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Pension Review

SPECIAL 2007 ISSUE

Pension Protection Act of 2006 Is In Effect

The Pension Protection Act of 2006, was signed into law by the President on August 17, 2006. This bill provides two provisions that are of great interest to Public Safety Officers within the Austin Police Retirement System.

The first provision, which begins in 2007, allows Public Safety retirees a \$3,000 tax exemption on Health Care Cost to be deducted from their Adjusted Gross Income under qualified circumstances. The IRS has deemed that self insured health insurance plans are not eligible for this tax credit. APRS recently learned from the City of Austin that the United Healthcare medical plan is not qualified for the tax

exemption do to its self insured status.



“APRS recently learned from the City of Austin that the United Healthcare medical plan is not qualified for the tax exemption do to its self insured status. However, the BlueCross Blue Shield HMO plan and both dental plans qualify for this health care cost tax exemption.”

This IRS ruling is currently under appeal. However, the BlueCross Blue Shield HMO plan and both dental plans qualify for this health care cost

tax exemption. Because this option must be elected by each retiree, APRS will continue to monitor this IRS ruling and appeal and will notify our membership of any changes.

The second provision, which took effect upon the enactment of the legislation, allows active Public Safety Officers who retire at age 50 to avoid the 10% early distribution penalty on any lump sum payment distribution from a governmental defined benefit plan at the time of retirement. However, the normal 20% withholding rules still apply. The traditional rollover into a Tax Qualified Plan (IRA) still avoids this 10% penalty unless withdrawn before age 59 1/2.

Service Purchases Costs To Increase

The Police Retirement System sold \$670,935.34 of service credit to 102 eligible police officers in 2006 for Cadet, Forfeited and Pre-Membership Military Service using the deferred compensation 457 program at Great-West Benefits Corp. IRS rules allow the use of these direct fund rollovers from your tax deferred accounts to purchase service credit in your retirement program for eligible service credit.

There are five service purchase credit options:

*Uniform Leave of Absence (Military)

*Pre-membership Military Service

*Forfeited Service

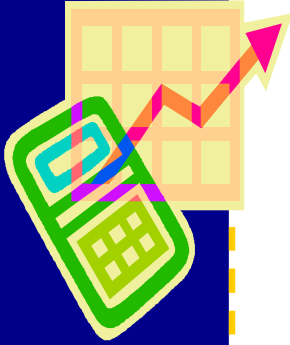
*Permissive Service

*Cadet Service

The factors used in calculating the cost to purchase credit for Pre-Membership Military and Permissive Service have been updated as of January 1, 2007 due to a change in the assumed mortality rates. The adjustment of these factors resulted in an increase of approximately 1-2% of the cost for you to purchase

your Pre-Membership Military and Permissive Service. Factors for all service purchases will be adjusted again in September and in December 2007 when new legislation and the multiplier increase to 3.2% takes effect. This increase has yet to be determined. To avoid any increase in cost, you must purchase your service time prior to August 31, 2007.

If you think you may be eligible to purchase any of these options, please contact Michelle Waller at the Pension Office at (512) 416-7672 for a quote and verification of eligibility.



FACT:

**SERVICE CREDIT
CAN BE
PURCHASED
USING A
ROLLOVER FROM
YOUR DEFERRED
COMPENSATION
457 ACCOUNT**



New Forward DROP Option

An amendment to the Austin Police Retirement system Deferred Retirement Option Plan (DROP) rules will become effective April 1, 2007 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 (earning 5% interest) on their behalf at the retirement system. In order to be eligible to elect FORWARD DROP, a Member (regardless of age) must have completed at least 23 years of creditable service in the System, 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. A Member's election to participate in FORWARD DROP is irrevocable. The maximum period of time during which a Member may participate in FORWARD DROP is sixty (60) months, beginning on the FORWARD DROP Participation Date. During the period that a Member participates in FORWARD DROP, retirement contributions shall be made to the Member's FORWARD DROP account .

If a Member electing to participate in FORWARD DROP decides to continue employment covered by the Act governing the System after he or she has

participated in FORWARD DROP for sixty (60) months, no further annuity deferrals or member contributions shall be deposited to the Member's FORWARD DROP account after the expiration of 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.

APRS is encouraging members who are interested in this program to speak with a financial planner and/or tax attorney to be sure this program fits your personal and financial needs.

Financial Planning Seminar

Reservations are now being accepted for the Spring 2007 pre-retirement seminar that will be held on March 9, 2007 at the Learning and Resources Center (LRC) in the Auditorium.

Anyone wishing to attend may contact the Pension Office at (512) 416-7672 and let a staff member know you would like to sign up.

A \$10 per person refundable reservation fee must be on file with the Pension Office in order for your seat to be reserved.

During this seminar, APRS plans to spend a great deal of time explaining the new retirement options in detail. This

includes the new PROP Monthly Annuity Deferral option as well as the upcoming Forward DROP option. We encourage all members who have shown interest in these new special options to attend this seminar.

Seminars of this type usually feature speakers from the Health Insurance

Benefits division of the City of Austin Human Resources Department, Austin area Financial Planners, a local accountant, a representative from the local Social Security office, a local Trust Attorney and your retirement specialist from the Pension Office.

The seminar will begin at 9:00 a.m. and will end at 3:30 p.m. Lunch will be served.

Any officer who has not attended a previous Financial Planning Seminar will receive 8 hours of special assignment from the Police Department.

"During this seminar, APRS plans to spend a great deal of time explaining the new retirement options in detail. We encourage all members who have shown interest in these new special options to attend this seminar."

APRS To Unveil New Website

APRS recently hired White Lion Internet Agency to redevelop the www.ausprs.org website.

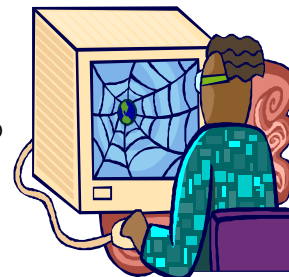
In February 2007, APRS will unveil this new website. We encourage all members of the System to visit the new site as it will contain much more extensive information for both

retired and active members.

Active members wishing to access the Benefit Calculator will have to register for a username and password even if they had registered with the old site.

APRS is very proud of its new site and would like to thank White Lion

Internet Agency for helping APRS to streamline its information and keep us on the cutting edge of web technology.



Keep Us Updated!

The system's Attorney requests that all members update their addresses, record release forms, health insurance forms, beneficiary statements and wills as often as necessary to reflect lifestyle changes such as a death or change in marital status and to help us stay current with your records.

It is very important that the Pension Office have updated forms on file every time there is any type of change

in order to serve you better.

Members can go to www.ausprs.org to obtain these forms. All forms can be mailed to the Pension Office at P.O. Box 41089, Austin, TX, 78704 .

When updating your information, please include your name, phone number, date, social security number and signature for verification purposes.

Because identification theft is the fastest growing category of crime in

the US, protecting the privacy of your personal information is one of our major responsibilities. Every employee at the Pension Office is responsible for protecting your records and information in our possession.

Please do not become offended if asked to identify yourself on the phone or if asked for a call back number to reach you and never feel embarrassed about requesting the same from the APRS staff.

**City of Austin Police
Retirement System**

PO BOX 41089
Austin, TX 78704
Phone: (512) 416-7672
Fax: (512) 416-7138
www.ausprsr.org

Staff:
Sampson Jordan, Pension Administrator
Stephanie Willie, Assistant Pension Administrator
Gabriella Powers, Financial Manager
Michelle Waller, Benefit Services Specialist
Shalonda Brown, Administrative Secretary

**AUSTIN POLICE RETIRED OFFICERS
ASSOCIATION**

Meeting Dates for 2007

January 10 March 14

May 9 July 11

September 12 November 14

Meeting Time: 12:30 p.m.

Location: Elks Lodge, 700 Dawson Rd.

Congratulations to our Recent Retirees!!

Name	Retirement Date	Years of Service
David Romo	7/31/2006	25
Thomas Risher	7/31/2006	29
Michael McDonald	8/31/2006	23
Stephen Pulliam	8/31/2006	23
Carlos Casas	8/31/2006	20
Rick Blackmore	8/31/2006	25
Deborah Ledesma	9/30/2006	28
Kelli Moses	10/31/2006	23
James Neilson	11/30/2006	30
Harold Campbell	12/31/2006	20
Michael Sheffield	12/31/2006	28
John Neff	12/31/2006	29
Christopher Hearon	12/31/2006	27
Hector Arredondo	12/31/2006	28
Mary Ann Hueske	1/31/2007	23
Frederick Toler	1/31/2007	25
Rhonda Clifton	1/31/2007	23
Wayne Simer	1/31/2007	27
Charles Black	1/31/2007	28

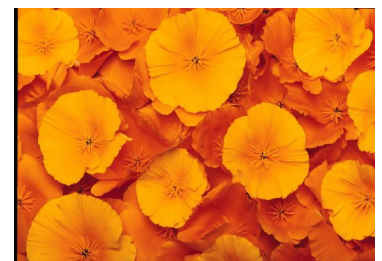
Annual Statements Mailed

The Austin Police Retirement System (APRS) year-end 2006 membership Annual Statements have been mailed. The statements were prepared to show members the number of years of creditable service on file and, the dollar amount of contributions and interest on deposit.



Recent Deaths

The Austin Police Retirement System would like to extend our most heartfelt sympathy to the friends and family of Robert Polivka and William Horn. Retiree Robert Polivka passed away on August 20, 2006 and active police officer William Horn passed away on October 28, 2006. May the friends and families of these two men be comforted in their memories.



2007 Schedule of Regular Board Meetings:

Wednesday,
January 17, 2007

Wednesday,
February 21, 2007

Wednesday,
March 21, 2007

Wednesday,
April 18, 2007

Wednesday,
May 16, 2007

Wednesday,
June 20, 2007

Wednesday,
July 18, 2007

Wednesday,
August 15, 2007

Wednesday,
September 19, 2007

Wednesday,
October 17, 2007

Wednesday,
November 21, 2007

Wednesday,
December 19, 2007

Meeting time: 11:30 a.m. unless otherwise noted

Retiree COLA and Interest on Contributions

At the Regular Board Meeting on January 17, 2007, the System's actuary informed Trustees that he could not recommend providing any Retiree Cost of Living Adjustment Increase or Interest on Member Contributions to be paid for year end 2006.

State law requires actuarial approval of any increases and, in order for the actuary to approve an increase, the System must be under 30 years of unfunded actuarial accrued liability (UAAL). Although your retirement system remains one of the healthiest in the State, the System's actuary was unable to approve any such increase due to the fact that APRS has a 38 year UAAL as of December 31, 2005.

While our Board regrets to inform you of this, they ask you to keep in mind that the

financial stability of your System is very sound and future increases are on the way.

"This multiplier increase will take effect in December 2007 and will result in a 6.6% increase for retirees on their December 2007 annuities!"

In fact, active APRS members recently voted to increase their contributions by 4%. The two main purposes of this increase were: (1) To increase the multiplier for both active and retired members, and (2) To strengthen the System by reducing the UAAL amortization period to approximately 33 years in 2006 in order to provide for future COLA increases.

This increase allowed the System's actuary to approve a multiplier of 3.2% for both active and retired members.

This multiplier increase will take effect in December 2007 and will result in a 6.6% increase for annuitants (retired police officers, surviving spouses of retired officers and disability retirees) on their December 2007 annuities!

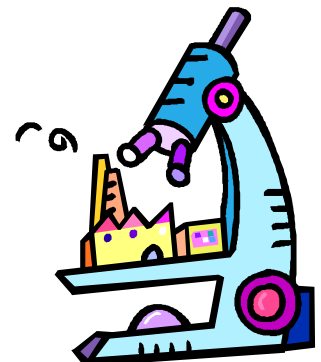
The increase in contributions also allowed the System's actuary to project a decrease in the UAAL to 26.1 years in 2007 and 23.6 years in 2008. Assuming the investment return on assets is 8% or greater, APRS annuitants can expect the System's actuary to recommend a COLA in 2008.

2006 Auditor and Actuary Hired

The Board of Trustees has, once again, hired Arturo Montemayor & Associates to engage in the 2006 year-end audit of the APRS Financial Statements.

They have also commissioned Rudd & Wisdom, Inc. to engage in the 2006 year-end actuarial valuation.

These audits begin in April and end on June 30, 2007.



2006 Year-End Performance Report



The 2006 year-end performance report shows APRS asset size increased 17% over last year with a total year-end asset value of \$456 million (unaudited). The investment return was 16% and produced a premium of 3.75% above the median retirement plan. In 2006, APRS continued to invest across a broad spectrum of diversified

assets by adding an international real estate fund, a hedge fund and another energy fund, while reducing the domestic US small cap equities and bond allocation to 5%. The investment strategy for 2007 suggests an asset allocation mix of 40% US and international equities; 5% US bonds; 10% energy & commodity funds; 10% emerging markets; and a 35%

real estate and timber allocation to provide good returns and lower risk than the 60/40 traditional equity bond asset mix.

The Board looks forward to the year 2007 and another solid performance return while consistently remaining fully diversified.

If approved by the 80th Texas Legislature and signed into law by the Governor, APRS would increase the minimum death benefit payable upon the death of a member from \$7,500.00 to \$10,000.00



Austin Police Retirement Fund Actual Investment Return

Year	2002	2003	2004	2005	2006	5 yr. Avg.
Return	-6.03%	19.60%	14.00%	13.60%	16.00%	11.43%

Trustees Propose Changes to APRS Statute

The Board of the APRS has filed, with Representative Dawna Dukes, legislation amending the statute 6243n-1 in the 80th Texas Legislative Session. The bill amends the following:

- Section 5.05 of the Act regarding purchase by members of "permissive service credit" (at rates which should be cost neutral to the System in the aggregate) to (1) allow the purchase by a

deceased member's designated beneficiary if there is no surviving spouse (currently, only the member or the surviving spouse may make the purchase) 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.

- Sections 6.05 and 6.07 of the Act to increase the minimum death

benefit payable upon the death of a member from \$7,500.00 to \$10,000.00.

These amendments to the APRS statute, along with a few other minor changes in language, would become effective and enacted into law on September 1, 2007 if approved by the 80th Texas Legislature and signed into law by the Governor.