

*Austin Police
Retirement System*



ANNUAL REPORT

2003

AUSTIN
POLICE RETIREMENT
SYSTEM

2003 ANNUAL REPORT
AND MEMBERS BENEFIT GUIDE

DECEMBER 31, 2003

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POLICE RETIREMENT SYSTEM BOARD OF TRUSTEES

Police Member	Lt. Peter Morin Chairman
Police Member	Sgt. Catherine Haggerty Vice Chairperson
Police Member	Lt. Michael Jung
Police Member	Asst. Chief Cathy Ellison
Police Member	Sgt. Fred Fletcher
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

CUSTODIAN BANK
The Northern Trust Company
Chicago, Illinois

INVESTMENT CONSULTANT & PERFORMANCE EVALUATION
The Monroe Vos Consulting Group
Houston, Texas

ACTUARY
Rudd & Wisdom, Inc.
Austin, Texas

AUDITOR
Montemayor & Associates, CPA
Austin, Texas

LEGAL COUNSEL
Kendall & Osborne
Austin, Texas

Clark, Thomas & Winters, P.C.
Austin, Texas

Berman DeValerio Pease Tabacco Burt & Pucillo
Boston, Massachusetts

INVESTMENT MANAGERS

Equity

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

Waddell & Reed Asset Mgmt. Group
Overland Park, KS

Fixed Income/Natural Resources

Ashmore Investment Management
Greenwich, Connecticut

Global Forest Partners, LP
West Lebanon, New Hampshire

GMAC Institutional Advisors, LLC
Alpharetta, Georgia

Hoisington Investment Management
Austin, Texas

Pacific Investment Management Co. (PIMCO)
Newport Beach, California

Wachovia Bank, Evergreen Timberland Management
Atlanta, Georgia

INVESTMENT MANAGERS (continued)

Real Estate

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

Edison Investments, LP
Wichita, Kansas

Lend Lease Real Estate Investments, LP
Atlanta, Georgia

McAlister Real Estate LP
Houston, Texas

New Boston Fund, LP
Boston, Massachusetts

Sentinel Real Estate, LP
New York, New York



CITY OF AUSTIN
POLICE RETIREMENT SYSTEM

2003 ANNUAL REPORT
LETTER TO MEMBERS

Dear Members,

The Board of Trustees of the Austin Police Retirement System is pleased to present our 2003 Annual Report.

As the December 31, 2003 year-ended, the Market value of the 'System' assets increased by 21% to \$301 million from \$249 million, and on June 30, 2004 these same assets were valued at \$309 million (unaudited) and were diversified across many asset classes. These asset classes ranged from equities, (US domestic and international) fixed income (US bonds, international debt/bonds) real estate (apartments and commercial property) and natural resources of timberland.

This asset diversification has been recommended by the 'System' investment consultant since 2001 and still continues to be the cornerstone of the philosophy of the board of trustees. The economic sentiment among the investment community shows the Federal Reserve will continue to increase the fund rates in 2004 and 2005, oil prices will remain high, and both will have a depressed affect on the equity and bond markets and thus lead to the need of investing in alternatives, such as commodities, hedge funds, private equity and energy in order obtain the 8% (net) actuarial investment rate of return.

At our December 2003 Board Meeting, the Trustees approved a 3% cost of living adjustment for retirees and beneficiaries effective January 1, 2004 and a 2% interest rate for use in crediting interest on members' accumulated contributions.

On January 1, 2004 a new service credit option called Permissive Service began. This new option allows officers with at least 20 years of service, the opportunity to purchase three years of service credit needed to retire at normal retirement eligibility (23 years) at actuarially neutral cost to the 'System'.

As of June 30, 2004 there were 1377 police officers and cadets who were members of the 'System.' There were 333 retired police officers and beneficiaries of police officers receiving monthly benefits and 10 vested members entitled to future benefits but not yet receiving them.

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

Your comments and suggestions will always be appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Morin". The signature is stylized and written over a horizontal line.

Peter Morin
Chairman, Board of Trustees
Austin Police Retirement System

Pension Office
2520 S. IH 35, Ste. 205
Austin, Texas 78704
512/416-7672
FAX 512/416-7138

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Austin, Texas 78704

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2003 AND 2002

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

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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, 2003 and 2002 and the related statement of changes in net assets held in trust available for pension benefits for the year ended December 31, 2003. 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2003 and 2002 and the changes in its financial status for the year ended December 31, 2003 in conformity with U.S. generally accepted accounting principles.

The supplementary schedules and information on pages 9 and 10 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.

29 May 2004
Austin, Texas

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AUSTIN, TEXAS 78704
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**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

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

DECEMBER 31, 2003 AND 2002

ASSETS	<u>2003</u>	<u>2002</u>
Investments, at fair value		
Corporate stocks	\$80,628,569	\$67,772,588
Real estate interests	67,041,756	50,211,339
U.S. Government securities	28,160,476	39,554,070
International stocks	40,926,843	30,626,335
Short-term investment funds	22,550,452	22,486,048
Retiree death benefit fund	13,344	0
Government bonds (PIMCO)	33,799,946	15,291,769
International government securities	17,734,847	13,016,363
Partnership interests	7,099,901	5,904,685
Corporate bonds	<u>1,328,335</u>	<u>1,932,328</u>
Total investments	299,284,469	246,795,525
Cash	76,365	49,775
Interest and dividends receivable	1,054,186	1,259,524
Employer contributions receivable	719,163	623,520
Employee contributions receivable	359,581	311,760
Fixed assets	435,486	470,870
Other	<u>10,221</u>	<u>7,781</u>
	<u>301,939,471</u>	<u>249,518,755</u>
LIABILITIES		
Accounts payable and accrued liabilities	434,950	376,437
Refunds payable	<u>73,547</u>	<u>157,685</u>
	<u>508,497</u>	<u>534,122</u>
NET ASSETS HELD IN TRUST AVAILABLE FOR PENSION BENEFITS	<u>\$301,430,974</u>	<u>\$248,984,633</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, 2003

ADDITIONS TO NET ASSETS AVAILABLE FOR BENEFITS:

Contributions:

Employer contributions	\$13,950,555
Employee contributions	<u>7,389,869</u>
	<u>21,340,424</u>

Investment income :

Net appreciation in plan investments	37,555,825
Realized gain on investments	2,863,716
Interest and dividends	7,777,881
Securities lending	<u>119,090</u>
Total investment gain before expenses	48,316,512
Investment expenses	<u>(1,300,185)</u>
Net gain from investments	<u>47,016,327</u>
	<u>68,356,751</u>

DEDUCTIONS FROM NET ASSETS AVAILABLE FOR BENEFITS:

Benefit payments	14,921,683
Contributions refunded to terminating employees	265,122
General and administrative expenses	<u>723,605</u>
	<u>15,910,410</u>

NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS 52,446,341

Beginning net assets available for benefits 248,984,633

ENDING NET ASSETS AVAILABLE FOR BENEFITS \$301,430,974

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

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

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 (a) age 55 with 20 years of service excluding any military service, (b) with 23 years of service excluding any military service regardless of age, or (c) at age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of December 31, 2003, the monthly benefit is equal to 3.00% of the highest 36-month average salary of the last 10 years, multiplied by years and months of service.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis by the amount of increase in the Consumer Price Index, limited to 6% per year, and subject to the approval of the 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, 2003:

Retirees and beneficiaries currently receiving benefits (329) and terminated employees entitled to benefits but not yet receiving them (9)	338
Current employees	<u>1,406</u>
Total	<u>1,744</u>

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The System's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net assets held in trust available for pensions benefit during the reporting period. 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.

CONTRIBUTIONS RECEIVABLE

The final biweekly payroll contributions of employees for the year ended December 31, 2003 and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable.

SYSTEM EXPENSES

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

NOTE 3: 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.

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 4: 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, 2003 consisted of:

	<u>1-1-2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>12-31-2003</u>
Land	\$150,000	\$0	\$0	\$150,000
Buildings and improvements	457,955	0	0	457,955
Furniture and equipment	249,483	0	0	249,483
Leasehold improvements	48,491	0	0	48,491
Accumulated depreciation	<u>(435,059)</u>	<u>(35,384)</u>	<u>0</u>	<u>(470,443)</u>
Net Fixed Assets	<u>\$470,870</u>	<u>(\$35,384)</u>	<u>\$0</u>	<u>\$435,486</u>

NOTE 5: 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.

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, 2003 and 2002, 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.

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 5: INVESTMENTS (Continued)

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

	<u>2003</u>	<u>2002</u>
Securities traded on a national or international exchange:		
U.S. Government securities	(\$3,082,867)	\$4,559,253
International government securities	4,493,289	1,156,379
Short-term investment funds	(899)	0
Corporate stocks	16,605,856	(12,122,496)
International investments	14,146,841	(9,250,671)
Government bonds	(150,884)	(270,896)
Corporate bonds	(51,701)	(30,743)
Investments reported at fair value:		
Real estate interests	4,231,603	902,563
Partnerships interests	<u>1,364,587</u>	<u>(691,573)</u>
Total	<u>\$37,555,825</u>	<u>(\$15,748,184)</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, 2003, participants are required to contribute 9% of their basis compensation to the System. The City is required to make contributions equal to 18% of basic compensation.

The City contribution rate is required by the state law governing the System as of December 31, 2003 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 rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate

**CITY OF AUSTIN
POLICE RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

NOTE 6: CONTRIBUTIONS (Continued)

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, 2003 and the System provisions effective September 1, 2003, the normal cost was 20.11% of pay and the amortization period was 28.6 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, 2003 and 2002, \$37,371,616 and \$53,531,845 respectively, 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 number of days that the System securities were borrowed was approximately 96 days as of December 31, 2003.

Cash open collateral is invested in a short term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 30 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.

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 ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/99 ^{3,4}	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,5}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁶	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁶	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6

¹ Prior to actuarial valuations as of December 31, 2002, the System had biennial valuations.

² The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³ Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 1999.

⁵ Reflects changes in plan benefit provisions effective September 1, 2001.

⁶ Reflects changes in plan benefit provisions effective September 1, 2003.

II. Schedule of Employer Contributions (Unaudited)

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
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
2002	18	12,566,293	100
2003	18.000/17.906 ²	13,929,724 ³	100

¹ The annual required contribution is based on actual covered payroll.

² Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation.

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

See independent auditor's report.

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

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

III. Notes to Required Supplementary Information (Unaudited)

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, 2003.
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	28.6 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market

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	4.0%
- Post-retirement cost-of-living adjustments	None

AUSTIN POLICE RETIREMENT SYSTEM

ACTUARIAL VALUATION

AS OF

DECEMBER 31, 2003

AUGUST 16, 2004

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

Mitchell L. Bilbe, F.S.A.
Phillip S. Dial, F.S.A.
Charles V. Faerber, F.S.A., A.C.A.S.
Mark R. Fenlaw, F.S.A.
Carl L. Procumolino, F.S.A.
Christopher S. Johnson, A.S.A.
Joe C. Lopez, A.S.A.
Robert M. May, F.S.A.
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Julie L. Normand, F.S.A.
Robyn C. Richards, A.S.A.
Ronald W. Toblerman, F.S.A.
David G. Wilkes, F.S.A.

August 16, 2004

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

Re: Actuarial Valuation as of December 31, 2003

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, 2003 has been completed.

The results of the December 31, 2003 actuarial valuation are described in the Summary section of the report. A comparison of the current valuation with the December 31, 2002 valuation is also discussed in this section. The comparative valuation balance sheets are shown in Exhibit 1. Exhibit 2 shows a thirty-year projection of the assets of the System. Exhibits 3 through 6 summarize the System's assets and development of the actuarial value of assets. Data on both active and retired police officers is contained in Exhibits 7 through 11. Exhibit 12 shows a historical comparison of the actuarial accrued liability for the active and retired officers.

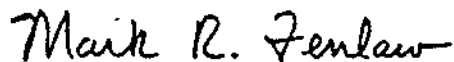
A summary plan description based on the plan effective September 1, 2003 is included as Exhibit 13. The actuarial methods and assumptions are described in Exhibits 14 through 19, which include a description of assumption changes since the prior valuation. Exhibit 20 defines certain actuarial terms used in this report.

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

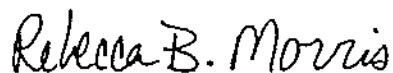
Respectfully submitted,



Robert M. May
Fellow, Society of Actuaries
Enrolled Actuary



Mark R. Fenlaw
Fellow, Society of Actuaries
Enrolled Actuary



Rebecca B. Morris
Associate, Society of Actuaries
Enrolled Actuary

RMM;MRF;RBM:jt

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Austin Police Retirement System Actuarial Valuation as of December 31, 2003

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Summary

Austin Police Retirement System Results of December 31, 2003 Actuarial Valuation

The valuation balance sheet as of December 31, 2003, shown in Exhibit 1, reveals that the plan has an unfunded actuarial accrued liability of \$93,610,696. 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. Effective September 1, 2003, a very small portion of the city's biweekly contributions began to be allocated by the Board to a new Retiree Death Benefit Fund (account) within the System, which will be used to pay the \$7,500 post-retirement lump sum death benefits after that date.

The normal cost for the present benefits based on the plan provisions effective September 1, 2003 for each police officer is 20.113% of pay. Since total contributions on behalf of each police officer are more than the normal cost, the remaining portion can be used to amortize the plan's unfunded actuarial accrued liability. Assuming that the total payroll increases at the rate of 4% per year in future years attributable to general pay increases, the unfunded actuarial accrued liability will be amortized in 28.6 years.

The valuation balance sheets in Exhibit 1 compare the actuarial condition of the plan on December 31, 2003 with the condition on December 31, 2002. Both valuations are based on the plan provisions effective on September 1, 2003 (summarized in Exhibit 13). The December 31, 2003 valuation does reflect the 3% ad hoc pensioner COLA granted January 1, 2004 but does not reflect any ad hoc pensioner COLAs which may be granted January 1, 2005 or annually thereafter. The results shown for the December 31, 2002 valuation include an adjustment to reflect the 3% ad hoc pensioner COLA granted effective January 1, 2004.

Between these two valuations, the unfunded actuarial accrued liability (UAAL) has increased by \$3,718,097 (from \$89,892,599 to \$93,610,696). The primary reasons for this change, which have partially offsetting effects, are as follows:

1. The rate of return, net of all expenses, on the market value of assets during 2003 is estimated at 18.4%. However, the actuarial value of assets (AVA) used in the valuation and the determination of the amortization period is based on an adjusted market value. In particular, the AVA defers recognition of a large portion of the significant gain in 2003 and recognizes larger portions of the previously partial deferred large losses in 2002 and 2003. The rate of return on the AVA, net of expenses, for 2003 is estimated at 5.1% compared to the assumed rate of return of 8%. Therefore, the AVA as of December 31, 2003 is smaller than expected and caused an increase in the UAAL of approximately \$8,700,000. This caused an increase in the amortization period of approximately 4 years.
2. In 2003 the officers received a 5% general pay increase on April 1, 2003. Since this was previously reflected in the December 31, 2002 valuation, there were no salary increases reflected for the first time in 2003. Therefore, the pay of the officers was lower than expected because we assumed that pay would increase by 4% in 2003. This caused the UAAL to be less than expected.

3. Total contributions in excess of those required to pay the annual normal cost decreased the UAAL approximately \$8,900,000.
4. Interest accumulation on the unfunded actuarial accrued liability during the one year period between the valuations had the effect of increasing the UAAL approximately \$7,300,000.

The balance sheets in Exhibit I indicate that the number of years required to amortize the system's UAAL has increased from 27.6 years as of December 31, 2002 (reflecting the 3% COLA provided January 1, 2004) to 28.6 years as of December 31, 2003 reflecting plan provisions as of September 1, 2003. Since one year has passed since the last valuation, a one-year reduction in the amortization period to 26.6 years would be expected if the experience of the System had been exactly as anticipated (including an 8% rate of investment return on the AVA). For the reasons described above, the System's UAAL increased somewhat more than expected, causing the amortization period to be two years greater than expected.

In summary, this valuation reveals that the actuarial value of assets plus future investment income received by the System and future contributions that will be provided by the 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, 2003. 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 to the System are sufficient to pay for the System's normal cost and provide an additional amount that will result in amortization of the unfunded actuarial accrued liability in 28.6 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 based on the actuarial value of assets used in this valuation.

Projected Actuarial Valuation Results

In addition to completing this actuarial valuation, we did an analysis to estimate the amortization periods over the next four years. We did these projections because the significant actuarial investment losses that the System experienced in 2001 and 2002 were only partially offset by the significant actuarial investment gain in 2003. As shown in Exhibit 5, a smoothing method is used to determine the actuarial value of assets (AVA) that is used in this valuation. This method phases in over a five-year period any investment gains or losses (net investment return greater or less than the actuarially assumed 8%) that the System has had. The AVA used in this current valuation is deferring recognition of a portion of the gains and losses in 2000-2003. The AVA used in this valuation is \$320,354,298. The method used to determine this amount is shown in Exhibit 5. The market value of assets of \$301,417,630, excluding the Retiree Death Benefit Fund,

is shown in the footnote for Exhibit 3. The difference of \$18,936,668 between these two assets values is the deferred loss that will be recognized over the next four years.

For the purpose of projecting the amortization period in the future, we have assumed that the System would have an annual rate of investment return, net of all expenses, beginning in 2004 of the expected actuarial assumed rate of 8% per year. The projections also reflect the valuation assumption of a 4% annual payroll growth and assume that no future cost-of-living adjustments will be made.

Valuation Date	Amortization Period
December 31, 2003	28.6
December 31, 2004	35
December 31, 2005	41
December 31, 2006	43
December 31, 2007	38

The amortization period is increasing in the future as larger portions of the excess of deferred investment losses from 2000-2002 over the deferred investment gain in 2003 are recognized in determining the actuarial value of assets. If in 2004 and later, the System has investment experience above the assumed 8% or greater payroll growth than the assumed 4% caused by an increase in the number of active member police officers, the amortization periods will be less than shown above. If the System approves a cost-of-living increase as of January 1, 2005, the amortization periods will increase. The System's other non-investment experience will also affect the future amortization periods. For example, we had previously estimated that the amortization period as of December 31, 2003 would be 31 years in a November 13, 2003 letter regarding the January 1, 2004 cost-of-living increase. After reflecting the System's actual experience as described above, the amortization period is 28.6 years instead of 31 years. The lower than expected amortization period was partly caused by more favorable investment experience in 2003 than expected.

If the amortization period increases above 40 years (or above 30 years beginning with the December 31, 2005 valuation if the maximum GASB amortization period is deemed to be important), the System might need to consider increasing contributions and/or decreasing benefits. In order to comply with the 30-year maximum GASB amortization period beginning with the December 31, 2005 valuation, an average net investment return of 16% rather than the assumed 8% would be needed in 2004 and 2005. This also assumes no future COLAs would be provided.

A GASB requirement of a maximum 30-year amortization period is an accounting standard requirement and not an actuarial standard requirement. We would consider 40 years to be the maximum acceptable amortization period. In order to comply with the actuarially acceptable maximum amortization period of 40 years, an average net investment return of 9% rather than the assumed 8% would be required in 2004 and 2005.

Retiree Death Benefit Fund

The statute effective September 1, 2003 established a Retiree Death Benefit Fund. This fund is a separate account within the System, administered by the System, used to pay \$7,500 post-retirement lump sum death benefits. The Retiree Death Benefit Fund will be funded by a portion of the city's total contribution rate of 18%. As part of this December 31, 2003 actuarial valuation, the city contribution needed for the Retiree Death Benefit Fund has been re-determined to be 0.098%. We recommend that this new rate be effective January 1, 2005, replacing the current rate of 0.094% that was determined based on the December 31, 2002 actuarial valuation.

The remaining 17.902% (18% less 0.098%) of the city's contribution will be used for the System's liabilities excluding the post-retirement lump sum death benefits. The 0.098% city contribution rate is comprised of the normal cost percentage plus an additional amount to amortize the unfunded actuarial accrued liability for only the \$7,500 post-retirement lump sum death benefits over 30 years as shown below. The amortization of this unfunded liability is determined as a level percentage of payroll assuming that the payroll will increase 4% per year.

Allocated City Contribution Effective January 1, 2005 for the Retiree Death Benefit Fund	
Normal Cost	0.067%
Thirty-Year Amortization of Unfunded Actuarial Accrued Liability	<u>0.031</u>
Total City Contribution Rate Allocated to the Retiree Death Benefit Fund as of January 1, 2005	0.098%

The 0.098% city contribution rate was determined using the same funding method and actuarial assumptions used in this December 31, 2003 actuarial valuation for the System. In particular, the Entry Age Actuarial Cost Method is used with the normal cost determined as a level percentage of payroll. The UP-1994 Male and Female Mortality Table is used with no age adjustments or projections. The following is a summary of the actuarial valuation results of the liabilities for the \$7,500 post-retirement lump sum death benefits.

Actuarial Valuation Results of the Retiree Death Benefit Fund as of December 31, 2003	
1. Actuarial Present Value of Future Benefits	
a. Current pensioners	\$ 571,297
b. Current active members	<u>658,433</u>
c. Total	\$ 1,229,730
2. Actuarial Accrued Liability	\$ 967,520
3. Tangible Assets of Fund	\$ 13,344
4. Unfunded Actuarial Accrued Liability	\$ 954,176

Exhibit 1

*Austin Police Retirement System
Actuarial Valuation Balance Sheets*

	<u>December 31, 2003¹</u>	<u>December 31, 2002^{1,2}</u>
1. Actuarial present value of future benefits		
a. Payable to those now receiving benefits or entitled to receive benefits	\$ 160,104,705	\$ 141,207,356
b. Payable to active members	<u>436,800,839</u>	<u>427,456,048</u>
c. Total	\$ 596,905,544	\$ 568,663,404
2. Actuarial present value of future normal cost contributions	\$ 182,940,550	\$ 179,989,245
3. Actuarial accrued liability (Item 1c-Item 2)	\$ 413,964,994	\$ 388,674,159
4. Actuarial value of assets	\$ 320,354,298	\$ 298,781,560
5. Unfunded actuarial accrued liability (UAAL) (Item 3-Item 4)	\$ 93,610,696	\$ 89,892,599
6. Total contributions (percent of payroll) ³	26.902%	26.906%
7. Normal cost (percent of payroll)	20.113%	20.110%
8. Percent of payroll available to amortize the UAAL	6.789%	6.796%
9. Annualized covered payroll	\$ 80,958,862	\$ 79,236,366
10. Present annual amount available to amortize the UAAL	\$ 5,496,297	\$ 5,384,903
11. Years to amortize the UAAL	28.6 Years	27.6 Years

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

² Adjusted valuation results as of December 31, 2002 to reflect the 3% COLA for pensioners effective January 1, 2004.

³ For the December 31, 2003 valuation, the total contribution rate of 27% (9% by members and 18% by the city) is reduced by the city contribution of 0.098% for the separate Retiree Death Benefit Fund used to pay \$7,500 post-retirement lump sum death benefits. For the December 31, 2002 valuation, the total 27% contribution rate was reduced by 0.094% for the Retiree Death Benefit Fund

Exhibit 2
Austin Police Retirement System
Thirty-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
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	19,914,403	-20,876,785	13,074,962	1,430,698	248,984,633	17.16	-15,468,042	-5.85
2003	248,984,633	21,340,424	46,292,722	13,394,684	1,792,121	301,430,974	19.85	52,446,341	21.06
2004	301,430,974	21,858,893	24,096,130	18,056,034	4,261,562	325,068,401	14.57	23,637,427	7.84
2005	325,068,401	22,733,249	25,964,315	19,982,211	3,779,973	350,003,781	14.73	24,935,380	7.67
2006	350,003,781	23,642,579	27,938,573	21,778,008	3,407,797	376,399,128	14.94	26,395,347	7.54
2007	376,399,128	24,588,282	30,039,754	23,391,674	3,001,010	404,634,480	15.33	28,235,352	7.50
2008	404,634,480	25,571,813	32,274,005	25,066,658	2,923,988	434,489,652	15.52	29,855,172	7.38
2009	434,489,652	26,594,686	34,615,426	27,025,584	3,162,764	465,511,416	15.42	31,021,764	7.14
2010	465,511,416	27,658,473	37,032,918	29,211,177	3,647,173	497,344,457	15.14	31,833,041	6.84
2011	497,344,457	28,764,812	39,500,932	31,528,160	4,402,278	529,679,763	14.74	32,335,306	6.50
2012	529,679,763	29,915,404	42,041,395	33,688,045	4,552,006	563,396,511	14.73	33,716,748	6.37
2013	563,396,511	31,112,020	44,705,230	35,734,015	4,540,285	598,939,461	14.87	35,542,950	6.31
2014	598,939,461	32,356,501	47,556,115	37,582,175	3,750,365	637,519,537	15.42	38,580,076	6.44
2015	637,519,537	33,650,761	50,624,323	39,593,441	3,488,317	678,712,863	15.75	41,193,326	6.46
2016	678,712,863	34,996,791	53,887,034	41,726,392	3,520,266	722,350,030	15.96	43,637,167	6.43
2017	722,350,030	36,396,663	57,309,236	44,129,831	4,235,997	767,690,101	15.87	45,340,071	6.28
2018	767,690,101	37,852,530	60,854,334	46,998,240	4,876,137	814,522,588	15.70	46,832,487	6.10
2019	814,522,588	39,366,631	64,486,179	50,381,585	5,875,748	862,118,065	15.32	47,595,477	5.84
2020	862,118,065	40,941,296	68,167,918	54,223,887	6,755,578	910,247,814	14.93	48,129,749	5.58
2021	910,247,814	42,578,948	71,888,703	58,466,154	7,390,838	958,858,473	14.56	48,610,659	5.34
2022	958,858,473	44,282,106	75,611,975	63,368,132	8,331,533	1,007,052,889	14.05	48,194,416	5.03
2023	1,007,052,889	46,053,390	79,299,405	68,419,946	9,254,095	1,054,731,643	13.58	47,678,754	4.73
2024	1,054,731,643	47,895,526	82,964,553	73,523,204	9,721,789	1,102,346,729	13.24	47,615,086	4.51
2025	1,102,346,729	49,811,347	86,607,596	79,050,609	10,264,287	1,149,450,776	12.87	47,104,047	4.27
2026	1,149,450,776	51,803,801	90,213,168	84,651,091	10,675,074	1,196,143,580	12.55	46,692,804	4.06
2027	1,196,143,580	53,875,953	93,840,218	88,993,655	11,164,008	1,243,702,088	12.42	47,558,508	3.98
2028	1,243,702,088	56,030,991	97,533,981	93,738,965	11,346,676	1,292,181,419	12.30	48,479,331	3.90
2029	1,292,181,419	58,272,231	101,370,271	97,945,046	10,433,243	1,343,445,632	12.40	51,264,213	3.97
2030	1,343,445,632	60,603,120	105,440,513	101,748,877	9,732,677	1,398,007,711	12.54	54,562,079	4.06
2031	1,398,007,711	63,027,245	109,793,067	105,144,828	9,071,166	1,456,612,029	12.75	58,604,318	4.19
2032	1,456,612,029	65,548,335	114,477,538	108,245,159	8,588,789	1,519,803,954	13.01	63,191,925	4.34
2033	1,519,803,954	68,170,268	119,535,736	111,152,812	8,231,959	1,588,125,187	13.30	68,321,233	4.50

A. Data for years 1999 through 2003 was taken from the annual reports for those years. Fund balance at beginning and end of year reflects the total market value of the System's assets including the Retiree Death Benefit Fund (account).

B. Assumptions for years 2004 through 2033:

1. Benefits are assumed to commence in accordance with the demographic and economic assumptions used in this December 31, 2003 actuarial valuation and include benefit payments from the Retiree Death Benefit Fund (account).
2. Contributions will be 9% of pay by the members and 18% of pay by the city.

3. 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 3.0% ad hoc COLA for pensioners as of January 1, 2004 was reflected but no ad hoc COLAs were assumed beginning January 1, 2005 or thereafter.

Exhibit 3

*Austin Police Retirement System
Total Market Value of Assets as of December 31, 2003
Including the Retiree Death Benefit Fund*

Assets

Investments

Corporate Stocks	\$ 80,628,569
Real Estate Interests	67,041,756
International Stocks	40,926,843
U.S. Government Bonds (PIMCO)	33,799,946
U.S. Government Securities	28,160,476
Short-Term Investment Funds	22,563,796
International Government Securities	17,734,847
Partnership Interests	7,099,901
Corporate Bonds	<u>1,328,335</u>
Total Investments	\$ 299,284,469

Other Assets

Contributions Receivable	\$ 1,078,744
Interest and Dividends Receivable	1,054,186
Fixed Assets	435,486
Cash	76,365
Other Assets	<u>10,221</u>
Total	\$ 2,655,002

Total Assets \$ 301,939,471

Liabilities

Other Liabilities	\$ 434,950
Contributions Refundable	<u>73,547</u>
Total Liabilities	<u>\$ 508,497</u>

Net Market Value of Assets

(Assets Minus Liabilities) \$ 301,430,974*

* Includes \$13,344 for the Retiree Death Benefit Fund. The Net Market Value of Assets, excluding the Retiree Death Benefit Fund, is \$301,417,630.

Exhibit 4

Austin Police Retirement System

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

December 31, 2002

December 31, 2003

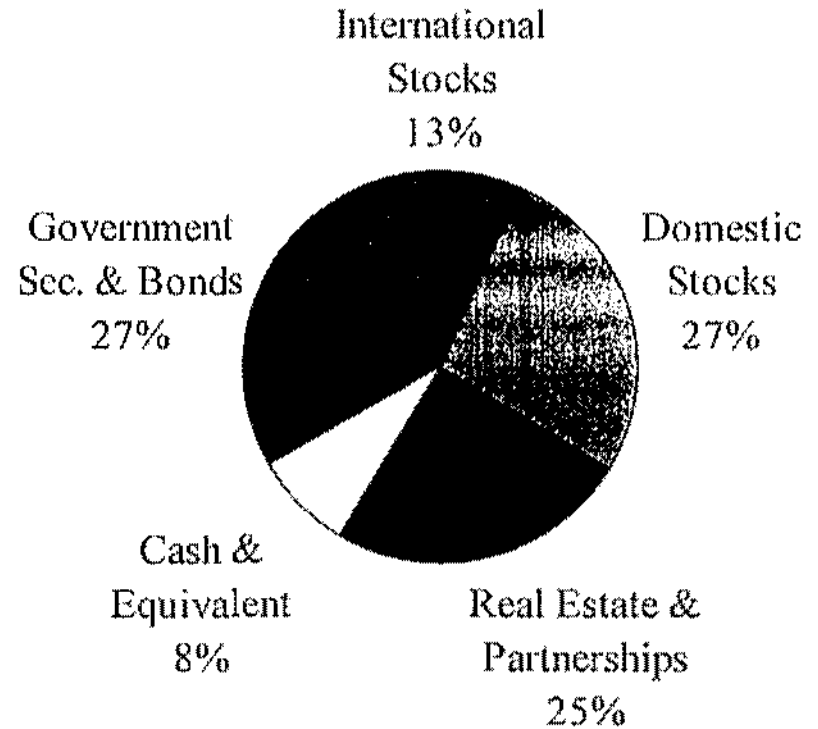
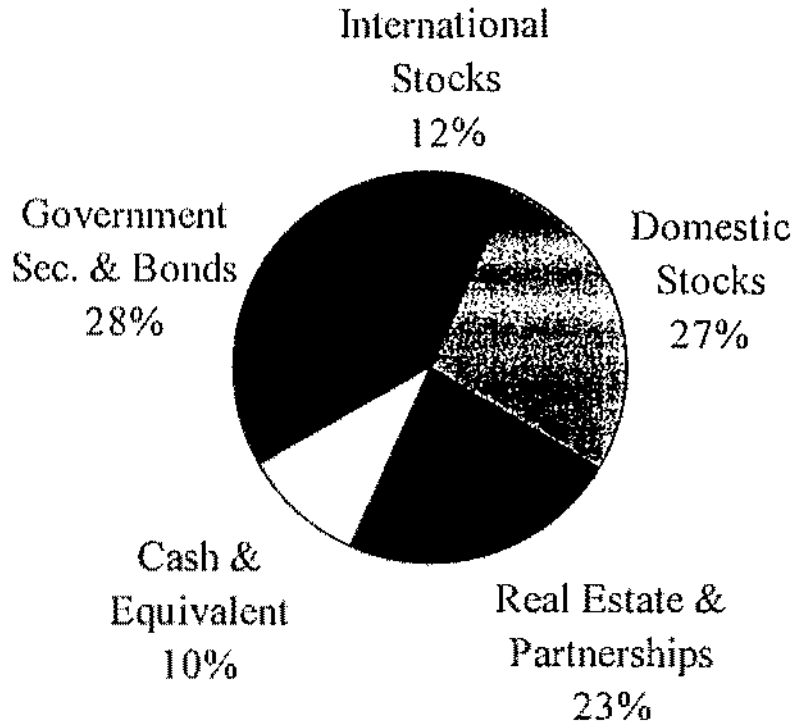


Exhibit 5
Austin Police Retirement System
Development of Actuarial Value of Assets

Calculation of Actuarial Investment Gain/(Loss) Based on Total Market Value for Plan Years	2003	2002	2001	2000	1999
Market Value of Assets as of beginning of year	\$ 248,984,633	\$ 264,452,675	\$ 273,471,014	\$ 250,876,441	\$ 209,551,677
City of Austin Contributions	13,950,555	12,566,293	11,178,204	10,046,065	9,288,148
Officer Contributions	7,389,869	7,348,110	5,735,996	5,290,090	4,760,485
Benefit Payments and Contribution Refunds	(15,186,805)	(14,505,660)	(13,221,597)	(11,941,402)	(9,659,723)
Expected Investment Return*	20,160,180	21,368,402	22,710,660	20,834,565	16,936,313
Expected Market Value of Assets as of end of year	\$ 275,298,432	\$ 291,229,820	\$ 299,874,277	\$ 275,105,759	\$ 230,876,900
Actual Market Value of Assets as of end of year	301,430,974	248,984,633	264,452,675	273,471,014	250,876,441
Actuarial Investment Gain/(Loss)	\$ 26,132,542	\$ (42,245,187)	\$ (35,421,602)	\$ (1,634,745)	\$ 19,999,541

*8% assumed for 2003, 2002 and 1999. 8.25% assumed for 2001 and 2000.

Deferred Actuarial Investment Gains/(Losses) to be Recognized in Future Years

Plan Year	Investment Gain/(Loss)	Deferral Percentage	Deferred Gain/(Loss) Amount as of December 31, 2003
2003	\$ 26,132,542	80%	\$ 20,906,034
2002	(42,245,187)	60%	(25,347,112)
2001	(35,421,602)	40%	(14,168,641)
2000	(1,634,745)	20%	(326,949)
1999	19,999,541	0%	0
Total			\$(18,936,668)

Actuarial Value of Assets as of December 31, 2003

1. Total Market Value of Assets as of December 31, 2003	\$301,430,974
2. Deferred Gain/(Loss) to be recognized in future	\$(18,936,668)
3. Total (Item 1 – Item 2)	\$320,367,642
4. 80% of Total Market Value as of December 31, 2003	\$241,144,779
5. 120% of Total Market Value as of December 31, 2003	\$361,717,169
6. Preliminary Actuarial Value as of December 31, 2003	\$320,367,642
7. Retiree Death Benefit Fund as of December 31, 2003	\$ 13,344
8. Actuarial Value as of December 31, 2003	\$320,354,298

Exhibit 6

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

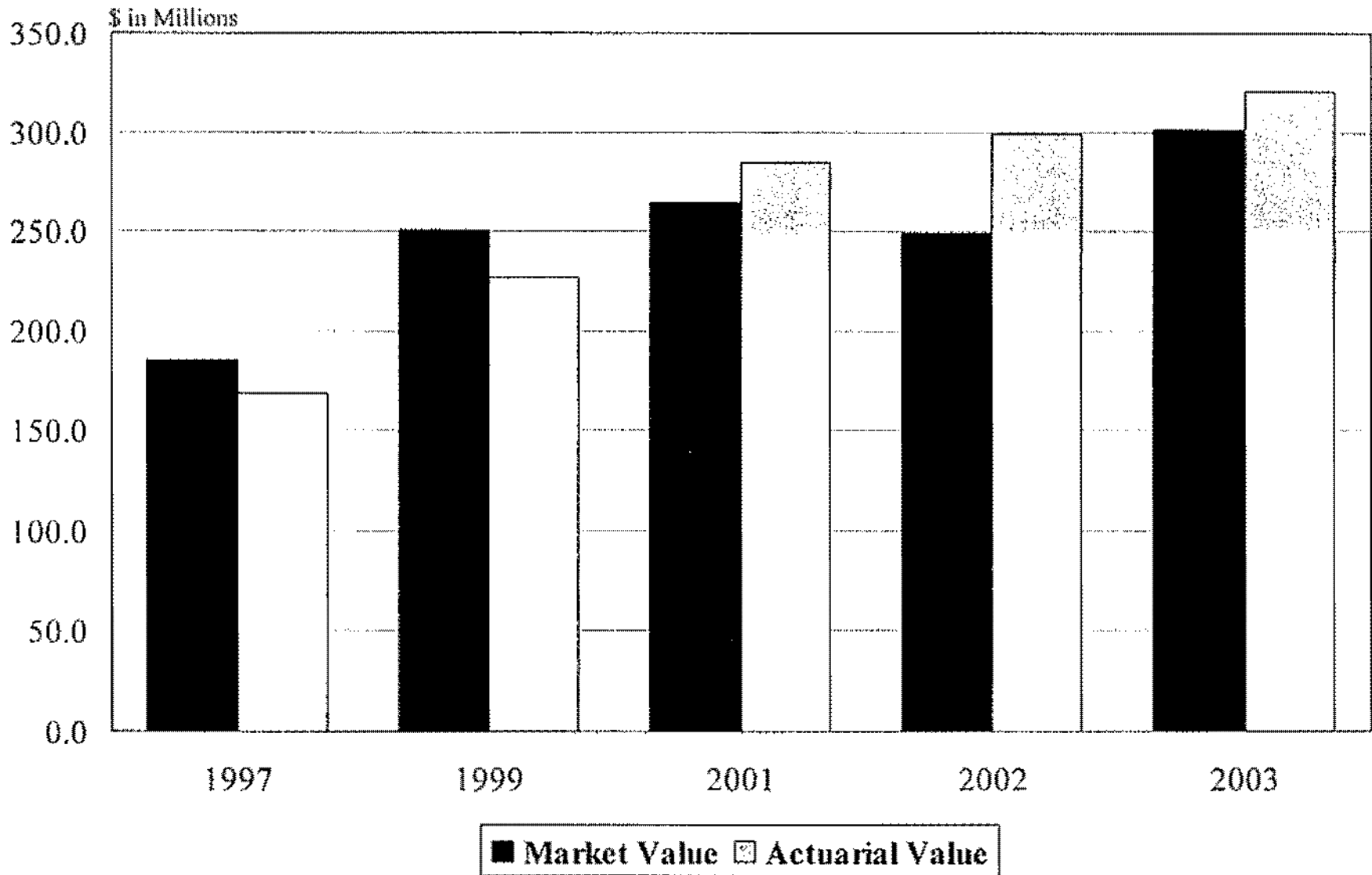


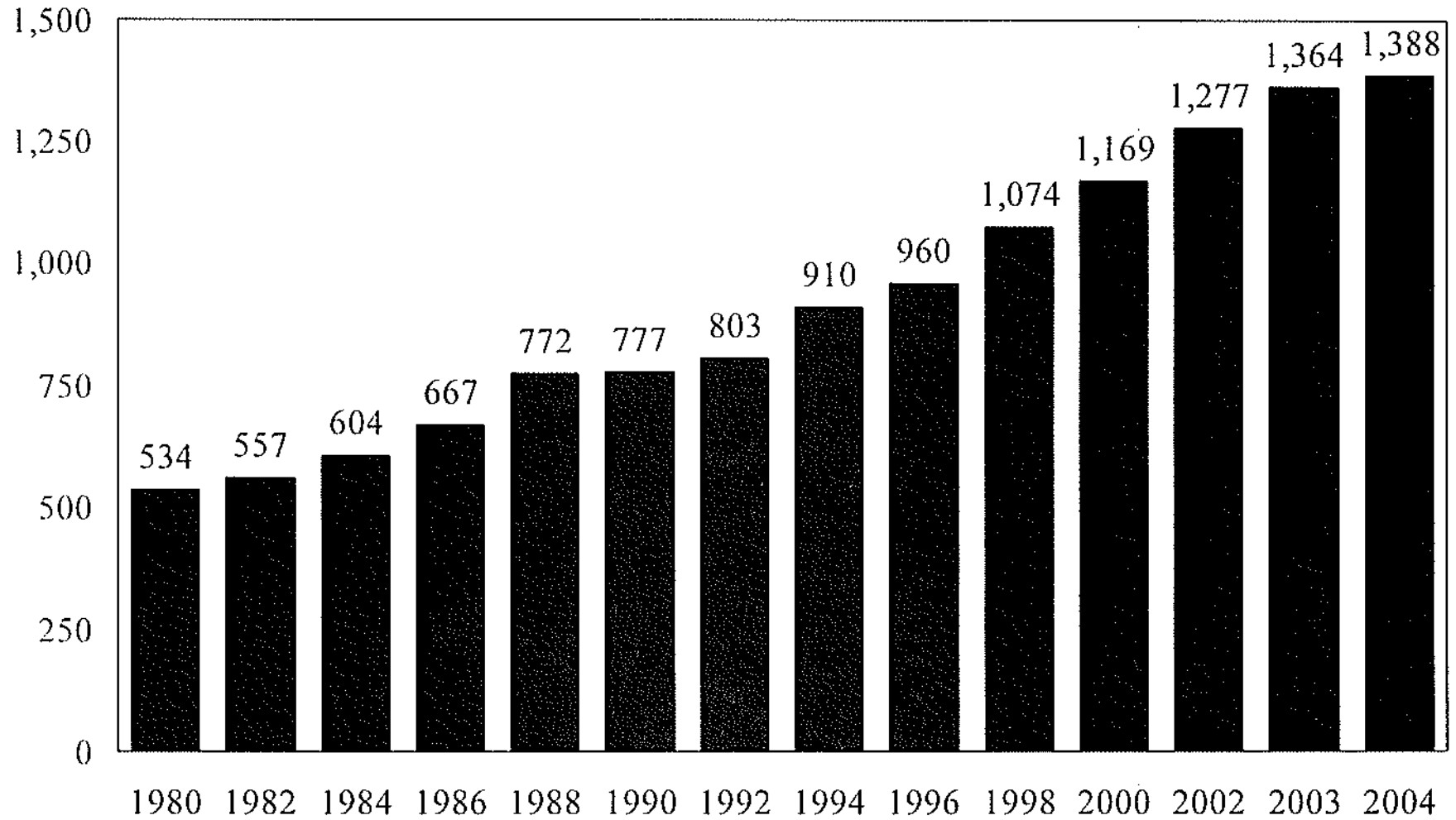
Exhibit 7

*Austin Police Retirement System
Distribution of Police Officers by Age and Service as of December 31, 2003*

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	10	28	17	22	2	0	0	0	0	0	79
1	0	4	32	15	6	2	0	0	0	0	0	59
2	0	2	48	41	9	6	2	0	0	0	0	108
3	0	2	46	38	17	5	1	0	0	0	0	109
4	0	1	14	18	6	3	0	0	0	0	0	42
5	0	1	19	45	24	7	2	1	0	0	0	99
6	0	0	16	38	32	5	3	0	0	0	0	94
7	0	0	6	41	11	4	1	0	0	0	0	63
8	0	1	0	28	24	3	1	0	0	0	0	57
9	0	0	1	32	23	13	1	0	0	0	0	70
10	0	0	0	11	28	12	0	0	0	0	0	51
11	0	0	0	5	28	22	8	0	0	0	0	63
12	0	0	0	2	17	9	1	0	0	0	0	29
13	0	0	0	0	22	27	10	0	0	0	0	59
14	0	0	0	0	1	0	1	0	0	0	0	2
15	0	0	0	0	9	6	6	1	1	0	0	23
16	0	0	0	0	2	9	3	0	0	0	0	14
17	0	0	0	0	0	33	12	2	1	0	0	48
18	0	0	0	0	3	38	14	2	2	0	0	59
19	0	0	0	0	0	21	13	6	0	0	0	40
20-24	0	0	0	0	0	28	62	34	6	0	0	130
25-29	0	0	0	0	0	0	31	38	6	0	0	75
30-34	0	0	0	0	0	0	1	10	4	0	0	15
35-39	0	0	0	0	0	0	0	0	0	0	0	0
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	21	210	331	284	255	173	94	20	0	0	1,388
Average Monthly Salary	\$0	\$3,204	\$3,760	\$4,213	\$4,544	\$5,561	\$6,129	\$6,344	\$6,500	0	0	\$4,861

Exhibit 8

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



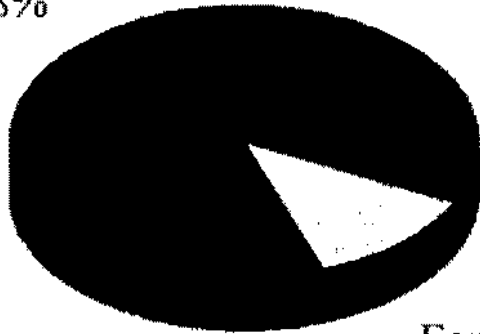
Average annual increase over:

- 6-year period 1998-2004: 4.4%
- 12-year period 1992-2004: 4.7%
- 24-year period 1980-2004: 4.1%

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, 2003 Valuation*

Male
Officers
88%



Female
Officers
12%

\$65,000

\$60,000

\$55,000

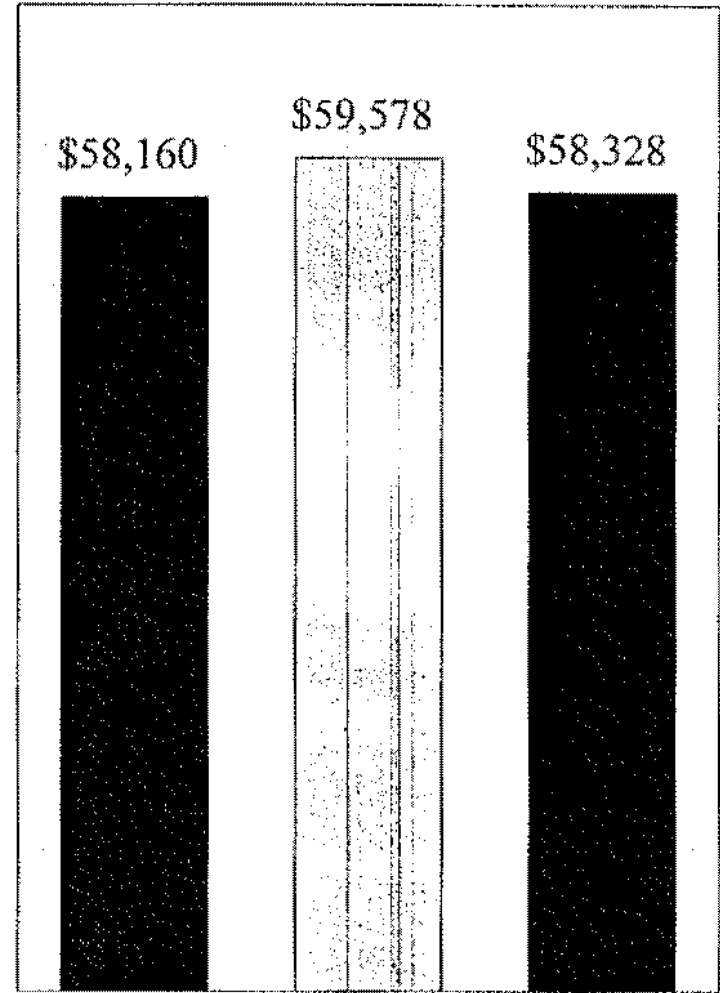
\$50,000

\$45,000

\$40,000

\$35,000

\$30,000



Male

Female

Total

Exhibit 10

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

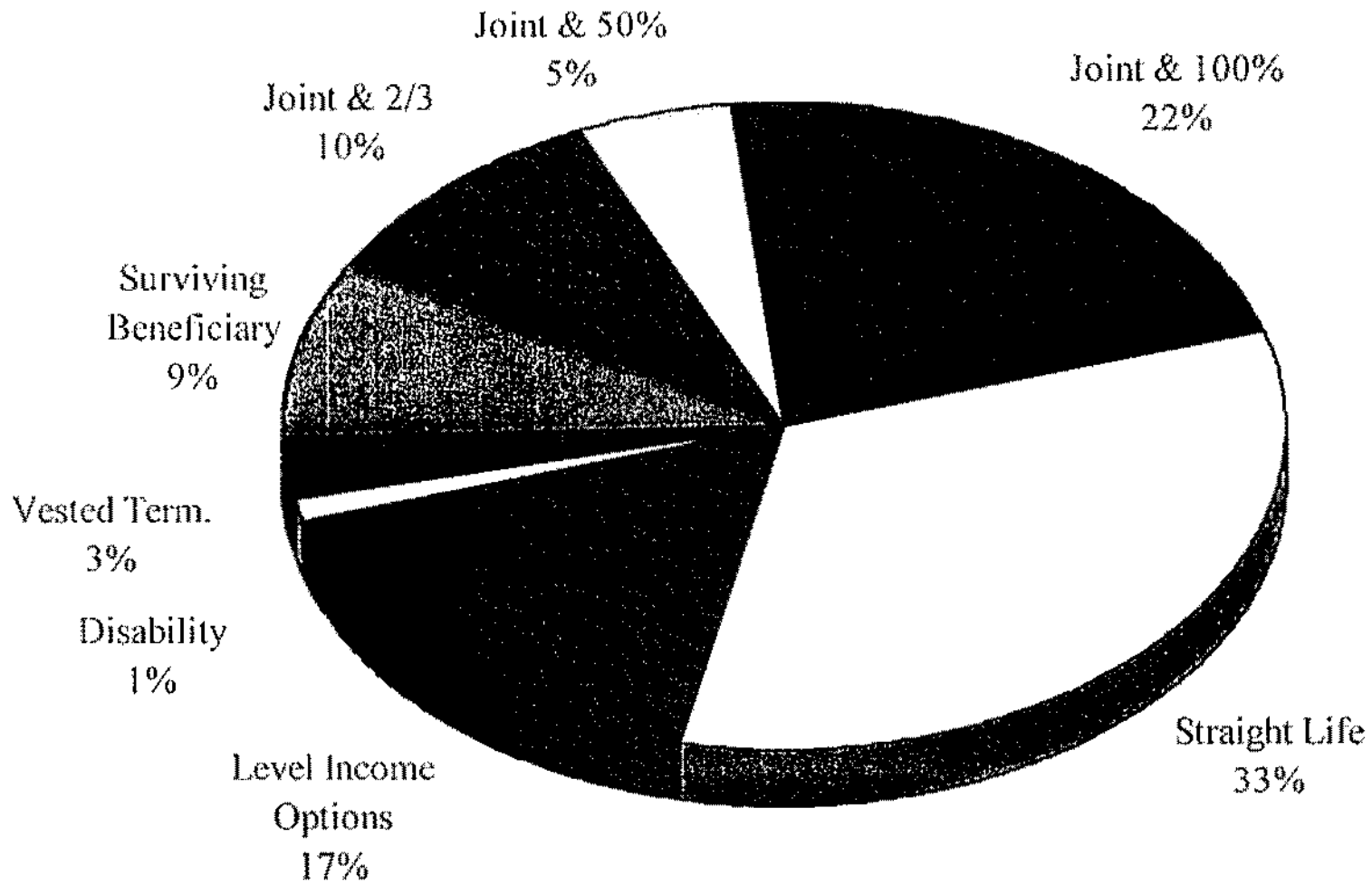


Exhibit 11

*Austin Police Retirement System
Summary Data of Active Police Officers and Pensioners
as Reported for the December 31, 2003 Valuation*

Active Police Officers	Male	Female	Total
Total Contributing Police Officers	1,224	164	1,388
Annualized Reported Payroll	\$71,188,125	\$9,770,737	\$80,958,862
Average Annual Rate of Pay	\$58,160	\$59,578	\$58,328

Pensioners	Number	Monthly Payment	Actuarial Present Value of Benefits
Service Retirements by Type of Annuity			
Straight Life	113	\$442,594	\$55,995,559
Joint and 100%	76	286,578	39,303,391
Joint and 50%	19	78,116	9,539,551
Joint and Two-Thirds Beneficiary	32	130,926	16,919,331
Joint and Two-Thirds Last Survivor	1	4,349	517,049
Level Income Straight Life	17	64,249	6,114,766
Level Income Joint and Two-Thirds	29	97,663	10,718,180
Level Income Joint and 100%	12	49,536	5,870,961
Fifteen Year Certain and Life	<u>3</u>	<u>11,087</u>	<u>1,398,986</u>
Total Service Retirements	302	1,165,098	146,377,774
Disability Retirements	4	7,711	879,891
Surviving Beneficiaries	32	101,743	11,207,324
Vested Terminated Officers	<u>9</u>	<u>13,949</u>	<u>900,781</u>
Total	347	\$1,288,501	\$159,365,770

Exhibit 12

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

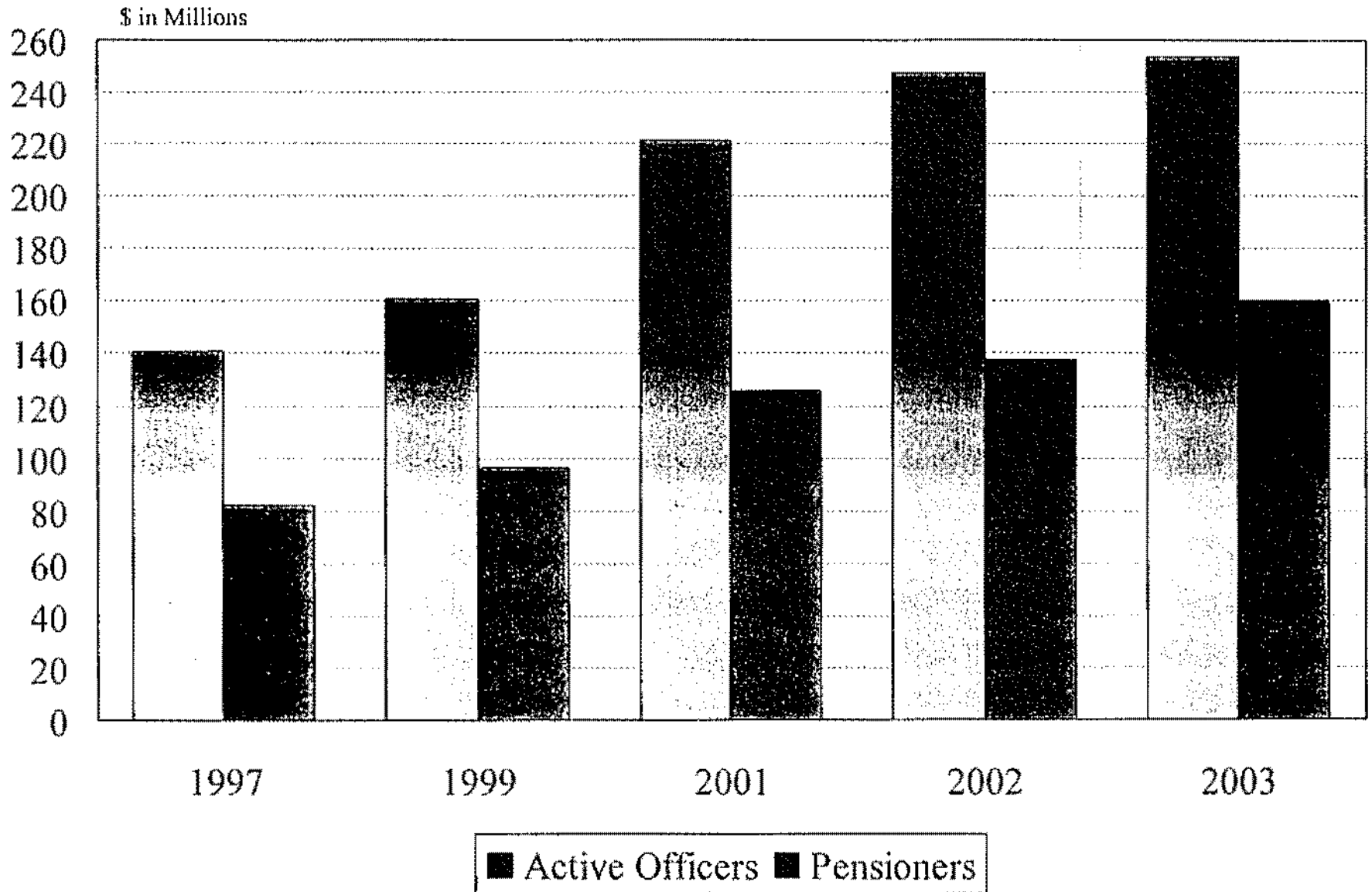


Exhibit 13

Austin Police Retirement System Summary Plan Description

Date System Began

January 1, 1980

Statute Effective Date

September 1, 2003

Administration

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

Employees Included

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

Employee Contributions

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. Effective September 1, 2003, a very small portion of the city contribution will be allocated by the Board to the Retiree Death Benefit Fund (account) administered by the System.

Service Considered

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

Exhibit 13 (continued)

*Austin Police Retirement System
Summary Plan Description*

Compensation Considered

Base pay and longevity pay.

Average Final Compensation

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

Normal Retirement Date

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

Normal Service Retirement Benefit

A member is eligible for a normal service retirement benefit after having reached his normal retirement date. The monthly annuity, payable as a life annuity (modified cash refund), is 3.00% of "Average Final Compensation" multiplied by years and months of "Service Considered."

Disability Benefit

A member is eligible for a disability benefit (a) at any age provided he has completed ten years of service and (b) has a total and permanent disability from any cause. A member with less than 10 years of service is also eligible for a disability benefit if his disability is total and permanent and is the result of his duties as a police officer. The annuity is computed considered service and compensation to date of disability; however, not less than 20 years of service will be credited 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. This benefit will not be less than \$7,500.

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

Retiree Death Benefit Fund

Effective September 1, 2003, a separate fund was established to pay \$7,500 post-retirement lump sum death benefits. This fund is funded by city contributions.

Exhibit 13 (continued)

Austin Police Retirement System Summary Plan Description

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.

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 <ul style="list-style-type: none">• The normal cost is calculated to be a level percent of compensation over a member's career.• 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.
2. Asset Valuation Method	Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years. The actuarial value will not be less than 80% or more than 120% of the market value of assets.
3. Investment Return (Interest Rate)	8% per year, net of expenses
4. Inflation	4% per year
5. Salary Increase Due to General Wage Increases	4% per year
6. Salary Increases Due to Promotion and Longevity Increases	2.8% per year average over career. See Exhibit 16 for the promotion and longevity salary increases by year of service.
7. Total Salary Increase	6.8% per year average over career. See Exhibit 16 for the total salary increases by year of service.
8. Interest Credited on Officer's Accumulated Contributions	3% per year
9. Mortality	
a. Active and Retired	UP-1994 Mortality Tables for males and females with no age adjustments or projections
b. Disabled	85% of 1965 RRB Disabled Annuitants Mortality Table

Exhibit 14 (continued)

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

- | | |
|--|---|
| 10. Retirement Rates | Expected average retirement age of 52.8 based on the officers included in the December 31, 2003 valuation. See Exhibit 17 for service and age-related rates. |
| 11. Withdrawal Rates | Expected average annual number of terminations with a refund of contributions of 25 per year in 2004 based on the officers included in the December 31, 2003 valuation. See Exhibit 18 for service-related rates. |
| 12. Disability Rates | See Exhibit 19 for age-related rates. |
| 13. Future Military Service Purchase for Officers without Purchase | <ul style="list-style-type: none">• 20 months purchased on average• 50% of officers under 45• 75% of officers 45 and above• 25% of estimated cost paid by officer |
| 14. RETRO DROP Election | 75% of those eligible for at least a one-year RETRO DROP are assumed to make such an election. |
| 15. RETRO DROP Period Election | Members elect the maximum period eligible (up to 36 months). |
| 16. Percent Single after Eligible for Service Retirement | 15% |
| 17. Age of Spouse of Officer Who Dies While Eligible to Retire | Female 3 years younger than male |
| 18. Payment Form Election for Pre-Retirement Death Benefits | |
| a. Married Members | Joint and 100% to Survivor |
| b. Single Members | 15-Year Certain and Life Annuity |
| 19. Ad Hoc Cost-of-Living Increases for Pensioners | None |

Exhibit 14 (continued)

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

20. Cadet Service Purchase
- 100% of officers who have not yet purchased the credit will purchase their cadet service in the future.
 - Officer purchase amount based on officer contribution rate and cadet pay at time of cadet service.
21. Forfeited Service Purchase, Probationary Service Purchase, and Uniform Military Leave of Service Purchase
- 100% of officers with such eligible service will purchase the respective service.

Exhibit 15

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

	December 31, 2003 Actuarial Assumption	December 31, 2002 Actuarial Assumption
Interest Credited on Officers' Accumulated Contributions	3%	4%

Exhibit 16

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

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

Exhibit 18

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

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

Exhibit 19

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

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

* Rates are for disability due to all causes, and occupational disability rates are assumed to be 55% of all cause rates.

Exhibit 20

Austin Police Retirement System Definitions

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

Exhibit 21

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the System's Financial Statements for Fiscal Year
Ending December 31, 2003*

I. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/99 ^{3,4}	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,5}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁶	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁶	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6

¹ Prior to the actuarial valuation as December 31, 2002, the System had biennial valuations.

² The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³ Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 1999.

⁵ Reflects changes in plan benefit provisions effective September 1, 2001.

⁶ Reflects changes in plan benefit provisions effective September 1, 2003.

II. Schedule of Employer Contributions

Plan Year Ended December 31	Annual Contribution As a Fixed Percentage of Payroll	Annual Required Contribution ¹	Percentage Contributed
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
2002	18	12,566,293	100
2003	18.000/17.906 ²	13,929,724 ³	100

¹ The annual required contribution is based on actual covered payroll.

² Effective September 1, 2003, a portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation.

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

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, 2003*

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, 2003
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	28.6 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market

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 4.0%
- 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 service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund).

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, 2003*

As of the actuarial valuation date of December 31, 2003, 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. 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 the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the 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 based on an annual rate determined from time to time by Board Rule.

Effective September 1, 2003, the \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System. As of December 31, 2003, the assets of the Retiree Death Benefit Fund was \$13,344 included in the System's total market value of assets of \$301,430,974.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis by the amount of increase 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, 2003:

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, 2003*

Retirees and beneficiaries currently receiving benefits (338) and terminated employees entitled to future monthly benefits (9)	347
Current participating members	<u>1,388</u>
Total	1,735

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, 2003, 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. Effective September 1, 2003, a portion of the City's total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased 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 rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. 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

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, 2003*

open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2003 and the Plan provisions effective September 1, 2003, the normal cost was 20.113% of pay and the amortization period was 28.6 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, 2004*

I. Annual Pension Cost

For the fiscal year ending September 30, 2004, the City's Annual Pension Cost (APC) of \$_____ for the Austin Police Retirement System is equal to 17.906% of the basic compensation, consisting of base pay and longevity pay of the members of the System (including both police cadets and officers). The APC is equal to the City's required and actual contributions. The total required contributions by the City are a fixed 18% of pay. However, effective September 1, 2003, a portion of the city's contribution is allocated to a separate Retiree Death Benefit Fund (account). This portion was determined to be 0.094% effective September 1, 2003 based on the December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005. The required contributions were reflected in the December 31, 2003 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% per year (net of 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 smoothes the effects of short-term volatility in the market value of investments over a five-year period. The actuarial value of assets will not be more than 120% or less than 80% of the actual market value. 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 28.6 years in the December 31, 2003 actuarial valuation.

Exhibit 22 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2004*

**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
09/30/2002	\$ _____ ¹	100%	18%	\$0
09/30/2003	_____ ¹	100	18/17.906 ²	0
09/30/2004	_____ ¹	100	17.906	0

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

²For the period October 1, 2002 through August 31, 2003, the required contribution percentage was 18%. Effective September 1, 2003, the city's contribution rate to fund all System benefits except for the \$7,500 post-retirement death benefit is 17.906%. The remainder of the city's contribution (0.094%) is used to fund the \$7,500 post-retirement death benefit from the separate Retiree Death Benefit Fund (account).

III. Schedule of Funding Progress

Actuarial Valuation Date ¹	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/99 ^{3,4}	\$226,913,439	\$257,850,162	\$30,936,723	88.0%	\$54,695,072	56.6%
12/31/01 ^{3,5}	284,761,203	347,548,177	62,786,974	81.9	69,706,749	90.1
12/31/02 ⁶	298,781,560	384,991,799	86,210,239	77.6	79,236,366	108.8
12/31/03 ⁶	320,354,298	413,964,994	93,610,696	77.4	80,958,862	115.6

¹ Prior to the actuarial valuation as December 31, 2002, the System had biennial valuations.

² The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

³ Economic and demographic assumptions were revised.

⁴ Reflects changes in plan benefit provisions effective September 1, 1999.

⁵ Reflects changes in plan benefit provisions effective September 1, 2001.

⁶ Reflects changes in plan benefit provisions effective September 1, 2003.

Exhibit 22 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2004*

**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 at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund). As of the actuarial valuation date of December 31, 2003, 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. 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 the future by rule of the System's Board with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services could not be changed.

On September 1, 2001, a Post Retirement Option Plan (PROP) introduced an option allowing for participants to elect to receive partial payments from the RETRO DROP lump sum account. The participant can also elect to delay payment of the 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 based on an annual rate determined from time to time by Board Rule.

Exhibit 22 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2004*

Effective September 1, 2003, the \$7,500 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System.

Distributions to officers or their beneficiaries are also available in the event of total and permanent disability, provided the officer has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the officer, their level of earnings and length of service. Payments to officers or their beneficiaries may be increased annually on an ad hoc basis by the amount of increase 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, 2003:

Retirees and beneficiaries currently receiving benefits (338) and terminated employees entitled to future monthly benefits (9)	347
Current participating members	<u>1,388</u>
Total	1,735

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, 2003, 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. Effective September 1, 2003, a portion of the City's total 18% contribution is allocated to the Retiree Death Benefit Fund. This portion was determined to be 0.094% effective September 1, 2003 based on the

Exhibit 22 (continued)

*Austin Police Retirement System
Disclosures in Accordance with GASB Statement No. 27
Notes to the Financial Statements for the City of Austin
for the Fiscal Year Ending September 30, 2004*

December 31, 2002 actuarial valuation. This portion was redetermined based on the December 31, 2003 actuarial valuation to be 0.098% effective January 1, 2005.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at least 6% but was increased 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 rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement. 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, 2003 and the Plan provisions effective September 1, 2003, the normal cost was 20.113% of pay and the amortization period was 28.6 years.

SUMMARY OF INVESTMENTS
DECEMBER 31, 2003

	<u>Market Value</u>	<u>Percent Of Market Value</u>
Corporate stocks	80,628,569	26.9%
International stocks	40,926,843	13.7%
Real estate interests	67,041,756	22.4%
Short-term investment funds	22,563,796	7.5%
U.S. Government securities	28,160,476	9.4%
Government Bonds (PIMCO)	33,799,946	11.3%
Int'l Government securities	17,734,847	5.9%
Corporate bonds	1,328,335	0.4%
Partnership interests	<u>7,099,901</u>	<u>2.4%</u>
Total	\$ 299,284,469	100%

SUMMARY OF INVESTMENTS
DECEMBER 31, 2002

	<u>Market Value</u>	<u>Percent Of Market Value</u>
Corporate stocks	67,772,588	27.5%
International stocks	30,626,335	12.4%
Real estate interests	50,211,339	20.3%
Short-term investment funds	22,486,048	9.1%
U.S. Government securities	39,554,070	16.0%
Government Bonds (PIMCO)	15,291,769	6.0%
Int'l Government securities	13,016,363	5.3%
Corporate bonds	1,932,328	1.0%
Partnership interests	<u>5,904,685</u>	<u>2.4%</u>
Total	\$ 246,795,525	100%

INTEREST PAID TO MEMBERS
(10 Year History)

<u>Year</u>	<u>Interest Paid</u>
2003	2.0%
2002	2.0%
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%

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	2003	2002
Total Number of Members, January 1	1383	1295
Add: New Members	109	185
Deduct: Members Terminated	(44)	(55)
Members Transferred to Retiree System	(33)	(32)
Total Membership, December 31	1415	1393
Deduct: Inactive Vested Members	(9)	(10)
TOTAL ACTIVE MEMBERS, DECEMBER 31	1406	1383
RETIREE SYSTEM		
Total Number of Retired Members, January 1	306	279
Add: Retired Members Transferred to System	30	32
Deduct: Retired Members Deceased	(7)	(5)
TOTAL RETIRED MEMBERS, DECEMBER 31	<u>329</u>	<u>306</u>

INTRODUCTION

While this information below 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, Article 6243n-1, Vernon's Texas Civil Statutes, as amended will prevail.

RETIREMENT SYSTEM MEMBERSHIP AND CONTRIBUTIONS

MEMBERSHIP REQUIREMENTS

All cadets upon enrollment in the Austin Police Academy, and commissioned law enforcement officers employed by the City of Austin Police Department, as well as full time employees of the City of Austin Police Retirement System (after serving a 6 month probationary period); become members of the Police Retirement System at date of employment.

CONTRIBUTIONS

Each member of the system contributes 9% of base pay bi-weekly and annual longevity pay through payroll deduction. Overtime or special pay is not included. Contributions continue unless a member is on leave of absence, withdraws by terminating and/or retiring.

The City of Austin contributes 18% of every police member's base pay bi-weekly and 18% of member's longevity pay annually. 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 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. These contributions and interest earned thereof, also help in paying lifetime benefits to the surviving beneficiaries of deceased retirees according to their selected option and pay periodic (Ad-Hoc) cost of living adjustments (COLA's).

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 Statement Guidelines. The investments provide returns that help fund the monthly retirement allowances and make benefit improvements to the system on behalf of active members, retired members and beneficiaries.

**SERVICE
RETIREMENT BENEFITS**

RETIREMENT ELIGIBILITY

Normal, unreduced retirement:

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

- * Any age and 23 years creditable service. (excluding Pre-membership Military Service)
- * Age 55 and 20-years creditable service. (excluding Pre-membership Military Service)
- * Age 62 and any number of creditable service years.

CREDITABLE SERVICE

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

1. **Membership Service** - Eligible service during employment period where a member makes payroll contributions to the fund.
2. **Probationary Service** - Eligible service purchased from commission date to retirement system start date in the event it has not been credited.
3. **Military Service** - Eligible service purchased for up to two years previous active federal duty military service, prior to employment. A member is not eligible to use this type of military service credit when it has been used as creditable service in another federal or statutory public retirement system in Texas.
4. **Uniformed Leave of Absence Service** - Eligible service for military leave of absence granted from City employment and purchased within five years of reemployment with the City.
5. **Reinstated Forfeited Service** - Eligible service for prior Austin Police Retirement System membership service that was forfeited by withdrawal of accumulated deposits, and repurchased after 24 consecutive months of membership service after police reemployment.
6. **Cadet Service** - Eligible service purchased from date of cadet class enrollment to commission date in the event it has not been credited.
7. **Permissive Service** - Eligible service of up to 60 months at 20 years of service credit or more for immediate retirement, excluding pre-membership military service, at full actuarial present value cost.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

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

	<u>\$5,400.00</u>	
Average monthly salary for highest 36 months of last 10 years of contributing service		
23	x 3.0% =	\$3,726.00
Total years of membership service	Basic monthly benefit amount	

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 by payroll deduction.

RETIREMENT OPTIONS

The Police Retirement System provides several options under which monthly benefits may be paid. The options below require verifiable information to be submitted to the Pension Office for calculation. Please note: A member may not change their chosen option after they have already retired.

- Life Annuity - Monthly retirement annuity payable only to the member for life with no survivor benefits.

- Option I - 100% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive the same annuity amount.

- Option II - 50% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive one-half the annuity amount.

- Option III - 66 2/3% Joint and Survivor Annuity.
This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive two-thirds the annuity amount.

- Option IV - Joint and 66 2/3% Last Survivor Annuity.
This is a retirement annuity payable monthly as long as you live. At either your death or the death of your beneficiary, the last survivor of the two will receive two-thirds of the annuity amount.

- Option V - Fifteen year Certain and Life Annuity.
This is a retirement annuity payable monthly as long as you live. If your death occurs before you have received 180 payments, your designated beneficiary or estate will receive the remaining monthly payments. If you are still living after receiving the 180 payments, payments will continue until your death.

The options that 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 provide 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 31st for balances on deposit as of January 1st 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 account for each calendar year, in an amount elected by the member. The board may establish procedures concerning partial payments, including limitations on timing and frequency of those payments. A member who elects partial payments may, at any time, elect to receive the member's entire remaining RETRO DROP 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 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 member selects the Life Annuity, the monthly benefit stops at the death of the member. At that time an amount equal to the excess, if any, of the member's accumulated deposits over the amount of payments 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 designee 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 RETIREMENT BENEFITS

DISABILITY ELIGIBILITY

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

1) if a member with 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 with more 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, 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.

COMPUTATION OF DISABILITY BENEFIT

On award of disability retirement benefits, the member shall receive a disability retirement computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or city, then the disability retirement benefit will be subject to a minimum benefit based on average final compensation at date of disability retirement and 20 years of creditable service.

A member approved for a disability retirement benefit will have the option to select an unreduced basic Life Annuity; 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.

DISABILITY BENEFIT LIFE ANNUITY CALCULATED

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

	<u>\$5,400.00</u>	
Average monthly salary for highest 36 months of last 10 years of contributing service		
20	x 3.0% =	<u>\$3,240.00</u>
Total years of membership service	Basic monthly benefit amount	

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 by payroll deduction.

DEATH & SURVIVOR BENEFITS

FOR RETIREE OR ELIGIBLE RETIREE'S BENEFICIARY

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

At the death of an active member eligible to retire, a taxable death benefit of \$7,500 is paid to the 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 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 lump sum payment may not be less than \$7500. When the \$7,500 minimum is payable, the amount payable from the Fund is \$7,500 minus the accumulated deposits standing to the member's credit.

At the death of a vest 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 payments begin, their beneficiary would receive in a lump sum amount twice the deceased vested members' 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 the member's accumulated deposits and lump sum death benefit.

In the event a member who is eligible for service retirement dies without making a written option selection, and the member leaves a surviving spouse. The surviving spouse may select a retirement option in the same manner as the member would have made or may select a lump sum payment equal to twice the members 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 members accumulated deposits.

When monthly benefits are payable in lieu of a lump sum, a \$7,500 taxable 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 service retirement, the member may file with the board the member's written statement either selecting a retirement option or designation of beneficiary. The member will retain the right to make a final selection of retirement option or designation of beneficiary 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, 9th Street & Brazos, 14th floor, P.O. Box 1088, Austin, Texas 78767 or by phone at (512) 974-3264.

LEAVING THE SYSTEM

DEFINITION OF A VESTED MEMBER

When you have attained ten years of creditable service, 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 the City Police 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, the inactive member's multiplier can increase during the years between the member's termination and retirement, but no cost of living increases are applied.

RETIREMENT BENEFITS RETURNED TO MEMBER

When you leave the City as a cadet or a commissioned officer, you will fill out a refund form telling the Pension Office which option form you wish, when you want to receive your retirement contributions and where you want them to be sent. Your choices will be:

1. Have your contributions refunded as soon as you terminate employment. Your retirement contribution refund check will be issued two weeks after you receive your final check. It will be mailed to the address on the refund form. (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 on your behalf).

4. If you have ten or more credit service years, 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 vesting is when you reach eligibility, your benefits will be based on the eligibility in effect at the time you terminated employment. You will receive the current multiplier but no cost of living increases will be applied to your benefits after you leave City Police 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 time sheet 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 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.

When you leave police employment before becoming eligible for retirement, all of your own contributions and interest are returned, however no City contributions, or interest earned, will be paid to you.

FUND INFORMATION

RETIREMENT FUND LOANS AND WITHDRAWALS

The Austin Police Retirement System is an approved I.R.S. qualified 414h defined benefit plan designed to provide income to members who retire from the City. Because of this, APRS members are not allowed, by Federal law, to borrow or withdraw funds as long as they are still employed.

DETERMINING INTEREST ON YOUR CONTRIBUTIONS

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 members who will someday retire.

Retirement interest is paid on December 31st, based on the amount each member has in the Police Retirement System on January 1st of the same calendar year.

DETERMINING YOUR COA-POLICE RETIREMENT SYSTEM'S DEPOSIT AMOUNT

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

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 assist 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.

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.

SEPTEMBER 2003

IRS code adopted to allow the retiree death benefit amount of \$7,500 to be distributed to beneficiary of retired member as a Tax Free lump sum amount.

Permissive Service Credit provision added, which allows members to purchase at 20 years of service, additional time, minimum of three years service credit needed to retire at normal retirement eligibility (23 years) at actuarially neutral cost to the 'System'.

NOTES

