

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

2014 Annual Report



For the year ended December 31, 2014

Table of Contents

Introductory Section

Organizational Chart	6
Retirement Board	7
Pension Office Staff	8
Professional Service Providers	9
Investment Managers	10
Letter to Members	12

Financial Section

Investment Overview	14
Independent Auditors' Report	15
Management Discussion & Analysis	17
Statement of Fiduciary Net Position	23
Statement of Changes in Fiduciary Net Position	24
Notes to Financial Section	25
Required Supplementary Information (unaudited)	43

Actuarial Section

Actuarial Review and Report	48
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Historical Information and Benefit Section

Improvements to the System	88
Interest Paid to Members	92
COLA's Paid to Retirees and Beneficiaries	93
Comparative Statement of Membership	94
Pension Plan Benefit Guide	95

INTRODUCTORY SECTION



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2014**

Presented to

City of Austin Police Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

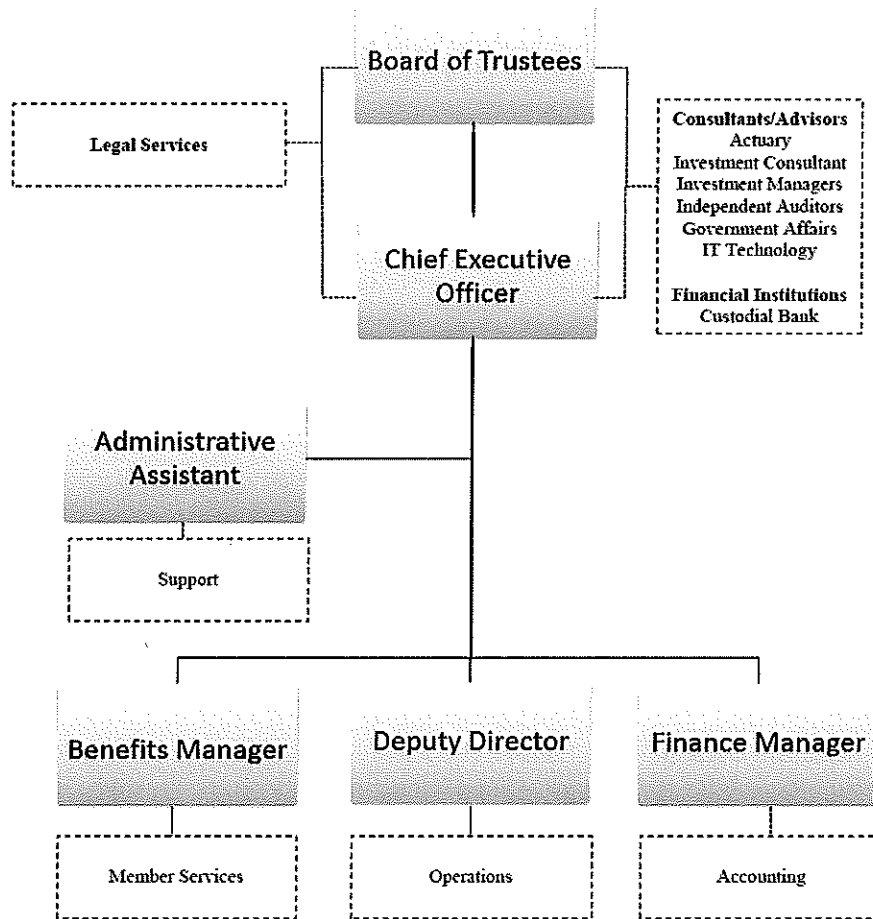
Alan H. Winkle
Program Administrator

City of Austin Police Retirement System Organizational Chart



City of Austin Police Retirement System

Organizational Chart



City of Austin Police Retirement System
Board Of Trustees

Police Member	Det. Tim Atkinson Chairman
Police Member	Sgt. Jim Beck Vice Chairman
Police Member	Sgt. Andrew Romero
Police Member	Cpl. Chris Perkins
Police Member	(Ret) Cmdr. Michael Jung
Retired Police Member	Peter Morin
Retired Police Member	Kendall Thomas
Citizen Member	Chesley Wood
City Member	Art Alfaro City Managers Office
City Member	Elaine Hart Financial Services Office
City Member	Kathie Tovo City Council

Pension Office Staff

Chief Executive Officer

Sampson (Sam) K. Jordan

Deputy Director

Stephanie Schkade Willie

Finance Manager

Vernon Webb

Benefit Services Manager

Marisa Hart

Benefits Coordinator

Rosanna Frank

Professional Service Providers

Custodian Bank

The Northern Trust Company, Chicago, Illinois

Investment Consultant & Performance Evaluator

The Bogdahn Consulting, LLC, Orlando, Florida

Actuary

Foster & Foster, Inc., Ft. Myers, Florida

Auditor

Montemayor Hill Britton & Bender P.C., Austin, Texas

Legal Counsel

Klausner & Kaufman, Jensen & Levinson, PA, Plantation, Florida

Security Litigation Counsel

Berman DeValerio, PC, Boston, Massachusetts

Bernstein Liebhard, LLP, New York, New York

Spector Roseman Kodroff & Willis, PC, Philadelphia, Pennsylvania

Investment Managers

Equity

Baird Investment Management, Milwaukee, Wisconsin
Driehaus International Securities, LLC, Chicago, Illinois
Kleinworth, Benson Investors, Int'l LTD, Dublin-2, Ireland
Lee Munder Capital Group, LLC, Boston, Massachusetts
NTGI Russell 3000 Index Fund, Chicago, Illinois
Seizert Capital Partners, Birmingham, Michigan
Thompson Siegel & Walmsley, LLC, Richmond, Virginia
Wellington Management Company, Boston, Massachusetts

Fixed Income

Ashmore Investment Management, London, England
Franklin Templeton Global CIT, Miami, Florida
Orleans Capital Management, Mandeville, Louisiana

Real Estate

C B Richard Ellis Strategic Partners, Inc. , Los Angeles, California
C B Richard Ellis Capital Partners, Inc., New York, New York
Edison Investments, Inc., Wichita, Kansas
GE Asset Management, Inc., Stamford, Connecticut
INVESCO Realty Advisors, Dallas, Texas
JP Morgan Asset Management, New York, New York
FWAR Investments, Dallas, Texas
Rockspring Capital Land, Houston, Texas
New Boston Fund, Inc., Boston, Massachusetts
Sentinel Real Estate, Inc., New York, New York
VEF Advisors, LLC, Atlanta, Georgia
Vision Capital, LP, Marietta, Georgia
World Class Capital Group, Austin, Texas

Investment Managers

Timber

Global Forest Partners, West Lebanon, New Hampshire
BTG Pactual Timberland Group, Atlanta, Georgia
Timberland Investment Resources, Atlanta, Georgia
Timbervest Crossover, LP, Atlanta, Georgia

Alternatives

Private Equity

CapitalSpring, LLC, New York, New York
Capital Point Partners, Houston, Texas
LBC Credit Partners, Inc., Philadelphia, PA
Providence Debt Fund III GP LP, New York, New York
WR Huff Energy Fund, LP, Morristown, New Jersey
SAIL Capital Partners, LLC, Irvine, California

Hedge Fund

Clinton Group, LLC, New York, New York
Double Eagle Capital Management, Irving, Texas
Excelsior Investors, LTD, Dallas, Texas

August 31, 2015

**2014 Annual Report
Letter to Members**

Dear Members,

The Board of Trustees and staff of the Austin Police Retirement System are pleased to present the Annual Report for the fiscal year ended December 31, 2014.

This annual report is intended to provide complete and reliable information regarding the financial performance of the System and measure the responsible stewardship of the System's assets.

This annual report is divided into the following sections;

- The Financial Section includes an investment overview provided by the System's consultants, the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements, notes to the basic financial statements and required supplemental information
- The Actuarial Section contains the consulting actuary's Certification Letter and the full actuarial valuation report.
- The Historical Information & Benefit Section contains historical improvement highlights for the last 15 years, a comparative statement of membership the last 2 years and membership benefit guide.

Montemayor & Hill Britton & Bender, PC, the System's independent auditor, issued an unqualified opinion on the System's financial statements. This report indicates that the financial statements are in accordance with Governmental Accounting Standards Board rulings and that the System's financial condition and operations are fairly presented. It is the best report an independent auditor may issue.

The actuarial valuation was performed by Foster & Foster, Inc. The Actuarial Valuation Report states that the overall funding of the System remains sound. The System's funding ratio is 67.5% funded and funding period is 28.6 years to fully fund.

The System's management staff is responsible for maintaining internal controls. These controls are designed to provide reasonable assurance that the assets are protected and that financial transactions are executed in accordance with Board policy and federal, state, and local laws and regulations. Additionally, the controls provide assurance regarding Management's responsibility to the System and facilitate the timely preparation of financial statements in accordance with generally accepted accounting principles.

As always, the Board of Trustees and staff welcome your comments, appreciate your support and appreciate the opportunity to serve you. Trustees and staff are dedicated to maintaining the System's financial strength through diversification of fund assets and sound management of the Pension System. We believe a strong Pension System benefits the City and taxpayers, and you Members of the System.

Sincerely,

Tim Atkinson, APRS chair

Sampson K. Jordan, CEO

City of Austin Police Retirement System

FINANCIAL SECTION

Investment Overview

2014 marked another year in which the US equity market continued to drive the returns of institutional investment portfolios. The US stock market continued its recent outperformance of international equity markets while also doubling the return of the US investment grade bond market. US bonds had a surprisingly strong year in 2014, up 6% for the full year on the heels of the asset class' negative returns in 2013.

The US equity markets produced a return of +13.7% (S&P 500), with International Equity Markets delivering a loss to investors of -3.4% (MSCI ACWI ex US). Developed markets, as represented by the MSCI EAFE Index were down -4.5% and while Emerging Markets (MSCI EME Index) fared a bit better, they were still down -1.8%. The strongest gains in the US market came within Healthcare (up 26%) and Utilities (up 27%). Healthcare stocks were pushed higher amidst strength in the Biotech industry as well as strong M&A activity while Utilities were the beneficiary of a strong hunger for yield among investors in the US stock market. Due to the substantial drop in the price of oil in the second half of the year, Energy was down 9% for the full 12 months after being a top performing sector through the middle of the year.

Small cap US stocks, after being the top performer in 2013, were the weakest performers in 2014, up 4.9% (Russell 2000) due largely to the underperformance in small cap energy names when compared to their large cap peers. Midcap stocks were in line with the return of large caps, posting a return of 13.2% (Russell MidCap) for 2014.

For the fiscal year ending December 2014, the investment portfolio returned 5.6%. Net Assets held in Trust increased \$35,432,036 to \$636,536,039. The growth in overall assets was a mixture of the investment gains combined with a \$7,206,144 net contribution from non-investment related activities. The Equity allocation, which represents 49% of the total fund, was up a 5.3%. The strong returns within the US equity allocation (30% of the total fund) were offset by negative returns within the international equity allocation (15% of the total fund). In addition to concerns about growth outside of the US, international holdings faced the headwind of a strengthening US dollar during 2014. The Fund's exposure to natural resources was a significant detractor to absolute and relative returns in 2014, both due to the dedicated allocations to energy and to water, as commodity prices declined in the latter half of the year.

The Fixed Income allocation (11% of the Fund) added positive returns to the overall portfolio return even though absolute gain of 1.7% was small. The main detractor in overall returns for the fixed income portfolio was the emerging markets debt allocation (2.5% of the Fund) which declined -4.7% on currency weakness vs the US dollar and on interest rate rises in anticipation of a US interest rate increase.

The Real Estate allocation (16% of the Fund) was the strongest performer in 2014 up 31%, while the Timber allocation (7% of the Fund) also posted solid gains with an 11% return in 2014. The Private Equity allocation (6% of the Fund) detracted from overall fund results amidst write-downs in a venture capital investment as well as the decline in the price of oil. The Hedge Fund allocation (5% of the Fund) declined -6% due to underperformance in a manager being liquidated from the Fund.

The Board of Trustees remain committed to investing for the long haul using a well-diversified mix of investments among various asset classes managed by professional money managers who have demonstrated their professionalism over time with a goal of generating a return that equals or exceeds the actuarial return assumption of 7.9%.

Prepared by: The Bogdahn Group; Investment Consultant to the Board



Montemayor Hill Britton & Bender PC

CERTIFIED PUBLIC ACCOUNTANTS
INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Austin Police Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of City of Austin Police Retirement System (System), which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2525 WALLINGWOOD DRIVE
BUILDING 1, SUITE 200
AUSTIN, TEXAS 78746
PHONE: 512.442.0380
FAX: 512.442.0817
www.montemayorhill.com

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, 2014 and 2013, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and supplemental schedules on pages 17-22 and 43-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Montemayor Hill Britton & Bender PC

9 September 2015
Austin, Texas

City of Austin Police Retirement System Management Discussion and Analysis

This section of the City of Austin Police Retirement System's (the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2014 and 2013. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Fiduciary net assets held in trust by the System increased by \$42.9 million or positive 7.21% in 2014 and increased by \$56.2 million or positive 10.43% in 2013. The asset increase in 2014 is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The asset increase in 2013 is result of continuing U.S. Security market rally, when Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012.
- Contributions increased by \$3.4 million, or 6.79% in 2014 and increased by \$3.3 million, or 7.0% in 2013 . The increase in 2014 is due to increases in the City of Austin's 1.5% general wage increase, and increase in number of participants. The increase in 2013 is due to increases in City of Austin's 3% general wage increase, and increase in number of participants.
- The amount of benefits paid to retired members, beneficiaries and refunded to terminating employees increased approximately \$2.5 million, or 6.0% during 2014 and \$2.8 million, or 6.0% during 2013 . The increase in 2014 is due to the increase in number of System retirees by 6.4% and increase in 2013 due to the increase in number of retirees by 5.9%.
- The System's rate of return on investments for the year ended December 31, 2014 was positive 6% gross of fees and positive 5.75% net of fees, on a market value basis, which was less than the return of 9.79% gross of fees and 9.1% net of fees for the year ended December 31, 2013.
- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2014, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 67.5% which is up from the 66.4% level at December 31, 2013. This is primarily due to reducing some benefit structures, increasing cost on others and modifying actuarial assumptions, while benefiting from favorable 5 year smoothing average rule (2010-2014) investment experience. The actuarial assumed rate of return is 7.90%, net of fees and administrative expenses.

City of Austin Police Retirement System Management Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Systems' financial statements, which are comprised of the following:

- **Statement of Fiduciary Net Position** - presents the Systems' assets and liabilities and the resulting net position for pension benefits. This statement reflects a year-end snapshot of the Plan's investments at fair value, along with cash and short-term investments, receivables and other assets and liabilities.
- **Statement of Changes in Fiduciary Net Position** - provides a view of current year additions to and deductions from the plan. These two statements report the System's net position for pension benefits (net position) – the difference between assets and liabilities – is one way to measure the Systems' financial position. Over time, increases and decreases in net assets are one indicator of whether its financial health is improving or deteriorating.
- **Notes to the Financial Statements** - provide additional information that is essential to a full understanding of the data provided in the financial statements.

Collectively, this information presents the Fiduciary net position as of the end of each year, and summarizes the changes in Fiduciary net position for the year.

Financial Analysis

Summary of Fiduciary Net Assets

<u>Assets</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash, receivables and prepaids	\$ 6,131,085	\$ 5,122,091	\$ 4,670,268
Investments, at fair value	633,938,051	591,901,006	534,149,354
Fixed assets, net	471,327	528,701	578,687
Total assets	640,540,463	597,551,798	539,398,310
<u>Liabilities</u>			
Total liabilities	2,521,396	2,441,396	500,661
Fiduciary net position for pension benefits	<u>\$638,019,067</u>	<u>\$595,110,402</u>	<u>\$538,897,649</u>

December 31, 2014, 2013, 2012

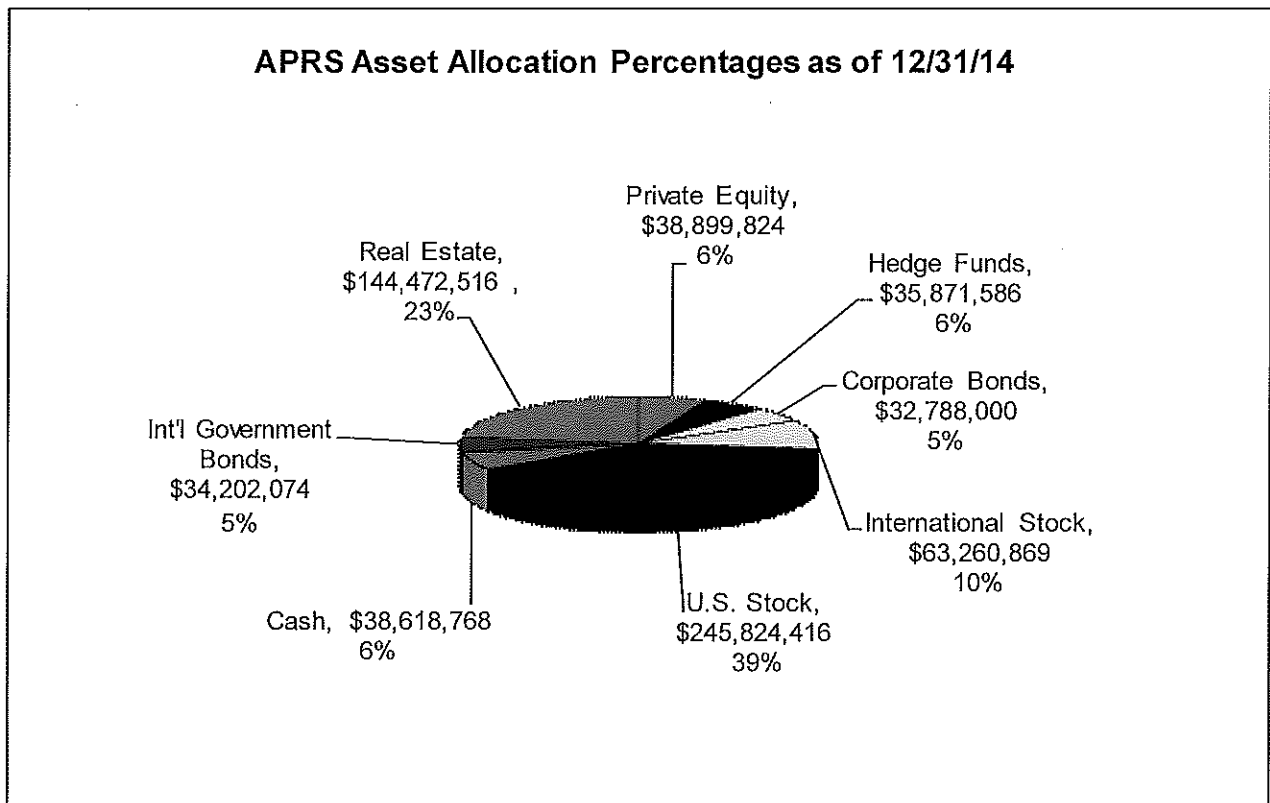
Liabilities. Liabilities increased by \$80 thousand in 2014 and increased by \$1.9 million in 2013 . The

City of Austin Police Retirement System Management Discussion and Analysis

Assets. The Systems' Fiduciary net position increased by \$42 million in 2014, increased by \$56.2 million in 2013, and increased by \$54.8 million in 2012. The asset increase in 2014 is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The asset increase in 2013 is result of continuing U.S. Security market rally, when Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012.

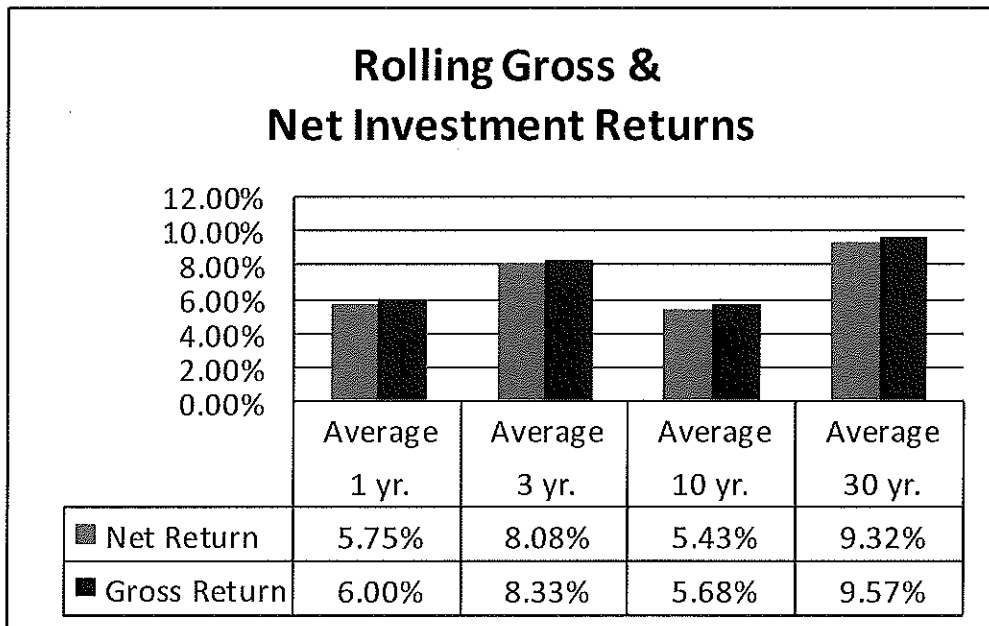
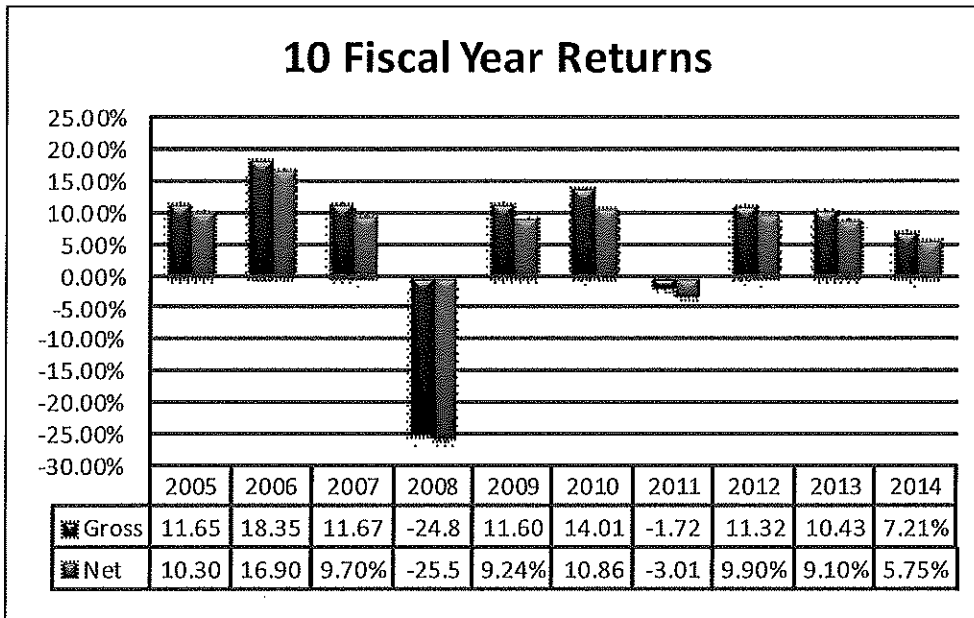
The increase in cash, receivables and prepays of approximately \$80 thousand in 2014 is primarily due to administrative fees. The increase in cash, receivables and prepays of approximately \$500 thousand in 2013 is primarily due to more interest, dividends receivables and real property income investment.

Total Fiduciary net position was \$638 million at the end of fiscal year 2014, \$595.1 million at the end of fiscal year 2013 and \$538.9 million at the end of fiscal year 2012, which is a increase of \$42.9 million, or positive 6.0% growth for fiscal year 2014. Below is a chart of the System's asset allocation for fiscal year ending December 31, 2014:



City of Austin Police Retirement System Management Discussion and Analysis

Investment Returns and Assumptions. The Systems' assumed rate of return is 7.9% net of all expenses. The following charts as prescribed under section 802.108 of the Texas Government Code Title 8, Subtitle A:



City of Austin Police Retirement System
Management Discussion and Analysis

Summary of Changes in Fiduciary Net Position
Years Ended December 31, 2014, 2013 and 2012

Additions. Funds to pay benefits are accumulated through contributions and returns on invested funds.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Additions</u>			
Contributions	\$ 54,064,545	\$ 50,628,724	\$ 47,302,279
Investment income	36,986,448	51,728,148	50,441,943
Investment expenses	(1,851,034)	(2,476,699)	(2,044,619)
Net investment income	35,135,413	49,251,449	48,397,324
Other income	<u>106,674</u>	<u>121,865</u>	<u>77,768</u>
Total additions	89,306,633	100,002,038	95,777,371
<u>Deductions</u>			
Benefit payments & contributions refunded	45,403,125	42,825,265	40,009,337
General and administrative expenses	<u>994,841</u>	<u>964,020</u>	<u>959,016</u>
Total deductions	<u>46,397,966</u>	<u>43,789,285</u>	<u>40,968,353</u>
Net increase/decrease	42,908,667	56,212,753	54,809,018
Fiduciary Net position beginning of year	<u>595,110,402</u>	<u>538,897,649</u>	<u>484,088,631</u>
Fiduciary Net position end of year	<u>\$638,019,069</u>	<u>\$595,110,402</u>	<u>\$538,897,649</u>

Member and City of Austin contributions for 2014 and 2013 totaled \$54 million and \$50.6 million, respectively. The 2014 contributions represent an increase of \$3.4 million, or approximately 6.79% above the 2013 level and the 2013 contributions represent an increase of \$3.3 million, or approximately 7.0% above the 2012 level. The increase in 2014 is due to 1.5% general wage, member and service purchase increases and the increase in 2013 is due to City of Austin contributions 3.0% general wage and member increases

City of Austin Police Retirement System Management Discussion and Analysis

The System market to market value on its investments increased 7.21% during 2014 and increased to 10.43% during 2013. The 2014 increase of \$42 million is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The 2013 increase of \$56.2 million was a result of continuing U.S. Security market rally, which Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012. Interest, dividend income generated in 2014 of \$35 million was increase from the \$49.2 million in 2013. The total rate of return for the System's investment portfolio in 2014 was positive 5.50% (net of investment fees) as compared to 9.1% (net of investment fees) for 2013.

Deductions. The expenses paid by the System include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid to retirees, beneficiaries and alternate payees in 2014 were \$45.4 million, an increase of \$2.5 million over the \$42.8 million paid in 2013. This is consistent with the increase in the number of retirees, beneficiaries and alternate payees to 727 in 2014 from 663 in 2013. Refunds to terminating employees in 2014 were \$622 thousand, and decreased by \$249 thousand from 2013 refunds paid. Administrative expenses in 2014 were \$994 thousand, approximately \$31 thousand more than those incurred in 2013.

Investment expenses paid by the System annually decreased by \$625 thousand in 2014 and increased by \$432 thousand in 2013. The decrease in 2014 is due to investment indexing that reduces manager fees, and the increase in 2013 is due to larger investment balances calculated on manager fees.

Overall Analysis. As of December 31, 2014, fiduciary net position increased by \$42.9 million or 7,21% from prior year and over the five-year period ending December 31, 2014 the fiduciary net position was 8.25%. The past five-year period growth was impacted by the 2011 sovereign debt crisis in U.S. and European countries.

Request for Information. This financial report is designed to provide a general overview of the finances of the City of Austin Police Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to CEO, City of Austin Police Retirement System, P.O. Box 41089, Austin, Texas 78704-0019.

Statement of Fiduciary Net Position
December 31, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Investments, at fair value		
Real estate interests	\$144,472,516	\$129,019,250
Corporate stocks	245,824,416	262,015,942
International government securities	34,202,074	36,834,769
International stocks	63,260,869	32,018,930
Short-term investment funds	37,830,338	8,627,567
Partnership interests	38,899,824	39,800,964
Corporate bonds	32,788,000	31,313,964
Alternatives	35,871,586	51,580,614
Retiree death benefit fund	<u>788,430</u>	<u>689,006</u>
Total investments	633,938,053	591,901,006
Cash	153,947	119,554
Interest and dividends receivable	3,632,401	2,638,960
City of Austin retirement contributions receivable	1,408,596	1,415,611
City of Austin death benefit contributions receivable	8,170	8,212
Participant contributions receivable	876,849	891,572
Proportionate retirement program contributions receivable	42,176	42,715
Fixed assets, net	471,327	528,701
Other	<u>8,946</u>	<u>5,467</u>
	<u>640,540,465</u>	<u>597,551,798</u>
 LIABILITIES		
Accounts payable and accrued liabilities	2,397,882	2,315,336
Refunds payable	<u>123,514</u>	<u>126,060</u>
	<u>2,521,396</u>	<u>2,441,396</u>
 FIDUCIARY NET POSITION		
	<u>\$638,019,069</u>	<u>\$595,110,402</u>

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

Statement of Changes in Fiduciary Net Position
December 31, 2014 and 2013

ADDITIONS TO PLAN NET POSITION:	<u>2014</u>	<u>2013</u>
Contributions:		
City of Austin retirement contributions	\$31,202,173	\$30,935,427
City of Austin death benefit contributions	179,308	153,389
Participant contributions	<u>22,683,064</u>	<u>19,539,908</u>
	<u>54,064,545</u>	<u>50,628,724</u>
Investment income:		
Net increase (decrease) in the fair value of investments	21,348,185	40,557,365
Interest and dividends	15,638,263	11,150,783
Securities lending	0	0
Rental and other income	<u>106,674</u>	<u>121,865</u>
Total investment gain (loss) before expenses	37,093,122	51,850,013
Investment expenses	<u>(1,851,034)</u>	<u>(2,476,699)</u>
Net gain (loss) from investments	<u>35,242,088</u>	<u>49,373,314</u>
	<u>89,306,633</u>	<u>100,002,038</u>
Total additions (deletions) to fiduciary net position		
	<u>89,306,633</u>	<u>100,002,038</u>
 DEDUCTIONS FROM FIDUCIARY NET POSITION:		
Retirement benefit payments	44,824,406	41,806,953
Death benefit payments	80,000	64,565
Contributions refunded to terminating employees	498,719	953,747
General and administrative expenses	<u>994,841</u>	<u>964,020</u>
Total deductions from fiduciary net position	<u>46,397,966</u>	<u>43,789,285</u>
 NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	 42,908,667	 56,212,753
 Beginning fiduciary net position	 <u>595,110,402</u>	 <u>538,897,649</u>
 ENDING FIDUCIARY NET POSITION	 <u>\$638,019,069</u>	 <u>\$595,110,402</u>

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

Notes to Financial Statements

Note 1: Organization and System 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 to plan members and their beneficiaries. 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, 2014, the monthly benefit is equal to 3.2% of the highest 36-month average salary multiplied by years and months of service.

The Retroactive Deferred Retirement Option Plan (RETRO DROP) provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Effective April 1, 2007, the RETRO DROP was amended to include FORWARD DROP participation. Further, the RETRO DROP provisions may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services may not be changed.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their RETRO DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the RETRO DROP lump sum account and can also elect to delay payment of the entire RETRO DROP lump sum. Effective April 1, 2006, this option was amended whereby retirees have the ability to defer their monthly annuity payments to an interest bearing PROP account. Effective October 1, 2007 this option was amended to include a partial deferral of a retiree's monthly annuity payment into an interest bearing PROP account. Interest credits will be paid on the participant's PROP 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.

Notes to Financial Statements

Note 1: Organization and System Description

Permissive Service Delayed Retirement is an option allowing a member, with at least 20 years of credited pension service at termination of employment with the APD, the option to a Delayed Retirement benefit. The Delayed benefit is payable upon completion of purchase of service credit for each year of credited pension service. The maximum service credit purchase is 5 years.

A \$10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System. As of December 31, 2014 and 2013, the assets of the Retiree Death Benefit Fund were \$788,430 and \$689,006, respectively, which are included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of \$638,019,069 and \$595,110,402, respectively.

Distributions to members or their beneficiaries are also available in the event of total and permanent disability, provided the member 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 member, their level of earnings and length of service. Payments to members or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

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

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, 2014 and 2013:

Retirees and beneficiaries currently receiving benefits (727) and terminated employees entitled to future monthly benefits (27)	<u>2014</u> 754
Current participating members	<u>1,777</u>
2014 Total	<u>2,531</u>

Notes to Financial Statements

Note 1: Organization and System Description

Retirees and beneficiaries currently receiving benefits (683) and terminated employees entitled to future monthly benefits (26)	<u>2013</u> 709
Current participating members	<u>1,732</u>
2013 Total	<u>2,441</u>

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' payroll is earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CONTRIBUTIONS RECEIVABLE

The final biweekly payroll contributions of employees for the years ended December 31, 2014 and 2013, and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable in both years.

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 position 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. The System's real estate investments are appraised periodically and the System receives audited financial statements from the real estate investment managers, which are used to estimate fair value. Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a trade-date basis.

Notes to Financial Statements

Note 2: Summary of Significant Accounting Policies

SYSTEM EXPENSES

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

SUBSEQUENT EVENTS

Management has evaluated subsequent events as of July 15, 2015 the date the financial statements were available to be issued.

Note 3: 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, 2014 consisted of:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Assets not being depreciated				
Land	\$150,000	\$	\$	\$150,000
Assets being depreciated				
Buildings and improvements	870,216			870,216
Furniture and equipment	482,408	2,299	(0)	484,707
Leasehold improvements	56,986			56,986
Accumulated depreciation	<u>(1,030,909)</u>	<u>(59,673)</u>		<u>(1,090,582)</u>
Net Fixed Assets	<u>\$528,701</u>	<u>(\$57,374)</u>	<u>(\$0)</u>	<u>\$471,327</u>

Notes to Financial Statements

Note 4: Federal Income Taxes

The System is a Public Employee Retirement System and is exempt from Federal income taxes. Favorable determination letters from the Internal Revenue Service were issued in September 1996, April 2007, July 2009, and August 2014.

Note 5: Deposit and Investment Risk

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 Board has adopted an Investment Policy Statement (IPS) to set forth the factors involved in the management of investment assets for the System and the IPS is included with every investment manager's agreement. The fair values of the System's investments at December 31, 2014 and 2013 are presented, by type, as follows:

Investment Type	2014	2013
Real Estate Interests	\$144,472,516	\$129,019,250
Corporate Stocks	245,824,416	262,015,942
International Government Securities	34,202,074	36,834,769
International Stocks	63,260,869	32,018,930
Partnership Interests	38,899,824	39,800,964
Corporate Bonds	32,788,000	31,313,964
Alternatives	35,871,586	51,580,614
Short-term Investment Funds	<u>38,618,768</u>	<u>9,316,573</u>
Total Investments	<u>\$633,938,053</u>	<u>\$591,901,006</u>

Notes to Financial Statements

Note 5: Deposit and Investment Risk

CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. While the System has no formal policy regarding custodial credit risk, operating bank account deposits in excess of the \$250,000 coverage by FDIC are covered by pledged securities held as collateral. As of December 31, 2014 and 2013, the System's operating bank balance of \$153,947 and \$119,554, respectively, was not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. As of December 31, 2014 and 2013, the System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. As of December 31, 2014, there is no security issued by a single issuer that holds more than 5% of the System's fund. As of December 31, 2013, there is no security issued by a single issuer that holds more than 5% of the System's fund.

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The Board and Investment Policy Statement (IPS) adopts the philosophy that the most effective risk control procedure is to adequately diversify the investments of the Fund among different asset classes with differing risk profiles. Diversification is achieved through providing a wide variety of investment classes in which to invest the Systems funds. The IPS sets the following allowable ranges and target asset allocations for the Systems' funds:

Class	Allowable Range	Target Asset Allocation
Domestic Equity	20%-40%	30.00%
International Equity	5% - 25%	15.00%
Core Fixed Income	0% - 20%	5.00%
Non Core Fixed Income	0% - 15%	5.00%
Real Estate	0% - 30%	15.00%
Timber	0% - 10%	5.00%
Hedge Funds	0% - 15%	10.00%
Private Equity	0% - 17.5%	12.5%
Cash	0% - 5%	2.50%

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The allowable range means the minimum and maximum percentage of each asset class allowed. The target asset allocation is the average allocation desired over time. The Board has the ability to make the decision to deviate from these ranges when it deems necessary based on the market conditions.

Along with diversification, the Board and IPS set investment goals and guidelines as follows:

Return Objective

- To exceed the actuarial target rate of return
- To manage the asset mix and outside professional money managers in a manner that provides the maximum likelihood of achieving this objective each year within an acceptable level of market risk

Manager risk guidelines

- No manager will be allocated more than 15% of the Fund's assets, to avoid undue manager concentration, unless that manager is assigned an investment grade core bond mandate or U.S. equity index fund, whereby it may be permitted to manage up to 25% of the fund's assets
- APRS's allocation to any manager will not represent more than 20% of the assets that the manager is managing in the same strategy

Security concentration guidelines

- No single stock position or corporate debt instrument should represent more than 10% of a manager's portfolio at market
- No industry (as defined by each investment managers appropriate benchmark) should represent more than 2 times its weighting in the corresponding market index or 20%, whichever is greater

Volatility guidelines

- The primary concern for the Board is return but the Board does not want to assume excessive risk in its search for return
- One form of measurement of the risk inherent in the portfolio is the volatility or annualized standard deviation of the portfolio's returns as measured on a quarterly basis
- The Board will seek to achieve its return objective with no more than 75% of the volatility exhibited by the S&P 500 index

Notes to Financial Statements

Note 5: Deposit and Investment Risk

In conjunction with these goals and guidelines are responsibilities of the investment committee, third party consultants, custodians and money managers. The IPS also outlines the review and control procedures that the Board will monitor for compliance.

INTEREST RATE RISK

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

As of December 31, 2014, the System had the following investments and maturities:

Investment Type	Fair Value	Less than 1 year	1 to 6 years	6 to 10 years	Over 10 years
Bonds	\$32,713,110	\$1,004,429	\$10,460,426	\$5,999,193	\$15,309,062
Totals	<u>\$32,713,110</u>	<u>\$1,004,429</u>	<u>\$10,460,426</u>	<u>\$5,999,193</u>	<u>\$15,309,062</u>

Notes to Financial Statements

Note 5: Deposit and Investment Risk

As of December 31, 2013, the System had the following investments and maturities:

Investment Type	Fair Value	Less than 1 year	1 to 6 years	6 to 10 years	Over 10 years
Bonds	\$29,217,418	\$1,546,660	\$14,533,717	\$7,023,199	\$6,113,842
Totals	<u>\$29,217,418</u>	<u>\$1,546,660</u>	<u>\$14,533,717</u>	<u>\$7,023,199</u>	<u>\$6,113,842</u>

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. While the System has no formal investment policy regarding credit quality rating guidelines, the IPS allows investment managers full discretion in adopting investment strategies to deal with these risks and the portfolios are monitored quarterly by the investment committee.

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2014, are as follows:

Quality Rating	Total Fair Value	Int'l Securities	Corporate Bonds	Government Bonds
A1/A+				
A2/A	\$8,772,751		\$8,772,751	
A3/A-				
Aa2/AA	2,684,106		2,684,106	
Aaa				
B1/B+				
B2/B				
B3/B-				
Ba1/BB+				
Ba2/BB				
Ba3/BB-				
Baa1/BBB+	10,909,269		10,909,269	
Baa2/BBB				
Baa3/BBB-				
B2//B and below				
Caa1/CCC+				
Caa2/CCC				
Not Rated	34,202,074	34,202,074		
US Gov't Guaranteed Cash & Equivalent	10,406,984			10,406,984
Total	<u>\$66,975,184</u>	<u>\$34,202,074</u>	<u>\$22,366,126</u>	<u>\$10,406,984</u>

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2013, are as follows:

Quality Rating	Total Fair Value	Int'l Securities	Corporate Bonds	Government Bonds
A1/A+				
A2/A	\$16,116,905	\$4,372,287	\$11,744,618	
A3/A-				
Aa2/AA	2,336,254	221,009	2,115,245	
Aaa	2,994,024			2,994,024
B1/B+				
B2/B				
B3/B-				
Ba1/BB+				
Ba2/BB	5,654,137	5,654,137		
Ba3/BB-				
Baa1/BBB+	8,308,686		8,308,686	
Baa2/BBB	9,915,920	9,915,920		
Baa3/BBB-				
B2//B and below	7,396,421	7,396,421		
Caa1/CCC+				
Caa2/CCC	360,981	360,981		
Not Rated	2,121,683	2,121,683		
US Gov't Guaranteed Cash & Equivalent	4,054,845			<u>4,054,845</u>
	<u>6,792,331</u>	<u>6,792,331</u>	_____	_____
Total	<u>\$66,052,187</u>	<u>\$36,834,769</u>	<u>\$22,168,549</u>	<u>\$7,048,869</u>

Notes to Financial Statements

Note 5: Deposit and Investment Risk

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the System does not have a formal investment policy governing foreign currency risk, the System does manage its exposure to fair value loss by requiring their international investment managers to maintain diversified portfolios to limit foreign currency risk.

The System holds investments in ADRs (American Depository Receipts) which are not included in the schedule below since they are denominated in US dollars and accounted for at fair market value.

The System's exposure to foreign currency risk as of December 31, 2014, is as follows:

Currency	Int'l Gov't Securities	-Int'l Stocks	Corp Stocks (1)	Other (2)
Euro		\$3,013,793		\$36,230
Mexican Peso	713,397	105,747		
Japanese Yen		2,199,540		1,235
Indonesia Rupiahs	486,407			
Hong Kong Dollar				
South Korean Won		179,770		
Turkish New Lira	551,261			
Norwegian Krone		528,736		
British Pound		1,300,690		
Philippines Pesos		253,793		
Brazilian Real	616,116			
Danish Krone				
Swiss Franc		613,333		34,626
Australian Dollar		116,322		256,466
Swedish Krona		274,943		
South African Rand	470,194	84,598		
Russian Ruble				
Canadian Dollar		1,395,862		
Singapore Dollar				
India Rupees				
Cayman Islands Dollar				
Polish Zlotych	551,261			
China Yuan Renminbi	453,980	370,115		
Thailand, Thai Baht	486,407			
Malaysian Ringgit	583,688			
Other	1,686,211	137,471		
Totals	\$6,598,922	\$10,574,713	\$	\$328,557

(1) Represents a commingled pool in global equity investments

(2) Represents a commingled timberfund and a real estate partnership interest.

City of Austin Police Retirement System

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 31, 2013, is as follows:

Currency	Int'l Gov't Securities	-Int'l Stocks	Corp Stocks (1)	Other (2)
Euro		\$813,486		
Mexican Peso	3,119,905			
Columbian Peso		30,878		
Indonesia Rupiahs				
Hong Kong Dollar		1,344,429		
South Korean Won		2,966,811		
Turkish New Lira				
Norwegian Krone				
British Pound		185,270		
Philippines Pesos				
Brazilian Real	1,731,234	1,321,727		
Danish Krone				
Swiss Franc		1,437,230		
Australian Dollar		544,488		255,993
Swedish Krona				
South African Rand	1,421,822			
Russian Ruble	2,217,453	46,318		
Canadian Dollar		3,498,958		
Singapore Dollar	994,537	808,702		
India Rupees				3,276,964
Cayman Islands Dollar				
Polish Zlotych	1,701,766			
China Yuan Renminbi	1,186,089			
Thailand, Thai Baht	1,458,657			
Malaysian Ringgit	1,683,349			
Other	6,482,912			
Totals	\$21,997,724	\$12,998,297	\$	\$3,532,957

(1) Represents a commingled pool in global equity investments

(2) Represents a commingled timberfund and a real estate partnership interest.

Notes to Financial Statements

Note 6: Schedule of Investment Returns

For the year ended December 31, 2014, the annual money weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 5.71 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 7: 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 that were in effect on December 31, 2014, participants were required to contribute 13% of their basic compensation to the System, effective October 1, 2007.

The City's required contributions were equal to 18.25% of basic compensation effective January 1, 2009, increased to 18.63% effective October 1, 2009 and to 19.63% effective October 1, 2010. The City's contribution rate increased to 20.63% on October 1, 2011 and to 21.63% effective October 1, 2012 and thereafter.

Since September 1, 2003, a portion of the City's total contribution has been allocated to the Retiree Death Benefit Fund. This portion, redetermined annually, was 0.091% for 2009 based on the December 31, 2007 actuarial valuation; was 0.092% for 2010 based on the December 31, 2008 actuarial valuation; was 0.098% for 2011 based on the December 31, 2009 actuarial valuation; was 0.102% for 2012 based on the December 31, 2010 actuarial valuation; was 0.103% for 2013 based on the December 31, 2011 actuarial valuation; and is 0.118% for 2014 based on December 31, 2012 actuarial valuation. This portion was redetermined based on the December 31, 2013 valuation to be 0.141% for 2015.

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 13% in accordance with the state law governing the System, and codified in to law in September 2011. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement at the time any change is made. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2014 and the plan provisions recognized in that valuation, the normal cost was 21.605% of pay and the amortization period was 28.6 years.

Notes to Financial Statements

Note 8: Commitments and Contingencies

The System's investments in real estate and partnership interests are included in the table appearing in Note 5. In connection with those investments, the System has remaining commitments as of December 31, 2014 and 2013 of approximately \$19,435,176 million and \$33,184,050 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2014 and 2013, the total accumulated lump sum benefit due to forward DROP participants was \$3,075,334 and \$2,188,484, respectively.

At December 31, 2014 and 2013, the total accumulated lump sum benefit due to PROP participants was \$24,811,845 and \$22,161,032, respectively.

Note 9: Subsequent Events

As of July 3, 2013, the System was made aware in the HR Huff Energy Fund LP and subsidiaries audit as of December 31, 2012, the judgment in Zavala County, TX in the amount of \$95.5 million against Riley-Huff Energy Group (aka 1776 Energy Partner) was on appeal, after posting a \$25 million SUPERSEDAS bond. The System's share of the award ranges from \$1 million to \$2 million and the System's total investment in the HR Huff Energy Fund is now \$11,311,601.

On March 12, 2015 APRS filed a claim against the manager of one of its investments. On May 15, 2015, the management in turn, filed a declinatory and dilatory counter claim against APRS to have the lawsuit dismiss and seeking APRS pay costs of litigation. In APRS' council's opinion, neither a favorable nor an unfavorable outcome in this matter for APRS is either probably or remote. APRS plans to continue to pursue the claims in the suit and defend the alleged counterclaims

Notes to Financial Statements

Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2014 were as follows:

Total Pension Liability	\$ 971,622,936
Plan Fiduciary Net Position	<u>\$(638,019,067)</u>
Sponsor's Net Pension Liability	<u>\$ 333,603,869</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	65.67%

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2013 updated to December 31, 2014 using the following actuarial assumptions:

Inflation	3.25%
Salary Increases	Services Based
Discount Rate	7.90%
Investment Rate of Return	7.90%

Mortality rates (all lives) were based on the RP-2000 Combined Healthy without projection - Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period 2012-2013.

The Long-Term Expected Rate of Return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expenses and inflation) are developed for each major asset class.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Notes to Financial Statements

Note 10: Net Pension Liability of the Sponsor

Best estimates of arithmetic real rates of return for each major asset class included in the Pension Plan's target asset allocation as of December 31, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	7.50%
International Equity	8.50%
Domestic Bonds	2.50%
International Bonds	3.50%
Real Estate	4.50%

Discount Rate:

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate of 13.00% of compensation and that plans sponsor will be made at the current contribution rate of 21.63% of total payroll. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	<u>1% Decrease 6.90%</u>	<u>Current Discount Rate 7.90%</u>	<u>1% Increase 8.90%</u>
Sponsor's Net Pension Liability	\$446,103,498	\$ 333,603,869	\$ 238,081,968

Disclosures in Accordance with GASB Statement No. 67
Required Supplementary Information

**Schedule of Changes in Net Pension Liability And Related Ratios
Last 10 Fiscal Years**

	<u>12/31/2014</u>	<u>12/31/2013</u>
Total Pension Liability		
Service Cost	30,253,628	28,769,060
Interest	72,442,934	68,919,471
Change of benefit terms	(11,015,618)	-
Differences between Expected and Actual Experience	-	-
Changes of assumptions	14,137,496	-
Contributions - Buy Back	2,207,398	-
Benefit Payments, including Refunds of Employee Contributions	<u>(45,403,126)</u>	<u>(42,825,265)</u>
Net Change in Total Pension Liability	62,622,712	54,863,266
Total Pension Liability-Beginning	<u>909,000,224</u>	<u>854,136,958</u>
Total Pension Liability-Ending (a)	<u>\$971,622,936</u>	<u>\$909,000,224</u>
 Plan Fiduciary Net Position		
Contributions –Employer	32,399,740	31,160,764
Contributions– Employee	19,457,407	19,467,960
Contributions-Buy Back	2,207,398	-
Net Investment Income	35,574,317	49,524,150
Benefit Payments, including Refunds of Employee Contributions	(45,403,126)	(42,825,265)
Administrative Expense	(1,327,071)	(1,114,856)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>42,908,665</u>	<u>56,212,753</u>
Plan Fiduciary Net Position - Beginning	<u>595,110,402</u>	<u>538,897,649</u>
Plan Fiduciary Net Position –Ending (b)	<u>\$638,019,067</u>	<u>\$595,110,402</u>
 Net Pension Liability –Ending (a)-(b)	<u>\$333,603,869</u>	<u>\$313,889,822</u>
 Plan Fiduciary Net Position as a percentage of the Total Pension Liability	65.67%	65.47%
 Covered Employee Payroll	\$149,790,754	\$144,089,468
Net Pension Liability as a percentage of Covered Employee Payroll	222.71%	217.84%

1.

Disclosures in Accordance with GASB Statement No. 67
Required Supplementary Information

**Schedule of Contributions
Last 10 Fiscal Years**

	<u>12/31/2014</u>	<u>12/31/2013</u>
Actuarially Determined Contribution	N/A	N/A
Contributions in relation to the Actuarially Determined Contributions	<u>N/A</u>	<u>N/A</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	\$149,790,754	\$144,089,468
Contributions as a percentage of Covered Employee Payroll	21.63%	\$21.63%

Notes to Schedule

Valuation Date: 12/31/2012

Methods and assumptions used to determine liabilities:

<p>Actuarial Cost Method: Amortization Method: Remaining Amortization Period: Actuarial Asset Method:</p>	<p>Entry Age Normal Actuarial Cost Method Level Percentage of Pay, Closed. 30 Years. All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets. 3.50% (previously 4.00%) per year for amortization of the Unfunded Actuarial Accrued Liability.</p>
<p>Payroll Growth: Interest Rate:</p>	<p>7.90% per year, compounded annually, net of investment related expenses</p>
<p>Retirement Rates: Termination Rates: Disability Rates:</p>	<p>See table on next page. See table on next page. See table on next page. 55% of disablement are assumed to be service related.</p>
<p>Salary Increases: Mortality Rates-All lives:</p>	<p>See table on next page. RP-2000 Combined Healthy without projection-Sex Distinct.</p>
<p>PROP Investment Accounts:</p>	<p>75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 4.0%.</p>
<p>Marital Status:</p>	<p>85% of actives are assumed to be married at time of benefit commencement Females are assumed to be 3 years younger than Males</p>

Disclosures in Accordance with GASB Statement No. 67
 Required Supplementary Information
Retirement Rates

Retirement Rates Table:

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

Disclosures in Accordance with GASB Statement No. 67 Required Supplementary Information

- 1) Rates are based on APRS service only and apply after a Member is eligible for retirement with combined with combined APRS and Proportionate Retirement Program (PRP) service.
- 2) 100% retirement rate will be effective at age 60, if earlier.
- 3) Rates are based on age and apply after a Member is eligible for retirement with combined APRS and PRP service,. Entry ages are determined based on APRS service only.

Termination Rates Table: <u>Combined Years of Service</u> ↓	<u>Probability of Termination During Year</u>
0	0.05
1	0.02
2	0.02
3	0.02
4	0.02
5	0.02
6	0.02
7	0.02
8	0.02
9	0.02
10	0.01
11	0.01
12	0.05
13	0.05
14	0.05
15 & Above	0.00

↓ APRS service combined with Proportionate Retirement Program service

Disability Rates Table:	<u>Age</u>	<u>Probability of Disability During Year</u>
	20	0.00014
	22	0.00016
	24	0.00018
	26	0.00021
	28	0.00025
	30	0.00031
	32	0.00040
	34	0.00049
	36	0.00054
	38	0.00062
	40	0.00092
	42	0.00132
	44	0.00173
	46	0.00255
	48	0.00334
	50	0.00379
	52	0.00404
	54	0.00456
	56	0.00532
	58	0.00660
	60	0.00911
	62 & Above	0.00000

Disclosures in Accordance with GASB Statement No. 67
Required Supplementary Information

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

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

SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

	<u>12/31/2014</u>	<u>12/31/2013</u>
Annual Money-Weighted Rate of Return Net of Investment Expense	5.71%	8.90%

ACTUARIAL
SECTION

AUSTIN POLICE
RETIREMENT SYSTEM

ACTUARIAL VALUATION
AS OF DECEMBER 31, 2014
(Updated August 31, 2015)



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

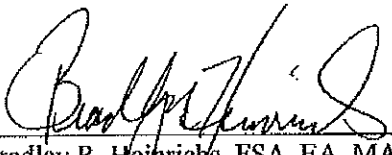
To our knowledge, no associate of Foster & Foster Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Austin, nor does anyone at Foster & Foster Inc. act as a member of the Board of Trustees of the Austin Police Retirement System. Thus,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

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

Respectfully submitted,

Foster & Foster Inc.

By:


Bradley R. Heinrichs, FSA, EA, MAAA
Enrolled Actuary #14-6901

BRH/lke

Enclosures

SUMMARY OF REPORT

The updated annual actuarial valuation of the Austin Police Retirement System, performed as of December 31, 2014, has been completed and the results are presented in this Report.

The pension costs, compared with those developed in the December 31, 2013 actuarial valuation report, are as follows:

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
Normal Cost % of Payroll Under Assumed Ret Age.	21.605%	22.055%	21.775%
Expected Member Contributions % of Total Annual Payroll	13.000%	13.000%	13.000%
City Normal Cost Rate % of Total Annual Payroll	8.605%	9.055%	8.775%
Funding Period To Amortize UAAL (expressed in number of years)	28.6	31.1	28.9

As can be seen above, the funding period required to amortize the Unfunded Actuarial Accrued Liability initially increased from 28.9 to 31.1 years since the prior valuation. This increase is the result of net unfavorable actuarial experience during the past year. The principal components of unfavorable experience resulted from a 6.5% investment return (Actuarial Asset Basis) that fell short of the 8.0% assumption and unfavorable retirement experience. These actuarial losses were partially offset by average increases in compensation that were lower than the assumed rate.

In addition, the Board of Trustees approved a number of benefit and actuarial assumption changes throughout the past year, as discussed on page 7. As shown, this resulted in a 2.5 year reduction in the required funding period. The specific details of the impact associated with implementing these changes are displayed in the comparative summary section of this report.

CHANGES SINCE PRIOR REPORT

1. Benefit Provisions

There have been a number of changes in benefits since the prior valuation, as detailed below.

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP.
- Effective February 18, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years of APRS service.
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of APRS service as of July 31, 2015 who will not be affected.
- New hires beginning February 1, 2016 will be required to pay the full actuarial cost for purchase of military service. All others will continue to pay 25% of the actuarial cost, which will be based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.

2. Actuarial Assumptions/Methods

As approved by the Board of Trustees, there have been multiple changes to the actuarial assumptions since the prior valuation, as detailed below.

- The investment return assumption has been decreased from 8.00% to 7.90% per year compounded annually, net of all expenses.
- The expected increase in salary due to general wage increases has been lowered from 3.75% to 3.50% per year.
- For members that enter the system prior to age 33, the retirement rates have been increased by 25.0% above their current level. Additionally, some slight modifications have been made to the retirement rates due to anticipated future PRP usage (as described in our April 2015 analysis).
- The annual assumed interest rate credited to PROP accounts has been decreased from 4.00% to 2.25% per year.
- The disability rates have been reduced in half.

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
C. Liabilities - (Continued)			
Present Value of Future Salaries	1,577,429,601	1,632,681,332	1,607,918,167
Normal Cost (Entry Age Normal)			
Retirement Benefits	29,448,152	29,535,783	28,232,155
Vested Benefits	135,545	132,439	130,716
Death Benefits	633,188	678,294	658,332
Disability Benefits	515,418	1,023,102	981,039
Refund of Contributions	526,694	526,463	488,679
Total Normal Cost	<u>31,258,997</u>	<u>31,896,081</u>	<u>30,490,921</u>
Present Value of Future Normal Costs	329,248,367	345,433,470	335,642,480
Actuarial Accrued Liability			
Retirement Benefits	490,080,698	486,885,336	460,859,526
Vested Benefits	718,036	698,035	703,721
Death Benefits	7,076,942	7,783,355	7,459,487
Disability Benefits	3,439,673	6,774,770	6,588,624
Refund of Contributions	802,916	795,099	802,791
Inactives	466,222,129	463,864,455	434,630,005
Total Actuarial Accrued Liability	<u>968,340,394</u>	<u>966,801,050</u>	<u>911,044,154</u>
Unfunded Actuarial Accrued Liability (UAAL)	315,148,059	313,608,715	306,202,257
GASB 25 Funded Ratio (AVA/AL)	67.5%	67.6%	66.4%
D. Actuarial Present Value of Accrued Benefits			
Vested Accrued Benefits			
Inactives	466,222,129	463,864,455	434,630,005
Actives	154,379,620	140,538,308	136,872,536
Member Contributions	<u>150,805,515</u>	<u>150,805,515</u>	<u>139,714,509</u>
Total	771,407,264	755,208,278	711,217,050
Non-vested Accrued Benefits	30,759,692	36,020,895	26,535,280
Total Present Value Accrued Benefits	<u>802,166,956</u>	<u>791,229,173</u>	<u>737,752,330</u>

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

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
Present Value of Benefits			
Active Members	1,259,665	1,215,447	1,108,914
Retired and Terminated Vested Members	2,075,482	2,050,586	1,900,139
Total	3,335,147	3,266,033	3,009,053
Present Value of Future Normal Costs	461,775	464,068	461,737
Normal Cost	61,011	58,208	43,669
Actuarial Accrued Liability	2,873,372	2,801,965	2,547,316
Asset Value of Fund	788,429	788,429	689,006
Unfunded Actuarial Accrued Liability (UAAL)	2,084,943	2,013,536	1,858,310
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 21 years (as of 12/31/2014)			
% of Total Annual Payroll	0.099	0.097	0.090
Normal Cost (with interest)			
% of Total Annual Payroll	0.042	0.040	0.031
Total Required City Contribution Rate Allocated to the Retiree Death Benefit Fund			
% of Total Annual Payroll	0.141	0.137	0.121

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

ACTUARIAL ASSUMPTIONS AND METHODS
(Effective December 31, 2014)

<u>Mortality Rates – All Lives</u>	RP-2000 Combined Healthy without projection – Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
<u>Interest Rate</u>	7.90% per year, compounded annually, net of all expenses.
<u>Core Inflation</u>	3.25% per year.
<u>Payroll Growth</u>	3.50% per year for amortization of the Unfunded Actuarial Accrued Liability.
<u>Administrative Expenses (PRP)</u>	0.025% of payroll for assumed additional administrative expenses for participation in the Proportionate Retirement Program.
<u>DROP Election</u>	75% of those assumed to retire who are eligible for at least a 12-month DROP lump sum will make such an election (RETRO) or will have made such an election (FORWARD). See following tables for allocation between RETRO and FORWARD.
<u>DROP Period Election</u>	Members elect the maximum period eligible (up to 36 months for RETRO and up to 60 months for FORWARD).
<u>PROP Investment Accounts</u>	75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 2.25%.
<u>Marital Status</u>	85% of actives are assumed to be married at time of benefit commencement. Females are assumed to be 3 years younger than Males.
<u>Funding Method</u>	Entry Age Normal Actuarial Cost Method
<u>Actuarial Asset Method</u>	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets.
<u>Retirement Rates</u>	See following tables.
<u>Termination Rates</u>	See following tables.

Termination Rates

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

¹ APRS service combined with Proportionate Retirement Program service.

Disability Rates

<u>Age</u>	<u>Probability of Disablement During Year</u>
20	0.00007
22	0.00008
24	0.00009
26	0.000105
28	0.000125
30	0.000155
32	0.000200
34	0.000245
36	0.000270
38	0.000310
40	0.000460
42	0.000660
44	0.000865
46	0.001275
48	0.001670
50	0.001895
52	0.002020
54	0.002280
56	0.002660
58	0.003300
60	0.004555
62 & Above	0

Retirement Option Election

(Members with 23+ years of APRS service on April 1, 2015)

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

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

VALUATION NOTES

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

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

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

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

(a) The normal cost accrual rate equals:

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

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

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

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

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014
Market Value Basis

ADDITIONS

Contributions:

Member	19,457,407.16
Buy-Back	2,207,397.66
City	31,279,861.10
City for Proportionate Retirement Program	940,570.88
City for Retiree Death Benefit	179,308.32

Total Contributions 54,064,545.12

Investment Income:

Miscellaneous Income	9,381,778.35
Net Realized Gain (Loss)	30,414,503.77
Unrealized Gain (Loss)	(9,066,319.27)
Net Increase in Fair Value of Investments	30,729,962.85
Interest & Dividends	6,363,159.11
Less Investment Expense ¹	(1,518,804.85)

Net Investment Income 35,574,317.11

Total Additions 89,638,862.23

DEDUCTIONS

Distributions to Members:

Benefit Payments	39,129,106.98
Lump Sum DROP Distributions	1,928,952.08
Lump Sum PROP Distributions	3,766,347.40
Retiree Death Benefits	80,000.00
Refunds of Member Contributions	498,719.47

Total Distributions 45,403,125.93

Administrative Expense 1,327,071.04

Total Deductions 46,730,196.97

Net Increase in Net Position 42,908,665.26

NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year 595,110,402.02

End of the Year 638,019,067.28

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

STATISTICAL DATA

	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Actives	1,709	1,732	1,777
Average Current Age	39.6	39.9	40.0
Average Age at Employment	28.1	28.3	28.3
Average Past Service	11.5	11.6	11.7
Average Annual Salary	\$82,079	\$84,221	\$84,896

AUSTIN POLICE RETIREMENT SYSTEM
SUMMARY OF BENEFIT PROVISIONS

<u>Creditable Service</u>	Total years and completed months (excluding a month in which service amount to fewer than 15 days) during which a Member makes contributions to the System.
<u>Earnings</u>	Base pay, plus longevity pay.
<u>Average Final Compensation</u>	Average Earnings for the highest 36 months over the last 120 months of service.
<u>Member Contributions</u>	13.0% of Earnings.
<u>City Contributions</u>	21.63%, effective October 1, 2012. 21.313%, effective October 1, 2015.
<u>Normal Retirement</u>	
Date	Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age (excluding military service).
Benefit	3.20% of Average Final Compensation <u>times</u> Creditable Service.
Form of Benefit	Modified Cash Refund (options available).
<u>Vesting</u>	
Schedule	100% after 10 years of Creditable Service.
Benefit Amount	Member will receive his (her) accrued benefit payable at the Normal Retirement Date based upon actual Creditable Service prior to termination. Non-vested members receive a refund of accumulated contributions.
<u>Disability</u>	
Eligibility	Total and permanent as determined by the Board. Members must have 10 years of Creditable Service if the disability was non-service related.
Benefit	Accrued benefit at date of disability, but not less than 64% of Average Final Compensation for service related disablements.
Form of Benefit	Modified Cash Refund (options available).

Forward DROP

Eligibility	Completion of 23 years of Creditable Service, excluding military service.
Participation Period	Not to exceed 60 months.
Rate of Return	Effective August 1, 2015, equal to the PROP interest rate (currently 2.25%), except for those with 23 years of APRS service as of July 31, 2015 who will receive 5.00% interest credit per year.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.

Retro DROP

Eligibility	Completion of 23 years of Creditable Service, excluding military service, as of April 1, 2015. Members with less than 23 years as of this date will not be eligible to participate in Retro DROP.
Participation Period	Upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months.
Rate of Return	5.0%, compounded annually.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.

GASB 67

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014**
Market Value Basis

ADDITIONS

Contributions:		
Member	19,457,407	
Buy-Back	2,207,398	
City	31,279,861	
City for Proportionate Retirement Program	940,571	
City for Retiree Death Benefit	179,308	
Total Contributions		54,064,545
Investment Income:		
Net Increase in Fair Value of Investments	30,729,963	
Interest & Dividends	6,363,159	
Less Investment Expense ¹	(1,518,805)	
Net Investment Income		35,574,317
Total Additions		89,638,862
<u>DEDUCTIONS</u>		
Distributions to Members:		
Benefit Payments	39,129,107	
Lump Sum DROP Distributions	1,928,952	
Lump Sum PROP Distributions	3,766,348	
Retiree Death Benefits	80,000	
Refunds of Member Contributions	498,719	
Total Distributions		45,403,126
Administrative Expense		1,327,071
Total Deductions		46,730,197
Net Increase in Net Position		42,908,665
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of the Year		595,110,402
End of the Year		638,019,067

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

GASB 67

Proportionate Retirement Program:

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

Contributions

The Sponsor contribution is a fixed rate of 21.63% of total payroll.

InvestmentsInvestment Policy:

The following was the Board's adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	43.50%
International Equity	21.00%
Domestic Bonds	9.00%
International Bonds	6.50%
Real Estate	20.00%
<u>Total</u>	<u>100.00%</u>

Concentrations:

The Plan did not hold investments in any one organization that represent 5 percent or more of the Pension Plan's Fiduciary Net Position.

Rate of Return:

For the year ended December 31, 2014, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 5.71 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option ProgramForward DROP:

Eligibility: Members with completion of 23 years of Creditable Service as of July 31, 2015, excluding military service.

Participation period not to exceed 60 months. Rate of Return: 5.00%, compounded annually. After July 31, the Rate of Return is: 2.25% compounded annually.

Form of Distribution: Cash lump sum (or rollover to PROP account) at termination of employment.

Effective February 18, 2015, the opportunity to purchase permissive service is no longer available.

Retro DROP:

Eligibility: Completion of 23 years of Creditable Service, excluding military service. Participation period upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months. Rate of Return 5.00%, compounded annually.

Effective February 18, 2015, the opportunity to purchase permissive service is no longer available.

Effective April 1, 2015, no Retro DROP will be available for Members with less than 23 years of APRS service.

Form of Distribution: Cash lump sum (or rollover to PROP account) at termination of employment.

The PROP balance as December 31, 2014 is \$21,768,360.

The DROP balance as December 31, 2014 is \$0.

GASB 67

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years

	<u>12/31/2014</u>	<u>12/31/2013</u>
Total Pension Liability		
Service Cost	30,253,628	28,769,060
Interest	72,442,934	68,919,471
Changes of benefit terms	(11,015,618)	-
Differences between Expected and Actual Experience	-	-
Changes of assumptions	14,137,496	-
Contributions - Buy Back	2,207,398	-
Benefit Payments, including Refunds of Employee Contributions	(45,403,126)	(42,825,265)
Net Change in Total Pension Liability	<u>62,622,712</u>	<u>54,863,266</u>
Total Pension Liability - Beginning	<u>909,000,224</u>	<u>854,136,958</u>
Total Pension Liability - Ending (a)	<u><u>971,622,936</u></u>	<u><u>\$909,000,224</u></u>
Plan Fiduciary Net Position		
Contributions - Employer	32,399,740	31,160,764
Contributions - Employee	19,457,407	19,467,960
Contributions - Buy Back	2,207,398	-
Net Investment Income	35,574,317	49,524,150
Benefit Payments, including Refunds of Employee Contributions	(45,403,126)	(42,825,265)
Administrative Expense	(1,327,071)	(1,114,856)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>42,908,665</u>	<u>56,212,753</u>
Plan Fiduciary Net Position - Beginning	<u>595,110,402</u>	<u>538,897,649</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$638,019,067</u></u>	<u><u>\$595,110,402</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$333,603,869</u></u>	<u><u>\$313,889,822</u></u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	65.67%	65.47%
Covered Employee Payroll	\$149,790,754	\$144,089,468
Net Pension Liability as a percentage of Covered Employee Payroll	222.71%	217.84%

GASB 67

Retirement Rates Table:

APRS Service	For Entry Ages Under 32 ¹			For Entry Ages 33 and Above ³			
	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
0-22	0.05	0.05	0.05	33-37	0.10		
23	0.15	0.15	0.225	38-42	0.10	0.10	0.10
24	0.10	0.10	0.15	43-47	0.10	0.10	0.10
25	0.10	0.10	0.15	48	0.10	0.10	0.10
26	0.15	0.15	0.25	49	0.10	0.10	0.10
27	0.15	0.15	0.25	50	0.10	0.10	0.10
28	0.25	0.25	0.25	51	0.10	0.10	0.10
29	0.25	0.25	0.3	52	0.10	0.10	0.10
30	0.30	0.30	0.4	53	0.10	0.10	0.10
31	0.30	0.30	0.5	54	0.10	0.10	0.10
32	0.30	0.30	1.00 ²	55	0.20	0.10	0.10
33	0.30	0.30		56	0.25	0.10	0.10
34	0.40	0.40		57	0.30	0.10	0.10
35	0.40	0.50		58	0.35	0.10	0.10
36	0.40	0.50		59	0.50	0.10	0.10
37	0.50	1.00 ²		60	1.00	0.50	0.10
38	0.50			61		0.35	0.10
39	0.50			62		0.35	0.80
40	0.50			63		0.35	0.40
41	0.50			64		0.35	0.40
42	1.00 ²			65		1.00	1.00

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

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

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

Termination Rates Table:

<u>Combined Years of Service¹</u>	<u>Probability of Termination During Year</u>
0	0.05
1	0.02
2	0.02
3	0.02
4	0.02
5	0.02
6	0.02
7	0.02
8	0.02
9	0.02
10	0.01
11	0.01
12	0.05
13	0.05
14	0.05
15 & Above	0.00

¹ APRS service combined with Proportionate Retirement Program service.

GASB 67

SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

	<u>12/31/2014</u>	<u>12/31/2013</u>
Annual Money-Weighted Rate of Return Net of Investment Expense	5.71%	8.90%

HISTORICAL INFORMATION SECTION

Improvements to the System (Last 15 Years)

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'.

April 2006

The PROP Monthly Annuity Deferral Option was added for retiree members.

October 2006

Member contribution rate was increased from 9% to 11%.

Improvements to the System (Last 15 Years)

April 2007

Forward Deferred Retirement Option Plan (FORWARD DROP) provision added for a one-time benefit whereby active police officers can choose to retire, continue working for and drawing a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement system.

September 2007

Permissive service credit was changed to (1) allow the purchase by a deceased member's designated beneficiary if there is no surviving spouse and (2) allow the purchase to be based on deferring the actual date when retirement benefits would begin in order to reduce the member's cost (Deferred Permissive Service)

The retiree death benefit is increased to \$10,000 from \$7,500

October 2007

Member contribution rate was increased from 11% to 13%.

December 2007

Benefit formula multiplier was increased from 3.0% to 3.2%.

Special Ad hoc increase granted to retirees based on benefit multiplier 3.2% divided by benefit multiplier 3.0%, minus one, and multiplied by 100.

January 2009

The City's contribution rate was increased from 18% to 18.25% to fund APRS participation in Texas Proportionate Retirement System.

March 2009

APRS joined the Texas Proportionate Retirement System. This allowed members with service credit in more than one participating retirement system to be eligible to combine their service credits in order to satisfy the length of service requirements used to determine eligibility for service retirement.

Improvements to the System (Last 15 Years)

September 2009

The City's contribution rate was increased from 18.25% to 18.63% to fund APRS participation in Texas Proportionate Retirement Program.

October 2010

The City's contribution rate was increased from 18.63% to 19.63% .

October 2011

The City's contribution rate was increased from 19.63% to 20.63% .

October 2012

The City's contribution rate was increased from 20.63% to 21.63% .

Interest Paid On Member Contributions
(15 year History)

Year	Interest Paid
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007*	5.0%
2006	0.0%
2005	0.0%
2004	2.0%
2003	2.0%
2002	2.0%
2001	4.0%
2000	5.0%

*Beginning in 2007, interest is only paid on vested members accounts

How is the amount of interest paid on retirement contributions determined?

The Board of Trustees annually determines the amount of interest paid on vested 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 only to vested members' (10 yrs. Of service) accounts 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 \$50,000 on January 1, and on December 31, you had \$60,000, your interest for that year would be based on the \$50,000 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.

**Cost of Living (Ad Hoc) Adjustments
(15 Year History)**

Year	COLA Paid
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007	1.0%
2006	0.0%
2005	0.0%
2004	1.75%
2003	3.0%
2002	1.5%
2001	3.0%
2000	3.0%

How is the amount of cost of living adjustments for retirees determined?

The Board of Trustees annually determines the amount of cost of living adjustment (Ad Hoc) to pay retirees, taking into consideration the performance of the Fund's investments, consumer price index (CPI) 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, making sure the liabilities can be amortized within acceptable accounting and governmental guidelines.

Cost of living adjustments are paid at the beginning of the calendar year, of the year proceeding the year approved. A member who retires between January 1, and December 31, in the year the cost of living adjustment is approved, will see their amount paid prorated for the number of months the retiree was actually retired.

Comparative Statement of Membership

	2014	2013
ACTIVE MEMBERS		
Total Number of Members, January 1	1,732	1,709
Add: New Members	128	88
Deduct: Members Terminated	(27)	(24)
Deceased Members	(6)	(1)
Members Transferred to Retiree System	(50)	(40)
TOTAL ACTIVE MEMBERS, DECEMBER 31	<u>1,777</u>	<u>1,732</u>
VESTED TERMINATED		
TOTAL VESTED TERMINATED MEMBERS, DECEMBER 31	<u>27</u>	<u>26</u>
RETIREE MEMBERS		
Total Number of Members, January 1	683	648
Add: Retired Members Transferred to System	50	40
Deduct: Retired Members Deceased	(6)	(5)
TOTAL RETIRED MEMBERS, DECEMBER 31	<u>727⁽¹⁾</u>	<u>683⁽²⁾</u>
TOTAL APRS MEMBERS DECEMBER 31	2,531	2,441

1. Includes 30 alternate payees of QDROs and 0 new survivor benefits
2. Includes 27 alternate payees of QDROs and 0 new survivor benefits

BENEFIT GUIDE
SECTION

INTRODUCTION

While this guide sets forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the guide and the statute, 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 13% 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 21% (21% effective 10/1/2012, 20% effective 10/1/2011) of every police member's base pay bi-weekly and 21% (21% effective 10/1/2012, 20% effective 10/1/2011) 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).

In addition, 2009 legislation provided that the City of Austin contribute additional costs incurred by the System for participating in the proportionate retirement program as set forth in Chapter 803 in the Texas Government Code (the "PRP"):

1. Increasing contribution rates to 21.63% from 20.63% for periods following October 1, 2012
2. Increasing contribution rates from 20.63% to 19.63% for periods following October 1, 2011, and
3. Subsequent adjustments to the City's contribution rate following each 5 years of PRP participation with adjustments to be based on experience studies performed by the system's actuary.

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 seven 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.
***Effective 2/1/16 new members purchase is 100% full actuarial cost.**
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. ***Cannot be used in Deferred Retirement Option Plan.**

8. Deferred Retirement Permissive Service- Eligible service of up to 60 months at 20 years of service credit or more with a delayed monthly annuity, excluding pre-membership military service, at full actuarial present value cost. ***Cannot be used in Deferred Retirement Option Plan.**

PROPORTIONATE SERVICE

Program for the benefit of members of participating public retirement systems. A member of two or more of the following participating retirement systems may be eligible for proportionate benefits:

- Austin Police Retirement System
- City of Austin Employees' Retirement System
- The El Paso City Employees' Pension Fund
- El Paso Firemen and Policemen's Pension Fund
- Employees Retirement System of Texas (ERS)
- Judicial Retirement System of Texas I & II
- Texas Municipal Retirement System (TMRS)
- Texas County and District Retirement System (TCDRS)
- Teacher Retirement System of Texas (TRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to combine that service in order to satisfy the length of service requirements used to determine eligibility for service retirement. Retirement benefits will be paid separately from each system, based only on the service performed in that system. Military service purchases may only be used once in determining the amount of the member's combined service credit. A member of a participating retirement system who forfeited membership service by withdrawing their deposits may re-establish credit for service earned in another participating proportionate retirement system. A member must contact the system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. A member should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

Basic retirement benefit Life Annuity are calculated using the following formula. Monthly annuity check would begin at the date the member would have been eligible for normal retirement.

	\$6,250	
	Average monthly salary for highest 36 months of last 10 years of contributing service	
23	x 3.2% =	\$4,600
Total years of membership		Basic monthly benefit amount service

*3.2% 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 (RETRO DROP)

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, member's monthly retirement option is computed as if the member retired on the RETRO DROP benefit computation date. The RETRO DROP benefit balance will include 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. *** Permissive Service Credit is not allowed for this DROP program.**

***Effective 4/1/2015 this Retro DROP program will only apply to members with 23 years of actual service (including purchased academy service) on or before March 31, 2015.**

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.

FORWARD DEFERRED RETIREMENT OPTION PLAN (Forward DROP)

The forward option one-time benefit whereby active police officers can choose to retire, continue working for and drawing a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement system. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military service credit and permissive service credit, as of the date of his or her election to participate in the Forward DROP. The maximum amount of service to be used in computation of the Forward DROP after normal service retirement of 23 years, excluding pre-membership service credit and permissive service credit is sixty (60) months.* **Permissive Service Credit is not allowed for this DROP program.**

A member's election to participate in the Forward DROP is irrevocable. During the period that a member participates in Forward DROP, retirement contributions shall be made to the member's Forward DROP account. The Forward DROP benefit balance will include the accumulated monthly benefits during Forward DROP participation 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 Forward DROP receives a one-time lump sum benefit with a reduced monthly retirement benefit at termination of employment date.

If a member electing to participate in Forward DROP decides to continue employment covered by the Act governing the System after her or she has participated in Forward DROP for sixty (60) months, no further annuity deferrals or member contributions shall be deposited to the members Forward DROP account after that sixty month period. In that event, the member shall continue making all contributions required under the Act governing the System, however, these contributions will not be used in the pension benefit calculation and the member will not receive any further service credit for time worked.

***Effective 7/1/2015 new DROP members interest rate will be same as PROP.**

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.

DROP BALANCE OPTION PLAN or (PROP) Post Retirement Option Plan

Instead of receiving a single lump-sum payment, a member may elect to receive partial payments from the member's RETRO or Forward DROP account by transferring the funds into a PROP, 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 or Forward 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 or Forward DROP funds in the PROP account shall be credited with earnings or losses of the system while they 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.

PROP MONTHLY ANNUITY DEFERRAL

The PROP Monthly Annuity Deferral plan allows retiring or retired members to defer receipt of a minimum of \$250 of their monthly annuity in order to defer the taxation of the deferred payments and to have the monthly benefits accumulate for later disbursement and later taxation in a Post Retirement Option Plan account. Special rules provide for two (one-time) period of deferrals in a calendar year that cease at the earliest of: (1) the date payment on the monthly benefit is requested, or (2) the IRS required age of 70 ½ is reached.

Making an election to defer a member's monthly annuity into PROP or revoking that election can have adverse tax consequences in some situations, especially if the member terminated active service before the year in which he or she attained age 50. Therefore, the election should not be made until the member has discussed the matter with a professional financial planner or tax advisor who is knowledgeable about the tax treatment of distributions from qualified tax plans.

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 an active 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 an active 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 benefit computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date, based on average final compensation and creditable service at date of disability retirement without reduction for early retirement. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or the 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 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.

DISABILTY BENEFIT LIFE ANNUITY CALCULATED

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

$$\frac{\$6,250}{\text{Average monthly salary for highest 36 months of last 10 years of contributing service}} \times 3.2\% = \frac{20}{\text{Total years of membership}} \times 3.2\% = \frac{\$4,000}{\text{Basic monthly benefit amount service}}$$

*3.2% 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 \$10,000 (or a proportionate benefit if the member retired under the Proportionate Retirement Program) is paid to the designated beneficiary(ies) or estate.

At the death of an active member eligible to retire, a tax free death benefit of \$10,000 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 member's accumulated deposits. The lump sum payment may not be less than \$10,000. When the \$10,000 minimum is payable, the amount payable from the Fund is \$10,000 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 designated 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 designated beneficiary may elect to receive payment under Option V, 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 \$10,000 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, dental and vision 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 www.ci.austin.tx.us/benefits/enrollment or One Texas Center, 505 Barton Springs Rd., Suite 600, P.O. Box 1088, Austin, Texas 78704 or by phone at (512) 974-3284.

LEAVING THE SYSTEM

DEFINITION OF A VESTED MEMBER

When you declare participation in the Texas Proportionate Retirement Program or have attained ten years of Austin Police Retirement System 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 retirement contributions for vested 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 to the member's benefit.

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 you wish, when you want to receive your retirement contributions and where you want them to be sent. Your choices are:

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. Have your contributions refunded to you the end of the calendar year. By doing this, you may 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. 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. Have your contributions left in the System 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 may 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.

5. Have your contributions left in the System if you are eligible or expect to become eligible to participate in the Proportionate Retirement Program.

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 21.63% 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 414(d) 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 VESTED CONTRIBUTIONS

The Board of Trustees annually determines the amount of interest paid on vested 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, the Benefit Services Manager 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 www.ausprs.org or (512) 416-7672 and their address is 2520 South I.H. 35, Suite 100, Austin, Texas 78704.

NOTES:

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

P.O. Box 41089
2520 S. IH-35
Suite 100
Austin, TX 78704

Phone: 512-416-7672
Fax: 512-416-7138
Website: www.ausprs.org



August 31, 2015

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

Re: Austin Police Retirement System

Dear Mr. Jordan:

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

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects applicable laws and regulations issued to date at the state and federal level. In our opinion, the assumptions used in this valuation, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience.

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

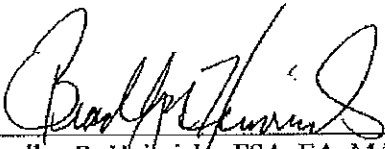
The undersigned is familiar with the immediate and long-term aspects of pension valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the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

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

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

Respectfully submitted,

Foster & Foster Inc.

By: 
Bradley R. Heinrichs, FSA, EA, MAAA
Enrolled Actuary #14-6901

BRH/lke

Enclosures

TABLE OF CONTENTS

Section	Title	Pages
I	<u>Introduction</u>	
	a. Summary of Report	5
	b. Changes Since Prior Report	7
	c. Comparative Summary of Principal Valuation Results	8
II	<u>Valuation Information</u>	
	a. Gain/Loss Analysis	12
	b. Actuarial Assumptions and Methods	13
	c. Valuation Notes	19
III	Trust Fund	20
IV	<u>Member Statistics</u>	
	a. Valuation Participant Reconciliation	24
	b. Statistical Data	25
	c. Age and Service Distribution	26
V	Summary of Benefit Provisions	27
VI	Governmental Accounting Standards Board Statements	30

SUMMARY OF REPORT

The updated annual actuarial valuation of the Austin Police Retirement System, performed as of December 31, 2014, has been completed and the results are presented in this Report.

The pension costs, compared with those developed in the December 31, 2013 actuarial valuation report, are as follows:

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
Normal Cost % of Payroll Under Assumed Ret Age.	21.605%	22.055%	21.775%
Expected Member Contributions % of Total Annual Payroll	13.000%	13.000%	13.000%
City Normal Cost Rate % of Total Annual Payroll	8.605%	9.055%	8.775%
Funding Period To Amortize UAAL (expressed in number of years)	28.6	31.1	28.9

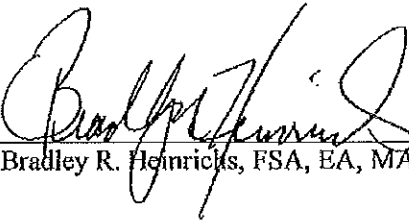
As can be seen above, the funding period required to amortize the Unfunded Actuarial Accrued Liability initially increased from 28.9 to 31.1 years since the prior valuation. This increase is the result of net unfavorable actuarial experience during the past year. The principal components of unfavorable experience resulted from a 6.5% investment return (Actuarial Asset Basis) that fell short of the 8.0% assumption and unfavorable retirement experience. These actuarial losses were partially offset by average increases in compensation that were lower than the assumed rate.

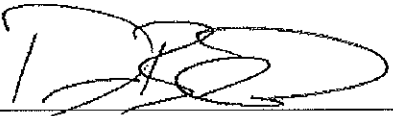
In addition, the Board of Trustees approved a number of benefit and actuarial assumption changes throughout the past year, as discussed on page 7. As shown, this resulted in a 2.5 year reduction in the required funding period. The specific details of the impact associated with implementing these changes are displayed in the comparative summary section of this report.

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

Respectfully submitted,

FOSTER & FOSTER INC.

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

By: 
Drew D. Ballard, EA, MAAA

CHANGES SINCE PRIOR REPORT

1. Benefit Provisions

There have been a number of changes in benefits since the prior valuation, as detailed below.

- Effective February 18, 2015, eliminate the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro-DROP.
- Effective February 18, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.
- Effective April 1, 2015, eliminate Retro-DROP for members with less than 23 years of APRS service.
- Effective August 1, 2015, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of APRS service as of July 31, 2015 who will not be affected.
- New hires beginning February 1, 2016 will be required to pay the full actuarial cost for purchase of military service. All others will continue to pay 25% of the actuarial cost, which will be based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.

2. Actuarial Assumptions/Methods

As approved by the Board of Trustees, there have been multiple changes to the actuarial assumptions since the prior valuation, as detailed below.

- The investment return assumption has been decreased from 8.00% to 7.90% per year compounded annually, net of all expenses.
- The expected increase in salary due to general wage increases has been lowered from 3.75% to 3.50% per year.
- For members that enter the system prior to age 33, the retirement rates have been increased by 25.0% above their current level. Additionally, some slight modifications have been made to the retirement rates due to anticipated future PRP usage (as described in our April 2015 analysis).
- The annual assumed interest rate credited to PROP accounts has been decreased from 4.00% to 2.25% per year.
- The disability rates have been reduced in half.

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

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
A. Participant Data			
Actives	1,777	1,777	1,732
Service Retirees + DROP	645	645	606
Beneficiaries	48	48	46
QDRO	31	31	27
Disability Retirees	3	3	4
Terminated Vested	27	27	26
Total	<u>2,531</u>	<u>2,531</u>	<u>2,441</u>
Total Annual Payroll	152,544,227	152,544,227	147,138,718
Payroll Under Assumed Ret. Age	150,574,998	150,574,998	145,794,226
Annual Rate of Payments to:			
Service Retirees + DROP	40,547,932	40,547,932	38,015,613
Beneficiaries	2,058,727	2,058,727	1,963,282
QDRO	449,896	449,896	404,654
Disability Retirees	103,149	103,149	136,509
Terminated Vested	782,938	782,938	690,455
B. Assets			
Actuarial Value	653,192,335	653,192,335	604,841,897
Market Value	638,019,067	638,019,067	594,421,396
C. Liabilities			
Present Value of Benefits			
Active Members			
Retirement Benefits	804,582,972	812,219,444	776,861,808
Vested Benefits	1,645,117	1,606,166	1,578,491
Death Benefits	13,523,313	14,850,305	14,450,551
Disability Benefits	8,236,813	16,322,160	15,854,778
Refund of Contributions	3,378,417	3,371,990	3,311,001
Service Retirees + DROP	439,930,718	437,792,799	409,602,939
Beneficiaries	17,361,902	17,244,030	16,565,761
QDRO	4,712,975	4,673,901	4,231,168
Disability Retirees	1,220,966	1,209,444	1,576,892
Terminated Vested	2,995,568	2,944,281	2,653,245
Total	<u>1,297,588,761</u>	<u>1,312,234,520</u>	<u>1,246,686,634</u>

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
C. Liabilities - (Continued)			
Present Value of Future Salaries	1,577,429,601	1,632,681,332	1,607,918,167
Normal Cost (Entry Age Normal)			
Retirement Benefits	29,448,152	29,535,783	28,232,155
Vested Benefits	135,545	132,439	130,716
Death Benefits	633,188	678,294	658,332
Disability Benefits	515,418	1,023,102	981,039
Refund of Contributions	526,694	526,463	488,679
Total Normal Cost	<u>31,258,997</u>	<u>31,896,081</u>	<u>30,490,921</u>
Present Value of Future Normal Costs	329,248,367	345,433,470	335,642,480
Actuarial Accrued Liability			
Retirement Benefits	490,080,698	486,885,336	460,859,526
Vested Benefits	718,036	698,035	703,721
Death Benefits	7,076,942	7,783,355	7,459,487
Disability Benefits	3,439,673	6,774,770	6,588,624
Refund of Contributions	802,916	795,099	802,791
Inactives	466,222,129	463,864,455	434,630,005
Total Actuarial Accrued Liability	<u>968,340,394</u>	<u>966,801,050</u>	<u>911,044,154</u>
Unfunded Actuarial Accrued Liability (UAAL)	315,148,059	313,608,715	306,202,257
GASB 25 Funded Ratio (AVA/AL)	67.5%	67.6%	66.4%
D. Actuarial Present Value of Accrued Benefits			
Vested Accrued Benefits			
Inactives	466,222,129	463,864,455	434,630,005
Actives	154,379,620	140,538,308	136,872,536
Member Contributions	<u>150,805,515</u>	<u>150,805,515</u>	<u>139,714,509</u>
Total	771,407,264	755,208,278	711,217,050
Non-vested Accrued Benefits	30,759,692	36,020,895	26,535,280
Total Present Value Accrued Benefits	<u>802,166,956</u>	<u>791,229,173</u>	<u>737,752,330</u>

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
E. Pension Cost			
Normal Cost (with interest) % of Payroll Under Assumed Ret. Age*	21.605	22.055	21.775
Expected Member Contributions % of Total Annual Payroll	13.000	13.000	13.000
City Normal Cost Rate % of Total Annual Payroll	8.605	9.055	8.775
Funding Period to Amortize UAAL **	28.6 years	31.1 years	28.9 years
F. PRB Preferred 20-Year Funding Cost			
Normal Cost (with interest) % of Payroll Under Assumed Ret. Age*	21.605	22.055	21.775
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 20 years % of Total Annual Payroll	15.497	15.545	15.735
Total 20-Year Funding Cost % of Total Annual Payroll	37.102	37.600	37.510

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

** The period required to amortize the UAAL was calculated based on the City's currently scheduled annual contribution rate to the Fund of 21.63% of total payroll prior to October 1, 2015, and 21.313% on and after October 1, 2015 less the calculated contribution rate required to fund the Retiree Death Benefit Fund.

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

Valuation Date	New Benefits New Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2014</u>	Old Benefits Old Assums <u>12/31/2013</u>
Present Value of Benefits			
Active Members	1,259,665	1,215,447	1,108,914
Retired and Terminated Vested Members	2,075,482	2,050,586	1,900,139
Total	3,335,147	3,266,033	3,009,053
Present Value of Future Normal Costs	461,775	464,068	461,737
Normal Cost	61,011	58,208	43,669
Actuarial Accrued Liability	2,873,372	2,801,965	2,547,316
Asset Value of Fund	788,429	788,429	689,006
Unfunded Actuarial Accrued Liability (UAAL)	2,084,943	2,013,536	1,858,310
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 21 years (as of 12/31/2014)			
% of Total Annual Payroll	0.099	0.097	0.090
Normal Cost (with interest)			
% of Total Annual Payroll	0.042	0.040	0.031
Total Required City Contribution Rate Allocated to the Retiree Death Benefit Fund			
% of Total Annual Payroll	0.141	0.137	0.121

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

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

a. Total Gain/(Loss)

1. UAAL, Beginning of Year	306,202,257
2. Normal Cost Applicable for Year	30,490,921
3. Interest on (1) and (2)	26,935,454
4. Contributions During Year	53,885,237
5. Interest on (4)	2,113,944
6. Expected UAAL, End of Year: (1)+(2)+(3)-(4)-(5)	307,629,451
7. Actual UAAL, End of Year (Before Changes)	313,608,715
 Total Actuarial Gain/(Loss)	 (5,979,264)

b. Gain/(Loss) on Assets

1. Actuarial Value of Assets (AVA), Beginning of Year	604,841,897
2. Contributions Less Benefit Payments	8,562,111
3. Expected Investment Earnings	48,723,248
4. Expected AVA, End of Year: (1)+(2)+(3)	662,127,256
5. Actual Actuarial Value of Assets, End of Year	653,192,335
 Gain/(Loss) on Assets	 (8,934,921)

c. Gain/(Loss) on Liabilities

1. Expected Actuarial Accrued Liability: a(6)+b(4)	969,756,707
2. Actual Actuarial Accrued Liability (Before Changes)	966,801,050
 Gain/(Loss) on Liabilities	 2,955,657

ACTUARIAL ASSUMPTIONS AND METHODS
(Effective December 31, 2014)

<u>Mortality Rates – All Lives</u>	RP-2000 Combined Healthy without projection – Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
<u>Interest Rate</u>	7.90% per year, compounded annually, net of all expenses.
<u>Core Inflation</u>	3.25% per year.
<u>Payroll Growth</u>	3.50% per year for amortization of the Unfunded Actuarial Accrued Liability.
<u>Administrative Expenses (PRP)</u>	0.025% of payroll for assumed additional administrative expenses for participation in the Proportionate Retirement Program.
<u>DROP Election</u>	75% of those assumed to retire who are eligible for at least a 12-month DROP lump sum will make such an election (RETRO) or will have made such an election (FORWARD). See following tables for allocation between RETRO and FORWARD.
<u>DROP Period Election</u>	Members elect the maximum period eligible (up to 36 months for RETRO and up to 60 months for FORWARD).
<u>PROP Investment Accounts</u>	75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 2.25%.
<u>Marital Status</u>	85% of actives are assumed to be married at time of benefit commencement. Females are assumed to be 3 years younger than Males.
<u>Funding Method</u>	Entry Age Normal Actuarial Cost Method
<u>Actuarial Asset Method</u>	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets.
<u>Retirement Rates</u>	See following tables.
<u>Termination Rates</u>	See following tables.

Disability Rates

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

Salary Increases

See following tables.

Pre-Retirement Death Payment Form

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

Retirement Rates

APRS Service	For Entry Ages Under 32 ¹			For Entry Ages 33 and Above ³			
	22 & Under	23-27	28-32	AGE	33-37	38-42	43 & Over
0-22	0.0625	0.125	0.125	33-37	0.05		
23	0.1875	0.1875	0.28125	38-42	0.05	0.10	
24	0.125	0.125	0.1875	43-47	0.05	0.10	0.10
25	0.125	0.125	0.1875	48	0.05	0.10	0.10
26	0.1875	0.1875	0.3125	49	0.05	0.10	0.10
27	0.1875	0.1875	0.3125	50	0.05	0.10	0.10
28	0.3125	0.3125	0.3125	51	0.05	0.10	0.10
29	0.3125	0.3125	0.375	52	0.20	0.10	0.10
30	0.375	0.375	0.50	53	0.35	0.10	0.10
31	0.375	0.375	0.625	54	0.75	0.10	0.10
32	0.375	0.375	1.00 ²	55	0.20	0.10	0.10
33	0.375	0.375		56	0.25	0.10	0.10
34	0.50	0.50		57	0.30	0.10	0.10
35	0.50	0.625		58	0.35	0.10	0.10
36	0.50	0.625		59	0.50	0.10	0.10
37	0.625	1.00 ²		60	1.00	0.50	0.10
38	0.625			61		0.35	0.10
39	0.625			62		0.35	0.80
40	0.625			63		0.35	0.40
41	0.625			64		0.35	0.40
42	1.00 ²			65		1.00	1.00

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

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

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

Termination Rates

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

¹ APRS service combined with Proportionate Retirement Program service.

Disability Rates

<u>Age</u>	<u>Probability of Disablement During Year</u>
20	0.00007
22	0.00008
24	0.00009
26	0.000105
28	0.000125
30	0.000155
32	0.000200
34	0.000245
36	0.000270
38	0.000310
40	0.000460
42	0.000660
44	0.000865
46	0.001275
48	0.001670
50	0.001895
52	0.002020
54	0.002280
56	0.002660
58	0.003300
60	0.004555
62 & Above	0

Salary Increases

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

¹ Expected increases in salary as shown above are in addition to 3.50% increase per year due to general wage increases.

Retirement Option Election

(Members with 23+ years of APRS service on April 1, 2015)

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

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

Retirement Option Election

(Members with less than 23 years of APRS service on April 1, 2015)

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

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

VALUATION NOTES

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

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

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

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

(a) The normal cost accrual rate equals:

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

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

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

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

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

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2014

<u>ASSETS</u>	COST VALUE	MARKET VALUE
Cash and Cash Equivalents:		
Short Term Investments	37,830,337.78	37,830,337.78
Checking Account	153,946.92	153,946.92
Prepaid Expenses	8,753.50	8,753.50
Total Cash and Equivalents	37,993,038.20	37,993,038.20
Receivables:		
Member Contributions	876,848.56	876,848.56
Member Buy-Back Contributions	193.40	193.40
City Contributions	1,458,941.18	1,458,941.18
Investment Income	3,632,401.31	3,632,401.31
Total Receivable	5,968,384.45	5,968,384.45
Investments:		
Partnership Interests	38,899,824.00	38,899,824.00
Corporate Bonds	32,788,000.75	32,788,000.75
Corporate Stocks	245,824,415.46	245,824,415.46
International Stocks	63,260,869.00	63,260,869.00
International Government Securities	34,202,073.64	34,202,073.64
Real Estate Interests	144,472,514.65	144,472,514.65
Alternatives	35,871,586.00	35,871,586.00
Retiree Death Benefit Fund	788,429.77	788,429.77
Total Investments	596,107,713.27	596,107,713.27
Net Fixed Assets	471,327.18	471,327.18
Total Assets	640,540,463.10	640,540,463.10
<u>LIABILITIES</u>		
Payables:		
Refunds of Member Contributions	123,514.01	123,514.01
Other	2,397,881.81	2,397,881.81
Total Liabilities	2,521,395.82	2,521,395.82
NET POSITION RESTRICTED FOR PENSIONS	638,019,067.28	638,019,067.28

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014
Market Value Basis

ADDITIONS

Contributions:

Member	19,457,407.16
Buy-Back	2,207,397.66
City	31,279,861.10
City for Proportionate Retirement Program	940,570.88
City for Retiree Death Benefit	179,308.32

Total Contributions 54,064,545.12

Investment Income:

Miscellaneous Income	9,381,778.35	
Net Realized Gain (Loss)	30,414,503.77	
Unrealized Gain (Loss)	(9,066,319.27)	
Net Increase in Fair Value of Investments	30,729,962.85	
Interest & Dividends	6,363,159.11	
Less Investment Expense ¹	(1,518,804.85)	

Net Investment Income 35,574,317.11

Total Additions 89,638,862.23

DEDUCTIONS

Distributions to Members:

Benefit Payments	39,129,106.98
Lump Sum DROP Distributions	1,928,952.08
Lump Sum PROP Distributions	3,766,347.40
Retiree Death Benefits	80,000.00
Refunds of Member Contributions	498,719.47

Total Distributions 45,403,125.93

Administrative Expense 1,327,071.04

Total Deductions 46,730,196.97

Net Increase in Net Position 42,908,665.26

NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year 595,110,402.02

End of the Year 638,019,067.28

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

ACTUARIAL ASSET VALUATION
December 31, 2014

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

Plan Year Ending	Gain/(Loss)	<u>Gains/(Losses) Not Yet Recognized</u>				
		Amounts Not Yet Recognized by Valuation Year				
		2015	2016	2017	2018	2019
12/31/2011	(56,982,781)	(11,396,556)	0	0	0	0
12/31/2012	8,502,880	3,401,152	1,700,576	0	0	0
12/31/2013	4,991,349	2,994,809	1,996,540	998,270	0	0
12/31/2014	(13,701,378)	(10,961,102)	(8,220,827)	(5,480,551)	(2,740,276)	0
Total		(15,961,697)	(4,523,711)	(4,482,281)	(2,740,276)	0

<u>Development of Investment Gain/Loss</u>	
Market Value of Assets, including Retiree Death Benefit Fund, 12/31/2013	595,110,402
Contributions Less Benefit Payments	8,661,419
Expected Investment Earnings*	47,948,624
Actual Net Investment Earnings	34,247,246
2015 Actuarial Investment Gain/(Loss)	<u>(13,701,378)</u>

*Expected Investment Earnings = $0.08 * 595,110,402 + [(1 + 0.08)^{0.5} - 1] * 8,661,419$

<u>Development of Actuarial Value of Assets</u>	
(1) Market Value of Assets, including Retiree Death Benefit Fund, 12/31/2014	638,019,067
(2) Gains/(Losses) Not Yet Recognized	<u>(15,961,697)</u>
(3) Actuarial Value of Assets, 12/31/2014, (1) - (2)	653,980,764
(A) 12/31/2013 Actuarial Assets, including Retiree Death Benefit Fund:	605,530,903
(I) Net Investment Income:	
1. Interest, Dividends and Misc Income	7,897,046
2. Realized Gains (Losses)	30,414,504
3. Change in Actuarial Value	4,223,345
4. Investment and Administrative Expenses	<u>(2,845,876)</u>
Total	39,689,018
(B) 12/31/2014 Actuarial Assets, including Retiree Death Benefit Fund:	653,980,764
Actuarial Assets Rate of Return = $2I/(A+B-I)$:	6.51%
Market Value of Assets Rate of Return:	5.71%
12/31/2014 Limited Actuarial Assets, including Retiree Death Benefit Fund:	653,980,764
12/31/2014 Limited Net Actuarial Assets, excluding Retiree Death Benefit Fund:	653,192,335

VALUATION PARTICIPANT RECONCILIATION

1. Active lives

a. Number in prior valuation 12/31/2013	1732
b. Terminations	
i. Vested (partial or full) with deferred benefits	4
ii. Non-vested or full lump sum distribution received	17
c. Deaths	
i. Beneficiary receiving benefits	0
ii. No future benefits payable	0
d. Disabled	0
e. Retired	37
f. DROP	5
g. Continuing participants	1669
h. New entrants	108
i. Total active life participants in valuation	1777

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

	<u>Service Retirees, DROP Participants</u>	<u>Receiving Death Benefits</u>	<u>Receiving Disability Benefits</u>	<u>Receiving QDRO Benefits</u>	<u>Vested Deferred</u>	<u>Total</u>
a. Number prior valuation	606	46	4	27	26	709
b. In	46	3	0	4	4	57
c. Out	7	1	1	0	3	12
d. Number current valuation	645	48	3	31	27	754

STATISTICAL DATA

	<u>12/31/2012</u>	<u>12/31/2013</u>	<u>12/31/2014</u>
Actives	1,709	1,732	1,777
Average Current Age	39.6	39.9	40.0
Average Age at Employment	28.1	28.3	28.3
Average Past Service	11.5	11.6	11.7
Average Annual Salary	\$82,079	\$84,221	\$84,896

AGE AND SERVICE DISTRIBUTION

PAST SERVICE

AGE	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+	Total
15 - 19	0	0	0	0	0	0	0	0	0	0	0	0
20 - 24	15	2	0	0	0	0	0	0	0	0	0	17
25 - 29	31	24	35	32	2	16	0	0	0	0	0	140
30 - 34	33	30	33	42	17	171	15	1	0	0	0	342
35 - 39	12	9	17	14	8	117	125	30	0	0	0	332
40 - 44	11	6	3	7	7	71	130	161	16	0	0	412
45 - 49	2	0	2	2	1	42	61	113	90	6	0	319
50 - 54	0	0	0	0	0	18	20	34	59	29	0	160
55 - 59	0	0	0	0	0	7	3	8	19	8	2	47
60 - 64	0	0	0	0	0	5	0	1	0	1	1	8
65+	0	0	0	0	0	0	0	0	0	0	0	0
Total	104	71	90	97	35	447	354	348	184	44	3	1,777

AUSTIN POLICE RETIREMENT SYSTEM
SUMMARY OF BENEFIT PROVISIONS

<u>Creditable Service</u>	Total years and completed months (excluding a month in which service amount to fewer than 15 days) during which a Member makes contributions to the System.
<u>Earnings</u>	Base pay, plus longevity pay.
<u>Average Final Compensation</u>	Average Earnings for the highest 36 months over the last 120 months of service.
<u>Member Contributions</u>	13.0% of Earnings.
<u>City Contributions</u>	21.63%, effective October 1, 2012. 21.313%, effective October 1, 2015.
<u>Normal Retirement</u>	
Date	Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age (excluding military service).
Benefit	3.20% of Average Final Compensation <u>times</u> Creditable Service.
Form of Benefit	Modified Cash Refund (options available).
<u>Vesting</u>	
Schedule	100% after 10 years of Creditable Service.
Benefit Amount	Member will receive his (her) accrued benefit payable at the Normal Retirement Date based upon actual Creditable Service prior to termination. Non-vested members receive a refund of accumulated contributions.
<u>Disability</u>	
Eligibility	Total and permanent as determined by the Board. Members must have 10 years of Creditable Service if the disability was non-service related.
Benefit	Accrued benefit at date of disability, but not less than 64% of Average Final Compensation for service related disablements.
Form of Benefit	Modified Cash Refund (options available).

Death Benefits

Before Retirement Eligibility

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

After Retirement Eligibility

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

Retiree Death Benefit Fund

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

Cost of Living Adjustment

Eligibility

Normal Retirement.

Amount

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

Proportionate Retirement Program

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

Forward DROP

Eligibility	Completion of 23 years of Creditable Service, excluding military service.
Participation Period	Not to exceed 60 months.
Rate of Return	Effective August 1, 2015, equal to the PROP interest rate (currently 2.25%), except for those with 23 years of APRS service as of July 31, 2015 who will receive 5.00% interest credit per year.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.

Retro DROP

Eligibility	Completion of 23 years of Creditable Service, excluding military service, as of April 1, 2015. Members with less than 23 years as of this date will not be eligible to participate in Retro DROP.
Participation Period	Upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months.
Rate of Return	5.0%, compounded annually.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.

GASB 67

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2014

<u>ASSETS</u>	MARKET VALUE
Cash and Cash Equivalents:	
Short Term Investments	37,830,338
Checking Account	153,947
Prepaid Expenses	8,753
Total Cash and Equivalents	37,993,038
Receivables:	
Member Contributions	876,849
Member Buy-Back Contributions	193
City Contributions	1,458,941
Investment Income	3,632,401
Total Receivable	5,968,384
Investments:	
Partnership Interests	38,899,824
Corporate Bonds	32,788,001
Corporate Stocks	245,824,415
International Stocks	63,260,869
International Government Securities	34,202,074
Real Estate Interests	144,472,515
Alternatives	35,871,586
Retiree Death Benefit Fund	788,430
Total Investments	596,107,714
Net Fixed Assets	471,327
Total Assets	640,540,463
<u>LIABILITIES</u>	
Payables:	
Refunds of Member Contributions	123,514
Other	2,397,882
Total Liabilities	2,521,396
NET POSITION RESTRICTED FOR PENSIONS	638,019,067

GASB 67

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014
Market Value Basis

ADDITIONS

Contributions:		
Member	19,457,407	
Buy-Back	2,207,398	
City	31,279,861	
City for Proportionate Retirement Program	940,571	
City for Retiree Death Benefit	179,308	
 Total Contributions		 54,064,545
Investment Income:		
Net Increase in Fair Value of Investments	30,729,963	
Interest & Dividends	6,363,159	
Less Investment Expense ¹	(1,518,805)	
 Net Investment Income		 35,574,317
 Total Additions		 89,638,862

DEDUCTIONS

Distributions to Members:		
Benefit Payments	39,129,107	
Lump Sum DROP Distributions	1,928,952	
Lump Sum PROP Distributions	3,766,348	
Retiree Death Benefits	80,000	
Refunds of Member Contributions	498,719	
 Total Distributions		 45,403,126
 Administrative Expense		 1,327,071
 Total Deductions		 46,730,197
 Net Increase in Net Position		 42,908,665
 NET POSITION RESTRICTED FOR PENSIONS		
Beginning of the Year		595,110,402
 End of the Year		 638,019,067

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

GASB 67

NOTES TO THE FINANCIAL STATEMENTS
(For the Year Ended December 31, 2014)

Plan Description

Plan Administration

The Plan is a single-employer defined benefit pension plan administered by the Plan's Board of Trustees comprised of:

- a. One council member designated by the city council;
- b. The city manager or the city manager's designee;
- c. The director of finance or the director's designee;
- d. Five police officer members elected by the police officer members of the system, each of whom serves for a term of four years;
- e. One legally qualified voter of the city, resident for the preceding five years, to be appointed by the police retirement board to serve for a term of four years and until the member's successor is duly selected and qualified.
- f. Two retired members to be elected by the retired members to serve for a term of four years, with the term of one member expiring each odd-numbered year.

Plan Membership as of December 31, 2013:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	683
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	26
Active Plan Members	1,732
	2,441

Benefits Provided

The Plan provides retirement, termination, disability and death benefits.

Normal Retirement:

Date: Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age (excluding military service).

Benefit: 3.20% of Average Final Compensation times Creditable Service.

Vesting:

Schedule: 100% after 10 years of Creditable Service.

Benefit Amount: Member will receive his (her) accrued benefit payable at the Normal Retirement Date based upon actual Creditable Service prior to termination.

Non-vested members receive a refund of accumulated contributions.

Disability:

Eligibility: Total and permanent as determined by the Board. Members must have 10 years of Creditable Service if the disability was non-service related.

Benefit accrued to date of disability but not less than 64% of Average Final Compensation for service related disablements.

Death Benefits:

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

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

Retiree Death Benefit Fund:

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

Cost of Living Adjustment:

Eligibility: Normal Retirement.

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

GASB 67

Proportionate Retirement Program:

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

Contributions

The Sponsor contribution is a fixed rate of 21.63% of total payroll.

InvestmentsInvestment Policy:

The following was the Board's adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	43.50%
International Equity	21.00%
Domestic Bonds	9.00%
International Bonds	6.50%
Real Estate	20.00%
<u>Total</u>	<u>100.00%</u>

Concentrations:

The Plan did not hold investments in any one organization that represent 5 percent or more of the Pension Plan's Fiduciary Net Position.

Rate of Return:

For the year ended December 31, 2014, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 5.71 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option ProgramForward DROP:

Eligibility: Members with completion of 23 years of Creditable Service as of July 31, 2015, excluding military service.

Participation period not to exceed 60 months. Rate of Return: 5.00%, compounded annually. After July 31, the Rate of Return is: 2.25% compounded annually.

Form of Distribution: Cash lump sum (or rollover to PROP account) at termination of employment.

Effective February 18, 2015, the opportunity to purchase permissive service is no longer available.

Retro DROP:

Eligibility: Completion of 23 years of Creditable Service, excluding military service. Participation period upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months. Rate of Return 5.00%, compounded annually.

Effective February 18, 2015, the opportunity to purchase permissive service is no longer available.

Effective April 1, 2015, no Retro DROP will be available for Members with less than 23 years of APRS service.

Form of Distribution: Cash lump sum (or rollover to PROP account) at termination of employment.

The PROP balance as December 31, 2014 is \$21,768,360.

The DROP balance as December 31, 2014 is \$0.

GASB 67

NET PENSION LIABILITY OF THE SPONSOR

The components of the Net Pension Liability of the Sponsor on December 31, 2014 were as follows:

Total Pension Liability	\$ 971,622,936
Plan Fiduciary Net Position	<u>\$ (638,019,067)</u>
Sponsor's Net Pension Liability	<u>\$ 333,603,869</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	65.67%

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2013 updated to December 31, 2014 using the following actuarial assumptions:

Inflation	3.25%
Salary Increases	Service Based
Discount Rate	7.90%
Investment Rate of Return	7.90%

Mortality rates (all lives) were based on the RP-2000 Combined Healthy without projection - Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period 2012-2013.

The Long-Term Expected Rate of Return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expenses and inflation) are developed for each major asset class.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the Pension Plan's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Long Term Expected Real Rate of Return
Domestic Equity	7.50%
International Equity	8.50%
Domestic Bonds	2.50%
International Bonds	3.50%
Real Estate	4.50%

Discount Rate:

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate of 13.00% of compensation and that sponsor contributions will be made at the current contribution rate of 21.63% of total payroll. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

	1% Decrease	Current Discount Rate	1% Increase
	6.90%	7.90%	8.90%
Sponsor's Net Pension Liability	<u>\$ 446,103,498</u>	<u>\$ 333,603,869</u>	<u>\$ 238,081,968</u>

GASB 67

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years

	12/31/2014	12/31/2013
Total Pension Liability		
Service Cost	30,253,628	28,769,060
Interest	72,442,934	68,919,471
Changes of benefit terms	(11,015,618)	-
Differences between Expected and Actual Experience	-	-
Changes of assumptions	14,137,496	-
Contributions - Buy Back	2,207,398	-
Benefit Payments, including Refunds of Employee Contributions	(45,403,126)	(42,825,265)
Net Change in Total Pension Liability	62,622,712	54,863,266
Total Pension Liability - Beginning	909,000,224	854,136,958
Total Pension Liability - Ending (a)	<u>971,622,936</u>	<u>\$909,000,224</u>
Plan Fiduciary Net Position		
Contributions - Employer	32,399,740	31,160,764
Contributions - Employee	19,457,407	19,467,960
Contributions - Buy Back	2,207,398	-
Net Investment Income	35,574,317	49,524,150
Benefit Payments, including Refunds of Employee Contributions	(45,403,126)	(42,825,265)
Administrative Expense	(1,327,071)	(1,114,856)
Other	-	-
Net Change in Plan Fiduciary Net Position	42,908,665	56,212,753
Plan Fiduciary Net Position - Beginning	595,110,402	538,897,649
Plan Fiduciary Net Position - Ending (b)	<u>\$638,019,067</u>	<u>\$595,110,402</u>
Net Pension Liability - Ending (a) - (b)	<u>\$333,603,869</u>	<u>\$313,889,822</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	65.67%	65.47%
Covered Employee Payroll	\$149,790,754	\$144,089,468
Net Pension Liability as a percentage of Covered Employee Payroll	222.71%	217.84%

GASB 67

SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years

	12/31/2014	12/31/2013
Actuarially Determined Contribution	N/A	N/A
Contributions in relation to the Actuarially		
Determined Contributions	N/A	N/A
Contribution Deficiency (Excess)	\$ -	\$ -
Covered Employee Payroll	\$149,790,754	\$144,089,468
Contributions as a percentage of Covered		
Employee Payroll	21.63%	21.63%

Notes to Schedule

Valuation Date: 12/31/2012

Methods and assumptions used to determine liabilities:

Actuarial Cost Method: Entry Age Normal Actuarial Cost Method.
Amortization Method: Level Percentage of Pay, Closed.
Remaining Amortization Period: 30 Years.
Actuarial Asset Method: All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets.
3.50% (previously 4.00%) per year for amortization of the Unfunded Actuarial Accrued Liability.

Payroll Growth: 8.00% per year, compounded annually, net of investment related expenses.
Interest Rate: See table on next page.
Retirement Rates: See table on next page.
Termination Rates: See table on next page.
Disability Rates: See table on next page. 55% of disablements are assumed to be service related.
Salary Increases: See table on next page.
Mortality Rates- All lives: RP-2000 Combined Healthy without projection - Sex Distinct.
PROP Investment Accounts: 75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 4.0%.
Marital Status: 85% of actives are assumed to be married at time of benefit commencement Females are assumed to be 3 years younger than Males.

GASB 67

Retirement Rates Table:

For Entry Ages Under 32 ¹				For Entry Ages 33 and Above ³			
APRS Service	22 & Under	23-27	28-32	Age	33-37	38-42	43 & Over
0-22	0.05	0.05	0.05	33-37	0.10		
23	0.15	0.15	0.225	38-42	0.10	0.10	0.10
24	0.10	0.10	0.15	43-47	0.10	0.10	0.10
25	0.10	0.10	0.15	48	0.10	0.10	0.10
26	0.15	0.15	0.25	49	0.10	0.10	0.10
27	0.15	0.15	0.25	50	0.10	0.10	0.10
28	0.25	0.25	0.25	51	0.10	0.10	0.10
29	0.25	0.25	0.3	52	0.10	0.10	0.10
30	0.30	0.30	0.4	53	0.10	0.10	0.10
31	0.30	0.30	0.5	54	0.10	0.10	0.10
32	0.30	0.30	1.00 ²	55	0.20	0.10	0.10
33	0.30	0.30		56	0.25	0.10	0.10
34	0.40	0.40		57	0.30	0.10	0.10
35	0.40	0.50		58	0.35	0.10	0.10
36	0.40	0.50		59	0.50	0.10	0.10
37	0.50	1.00 ²		60	1.00	0.50	0.10
38	0.50			61		0.35	0.10
39	0.50			62		0.35	0.80
40	0.50			63		0.35	0.40
41	0.50			64		0.35	0.40
42	1.00 ²			65		1.00	1.00

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

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

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

Termination Rates Table:

<u>Combined Years of Service¹</u>	<u>Probability of Termination During Year</u>
0	0.05
1	0.02
2	0.02
3	0.02
4	0.02
5	0.02
6	0.02
7	0.02
8	0.02
9	0.02
10	0.01
11	0.01
12	0.05
13	0.05
14	0.05
15 & Above	0.00

¹ APRS service combined with Proportionate Retirement Program service.

GASB 67

Disability Rates Table:	<u>Age</u>	<u>Probability of Disablement During Year</u>
	20	0.00014
	22	0.00016
	24	0.00018
	26	0.00021
	28	0.00025
	30	0.00031
	32	0.00040
	34	0.00049
	36	0.00054
	38	0.00062
	40	0.00092
	42	0.00132
	44	0.00173
	46	0.00255
	48	0.00334
	50	0.00379
	52	0.00404
	54	0.00456
	56	0.00532
	58	0.00660
	60	0.00911
	62 & Above	0.00000

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

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

GASB 67

SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

	<u>12/31/2014</u>	<u>12/31/2013</u>
Annual Money-Weighted Rate of Return Net of Investment Expense	5.71%	8.90%

HISTORICAL INFORMATION SECTION

Improvements to the System (Last 15 Years)

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'.

April 2006

The PROP Monthly Annuity Deferral Option was added for retiree members.

October 2006

Member contribution rate was increased from 9% to 11%.

Improvements to the System (Last 15 Years)

April 2007

Forward Deferred Retirement Option Plan (FORWARD DROP) provision added for a one-time benefit whereby active police officers can choose to retire, continue working for and drawing a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement system.

September 2007

Permissive service credit was changed to (1) allow the purchase by a deceased member's designated beneficiary if there is no surviving spouse and (2) allow the purchase to be based on deferring the actual date when retirement benefits would begin in order to reduce the member's cost (Deferred Permissive Service)

The retiree death benefit is increased to \$10,000 from \$7,500

October 2007

Member contribution rate was increased from 11% to 13%.

December 2007

Benefit formula multiplier was increased from 3.0% to 3.2%.

Special Ad hoc increase granted to retirees based on benefit multiplier 3.2% divided by benefit multiplier 3.0%, minus one, and multiplied by 100.

January 2009

The City's contribution rate was increased from 18% to 18.25% to fund APRS participation in Texas Proportionate Retirement System.

March 2009

APRS joined the Texas Proportionate Retirement System. This allowed members with service credit in more than one participating retirement system to be eligible to combine their service credits in order to satisfy the length of service requirements used to determine eligibility for service retirement.

Improvements to the System (Last 15 Years)

September 2009

The City's contribution rate was increased from 18.25% to 18.63% to fund APRS participation in Texas Proportionate Retirement Program.

October 2010

The City's contribution rate was increased from 18.63% to 19.63% .

October 2011

The City's contribution rate was increased from 19.63% to 20.63% .

October 2012

The City's contribution rate was increased from 20.63% to 21.63% .

Interest Paid On Member Contributions
(15 year History)

Year	Interest Paid
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007*	5.0%
2006	0.0%
2005	0.0%
2004	2.0%
2003	2.0%
2002	2.0%
2001	4.0%
2000	5.0%

*Beginning in 2007, interest is only paid on vested members accounts

How is the amount of interest paid on retirement contributions determined?

The Board of Trustees annually determines the amount of interest paid on vested 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 only to vested members' (10 yrs. Of service) accounts 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 \$50,000 on January 1, and on December 31, you had \$60,000, your interest for that year would be based on the \$50,000 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.

Cost of Living (Ad Hoc) Adjustments
(15 Year History)

Year	COLA Paid
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007	1.0%
2006	0.0%
2005	0.0%
2004	1.75%
2003	3.0%
2002	1.5%
2001	3.0%
2000	3.0%

How is the amount of cost of living adjustments for retirees determined?

The Board of Trustees annually determines the amount of cost of living adjustment (Ad Hoc) to pay retirees, taking into consideration the performance of the Fund's investments, consumer price index (CPI) 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, making sure the liabilities can be amortized within acceptable accounting and governmental guidelines.

Cost of living adjustments are paid at the beginning of the calendar year, of the year proceeding the year approved. A member who retires between January 1, and December 31, in the year the cost of living adjustment is approved, will see their amount paid prorated for the number of months the retiree was actually retired.

Comparative Statement of Membership

	2014	2013
ACTIVE MEMBERS		
Total Number of Members, January 1	1,732	1,709
Add: New Members	128	88
Deduct: Members Terminated	(27)	(24)
Deceased Members	(6)	(1)
Members Transferred to Retiree System	(50)	(40)
TOTAL ACTIVE MEMBERS, DECEMBER 31	<u>1,777</u>	<u>1,732</u>
VESTED TERMINATED		
TOTAL VESTED TERMINATED MEMBERS, DECEMBER 31	<u>27</u>	<u>26</u>
RETIREE MEMBERS		
Total Number of Members, January 1	683	648
Add: Retired Members Transferred to System	50	40
Deduct: Retired Members Deceased	(6)	(5)
TOTAL RETIRED MEMBERS, DECEMBER 31	<u>727⁽¹⁾</u>	<u>683⁽²⁾</u>
TOTAL APRS MEMBERS DECEMBER 31	2,531	2,441

1. Includes 30 alternate payees of QDROs and 0 new survivor benefits
2. Includes 27 alternate payees of QDROs and 0 new survivor benefits

BENEFIT GUIDE

SECTION

INTRODUCTION

While this guide sets forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the guide and the statute, 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 13% 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 21% (21% effective 10/1/2012, 20% effective 10/1/2011) of every police member's base pay bi-weekly and 21% (21% effective 10/1/2012, 20% effective 10/1/2011) 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).

In addition, 2009 legislation provided that the City of Austin contribute additional costs incurred by the System for participating in the proportionate retirement program as set forth in Chapter 803 in the Texas Government Code (the "PRP"):

1. Increasing contribution rates to 21.63% from 20.63% for periods following October 1, 2012
2. Increasing contribution rates from 20.63% to 19.63% for periods following October 1, 2011, and
3. Subsequent adjustments to the City's contribution rate following each 5 years of PRP participation with adjustments to be based on experience studies performed by the system's actuary.

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 seven 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.
***Effective 2/1/16 new members purchase is 100% full actuarial cost.**
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. ***Cannot be used in Deferred Retirement Option Plan.**

8. Deferred Retirement Permissive Service- Eligible service of up to 60 months at 20 years of service credit or more with a delayed monthly annuity, excluding pre-membership military service, at full actuarial present value cost. ***Cannot be used in Deferred Retirement Option Plan.**

PROPORTIONATE SERVICE

Program for the benefit of members of participating public retirement systems. A member of two or more of the following participating retirement systems may be eligible for proportionate benefits:

- Austin Police Retirement System
- City of Austin Employees' Retirement System
- The El Paso City Employees' Pension Fund
- El Paso Firemen and Policemen's Pension Fund
- Employees Retirement System of Texas (ERS)
- Judicial Retirement System of Texas I & II
- Texas Municipal Retirement System (TMRS)
- Texas County and District Retirement System (TCDRS)
- Teacher Retirement System of Texas (TRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to combine that service in order to satisfy the length of service requirements used to determine eligibility for service retirement. Retirement benefits will be paid separately from each system, based only on the service performed in that system. Military service purchases may only be used once in determining the amount of the member's combined service credit. A member of a participating retirement system who forfeited membership service by withdrawing their deposits may re-establish credit for service earned in another participating proportionate retirement system. A member must contact the system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. A member should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

Basic retirement benefit Life Annuity are calculated using the following formula. Monthly annuity check would begin at the date the member would have been eligible for normal retirement.

	\$6,250	
	Average monthly salary for highest 36 months of last 10 years of contributing service	
23	x 3.2% =	\$4,600
Total years of membership		Basic monthly benefit amount service

*3.2% 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 (RETRO DROP)

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, member's monthly retirement option is computed as if the member retired on the RETRO DROP benefit computation date. The RETRO DROP benefit balance will include 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. * **Permissive Service Credit is not allowed for this DROP program.**

***Effective 4/1/2015 this Retro DROP program will only apply to members with 23 years of actual service (including purchased academy service) on or before March 31, 2015.**

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.

FORWARD DEFERRED RETIREMENT OPTION PLAN (Forward DROP)

The forward option one-time benefit whereby active police officers can choose to retire, continue working for and drawing a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement system. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military service credit and permissive service credit, as of the date of his or her election to participate in the Forward DROP. The maximum amount of service to be used in computation of the Forward DROP after normal service retirement of 23 years, excluding pre-membership service credit and permissive service credit is sixty (60) months.* **Permissive Service Credit is not allowed for this DROP program.**

A member's election to participate in the Forward DROP is irrevocable. During the period that a member participates in Forward DROP, retirement contributions shall be made to the member's Forward DROP account. The Forward DROP benefit balance will include the accumulated monthly benefits during Forward DROP participation 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 Forward DROP receives a one-time lump sum benefit with a reduced monthly retirement benefit at termination of employment date.

If a member electing to participate in Forward DROP decides to continue employment covered by the Act governing the System after her or she has participated in Forward DROP for sixty (60) months, no further annuity deferrals or member contributions shall be deposited to the members Forward DROP account after that sixty month period. In that event, the member shall continue making all contributions required under the Act governing the System, however, these contributions will not be used in the pension benefit calculation and the member will not receive any further service credit for time worked. ***Effective 7/1/2015 new DROP members interest rate will be same as PROP.**

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.

DROP BALANCE OPTION PLAN or (PROP) Post Retirement Option Plan

Instead of receiving a single lump-sum payment, a member may elect to receive partial payments from the member's RETRO or Forward DROP account by transferring the funds into a PROP, 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 or Forward 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 or Forward DROP funds in the PROP account shall be credited with earnings or losses of the system while they 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.

PROP MONTHLY ANNUITY DEFERRAL

The PROP Monthly Annuity Deferral plan allows retiring or retired members to defer receipt of a minimum of \$250 of their monthly annuity in order to defer the taxation of the deferred payments and to have the monthly benefits accumulate for later disbursement and later taxation in a Post Retirement Option Plan account. Special rules provide for two (one-time) period of deferrals in a calendar year that cease at the earliest of: (1) the date payment on the monthly benefit is requested, or (2) the IRS required age of 70 ½ is reached.

Making an election to defer a member's monthly annuity into PROP or revoking that election can have adverse tax consequences in some situations, especially if the member terminated active service before the year in which he or she attained age 50. Therefore, the election should not be made until the member has discussed the matter with a professional financial planner or tax advisor who is knowledgeable about the tax treatment of distributions from qualified tax plans.

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 an active 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 an active 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 benefit computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date, based on average final compensation and creditable service at date of disability retirement without reduction for early retirement. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or the 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 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.

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 designated beneficiary may elect to receive payment under Option V, 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 \$10,000 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, dental and vision 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 www.ci.austin.tx.us/benefits/enrollment or One Texas Center, 505 Barton Springs Rd., Suite 600, P.O. Box 1088, Austin, Texas 78704 or by phone at (512) 974-3284.

LEAVING THE SYSTEM

DEFINITION OF A VESTED MEMBER

When you declare participation in the Texas Proportionate Retirement Program or have attained ten years of Austin Police Retirement System 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 retirement contributions for vested 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 to the member's benefit.

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 you wish, when you want to receive your retirement contributions and where you want them to be sent. Your choices are:

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. Have your contributions refunded to you the end of the calendar year. By doing this, you may 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. 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. Have your contributions left in the System 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 may 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.

5. Have your contributions left in the System if you are eligible or expect to become eligible to participate in the Proportionate Retirement Program.

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 21.63% 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 414(d) 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 VESTED CONTRIBUTIONS

The Board of Trustees annually determines the amount of interest paid on vested 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, the Benefit Services Manager 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 www.ausprs.org or (512) 416-7672 and their address is 2520 South I.H. 35, Suite 100, Austin, Texas 78704.

NOTES:

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

P.O. Box 41089
2520 S. IH-35
Suite 100
Austin, TX 78704

Phone: 512-416-7672
Fax: 512-416-7138
Website: www.ausprs.org