granted to retirees based on benefit multiplier 3.0% divided by benefit multiplier 2.88%, minus one, and multiplied by 100.

## SEPTEMBER 2001

Provision added for retirement eligibility with unreduced benefits to include members who have 23 years of creditable service excluding pre-membership military service.

Post Retirement Option Plan (PROP) provision added for members who select the Retroactive Deferred Retirement Option Plan (DROP) and instead of receiving a single lump-sum payment, elect to receive partial payments from the member's DROP account for each calendar year, in an amount elected by the member.

# NOTES



# NOTES