



CITY OF AUSTIN POLICE RETIREMENT SYSTEM

2020 Annual Report

*"To serve the APRS membership and protect the retirement benefits
for the past, present and future members of the System"*

TABLE OF CONTENTS

Introductory Section..... 1

 Letter to Members.....2

 Public Pension Standards Award Board of Trustees.....4

 Board of Trustees5

 Organizational Chart.....6

 Key Professional Service Providers.....7

 Investment Managers8

Financial Section10

 Investment Overview by System Consultant 11

 Independent Auditors’ Report 14

 Management Discussion and Analysis 16

 Statement of Fiduciary Net Position 23

 Statement of Changes in Fiduciary Net Position 24

 Notes to Financial Statements 25

 Supplemental Schedule: 2020 SB322 Fee Reporting 53

 Disclosures in Accordance with GASB Statement No. 67 Required Supplementary Information..... 54

Actuarial Section59

 Actuarial Valuation as of December 31, 2020 60

Historical Information and Benefits Section..... 117

 Changes in Plan Provisions..... 118

 Interest Paid on Member Accounts 122

 COLA’s Paid to Retirees and Beneficiaries 123

 Comparative Statement of Membership..... 124

 Summary of Plan Benefits..... 125

INTRODUCTORY SECTION

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, 2020.

The 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.

The annual report is divided into the following sections:

- The Introductory Section provides basic information about the organization.
- 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 & Benefits Sections contain highlights of historical benefit changes, a comparative statement of membership over the last two years and the membership benefit guide.

Montemayor Britton Bender PC, the System's independent auditor, issued an unqualified opinion on the System's financial statements. The 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 2020 actuarial valuation was performed by Gabriel, Roeder, Smith & Company (GRS). The Actuarial Valuation Report indicates that the funding ratio (assets compared to liabilities) is 58.6 percent, and the period to amortize unfunded liabilities is 30 years.

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. We appreciate your support and 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 System.

Sincerely,



Tyler Link, Chairman
Board of Trustees



Pattie Featherston
Executive Director



Public Pension Coordinating Council

***Recognition Award for Administration
2020***

Presented to

Austin Police Retirement System

In recognition of meeting professional standards for
plan 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

Board of Trustees

Police Member Det. Tyler Link, Chair

Retired Police Member Ret. Sgt. Keith Harrison, Vice Chair

Police Member Sgt. Scott Askew

Police Member Sgt. Michael Cowden

Police Member Sgt. Thomas Hugonnett

Police Member Cpl. Nicholas Moore

City Member City CFO Ed Van Eenoo

City Member City Council Member Kathie Tovo

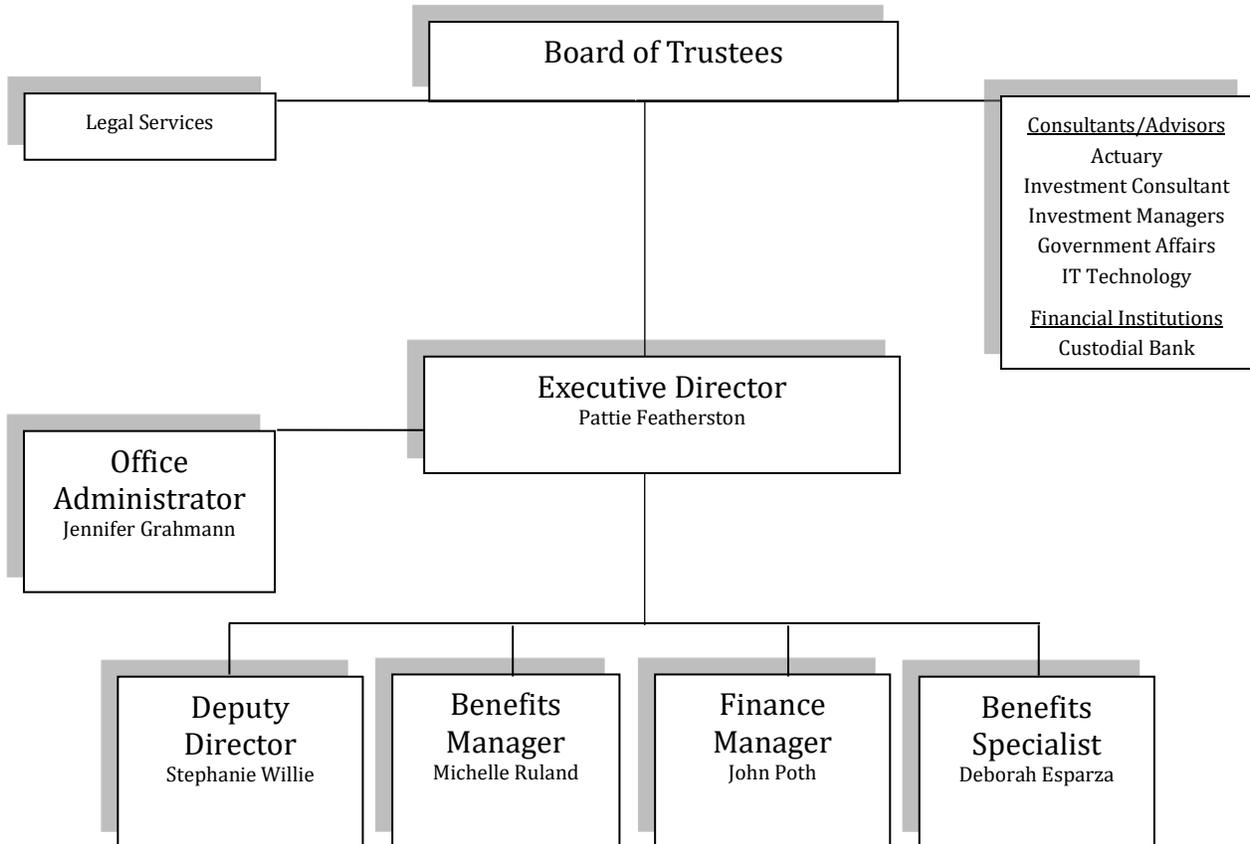
City Member City Treasurer Belinda Weaver

Citizen Member Mr. Chesley Wood

Retired Police Member Ret. Lt. Carl Zimmerman

Board composition reflects Trustees as of 12/31/2020.

Organizational Chart



Key Professional Service Providers

Custodian Bank

The Northern Trust Company, Chicago, Illinois

Investment Consultant & Performance Evaluator

AndCo Consulting, Orlando, Florida

Actuary

Gabriel, Roeder, Smith & Company, Dallas, Texas

Auditor

Montemayor Britton Bender PC, Austin, Texas

Legal Counsel

Chuck Campbell, Jackson Walker, L.L.C., Austin, Texas

Investment Managers

Domestic Equity

Baird Investment Management, Milwaukee, Wisconsin
Kennedy Capital Management, Inc., St. Louis, Missouri
Northern Trust (NTGI Russell 3000 Index Fund), Chicago, Illinois
Nuance Investments, Kansas City, Missouri

International Equity

Dreihaus International Securities, LLC, Chicago, Illinois
Thompson, Siegel & Walmsley, LLC, Richmond, Virginia
WCM Investment Management, Laguna Beach, California
Wellington Management Co. Boston, Massachusetts

Other Equity

Excelsior Investors, LTD, Dallas, Texas
Franklin Park Associates, LLC, Bala Cynwyd, Pennsylvania
Sail Capital Partners, LLC, Irvine, California
WR Huff Energy Fund, LP, Morristown, New Jersey

Total Fixed Income

Orleans Capital, Mandeville, Louisiana
PIMCO, Newport Beach, California

Other Fixed Income

Benefit Street Partners (Providence Debt Fund), New York, NY
Capital Point Partners, Houston, Texas
LBC Credit Partners, Inc., Philadelphia, Pennsylvania

Multi Asset Class

BlackRock, Inc. New York, New York

Real Estate

AEW Capital Management, LP, Boston, Massachusetts
Apollo Global Management (India Property Fund), LLC, New York, New York
ARES Management, LLC (VEF Advisors), New York, New York
Avison & Young, LLC (Gainesville Property), Atlanta, Georgia
Bentall Green Oak (Green Oak US III), New York, New York
Brookfield Asset Management, Inc., New York, New York
Edison Investments, Inc., Wichita, Kansas
Morgan Stanley (Prime Property), New York, New York
Rocksprings Capital (JM Texas Land Funds), Houston, Texas

Timber

Timberland Investment Resources (Capital Timberland Investments), Atlanta, Georgia
Domain Capital Group (Domain Timber Advisors), Atlanta, Georgia

FINANCIAL SECTION

Investment Overview

Prepared by: AndCo Consulting, Investment Consultant to the Board

Domestic equities defied expectations in 2020 by ending the year at record highs. Global stock market performance demonstrated resilience during a volatile year that included a pandemic lockdown induced recession, a severe bear market and a contentious presidential election. Massive government stimulus measures and a rapid development of vaccines helped calm the markets even as restrictions aimed at curbing the spread of COVID-19 forced the economy into the deepest recession since the Great Depression. For the year US equities gained 18% as measured by the S&P 500 while foreign developed markets gained 8% and emerging markets gained 18%. In addition to the \$2 trillion CARES Act in March and the \$900 billion US government stimulus package in December, the Federal Reserve cut interest rates 150 basis points in March. The Fed's actions brought the lower range of its target interest rate to zero for the first time since 2015. A sharp flight to the safety of US government bonds and the resulting declining interest rates boosted the US bond market which gained nearly 8% as measured by the Bloomberg Barclays Aggregate Bond Index.

US stocks suffered the sharpest bear market in history in the first quarter with the S&P declining 34% in 23 trading days from its peak on February 19th, through March 23rd, only to rally 70% through year-end. Small cap stocks were even more volatile with the Russell 2000 Index recording its best (Q4) and worst quarters (Q1) in history and ultimately finished up 20% for the year. The market performance was led by Consumer Discretionary stocks which gained 48% for the year thanks to strong stock performance from companies such as Amazon and Tesla (which gained 743% and was added to the S&P 500 in December). The Technology sector also continued to perform well, gaining 47% with impressive results from Apple, Microsoft and Facebook. Performance varied dramatically by sector, especially with Energy, declining 33% as the significant reduction in travel reduced the demand for oil. The Financials and Real Estate sectors also delivered negative returns of 2%, and 5%, respectively for 2021. Small caps performed similarly to large caps for the year as a result of having their best quarter on record during the fourth quarter, gaining 31%. Within small caps, Healthcare was the driving force for performance, up over 47% followed by Technology and Consumer Discretionary both up 38% and 32%, respectively for the year.

Non-US equities rose in 2020 also supported by massive global government stimulus measures and rapid vaccine deployment, but not quite enough to match the strength of performance in the US markets. Developed markets, measured by the MSCI EAFE, gained 8% for the year while emerging markets equities, measured by the MSCI Emerging Markets Index, gained 18%. The US dollar fell against most foreign currencies which enhanced international equity performance. Foreign indices continue to lag due to their

higher weights in financial services, industrials, and consumer stocks versus US benchmarks which have larger weightings in the consumer and technology areas.

Government bonds advanced for the year as central banks around the globe cut interest rates and ramped up stimulus programs to counter the impact of the pandemic. The Federal Reserve slashed rates to near zero in March, launched a series of emergency lending programs and expanded an aggressive asset purchase program. Fears regarding the impact the pandemic resulted in interest rates across the yield curve declining to historic lows in August and investors benefited from rising bond prices. Pandemic fears initially lead to credit spreads widening, especially in non-investment grade bonds, as investors fled to the safety of US government bonds and shunned all default risk. However, as the Fed's actions took hold and markets recovered, investment grade corporate bonds and below investment grade bonds eventually delivered significant returns for 2020.

Amidst the backdrop of strong market returns, the Austin Police Retirement System investment portfolio returned 12% for the full year of 2020. The portfolio generated a net gain on investment of \$80 million which brought the total portfolio market value to \$937.1 million at year end, on a time-weighted basis.

The Equity allocation, which represents 70% of the total Fund, was the main driver of portfolio returns as equities gained 15.8% for the year. US equities (51% of the Fund) generated a gain of 19%, while the international equity allocation (15% of the Fund) generated a gain of 13%.

The Fixed Income allocation (12% of the Fund) posted a return of 3.3% which underperformed the 7.5% return of the broad US bond market for the year. Underperformance was centered on the portfolio's global bond allocation which underperformed in the first six months of 2020. The underperformance led to a manager change within the global bond allocation in the third quarter. The private credit allocation in the portfolio also saw slightly negative returns for the year due to the impact of COVID restrictions on US small business. Given the continued low return outlook for bonds the allocation remains low.

The Real Estate allocation (11% of the Fund) generated a negative return of 0.3% due to price adjustments resulting from the impact of the pandemic, especially in hospitality and office properties. The fund's open-end core commingled fund (61% of the real estate portfolio) generated a positive return of 1.3% for the year. Legacy real estate investments provided mixed results while newer investments in private real estate funds remain early in their life cycles. The Timber allocation (2% of the Fund) posted a small loss of 0.3% in

2020 and that portfolio continues to be reduced through significant property sales. The Other (Private) Equity allocation (4% of the Fund) declined 7.8% in 2020 due to the mark downs of shale oil related investments. The portfolio's Multi Asset allocation (4% of the Fund) gained 6.6% for the year. Multi asset investment gains were driven by dividend paying global equities, traditional fixed income securities as well as additional sources of income from various debt strategies.

In 2021, global financial markets continue to rally as enormous stimulus measures and accelerating COVID-19 vaccination distribution raise optimism for a strong economic recovery. Rising interest rates and pent-up demand for travel and leisure activities drove value stocks, which have outperformed growth by the widest margin in nearly two decades. US and international equities continue to record new highs while fears of potentially higher inflation have pushed interest rates higher across the board. The strength and length of the economic recovery, coupled with continued stimulus and low interest rates, will be the key factor in the broad markets' performance for all asset classes in 2021.

The Board of Trustees remains 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 current actuarial return assumption of 7.25%.



Montemayor 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 31 December 2020 and 2019, 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.

2110 BOCA RATON DRIVE
BUILDING B, SUITE 102
AUSTIN, TEXAS 78747
PHONE: 512.442.0380
FAX: 512.442.0817

www.montemayor.team



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of 31 December 2020 and 2019, 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 16–22 and 53–58 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.

Montgomery Britton Bender PC

16 July 2021
Austin, Texas

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 2020 and 2019. 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 \$80.4 million in 2020, and increased by \$139.3 million in 2019. The increase in 2020 was primarily due to positive market and economic indicators increasing net investment income. The increase in 2019 was primarily due to positive market and economic indicators increasing net investment income.
- Contributions increased in 2020 by \$1.50 million and increased in 2019 by \$1.35 million. The increase in 2020 is primarily due to an increase in service credit purchases because of increasing retirements. In addition, but less impactful, the City contribution rate increased from 21.313% to 21.737% in Q4 due to state law, which requires a periodic actuarial assessment of the cost of the Proportionate Retirement Program and further requires the City pay for the cost. The increase in 2019 is primarily due to an increase in membership and service credit purchases.
- The amount of benefits paid to retired members and beneficiaries, including refunds to terminating employees, increased by \$10.64 million in 2020 and increased by \$2.34 million in 2019. The increases in 2020 and 2019 are due to an increase in the number of retirements and refunds.
- The System's rate of return on investments for the year ended December 31, 2020 was 11.99 percent gross of fees and 11.65 percent net of fees, on a time-weighted basis, as compared to 21.23 percent gross of fees and 20.92 percent net of fees for the year ended December 31, 2019.
- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2020, the date of the most recent actuarial valuation, the System's funded ratio of actuarial assets as a percentage of actuarial liabilities is 58.6 percent, as compared to 58.4 percent at December 31, 2019.

See independent auditor's report.

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 assets at fair market 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 the current year additions to and deductions from the plan. These two statements report the system's Net Position, the difference between assets and liabilities, which is one way to measure the Systems' financial position.
- **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 of the last three years and summarizes the changes in Fiduciary Net Position for the year.

Summary of Fiduciary Net Position December 31, 2020, 2019 and 2018

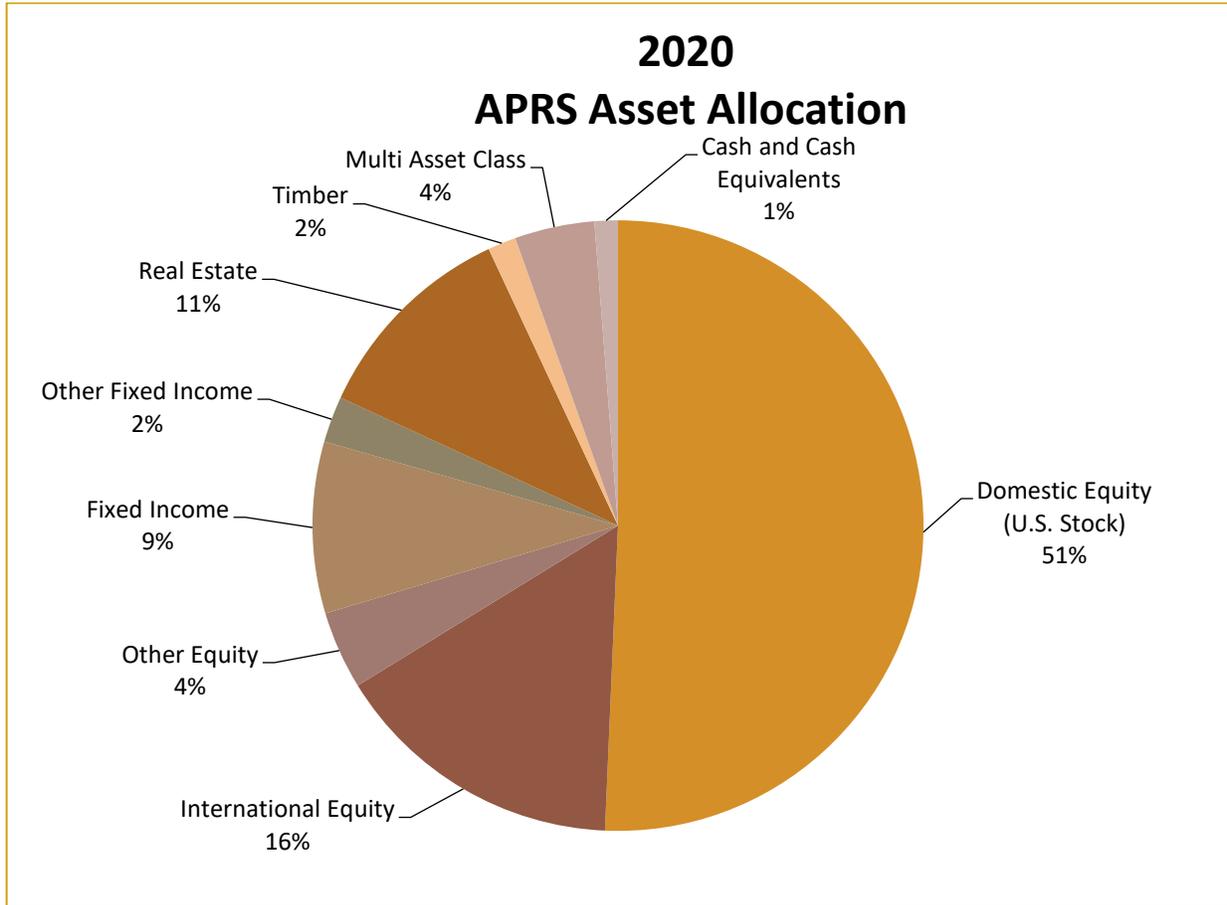
| <u>Assets</u> | 2020 | 2019 | 2018 |
|---|----------------|----------------|----------------|
| Receivables | \$ 2,244,105 | \$ 2,291,153 | \$ 2,022,287 |
| Investments ¹ | 934,681,170 | 856,430,883 | 717,316,471 |
| Fixed assets, net | 659,298 | 743,538 | 660,211 |
| Retiree Death Benefit Fund | 1,653,699 | 1,520,391 | 1,399,568 |
| Total assets | \$ 939,238,272 | \$ 860,985,965 | \$ 721,398,536 |
| <u>Liabilities</u> | | | |
| Total Liabilities | 1,011,973 | 3,146,736 | 2,878,895 |
| Fiduciary net position for pension benefits | \$ 938,226,299 | \$ 857,839,229 | \$ 718,519,641 |

¹ Assets at custodian and local operating banks (excludes RDB Fund)

The total Fiduciary Net Position increased by \$80.4 million, or 9.4 percent, to \$938.2 million at the end of 2020, compared to \$857.8 million at the end of 2019 which was an increase of \$139.3 million, or 19.4 percent from the prior year. The increase of \$80.4 million in 2020 is primarily the result of strong economic growth indicators, government stimulus measures and the Fed's actions to lower interest rates.

See independent auditor's report.

Below is a chart of the System's asset allocation percentages for the year ending December 31, 2020:

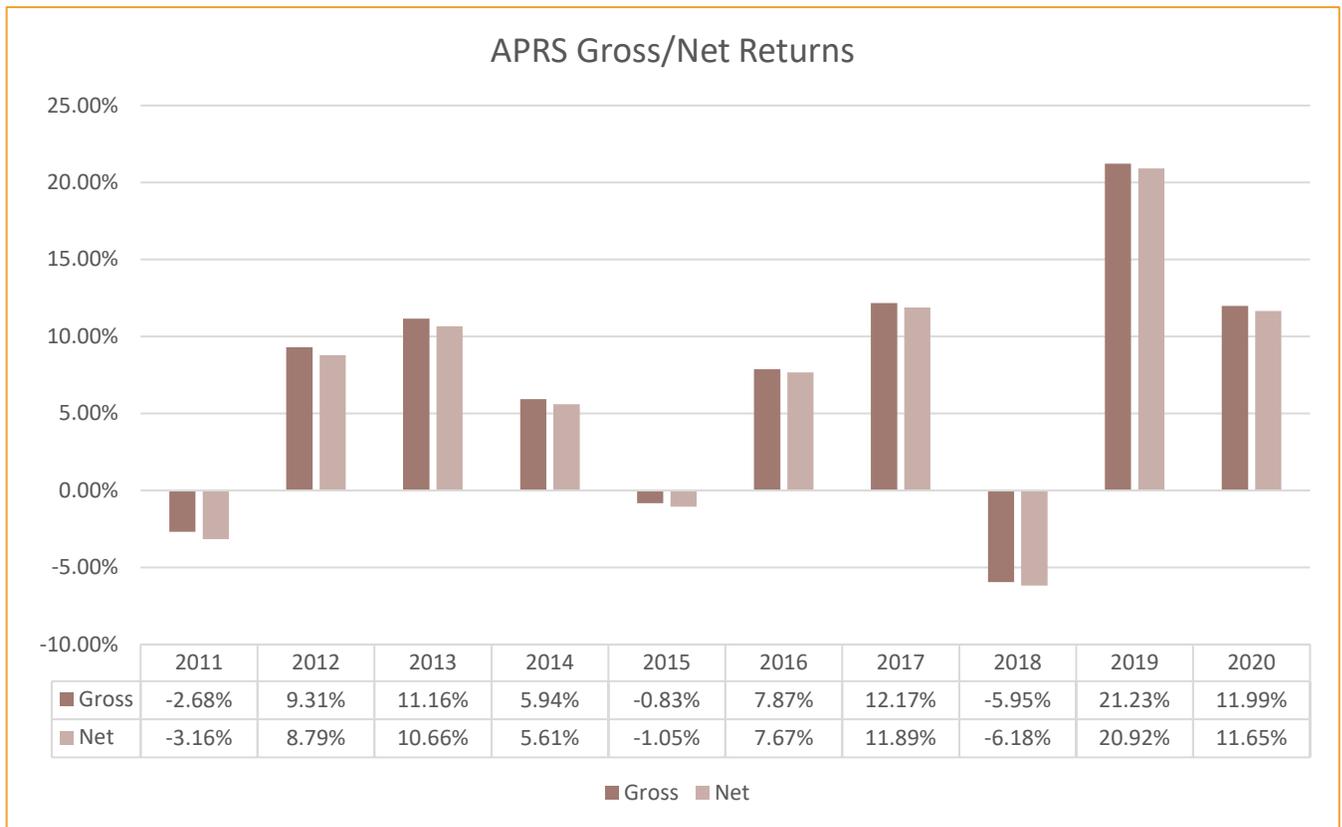


See independent auditor's report.

Investment Returns and Assumptions. The Systems’ rate of return in 2020 is 11.65 percent net of expenses. The following chart exhibits the short- and long-term gains and losses.

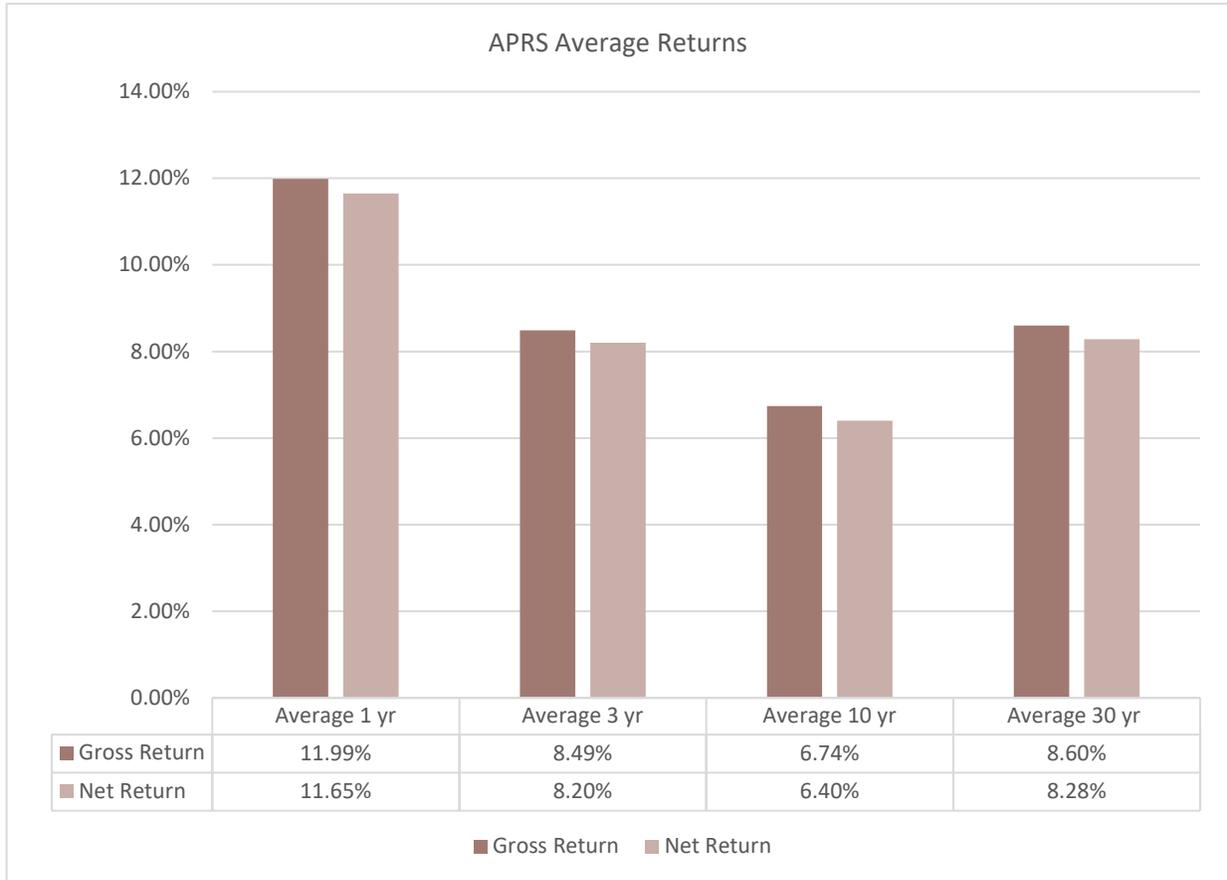
Note: Historical returns for 2000-2015 have been adjusted from previous annual reports to align with the calculations of the current investment consultant using time-weighted annualized returns.

10 Fiscal Year Returns



See independent auditor’s report.

Annualized Rolling Gross & Net Investment Returns



See independent auditor's report.

Summary of Changes in Fiduciary Net Positions

Years Ended December 31, 2020, 2019 and 2018

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

| <u>Additions</u> | 2020 | 2019 | 2018 |
|--|----------------|----------------|-----------------|
| Contributions ¹ | \$ 60,699,163 | \$ 59,196,462 | \$ 57,847,631 |
| Investment income | 100,700,036 | 149,824,566 | (41,734,039) |
| Investment expense ² | (2,313,799) | (1,881,591) | (1,832,986) |
| Net investment income | 98,386,237 | 147,942,975 | (43,567,025) |
| Other income | 187,126 | 219,732 | 168,308 |
| Total additions | \$ 159,272,526 | \$ 207,359,169 | \$ 14,448,914 |
| <u>Deductions</u> | | | |
| Benefit payments & contributions refunded ³ | \$ 76,956,288 | \$ 66,319,031 | \$ 63,982,823 |
| General and administrative expenses | 1,929,168 | 1,720,550 | 1,421,192 |
| Total deductions | \$ 78,885,456 | \$ 68,039,581 | \$ 65,404,016 |
| Net increase/decrease | \$ 80,387,070 | \$ 139,319,588 | \$ (50,955,102) |
| Fiduciary Net position beginning of year | \$ 857,839,229 | \$ 718,519,641 | \$ 769,474,743 |
| Fiduciary Net position end of year | \$ 938,226,299 | \$ 857,839,229 | \$ 718,519,641 |

¹ Includes COA Contributions, Member Contributions, Contributions Applied to Death Benefits, Contributions Applied to Proportional Retirement, Service Credit Purchases and APRS & Staff Contributions

² All direct investment expenses paid from Trust

³ Includes Retirement Annuity, PROP, DROP, Death Benefit and Refund payments

Member and City of Austin contributions for 2020 and 2019 totaled \$60.7 million and 59.2 million, respectively. The 2020 contributions represent an increase of \$1.5 million, or 2.5 percent, above 2019. The 2019 contributions represent an increase of \$1.4 million, or 2.3 percent, above 2018. The 2018 contributions represent a decrease of \$1.7 million, or 2.8 percent, below 2017.

The total net rate of return for the System's investment portfolio in 2020 was 11.65 percent, net investment expense, as compared to 20.92 percent for 2019 on a time-weighted basis.

See independent auditor's report.

Deductions. The expenses paid by the System encompass benefit payments and administrative costs. Benefit payments, comprising the vast majority of the System's expenses, include payments to retirees, beneficiaries and alternate payees, as well as refunds of member contributions. Administrative expenses support the direct operations of the System, and include employee salaries and benefits, rent, utilities, and office expenses.

In 2020, benefits paid to retirees, beneficiaries and alternate payees plus contribution refunds to terminating members were \$77.0 million, an increase of \$10.6 million over the \$66.3 million paid in 2019. The total number of retirees, beneficiaries and alternate payees increased to 1,045 in 2020 compared to 950 in 2019.

Refunds to terminating employees in 2020 increased by 39.6 percent to \$1.46 million compared to \$1.05 million in 2019. General and administrative expenses increased to 1.93 million in 2020 up from \$1.72 million in 2019. The increase is primarily to begin a selection process for a new benefit software system.

The System's directly billed investment manager fees were \$1.92 million in 2020, and have remained approximately the same since 2017.

Overall Analysis. As of December 31, 2020, the System's Fiduciary Net Position increased by \$80.4 million from the prior year. Over the three-year period ending December 31, 2020 the System's Fiduciary Net Position has increased by \$219.7 million.

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 the Executive Director, City of Austin Police Retirement System, P.O. Box 40609, Austin, Texas 78704.

Statement of Fiduciary Net Position

December 31, 2020 and 2019

| ASSETS ¹ | 2020 | 2019 |
|---|----------------------|----------------------|
| Investments, at fair value | | |
| Domestic Equity (U.S. Stock) | \$474,535,350 | \$406,776,063 |
| International Equity | 145,530,790 | 132,025,395 |
| Other Equity | 38,696,219 | 30,737,953 |
| Total Fixed Income | 85,083,454 | 85,687,474 |
| Other Fixed Income | 22,846,399 | 26,832,618 |
| Real Estate | 104,510,704 | 106,036,511 |
| Timber | 14,016,982 | 20,454,830 |
| Multi Asset Class | 39,529,494 | 37,782,947 |
| Cash & Cash Equivalents ² | 11,585,477 | 11,617,483 |
| Total Investments | 936,334,869 | 857,951,274 |
| Interest and dividends receivable | 380,305 | 710,242 |
| City of Austin retirement contributions receivable | 1,119,866 | 961,941 |
| City of Austin death benefit contributions receivable | 6,881 | 5,597 |
| Member contributions receivable | 697,510 | 598,952 |
| Proportionate retirement program contributions receivable | 39,543 | 14,421 |
| Fixed assets, net | 659,298 | 743,538 |
| Total assets | 939,238,272 | 860,985,965 |
| LIABILITIES | | |
| Less Accounts payable and accrued liabilities | 1,011,973 | 3,146,736 |
| Total liabilities | 1,011,973 | 3,146,736 |
| FIDUCIARY NET POSITION | \$938,226,299 | \$857,839,229 |

¹ Assets at custodial bank

² Includes cash assets at custodian, local operating banks & RDB Fund

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

Statement of Changes in Fiduciary Net Position

December 31, 2020 and 2019

| ADDITIONS TO PLAN NET POSITION: | 2020 | 2019 |
|---|----------------------|----------------------|
| Contributions: | | |
| City of Austin Retirement Contributions | \$35,504,822 | \$35,155,347 |
| City of Austin Contributions applied to the Death Benefit Fund | 210,259 | 206,333 |
| City of Austin Contributions applied to Proportional Retirement | 742,566 | 527,583 |
| Member (Police) Contributions | 22,108,534 | 21,878,335 |
| Service Credit Purchases | 1,941,041 | 1,261,530 |
| APRS Employer Contributions | 119,490 | 103,937 |
| APRS Employee Contributions | 72,451 | 63,397 |
| Total contributions | 60,699,163 | 59,196,462 |
| Investment income: | | |
| Net increase (decrease) in the fair value of investments | 81,662,536 | 135,342,455 |
| Interest and dividends | 19,037,500 | 14,482,112 |
| Rental and other income | 187,126 | 219,732 |
| Total investment gain (loss) before expenses | 100,887,162 | 150,044,299 |
| Investment expenses ¹ | (2,313,799) | (1,881,591) |
| Net gain (loss) from investments | 98,573,363 | 148,162,708 |
| Total additions (deletions) to Fiduciary Net Position | 159,272,526 | 207,359,170 |
| DEDUCTIONS FROM FIDUCIARY NET POSITION: | | |
| Retirement benefit payments ² | 75,402,816 | 65,155,555 |
| Death benefit payments | 90,218 | 115,616 |
| Contributions refunded to terminating employees | 1,463,254 | 1,047,860 |
| General and administrative expenses | 1,929,168 | 1,720,551 |
| Total deductions from Fiduciary Net Position | 78,885,456 | 68,039,582 |
| NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION | 80,387,070 | 139,319,588 |
| Beginning fiduciary Net Position | 857,839,229 | 718,519,641 |
| ENDING FIDUCIARY NET POSITION | \$938,226,299 | \$857,839,229 |

¹ All direct investment expenses paid from Trust

² Retirement Annuities, PROP and DROP

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 Board is composed of 11 members. Seven (7) of the Board's trustees are elected, and four (4) of the Board's trustees are appointed. The appointed positions include three (3) City of Austin officials or their designees, as well as one (1) citizen position appointed by the System Board. The seven (7) elected trustee positions are filled as described. Five (5) police officer members elected by the police officer members of the System, each of whom serve for a term of four (4) years, and two (2) retired members elected by the retired members to serve for a term of four (4) years, with the term of one member expiring each odd-numbered year.

The System was originally established in 1979 by a City Council ordinance. However, in 1991, the System became governed by state law. 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 23 years of service excluding any purchased military service credit regardless of age, or at age 55 with 20 years of service excluding any purchased military service or at age 62. In 2009, the System and the City began participating in the Texas 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 eligibility requirements. Other participating systems include the Texas statewide systems, the City of Austin Employees' Retirement System, and the systems for the City of El Paso employees.

The monthly benefit is equal to 3.2 percent of the highest 36-month average salary multiplied by years and months of service.

Note 1: Organization and System Description

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 purchased military service credit on the date the participant elects the Retro DROP benefit computation date. As of Board action on February 18, 2015, the Retro DROP option is open only to members with 23 years of creditable service as of March 31, 2015. Further, the Retro DROP provisions may be changed in the future by Board rule with approval of the System's actuary.

The Forward Deferred Retirement Option Plan (Forward DROP) provisions require that a participant must have 23 years of creditable service with the retirement system excluding any purchased military service credit on the date the participant elects to enter the Forward DROP. There are two Forward DROP plans: (1) the Five-Year Forward DROP which is only open to members with 23 years of creditable service as of February 17, 2016; and (2) the Seven-Year Forward DROP which is open to members with 23 years of credible service after February 17, 2016. Forward DROP provisions may be changed in the future by Board rule with approval by the System's actuary.

The Post Retirement Option Plan (PROP) is a program allowing retiring members to transfer a DROP lump sum amount or defer a portion of the monthly annuity payments to an interest-bearing PROP account. Interest will be paid on the participant's PROP account until the entire lump sum is distributed. Interest is payable on PROP accounts at a rate determined annually by the Board.

Members with 20 years of creditable service (including Proportionate Retirement) may purchase Permissive Service credit (PSC) up to a maximum of five years in order to become retirement eligible and/or increase the final benefit amount. The purchase constitutes an immediate retirement. In addition, PSC deferred retirement is an option allowing a member with at least 20 years of creditable service to purchase service credit necessary to become eligible to retire at a more reasonable cost due to a delay in payment of the retirement benefit.

Note 1: Organization and System Description

A \$10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund administered by the System. As of December 31, 2020, and 2019, the assets of the Retiree Death Benefit Fund were \$1,653,699 and \$1,520,391, respectively, which are included in the System's total market value of Net Assets Held in Trust available for Pension Benefits of \$938,226,299 and \$857,839,229, 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 percent per year, and subject to the approval of the Board and the actuary.

Note 1: Organization and System Description

System membership consists of full-time police officers, including 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, 2020 and 2019:

| | 2020 |
|--|--------------|
| Retirees and beneficiaries currently receiving benefits | 1,160 |
| (1,045) and terminated employees entitled to future monthly benefits (115) | |
| Current participating members | 1,775 |
| 2020 Total | 2,935 |
| | |
| | 2019 |
| Retirees and beneficiaries currently receiving benefits | 1,062 |
| (950) and terminated employees entitled to future monthly benefits (112) | |
| Current participating members | 1,872 |
| 2019 Total | 2,934 |

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.

Investment purchases and sales are recorded as of their settlement 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, 2020 and 2019, 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. For other types of investments, the System uses financial statements submitted by investment managers, reviewed for alignment with values held by the external investment consultant and custodial bank.

Note 2: Summary of Significant Accounting Policies

Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a settlement-date basis.

SYSTEM EXPENSES

All System administrative costs are the responsibility of the System.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure through the date of the Independent Auditor's Report, 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 five to seven years for furniture and equipment. Fixed asset activity for the year ended December 31, 2020 consisted of:

| | Beginning Balance | | Additions | | Deletions | | Ending Balance |
|-------------------------------|------------------------------|-----------|------------------|-----------|------------------|-----------|---------------------------|
| Assets not being depreciated: | | | | | | | |
| Land | \$ 150,000 | \$ | - | \$ | - | \$ | 150,000 |
| Assets being depreciated: | | | | | | | |
| Building and improvements | 1,394,000 | | | | | | 1,394,000 |
| Furniture and equipment | 517,374 | | | | | | 517,374 |
| Leasehold improvements | 125,713 | | | | | | 125,713 |
| Accumulated depreciation: | (1,443,549) | | (84,241) | | | | (1,527,790) |
| Net Fixed Assets | \$ 743,538 | \$ | (84,241) | \$ | - | \$ | 659,297 |

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 retirement plan in Article 6243n-1, Vernon's Annotated Texas Civil Statutes, which 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 and state and federal law.

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, 2020 and 2019 are presented, by type, as follows:

Total Investments by Asset

| Class¹ | | 2020 | | 2019 |
|--------------------------------------|-----------|--------------------|-----------|--------------------|
| Domestic Equity (U.S. Equity) | \$ | 474,535,350 | \$ | 406,776,063 |
| International Equity | | 145,530,790 | | 132,025,395 |
| Other Equity | | 38,696,219 | | 30,737,953 |
| Fixed Income | | 85,083,454 | | 85,687,474 |
| Other Fixed Income | | 22,846,399 | | 26,832,618 |
| Real Estate | | 104,510,704 | | 106,036,511 |
| Timber | | 14,016,982 | | 20,454,830 |
| Multi Asset Class | | 39,529,494 | | 37,782,947 |
| Cash & Cash Equivalents ² | | 11,585,477 | | 11,617,483 |
| Total Investments | \$ | 936,334,869 | \$ | 857,951,274 |

¹ Assets at custodial bank

² Includes cash assets at custodian & local operating banks and RDB Fund

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 its 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.

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 the 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, 2020, and 2019, 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 are excluded from this requirement. As of December 31, 2020, and December 31, 2019.

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 System's Funds.

Note 5: Deposit and Investment Risk

As of December 31, 2020, the System had the following investment asset allocations:

| Asset Class | Target | Allowable Range |
|--------------------------------------|---------------|------------------------|
| Domestic Equity (U.S. Equity) | 42.5% | 30%-50% |
| International Equity | 15.0% | 5%-25% |
| Other Equity (Private Equity) | 7.5% | 0%-10% |
| Total Fixed Income | 10.0% | 5%-30% |
| Other Fixed Income (Private Lending) | 5.0% | 0%-10% |
| Real Estate | 15.0% | 0%-30% |
| Timber | 0.0% | 0%-5% |
| Multi Asset Class | 5.0% | 0%-10% |
| Cash & Cash Equivalents | 0.0% | 0%-5% |

The Board has adopted an Investment Policy Statement (IPS) with a general investment objective to obtain a total rate of return commensurate with the Prudent Investor Rule and any other applicable statutes. Reasonable consistency of return and protection of assets against the inroads of inflation is paramount. Performance results will be compared over the long-term in the context of five years or more given interest rate fluctuations and volatility of securities markets.

The Board will employ investment professionals to oversee and invest the assets within the parameters allowed by the IPS and the agreements. The investment managers will have investment discretion over their mandates, including security selection, sector weightings and investment style, subject to certain constraints of the IPS.

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.

Note 5: Deposit and Investment Risk**INTEREST RATE RISK**

Interest rate risk is the risk that measures whether 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, 2020, the System had the following investments:

| Investment Type¹ | Fair Value | Less Than 1 Year | 1 to 6 Years | 6 to 10 Years | Over 10 Years |
|------------------------------------|-------------------|-------------------------|---------------------|----------------------|----------------------|
| Bonds | \$44,729,303 | \$1,582,784 | \$12,293,633 | \$10,488,943 | \$20,363,943 |

As of December 31, 2019, the System had the following investments:

| Investment Type¹ | Fair Value | Less Than 1 Year | 1 to 6 Years | 6 to 10 Years | Over 10 Years |
|------------------------------------|-------------------|-------------------------|---------------------|----------------------|----------------------|
| Bonds | \$45,544,413 | \$1,010,718 | \$8,750,978 | \$10,963,988 | \$24,818,729 |

¹ Source: 2020 & 2019 GASB 40 Reports

Note 5: Deposit and Investment Risk**CREDIT RISK**

Credit risk is the risk associated with an issuer or other counterparty to an investment that does 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.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2020, are as follows:

| Quality Rating ¹ | Total Fair Value | International Securities | Corporate Bonds | Government Bonds |
|-----------------------------|-----------------------|--------------------------|-----------------------|----------------------|
| Aaa / AAA | \$ 1,130,780 | | | 1,130,780 |
| Aa1 / AA+ | \$ 1,129,129 | | 1,129,129 | |
| Aa2 / AA | | | | |
| Aa3 / AA- | \$ 2,238,375 | | 2,238,375 | |
| A1 / A+ | | | | |
| A2 / A | \$ 3,592,565 | | 3,592,565 | |
| A3 / A- | \$ 10,022,319 | | 10,022,319 | |
| Baa1 / BBB+ | \$ 7,022,740 | | 7,022,740 | |
| Baa2 / BBB | \$ 4,436,653 | | 4,436,653 | |
| Baa3 / BBB- | \$ 975,808 | | 975,808 | |
| Ba1 / BB+ | | | | |
| Ba2 / BB | | | | |
| Ba3 / BB- | | | | |
| B1 / B+ | | | | |
| B2 / B | | | | |
| B3 / B- | | | | |
| Caa / CCC | | | | |
| Ca / CC | | | | |
| C and below | | | | |
| Not Rated | \$ 97,177,919 | | 78,625,477 | 18,552,442 |
| US Gov't Guaranteed | \$ 14,180,934 | | | 14,180,934 |
| Cash & Equivalent | | | | |
| Total | \$ 141,907,222 | \$ - | \$ 108,043,066 | \$ 33,864,156 |

¹ Source: 2020 GASB 40 Report

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, 2019, are as follows:

| Quality Rating ¹ | Total Fair Value | International Securities | Corporate Bonds | Government Bonds |
|-----------------------------|----------------------|--------------------------|---------------------|---------------------|
| Aaa / AAA | \$1,048,660 | | | 1,048,660 |
| Aa1 / AA+ | \$1,055,211 | | 1,055,211 | |
| Aa2 / AA | | | | |
| Aa3 / AA- | \$2,125,877 | | 2,125,877 | |
| A1 / A+ | \$1,333,463 | | 1,333,463 | |
| A2 / A | \$3,175,289 | | 3,175,289 | |
| A3 / A- | \$10,763,309 | | 10,763,309 | |
| Baa1 / BBB+ | \$3,823,931 | | 3,823,931 | |
| Baa2 / BBB | \$4,248,809 | | 4,248,809 | |
| Baa3 / BBB- | | | | |
| Ba1 / BB+ | | | | |
| Ba2 / BB | | | | |
| Ba3 / BB- | | | | |
| B1 / B+ | | | | |
| B2 / B | | | | |
| B3 / B- | | | | |
| Caa / CCC | | | | |
| Ca / CC | | | | |
| C and below | | | | |
| Not Rated | \$93,715,483 | 683,894 | 37,243,852 | 55,787,737 |
| U.S. Gov't Guaranteed | \$17,969,866 | | | 17,969,866 |
| Cash & Equivalent | | | | |
| Total | \$139,259,898 | \$683,894 | \$63,769,741 | \$74,806,263 |

¹ Source: 2019 GASB 40 Report

Note 5: Deposit and Investment Risk**FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that occurs when changes in exchange rates 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 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 U.S. dollars and accounted for at fair market value.

The System's exposure to foreign currency risk as of December 31, 2020, is as follows:

2020 Foreign Currency Risk¹

| Country | Non-Securities² | International Equities | Other³ |
|-----------------------|-----------------------------------|-----------------------------------|--------------------------|
| Canada, Dollar | | 453,909 | |
| France, Euro | | 439,568 | |
| Germany, Euro | | 3,639,133 | |
| India, Rupee | | 241,151 | |
| Ireland, Euro | | 1,679,753 | |
| Israel, Shekel | | 175,595 | |
| Japan, Yen | | 79,607 | |
| Netherlands, Euro | | 360,536 | |
| Switzerland, Franc | | 154,535 | |
| Taiwan, Dollar | | 446,526 | |
| United Kingdom, Pound | - | 3,367,362 | - |
| | \$ | \$11,037,675 | \$ |

¹ Source: 2020 GASB 40 Report

² Represents cash and cash-equivalents, and adjustments to cash

³ Represents fixed income, hedge funds, real estate, venture capital, and other assets

Note 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 31, 2019, is as follows:

2019 Foreign Currency Risk¹

| Country | Non-Securities² | International Equities | Other³ |
|-----------------------|-----------------------------------|-----------------------------------|--------------------------|
| Belgium, Euro | | | 1,017,502 |
| Canada, Dollar | | 62,637 | |
| France, Euro | | 1,122,191 | |
| Germany, Euro | | 993,311 | |
| India, Rupee | | 267,577 | |
| Ireland, Euro | | 1,483,761 | |
| Israel, Shekel | | 202,128 | |
| Netherlands, Euro | | 189,449 | |
| Sweden, Krona | | 490,275 | |
| Switzerland, Franc | | 283,395 | |
| Taiwan, Dollar | | 281,542 | |
| United Kingdom, Pound | - | 2,386,916 | - |
| | \$ | \$7,763,182 | \$1,017,502 |

¹ Source: 2019 GASB 40 Report

² Represents cash and cash-equivalents, and adjustments to cash

³ Represents fixed income, hedge funds, real estate, venture capital, and other assets

Note 5: Deposit and Investment Risk

Managers with a 5% or more concentration in the portfolio as of December 31, 2020:

2020 Concentration Risk

| Manager Name | % | Market Value |
|-----------------------------|----------|---------------------|
| NT Russell 3000 Index | 29.40 | 274,851,386 |
| Baird Mid Cap Growth | 9.80 | 91,763,129 |
| Nuance Mid Cap Growth | 6.30 | 59,198,885 |
| Kennedy Small Cap Value | 5.20 | 48,721,950 |
| Orleans Capital | 5.00 | 46,261,556 |
| Thompson, Siegel & Walmsley | 5.30 | 49,349,433 |
| Morgan Stanley | 6.86 | 64,067,599 |
| | | \$634,213,938 |

Managers with a 5% or more concentration in the portfolio as of December 31, 2019:

2019 Concentration Risk

| Manager Name | % | Market Value |
|-----------------------------|----------|---------------------|
| NT Russell 3000 Index | 27.70 | 237,098,285 |
| Baird Mid Cap Growth | 7.90 | 67,449,226 |
| Nuance Mid Cap Growth | 6.60 | 56,252,130 |
| Kennedy Small Cap Value | 5.40 | 45,976,879 |
| Orleans Capital | 5.00 | 48,046,861 |
| Thompson, Siegel & Walmsley | 10.00 | 85,734,641 |
| Morgan Stanley | 7.29 | 62,392,772 |
| | | \$602,950,794 |

Note 6: Fair Market Measurement

In accordance with GASB 72, the System categorizes the fair measurement of its investments within a fair value hierarchy as established by generally accepted accounting principles. Fair value measurements are classified as Level 1, Level 2 or Level 3, based on inputs utilized to establish fair values:

Level-1 inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets that an entity can access at the measurement date.

Level-2 inputs (other than quoted prices included within Level 1) are observable for similar assets or liabilities.

Level-3 inputs are developed by the reporting entity based on unobservable inputs for an asset or liability.

The categorization of investments described below is based solely on the objectivity of the inputs used, to reflect relative reliability in the measurement of an investment's fair value and does not reflect the level of risk associated with the investment.

Note 6: Fair Value Measurement

APRS investments have the following fair value measurements as of December 31, 2020.

| 2020 GASB 72 Fair Value Measurement | | | | |
|---|----------------------|---|--|---|
| Investments by fair value level ⁽¹⁾ | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) ⁽³⁾ | Significant Observable Inputs (Level 3) ⁽⁴⁾ |
| Short-Term Securities | | | | |
| Cash - STIF Account | | | 11,585,477 | |
| Total | \$11,585,477 | | \$11,585,477 | |
| Debt Securities (2) | | | | |
| Debt Securities | | | 85,083,454 | |
| Total | \$85,083,454 | | \$85,083,454 | |
| Equity Securities | | | | |
| US Denominated Equities | | 199,683,964 | | |
| Total | \$199,683,964 | \$199,683,964 | | |
| Pooled Funds | | | | |
| Domestic equity collective trust | | 274,851,386 | | |
| International equity collective trust | | 91,573,943 | | |
| Global bond collective trust | | | | |
| Emerging markets collective trust | | 24,004,941 | | |
| International equity mutual fund | | 29,951,906 | | |
| Total | \$420,382,176 | \$420,382,176 | | |
| Total investments by fair value level | \$716,735,071 | \$620,066,140 | \$96,668,931 | |
| Investments Measured at Level 3 | | | | |
| Timber | | | | a, b, 14,016,982 |
| Real Estate | | | | c, d, e, f, g, h, i, j, k, 104,510,704 |
| Other Fixed Income (Private Lending) | | | | l, m, n, 22,846,399 |
| Other Equity (Private Equity) | | | | o, p, q, r, s, t, 38,696,219 |
| Multi Asset Class | | | | u, 39,529,494 |
| Total | \$219,599,798 | | | \$219,599,798 |
| Total investments measured at fair value | \$936,334,869 | | | |

¹ Source: Northern Trust Bank (Book of Record)

² Includes: Commercial mortgage-backed securities, Corporate Bonds, Government mortgage-backed securities, Government agencies and Government Bonds.

³ Level 2 investments are valued based on quoted market prices in active markets as well as market valuation methodologies using discounted cash flows and observable credit ratings.

⁴ Level 3 investments include investments in a group of non-registered private equity investment partnerships, private equity real estate and private natural resources funds. Fair value determinations by the underlying funds take into consideration the operating results, financial conditions, real estate appraisals and recent sales prices of issuers' securities.

2020 Annual Report

2020 Financial Notes and Security Descriptions Footnotes:

| | | Liquidity | Notice |
|---|--|-----------|---------|
| a) Capital Timberland Investments | Actively managed diversified timber holdings located in Texas, USA. | Illiquid | N/A |
| b) Domain Environmental (formerly Timbervest) | Actively managed real estate portfolio of environmental preservation and restoration projects located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| c) RockSpring Funds | Actively manage portfolio of real estate investments located in Texas, USA. | Illiquid | N/A |
| d) ARES (VEF Advisors Funds) | Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| e) Brookfield Real Estate Fund | Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| f) Edison Investments (Jayhawk) | Actively managed opportunistic and value-added real estate portfolio of primarily equity real estate investments located in the USA. The investment is in liquidation. | Illiquid | N/A |
| g) India Property Fund (Apollo) | Actively managed opportunistic and value-added real estate portfolio of equity real estate investments located in India. This fund is near the end of its expected term. | Illiquid | N/A |
| h) Gainesville Property (formerly Vision Capital) | Actively managed portfolio of real estate property located in the Georgia, USA. | Illiquid | N/A |
| i) Morgan Stanley Prime Property Fund | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Quarterly | 90 days |
| j) AEW Partners Fund VIII | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| k) Green Oak US III | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| l) LBC Credit Partners III | Actively managed private investment fund of private loan investments located in the USA. | Illiquid | N/A |
| m) Providence Debt Fund III | Actively managed private investment fund of private loan investments located in the USA. | Illiquid | N/A |
| n) Capital Point Partners | Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation. | Illiquid | N/A |
| o) Huff Energy | Actively managed portfolio of private energy investments located in the USA. The fund is nearing the end of its expected term. | Illiquid | N/A |
| p) Sail Venture I | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| q) Sail Ventures II | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| r) Sail Pre-Exit Acceleration Fund | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| s) Excelsior Investors | Actively managed private equity portfolio of private finance-oriented investments located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| t) Franklin Park Private Equity Fund | Actively managed portfolio of private finance-oriented investments located in the USA. | Illiquid | N/A |
| u) BlackRock Multi Asset Fund | Diversified fund of hedge funds with blending global macro, long/short equity and diversified credit strategies. | Daily | None |

Note 6: Fair Value Measurement

APRS investments have the following fair value measurements as of December 31, 2019.

| 2019 GASB 72 Fair Value Measurement | | | | |
|---|----------------------|---|--|---|
| Investments by fair value level ⁽¹⁾ | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) ⁽³⁾ | Significant Observable Inputs (Level 3) ⁽⁴⁾ |
| Short-Term Securities | | | | |
| Cash - STIF Account | | | 11,617,483 | |
| Total | \$11,617,483 | | \$11,617,483 | |
| Debt Securities (2) | | | | |
| Debt Securities | | | 48,046,860 | |
| Total | \$48,046,860 | | \$48,046,860 | |
| Equity Securities | | | | |
| U.S. Denominated Equities | | 169,677,778 | | |
| Total | \$169,677,778 | \$169,677,778 | | |
| Pooled Funds | | | | |
| Domestic equity collective trust | | 237,098,285 | | |
| International equity collective trust | | 85,734,642 | | |
| Global bond collective trust | | | 37,640,614 | |
| Emerging markets collective trust | | 21,263,426 | | |
| International equity mutual fund | | 25,027,327 | | |
| Total | \$406,764,294 | \$369,123,680 | \$37,640,614 | |
| Total investments by fair value level | \$636,106,415 | \$538,801,458 | \$97,304,957 | |
| Investments Measured at Level 3 | | | | |
| Timber | | | | 20,454,830 |
| Real Estate | | | | 106,036,511 |
| Other Fixed Income (Private Lending) | | | | 26,832,618 |
| Other Equity (Private Equity) | | | | 30,737,953 |
| Multi Asset Class | | | | 37,782,947 |
| Total | \$221,844,859 | | | \$221,844,859 |
| Total investments measured at fair value | \$857,951,274 | | | |

¹ Source: Northern Trust Bank (Book of Record)

² Includes: Commercial mortgage-backed securities, Corporate Bonds, Government mortgage-backed securities, Government agencies and Government Bonds. All held by one manager.

³ Level 2 investments are valued based on quoted market prices in active markets as well as market valuation methodologies using discounted cash flows and observable credit ratings.

⁴ Level 3 investments include investments in a group of non-registered private equity investment partnerships, private equity real estate and private natural resources funds. Fair value determinations by the underlying funds take into consideration the operating results, financial conditions, real estate appraisals and recent sales prices of issuers' securities.

2020 Annual Report

2019 Financial Notes and Security Descriptions Footnotes:

| | | Liquidity | Notice |
|---|--|-----------|---------|
| a) BTG Pactual I | Actively managed diversified timber holdings located in the USA. The investment is in liquidation. | Illiquid | N/A |
| b) Capital Timberland Investments | Actively managed diversified timber holdings located in Texas, USA. | Illiquid | N/A |
| c) Domain Environmental (formerly Timbervest) | Actively managed real estate portfolio of environmental preservation and restoration projects located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| d) RockSpring Funds | Actively manage portfolio of real estate investments located in Texas, USA. | Illiquid | N/A |
| e) GreenOak US III | Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| f) ARES (VEF Advisors Funds) | Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| g) Brookfield Real Estate Fund | Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| h) Edison Investments (Jayhawk) | Actively managed opportunistic and value-added real estate portfolio of primarily equity real estate investments located in the USA. The investment is in liquidation. | Illiquid | N/A |
| i) India Property Fund (Apollo) | Actively managed opportunistic and value-added real estate portfolio of equity real estate investments located in India. This fund is near the end of its expected term. | Illiquid | N/A |
| j) Gainesville Property (formerly Vision Capital) | Actively managed portfolio of real estate property located in the Georgia, USA. | Illiquid | N/A |
| k) AEW Partners | Actively managed portfolio of real estate investments located in the USA. | Illiquid | N/A |
| l) Morgan Stanley Prime Property Fund | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Quarterly | 90 days |
| m) AEW Partners Fund VIII | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| n) Green Oak US III | Actively managed core portfolio of primarily equity real estate investments located in the USA. | Illiquid | N/A |
| o) LBC Credit Partners III | Actively managed private investment fund of private loan investments located in the USA. | Illiquid | N/A |
| p) LBC Credit Partners IV | Actively managed private investment fund of private loan investments located in the USA. | Illiquid | N/A |
| q) Providence Debt Fund III | Actively managed private investment fund of private loan investments located in the USA. | Illiquid | N/A |
| r) Capital Point Partners | Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation. | Illiquid | N/A |
| s) Franchise Equity Capital Partners II (Capital Springs) | Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation. | Illiquid | N/A |
| t) Huff Energy | Actively managed portfolio of private energy investments located in the USA. The fund is nearing the end of its expected term. | Illiquid | N/A |
| u) Sail Venture I | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| v) Sail Ventures II | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| w) Sail Pre-Exit Acceleration Fund | Actively managed private equity portfolio of venture capital investments located in the USA. This fund has liquidated but pending its expected termination. | Illiquid | N/A |
| x) Excelsior Investors | Actively managed private equity portfolio of private finance-oriented investments located in the USA. This fund is near the end of its expected term. | Illiquid | N/A |
| y) Franklin Park Private Equity Fund | Actively managed portfolio of private finance-oriented investments located in the USA. | Illiquid | N/A |
| z) Double Eagle Capital Ace Fund | Diversified fund of hedge funds with blending global macro, long/short equity and diversified credit strategies. This fund is near the end of its expected term. | Quarterly | 95 days |
| aa) BlackRock Multi Asset Fund | Diversified fund of hedge funds with blending global macro, long/short equity and diversified credit strategies. | Daily | None |

Note 7: Schedule of Investment Returns

For the year ended December 31, 2020 and 2019 the annual money-weighted rate of return on investments, net of investment expense, was 11.6 percent and 20.7 percent, respectively, as calculated by the System actuary.

Note 8: Contributions

The System is funded by biweekly contributions from both employees and the City based on employee compensation, consisting of base pay and longevity pay. Under the provisions that were in effect during December 2020 and 2019, participants are required to contribute 13 percent of their compensation.

The City's required contribution rate for fiscal year 2020 was 21.313 percent from January to September and 21.737 from October to December. The 2019 contribution rate was 21.313 percent.

Since September 1, 2003, a portion of the City's total contribution has been allocated to the Retiree Death Benefit Fund. The allocation rate for fiscal year 2020 was 0.123 percent. In fiscal year 2019 the rate was 0.120 percent.

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 member contribution rate must be at least 13 percent in accordance with state law. The member contribution rate may be changed by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with state law.

Note 8: Contributions

Contributions by members and the City are established by statute. State law also 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. The amortization period is determined using the open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2020 and the plan provisions recognized in the valuation, the normal cost is 25.101 percent of pay and the period to amortize unfunded liabilities is 30 years. On December 31, 2019 with the plan provisions recognized in the valuation, the normal cost was 24.978 percent of pay and the amortization period was Never. Legislation passed by the 87th Legislature in 2021 requires funding sufficient to remain within a period to amortize unfunded liabilities in 30 years.

Note 9: Commitments and Contingencies

The System's investments in real assets (real estate and timber) are included in the table appearing in Note 5. In connection with those investments, the System made commitments as of December 31, 2020 and 2019 of approximately \$118,527,686 million and \$126,491,259 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2020 and 2019, the total accumulated lump sum benefit due to forward DROP participants was \$9,470,462 and \$15,361,488 respectively.

At December 31, 2020 and 2019, the total accumulated lump sum benefit due to PROP participants was \$29,903,328 and \$28,106,222 respectively.

Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2020 were as follows:

| | |
|---|-----------------------|
| Total Pension Liability | \$1,544,153,487 |
| Plan Fiduciary Net Position | \$ (938,226,299) |
| Net Pension Liability | <u>\$ 605,927,188</u> |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | <u>60.76%</u> |

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2020 using the following actuarial assumptions:

| | |
|---------------------------|----------------|
| Inflation | 3.0% |
| Salary Increases | Services Based |
| Discount Rate | 7.25% |
| Investment Rate of Return | 7.25% |

Mortality rates were based on the PubS-2020 sex-distinct mortality tables.

A single discount rate of 7.25% was used to measure the total pension liability for the plan year ending December 31, 2020. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 2.00%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance the projected benefit payments. As a result, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments, with the resulting single discount rate being 7.25%.

Note 10: Net Pension Liability of the Sponsor

The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." In describing this index, Fidelity notes that the municipal curves are constructed using option adjusted analytics of a diverse population of over 10,000 tax exempt securities. The rate shown is as of the last date available on or before the measurement date.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made in accordance with the provisions of House Bill 4368, 87th Texas Legislature. In other words, the Legacy Liability payments will be paid by the employer over the 30-year period beginning January 1, 2022, and that the employer will also contribute the ADC for the appropriate period. The member rate is also assumed to increase to 15% of payroll effective January 1, 2022.

Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2019 were as follows:

| | |
|---|-------------------------|
| Total Pension Liability | \$2,175,170,301 |
| Plan Fiduciary Net Position | \$ (857,839,229) |
| Net Pension Liability | <u>\$ 1,317,331,072</u> |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | <u>39.44%</u> |

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2019 using the following actuarial assumptions:

| | |
|---------------------------|----------------|
| Inflation | 2.50% |
| Salary Increases | Services Based |
| Discount Rate | 4.10% |
| Investment Rate of Return | 7.25% |

Mortality rates were based on the PubS-2010 with projected improvements.

A single discount rate of 4.10% was used to measure the total pension liability for the plan year ending December 31, 2019. This single discount rate was based on an expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 2.75%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance the projected benefit payments through the year 2045. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2045 fiscal year, and the municipal bond rate was applied to all benefit payments after that date, with the resulting Single Discount Rate being 4.10%.

Note 10: Net Pension Liability of the Sponsor

The source of the municipal bond rate is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." In describing this index, Fidelity notes that the municipal curves are constructed using option adjusted analytics of a diverse population of over 10,000 tax exempt securities. The rate shown is as of the last date available on or before the measurement date.

The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current rates and remain a level percentage of payroll.

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, 2020 are summarized in the following table:

| Asset Class | Long Term Expected Real Rate of Return | | |
|---------------------------------|--|-----------------------------------|----------------|
| Domestic Equity | 7.50% | | |
| International Equity | 8.50% | | |
| Other Equity | 7.50% | | |
| Total Fixed Income | 3.00% | | |
| Other Fixed Income | 3.50% | | |
| Real Estate | 4.50% | | |
| Timber | 2.50% | | |
| Multi Asset Class | 5.00% | | |
| Cash & Cash Equivalents | 0.00% | | |
| | 1% Decrease | Current Single Rate Assumption | 1% Increase |
| | 6.25% | 7.25% | 8.25% |
| Sponsor's Net Pension Liability | \$ 788,428,821 | \$ 605,927,188 | \$ 441,306,918 |

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, 2019 are summarized in the following table:

| Asset Class | Long Term Expected Real Rate of Return | | |
|--------------------------------------|---|--------------------------|------------------|
| Domestic Equity | 7.50% | | |
| International Equity | 8.50% | | |
| Other Equity | 7.50% | | |
| U.S./Non-U.S. Fixed Income | 3.00% | | |
| Other Fixed Income (Private Lending) | 3.50% | | |
| Real Estate | 4.50% | | |
| Timber | 2.50% | | |
| Multi Asset Class | 5.00% | | |
| Cash & Cash Equivalents | 0.00% | | |
| | 1% Decrease | Current Discount Rate | 1% Increase |
| | 3.10% | 5.10% | 5.10% |
| Sponsor's Net Pension Liability | \$ 1,663,204,421 | \$ 1,317,331,072 | \$ 1,039,706,522 |

Supplemental Schedule: 2020 SB322 Fee Reporting

| Asset Class ¹ | Direct Management Fees Paid from Trust | Management Fees Netted from Returns | Total Investment Management Fees (Mgt Fees Paid from Trust & Mgt Fees Netted from Returns) | Brokerage Fees & Commissions | Profit Share/Carried Interest | Total Direct and Indirect and Commissions (Mgt Fees + Brokerage Fees/Commissions + Profit Share) |
|--------------------------|--|-------------------------------------|--|------------------------------|-------------------------------|--|
| Cash | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Public Equity | \$ 1,699,723 | \$ 348,869 | \$ 2,048,592 | \$ 146,800 | \$ - | \$ 2,195,391 |
| Fixed Income | \$ 70,193 | \$ 648,367 | \$ 718,560 | \$ - | \$ 899,309 | \$ 1,617,870 |
| Real Assets | \$ 16,438 | \$ 1,071,475 | \$ 1,087,913 | \$ - | \$ 376,333 | \$ 1,464,246 |
| Alt./ Other | \$ 133,752 | \$ 38,369 | \$ 172,121 | \$ - | \$ - | \$ 172,121 |
| Total | \$ 1,920,106 | \$ 2,107,080 | \$ 4,027,186 | \$ 146,800 | \$ 1,275,642 | \$ 5,449,628 |

¹ Managers listed on pages 8-9

| | |
|---|---------------------|
| Total Direct & Indirect Expenses | \$ 5,449,628 |
| Direct Services Paid by Trust | |
| Custodial | \$ 193,693 |
| Research | \$ - |
| Consultant | \$ 200,000 |
| Sub-Total | \$ 393,693 |
| Total | \$ 5,843,321 |

See independent auditor's report.

DISCLOSURES IN
ACCORDANCE WITH GASB
STATEMENT NO. 67
REQUIRED SUPPLEMENTARY
INFORMATION

Schedules of Required Supplementary Information

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios

Last 10 Fiscal Years (which may be built prospectively)

| Plan year ending December 31, | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| Total pension liability | | | | | | | | |
| Service Cost | \$ 84,469,392 | \$ 71,333,761 | \$ 33,757,344 | \$ 35,322,361 | \$ 32,989,949 | \$ 32,138,760 | \$ 30,253,628 | \$ 28,769,060 |
| Interest on the Total Pension Liability | 89,375,792 | 89,680,333 | 90,478,785 | 84,471,608 | 80,845,879 | 76,999,651 | 72,442,934 | 68,919,471 |
| Benefit Changes | 0 | 0 | 0 | 0 | 0 | (4,079,852) | (11,015,618) | 0 |
| Difference between expected and actual experience of the Total Pension Liability | 10,320,384 | (4,743,379) | (12,904,876) | 17,240,801 | 7,454,959 | (6,318,435) | 0 | 0 |
| Assumption Changes | (740,167,135) | 179,003,031 | 666,872,780 | - | 5,148,318 | 3,903,538 | 14,137,496 | 0 |
| Contributions - Buy Back | 1,941,041 | 1,261,530 | 1,141,907 | 2,914,966 | 1,668,174 | 4,648,271 | 2,207,398 | - |
| Benefit Payments and Refunds | (76,956,288) | (66,319,031) | (63,982,824) | (56,548,004) | (50,827,501) | (50,005,439) | (45,403,126) | (42,825,265) |
| Net Change in Total Pension Liability | (631,016,814) | 270,216,245 | 715,363,116 | 83,401,732 | 77,279,778 | 57,286,494 | 62,622,712 | 54,863,266 |
| Total Pension Liability - Beginning | 2,175,170,301 | 1,904,954,056 | 1,189,590,940 | 1,106,189,208 | 1,028,909,430 | 971,622,936 | 909,000,224 | 854,136,958 |
| Total Pension Liability - Ending | \$ 1,544,153,487 | \$ 2,175,170,301 | \$ 1,904,954,056 | \$ 1,189,590,940 | \$ 1,106,189,208 | \$ 1,028,909,430 | \$ 971,622,936 | \$ 909,000,224 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - Employer | \$ 36,577,137 | \$ 35,993,200 | \$ 35,244,242 | \$ 35,141,204 | \$ 33,814,182 | \$ 33,239,271 | \$ 32,399,740 | \$ 31,160,764 |
| Contributions - Member | 22,180,985 | 21,941,732 | 21,461,482 | 21,436,998 | 20,623,125 | 20,060,610 | 19,457,407 | 19,467,960 |
| Contributions - Buy Back | 1,941,041 | 1,261,530 | 1,141,907 | 2,914,966 | 1,668,174 | 4,648,271 | 2,207,398 | - |
| Pension Plan Net Investment Income | 98,573,363 | 148,162,708 | (43,398,717) | 82,072,002 | 37,964,881 | (321,704) | 35,574,317 | 49,524,150 |
| Benefit Payments and Refunds | (76,956,288) | (66,319,031) | (63,982,824) | (56,548,004) | (50,827,501) | (50,005,439) | (45,403,126) | (42,825,265) |
| Pension Plan Administrative Expense | (1,929,168) | (1,720,551) | (1,421,192) | (1,562,685) | (1,396,736) | (1,465,939) | (1,327,071) | (1,114,856) |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Change in Plan Fiduciary Net Position | 80,387,070 | 139,319,588 | (50,955,102) | 83,454,481 | 41,846,125 | 6,155,070 | 42,908,665 | 56,212,753 |
| Plan Fiduciary Net Position - Beginning | 857,839,229 | 718,519,641 | 769,474,743 | 686,020,262 | 644,174,137 | 638,019,067 | 595,110,402 | 538,897,649 |
| Plan Fiduciary Net Position - Ending | \$ 938,226,299 | \$ 857,839,229 | \$ 718,519,641 | \$ 769,474,743 | \$ 686,020,262 | \$ 644,174,137 | \$ 638,019,067 | \$ 595,110,402 |
| Net Pension Liability - Ending | 605,927,188 | 1,317,331,072 | 1,186,434,415 | 420,116,197 | 420,168,946 | 384,735,293 | 333,603,869 | 313,889,822 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 60.76 % | 39.44 % | 37.72 % | 64.68 % | 62.02 % | 62.61 % | 65.67 % | 65.47 % |
| Covered Employee Payroll | \$ 170,622,962 | \$ 168,782,554 | \$ 165,088,323 | \$ 164,899,985 | \$ 158,655,196 | \$ 154,243,493 | \$ 149,790,754 | \$ 144,089,468 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 355.13 % | 780.49 % | 718.67 % | 254.77 % | 264.83 % | 249.43 % | 222.71 % | 217.84 % |

Notes to Schedule:

For FYE 2017 and later, the covered payroll was determined by imputing the pay based on actual member contributions. Prior to FYE 2017, the covered payroll was determined by the prior actuary.

Notes to Schedule:

For FYE 2017 and later, the covered payroll was determined by imputing the pay based on actual member contributions. Prior to FYE 2017, the covered payroll was determined by the prior actuary.

See independent auditor's report.

Schedules of Required Supplementary Information

Schedule of Employer Contributions

Last 10 Plan Years (which may be built prospectively)

| PY Ending December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---------------------------|---|------------------------|--|--------------------|---|
| 2013 | N/A | \$ 31,160,764 | N/A | \$ 144,089,468 | 21.630% |
| 2014 | N/A | 32,399,740 | N/A | 149,790,754 | 21.630% |
| 2015 | N/A | 33,239,271 | N/A | 154,243,493 | 21.550% |
| 2016 | N/A | 33,814,182 | N/A | 158,655,196 | 21.313% |
| 2017 | N/A | 35,141,204 | N/A | 164,899,985 | 21.313% |
| 2018 | N/A | 35,244,242 | N/A | 165,088,323 | 21.313% |
| 2019 | N/A | 35,993,200 | N/A | 168,782,554 | 21.313% |
| 2020 | \$ 55,244,302 | 36,577,137 | \$ 18,667,165 | 170,622,962 | 21.313% |

For APRS fiscal years prior to 2022, the City contribution rate to APRS is a fixed rate and is not derived actuarially. For this reason, an Actuarially Determined Contribution (ADC) has not been shown in the prior financial statements.

The Board of Trustees of APRS adopted the Policy to Determine Funding Goals and Guidelines on December 18, 2019. Therefore, beginning with the 2020 fiscal year it is appropriate to disclose an ADC that complies with the Policy. Note with the passage of HB 4368, the City contribution will be based on an actuarially determined contribution beginning in fiscal year 2022.

See independent auditor's report.

Notes to Schedule of Contributions

Valuation Date: December 31, 2020
 Actuarially determined contribution rates are calculated as of December 31. Members and employers contribute based on statutorily fixed rates.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Open |
| Remaining Amortization Period | The ADC is determined on a 30 years amortization period, the remaining amortization period for the fixed rate contributions is never. |
| Asset Valuation Method | Expected actuarial value plus 20% recognition of prior 5 years' differences between expected and actual investment income. |
| Inflation | 3.0% |
| Salary Increases | 0% to 12.2%, in addition to 3.00% general wage increases |
| Investment Rate of Return | 7.25% |
| Retirement Age | Experience-based table of rates, last updated for the December 31, 2018 valuation. |
| Mortality | PubS-2020 sex-distinct mortality tables (employee, healthy retiree, disabled retiree) as appropriate., projected from 2010 with the ultimate mortality improvement rates from MP-2018. |

Other Information:

Notes Members and employers contribute based on statutorily fixed rates. Beginning December 31, 2017, the covered employee payroll is imputed pay based on actual employee contributions during the measurement period.

See independent auditor's report.

Schedule of Investment Returns

The returns for the Plan's fiscal years shown below were determined as annual money-weighted rates of returns net of investment expenses.

Last 10 Fiscal Years (which may be built prospectively)

| <u>Fiscal Year Ending December 31,</u> | <u>Annual Return</u> |
|--|----------------------|
| 2020 | 11.60% |
| 2019 | 20.75% |
| 2018 | -5.67% |
| 2017 | 11.95% |
| 2016 | 5.88% |
| 2015 | -0.05% |
| 2014 | 5.71% |
| 2013 | 8.90% |

See independent auditor's report.

ACTUARIAL SECTION

Austin Police Retirement System

Annual Actuarial Valuation - Funding

As of December 31, 2020





July 15, 2021

Board of Trustees
Austin Police Retirement System
2520 South IH 35, Suite 100
Austin, TX 78704

Re: Actuarial Valuation for Funding Purposes as of December 31, 2020

Members of the Board:

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the Austin Police Retirement System (APRS) as of December 31, 2020. This report was prepared at the request of the Board and is intended for use by APRS staff and those designated or approved by the Board. This report may be provided to parties other than APRS only in its entirety and only with the permission of the Board.

Actuarial Valuation

The primary purposes of the actuarial valuation report are to determine the actuarially determined contribution rates for the City and members, describe the current financial condition of APRS, analyze changes in the condition of APRS, and provide various summaries of the data.

Plan Provisions

The Texas Legislature passed HB 4368 which created a new tier of benefits for officers who are first hired on or after January 1, 2022. The plan provisions are outlined in Section E of this report.

Risk Sharing Valuation

This valuation includes special calculations referred to as the "Risk Sharing Valuation" in statute. There is a new section in the report (Section RSV) that contains information which is required as part of this valuation. Pages RSV-1 and RSV-2 contain a discussion of the RSV exhibits as well as a discussion on the development of the Legacy Liability payments. Page RSV-3 contains the contribution corridor for the City's ADC. The corridor mid-point is the minimum City Contribution Rate until APRS is 90% funded. Page RSV-4 shows the calculation of the ADC for the current valuation. This calculated rate will be the City Contribution Rate if it exceeds the corridor mid-point and is less than the corridor maximum. The rate will be contributed in the calendar year that begins one year after the valuation date. Page RSV-5 shows a projection of the Legacy Liability and the schedule of payments to pay-off the Legacy Liability over a 30-year period beginning in 2022.

Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees effective with the December 31, 2018 actuarial valuation. The actuarial assumptions used for the December 31, 2020 actuarial valuation are based on an experience review for the five-year period from January 1, 2013 through December 31, 2017. All actuarial assumptions used in this report are reasonable for the purposes of this actuarial valuation. The current actuarial assumptions and methods are outlined in Section F of this report.

Data

The valuation was based upon information as of December 31, 2020 furnished by APRS staff, concerning system benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by APRS staff.

Certification

All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of, where applicable, the Internal Revenue Code and ERISA.

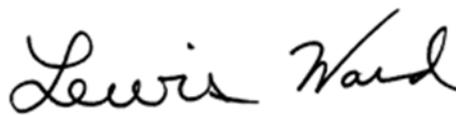
The signing actuaries are independent of the plan sponsor. Ryan Falls is an Enrolled Actuary, a Fellow of the Society of Actuaries, and a Member of the American Academy of Actuaries, and meets the Qualification Standards of the American Academy of Actuaries. Finally, each of the undersigned is experienced in performing valuations for public retirement systems.

Respectfully submitted,

Gabriel, Roeder, Smith & Company



R. Ryan Falls, FSA, EA, MAAA
Senior Consultant & Actuary



Lewis Ward
Consultant

Table of Contents

| <u>Section</u> | | Page # |
|--------------------|--|--------|
| | Cover Letter | |
| <u>Section RSV</u> | Risk Sharing Valuation | |
| | RSVS Discussion | RSV-1 |
| | Actuarially Determined Contribution Corridor | RSV-3 |
| | Calculated Actuarially Determined City Contribution Rate | RSV-4 |
| | Projection of Remaining Legacy Liability and Legacy Liability Payments | RSV-5 |
| <u>Section A</u> | Executive Summary | A-1 |
| <u>Section B</u> | Discussion | B-1 |
| <u>Section C</u> | Tables | |
| | 1 - Comparison of Valuation Liabilities | C-1 |
| | 2 - Actuarial Present Value of Future Benefits | C-2 |
| | 3 - Analysis of Normal Cost | C-3 |
| | 4 - Historical Summary of Active Member Data | C-4 |
| | 5 - Reconciliation of Plan Net Assets | C-5 |
| | 6 - Development of Actuarial Value of Assets | C-6 |
| | 7 - History of Investment Return Rates | C-7 |
| | 8 - History of Cash Flow | C-8 |
| | 9 - Total Experience Gain or Loss | C-9 |
| | 10 - Funding History | C-10 |
| | 11 - Retiree Death Benefit Fund | C-11 |
| <u>Section D</u> | Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions | D-1 |
| <u>Section E</u> | Summary of Plan Provisions | E-1 |
| <u>Section F</u> | Summary of Actuarial Assumptions and Methods | F-1 |
| <u>Section G</u> | Detailed Summaries of Membership Data | G-1 |
| <u>Section H</u> | Glossary | H-1 |

SECTION RSV

RISK SHARING VALUATION

RSVS Discussion

The purpose of the Risk Sharing Valuation Study (RSVS) is to determine the City Contribution Rate for the APRS fiscal year beginning one year after the valuation date.

The exhibit on page RSV-3 shows the RSVS Corridor which was created from the Initial RSVS. Column 3 shows the Corridor Midpoint for each fiscal year. Columns 2 and 4 show the Corridor Minimum and Corridor Maximum, respectively. Column 5 shows the actual City Contribution Rate for the applicable fiscal year. As shown on the table, the actual City Contribution Rate for FY 2022 is 10.10% of pay.

The exhibit on page RSV-4 shows the individual pieces and total calculated City Contribution Rate. As shown on the table, the calculated City Contribution Rate from this valuation is 10.10% of pay. Because the System is less than 90% funded, the actual City Contribution Rate will be set equal to the greater of the calculated City Contribution Rate and the Corridor Midpoint of 10.10% of pay (they are the same in this Initial RSVS).

The exhibit on page RSV-5 is the Legacy Liability schedule. This table shows the amortization schedule of the Legacy Liability for each of the 30 years over which it is scheduled to be paid. Column 2 shows the remaining Legacy Liability as of that measurement date while Column 3 shows the payment on the Legacy Liability for the fiscal year in which it is contributed.

The amortization of the Legacy Liability has been adjusted for the one-year delay in the contributions. This adjustment includes interest on the UAAL plus a credit for the estimated contributions to be received towards the payment of the UAAL in APRS fiscal year 2021. The table below shows the development of the Legacy Liability as of December 31, 2021.

| | |
|---|---------------|
| 1. UAAL as of December 31, 2020 | \$637,738,287 |
| 2. Estimated 2021 amortization payment toward UAAL | 16,372,580 |
| 3. Interest on items 1 and 2 | 45,652,904 |
| 4. Projected Legacy Liability as of December 31, 2021 | 667,018,611 |

As part of the legislation which created the new financing provisions of APRS, the increase in the City Contribution Rate is to be phased in over a three-year period. To accomplish this, we estimated the City contribution in dollars for 2021 based on projected payroll and the current 21.737% of payroll contribution. We also estimated the City contribution in dollars for 2022 based on projected payroll and reflecting the new statutory funding requirements without the three-year phase-in. The difference between these two numbers is the starting point for the three-year phase-in. However, because the contribution phase-in defers some of the costs of the Legacy Liability payments, an interest adjustment must be made to the phase-in amounts so that the Legacy Liability is still eliminated within thirty years. The table below shows the development of the phase-in.

RSVS Discussion

| | |
|--|---------------|
| 1. Projected Payroll for 2021 | \$169,910,542 |
| 2. Projected City contribution in 2021 (21.737% of payroll) | 36,933,454 |
| 3. Projected Payroll for 2022 | 175,007,858 |
| 4. Projected 2022 Employer Normal Cost (10.10% of payroll) | 17,675,794 |
| 5. Legacy Liability Payment in 2022 (without phase-in) | 38,954,664 |
| 6. Total projected 2022 City contribution (without phase-in) | 56,630,458 |
| 7. Difference in 2021 and 2022 (Item 6 minus Item 2) | 19,697,004 |
| 8. Phase-in amount prior to adjustment for interest (Item 7 / 3) | 6,565,668 |

However, if we just applied the phase-in as is (i.e. the City contribution in 2022 is projected to be \$6,565,668 greater than the 2021 contribution, and then the Legacy Liability payments increase by \$6,565,668 each of the next two years followed by 3% increases thereafter, the Legacy Liability would not be fully amortized by the end of the 30 payments. Therefore, an interest adjustment must be made to the phase-in amount in order for the Legacy Liability to be fully amortized at the end of the 30-year period. We have determined that this requires the phased-in amount to be increased to \$7,737,298.

Hence, the projected 2022 City contribution is expected to be \$7,737,298 greater than the projected City 2021 contribution. The actual differences will depend upon actual payroll growth. After the first year the phase-in is reflected completely in the Legacy Liability payments (i.e. the 2023 Legacy Liability payment is \$7,737,298 greater than the 2022 Legacy Liability payment and the 2024 Legacy Liability payment will be \$7,737,298 greater than the 2023 Legacy Liability payment). Thereafter, the Legacy Liability payments grow at 3%.

Actuarially Determined Contribution Corridor

| Fiscal Year Ending | Corridor Minimum | Corridor Midpoint | Corridor Maximum | Actual City Contribution Rate |
|-----------------------|---------------------|----------------------|---------------------|-------------------------------------|
| (1) | (2) | (3) | (4) | (5) |
| December 31, 2022 | 5.10% | 10.10% | 15.10% | 10.10% |
| December 31, 2023 | 4.85% | 9.85% | 14.85% | |
| December 31, 2024 | 4.59% | 9.59% | 14.59% | |
| December 31, 2025 | 4.33% | 9.33% | 14.33% | |
| December 31, 2026 | 4.08% | 9.08% | 14.08% | |
| December 31, 2027 | 3.83% | 8.83% | 13.83% | |
| December 31, 2028 | 3.58% | 8.58% | 13.58% | |
| December 31, 2029 | 3.32% | 8.32% | 13.32% | |
| December 31, 2030 | 3.05% | 8.05% | 13.05% | |
| December 31, 2031 | 2.79% | 7.79% | 12.79% | |
| December 31, 2032 | 2.53% | 7.53% | 12.53% | |
| December 31, 2033 | 2.27% | 7.27% | 12.27% | |
| December 31, 2034 | 2.02% | 7.02% | 12.02% | |
| December 31, 2035 | 1.75% | 6.75% | 11.75% | |
| December 31, 2036 | 1.47% | 6.47% | 11.47% | |
| December 31, 2037 | 1.21% | 6.21% | 11.21% | |
| December 31, 2038 | 0.94% | 5.94% | 10.94% | |
| December 31, 2039 | 0.67% | 5.67% | 10.67% | |
| December 31, 2040 | 0.39% | 5.39% | 10.39% | |
| December 31, 2041 | 0.12% | 5.12% | 10.12% | |
| December 31, 2042 | -0.13%* | 4.87% | 9.87% | |
| December 31, 2043 | -0.36%* | 4.64% | 9.64% | |
| December 31, 2044 | -0.57%* | 4.43% | 9.43% | |
| December 31, 2045 | -0.77%* | 4.23% | 9.23% | |
| December 31, 2046 | -0.92%* | 4.08% | 9.08% | |
| December 31, 2047 | -1.03%* | 3.97% | 8.97% | |
| December 31, 2048 | -1.13%* | 3.87% | 8.87% | |
| December 31, 2049 | -1.20%* | 3.80% | 8.80% | |
| December 31, 2050 | -1.25%* | 3.75% | 8.75% | |
| December 31, 2051 | -1.29%* | 3.71% | 8.71% | |

* The City Contribution Rate cannot go below zero. In other words, a negative City Contribution Rate will not result in a reduction in the Legacy Liability Payment.

Calculated Actuarially Determined City Contribution Rate

| Fiscal Year Ending | Employer Normal Cost | Amortization Payment | Calculated City Contribution Rate |
|-----------------------|----------------------------|-------------------------|--|
| (1) | (2) | (3) | (4) |
| December 31, 2022 | 10.10% | 0.00% | 10.10% |

Projection of Remaning Legacy Liability and Legacy Liability Payments

| Fiscal Year Ending (1) | Remaining Legacy Liability (2) | Fiscal Year Payment (3) |
|---------------------------|--------------------------------------|----------------------------------|
| December 31, 2020 | \$ 637,738,287 | \$ - |
| December 31, 2021 | 667,018,611 | - |
| December 31, 2022 | 687,421,056 | 26,994,958 |
| December 31, 2023 | 701,289,811 | 34,732,256 |
| December 31, 2024 | 708,151,183 | 42,469,554 |
| December 31, 2025 | 714,190,540 | 43,743,641 |
| December 31, 2026 | 719,308,702 | 45,055,950 |
| December 31, 2027 | 723,398,111 | 46,407,629 |
| December 31, 2028 | 726,342,188 | 47,799,858 |
| December 31, 2029 | 728,014,642 | 49,233,854 |
| December 31, 2030 | 728,278,727 | 50,710,870 |
| December 31, 2031 | 726,986,449 | 52,232,196 |
| December 31, 2032 | 723,977,707 | 53,799,162 |
| December 31, 2033 | 719,079,373 | 55,413,137 |
| December 31, 2034 | 712,104,308 | 57,075,531 |
| December 31, 2035 | 702,850,301 | 58,787,797 |
| December 31, 2036 | 691,098,932 | 60,551,431 |
| December 31, 2037 | 676,614,348 | 62,367,974 |
| December 31, 2038 | 659,141,954 | 64,239,013 |
| December 31, 2039 | 638,407,004 | 66,166,183 |
| December 31, 2040 | 614,113,088 | 68,151,168 |
| December 31, 2041 | 585,940,511 | 70,195,703 |
| December 31, 2042 | 553,544,549 | 72,301,574 |
| December 31, 2043 | 516,553,580 | 74,470,621 |
| December 31, 2044 | 474,567,077 | 76,704,740 |
| December 31, 2045 | 427,153,454 | 79,005,882 |
| December 31, 2046 | 373,847,751 | 81,376,058 |
| December 31, 2047 | 314,149,155 | 83,817,340 |
| December 31, 2048 | 247,518,334 | 86,331,860 |
| December 31, 2049 | 173,374,579 | 88,921,816 |
| December 31, 2050 | 91,092,737 | 91,589,470 |
| December 31, 2051 | - | 94,337,154 |

SECTION A

EXECUTIVE SUMMARY

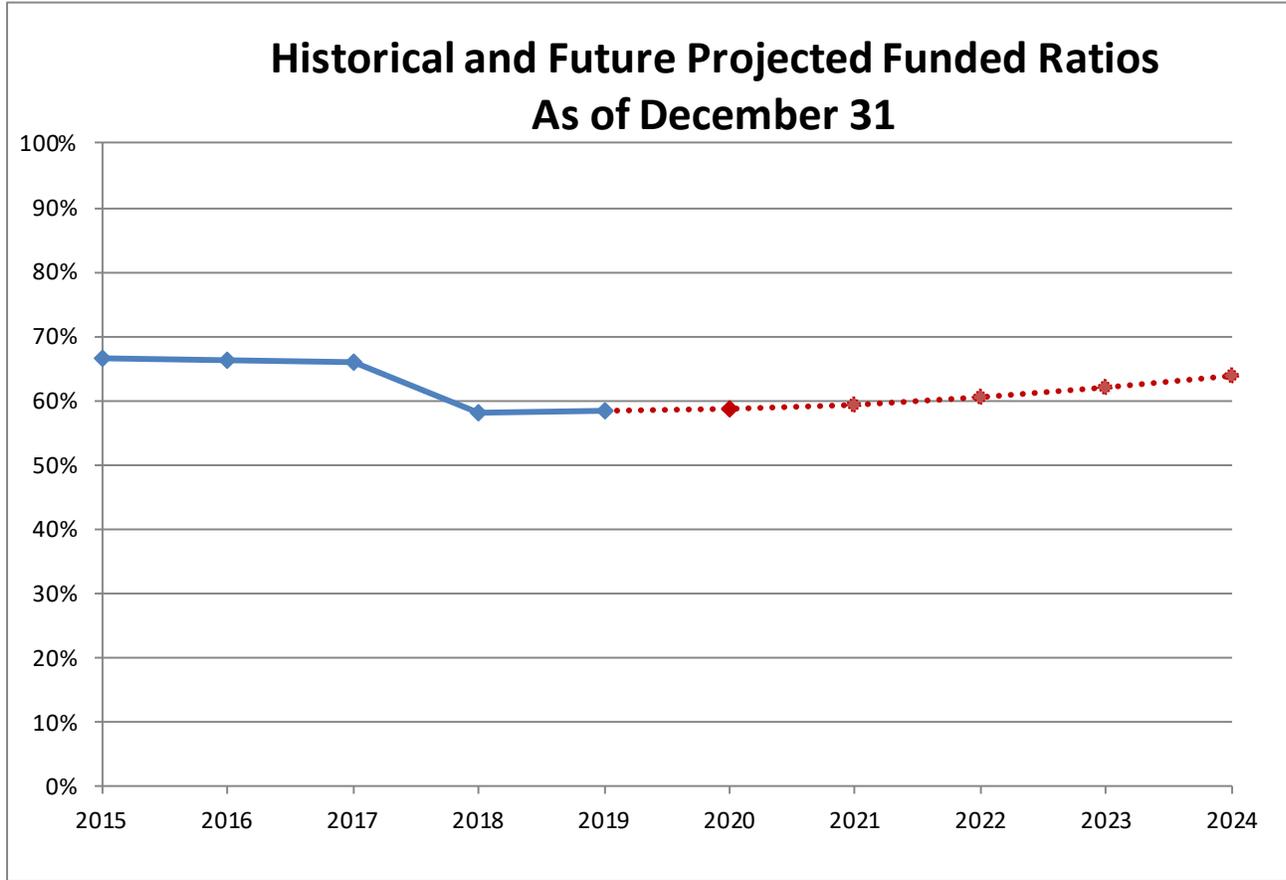
Executive Summary

| Item | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Membership <ul style="list-style-type: none"> • Number of <ul style="list-style-type: none"> - Active members - Inactive, vested - Inactive, nonvested - Annuitants - Total • Annualized Payroll on Valuation Date | 1,775 49 66 1,045 2,935 \$ 164,961,691 | 1,872 43 69 950 2,934 \$ 168,732,391 |
| Statutory contribution rates for current fiscal year <ul style="list-style-type: none"> • Members • City | 13.000% 21.737% | 13.000% 21.313% |
| Contribution to be Allocated to Retiree Death Benefit Fund | 0.132% | 0.123% |
| Estimated Total City Contribution for Fiscal Year | <u>2022</u> | |
| <ul style="list-style-type: none"> • Estimated City Contribution Rate Payment • Legacy Liability Payment (City Contribution Amount) • Total | \$ 17,675,794 26,994,958 \$ 44,670,752 | N/A N/A N/A |
| Assets <ul style="list-style-type: none"> • Market value (MVA) • Actuarial value (AVA) • Return on market value • Return on actuarial value | \$ 938,226,299 \$ 904,436,131 11.6% 8.3% | \$ 857,839,229 \$ 852,294,229 20.7% 6.6% |
| Actuarial Information on AVA (smoothed) <ul style="list-style-type: none"> • Normal cost %¹ • Total normal cost • Actuarial accrued liability • Unfunded actuarial accrued liability (UAAL) • Funded ratio | 25.101% \$ 42,649,245 \$ 1,542,174,418 \$ 637,738,287 58.6% | 24.978% \$ 43,423,261 \$ 1,459,529,788 \$ 607,235,559 58.4% |
| Actuarial Information on MVA <ul style="list-style-type: none"> • Unfunded actuarial accrued liability (UAAL) • Funded ratio | \$ 603,948,119 60.8% | \$ 601,690,559 58.8% |

Notes:

¹ Includes normal cost associated with the Retiree Death Benefit Fund and a load for assumed administrative expenses of the System.

The following chart illustrates the recent history and outlook of the funded status of APRS:



| December 31, | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Funded Ratio | 66.1% | 65.8% | 58.1% | 58.4% | 58.6% | 59.4% | 60.6% | 62.1% | 63.9% | 65.2% |
| UAAL (millions) | \$377 | \$406 | \$582 | \$607 | \$638 | \$653 | \$661 | \$662 | \$656 | \$656 |

The projections beyond 2020 are based on the same assumptions, methods and provisions used for the December 31, 2020 valuation. Additionally, the market value of assets is assumed to earn 7.25% per year.

Based on the new statutory contribution patterns, the new benefit provisions and the actuarial assumptions, APRS’s UAAL is projected to continue to increase the next few years as the contribution increases are phased-in. The flattening of the growth in the UAAL is due to recognition of the deferred investment gains, should these not occur then the UAAL may continue to grow. In consistent financial markets, the funded ratio is expected to continue to improve until APRS is 100% funded.

SECTION B

DISCUSSION

Discussion

Introduction

The results of the December 31, 2020 actuarial valuation of the Austin Police Retirement System (APRS) are presented in this report.

The primary purposes of this actuarial valuation report are to determine the City Contribution Rate, describe the current financial condition of APRS, analyze the changes in the condition of APRS, and provide various summaries of the data.

The City Contribution Rate, determined by this valuation will begin one year after the valuation date. In addition to this actuarially determined rate, the City will contribute a Legacy Liability payment beginning in 2022.

There was an unexpected increase in the unfunded actuarial liabilities of approximately \$2.8 million. The net unexpected increase in the unfunded actuarial accrued liability includes an asset experience gain of \$9.2 million and a liability experience loss of \$12.0 million.

The Retiree Death Benefit Fund was established in 2003 as a separate account within the system to advance fund and to pay the \$10,000 post-retirement lump sum death benefits for retirees. Table 11 outlines the portion of the City contribution rate that should be allocated to the Retiree Death Benefit Fund such that the Retiree Death Benefit Plan will be fully funded 15 years following December 31, 2020. With the exception of Table 11, the amounts outlined in this report represent the total assets and liabilities of APRS, inclusive of the Retiree Death Benefit Plan.

Assessment of Risk

Section D of this report, titled “Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions,” outlines a series of risk measures that are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation.

Plan Provisions

HB 4368 was passed by the Texas Legislature and signed by the Governor in June of 2021. Included in the Bill were the following changes to the benefits and financing of APRS:

- A new tier of benefits for members who first participate in APRS on or after January 1, 2022. The new tier includes a 2.5% multiplier, retirement eligibility at age 50 with 25 years of service, and average final salary determined over 60 months.
- Member contribution rate will increase to 15% for all members beginning January 1, 2022. Future increases in the member rate are possible but cannot exceed a total rate of 17%.
- The City will contribute on an actuarially determined basis beginning January 1, 2022. The contribution will be comprised of a Legacy Liability payment (dollar amount) to pay-off the Unfunded Actuarial Accrued Liability of APRS established as part of the Initial Risk Sharing Valuation over a 30-year period, and an actuarially determined contribution (ADC), as a percentage of pay, to

pay the employer normal costs of APRS and any new unfunded liabilities. The increase in the City contribution will be phased in over 3 years.

- A contribution corridor is established for the City's ADC with this valuation. The corridor is 5% of pay above and below the mid-point of the corridor. The mid-point of the corridor is the projected normal cost rate of the System based on an open group projection reflecting the new tier of benefits and assuming a constant level of active members equal to the number included in the December 31, 2020 valuation.

The current plan provisions are outlined in Section E of this report.

Actuarial Assumptions and Methods

There were no changes to the actuarial assumptions and method during the past year. The current actuarial assumptions and methods are outlined in Section F of this report. The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees effective with the December 31, 2018 actuarial valuation. The actuarial assumptions used are based on an experience review for the five-year period from January 1, 2013 through December 31, 2017, dated May 15, 2019. The actuarial assumptions used in this report are reasonable for the purposes of this valuation.

Funding Adequacy

The City is contributing 21.737% of payroll and members contribute 13.000% of payroll for 2021. HB 4368 increases the member rate to 15.000% of payroll effective January 1, 2022. The City contribution will consist of two pieces beginning in 2022. These pieces are a Legacy Liability payment which is intended to amortize the unfunded liabilities as of December 31, 2021 over the 30-year period beginning on January 1, 2022 and an actuarially determined contribution amount to pay the employer's normal cost and amortize any new unfunded liabilities.

The unfunded actuarial accrued liability (UAAL) of APRS increased from \$607 million as of December 31, 2019 to \$638 million as of December 31, 2020. Additionally, the funded ratio of APRS—actuarial value of assets divided by the actuarial accrued liability—increased from 58.4% to 58.6% as of December 31, 2020. The funded status is one of many metrics used to show trends and develop future expectations about the health of a retirement system. The funded status measure itself is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations or assessing the need for or the amount of future contributions since it does not reflect normal cost contributions, the timing of amortization payments, or future experience other than expected.

System Assets

This report contains several tables that summarize key information with respect to the APRS assets.

The total market value of assets increased from \$858 million as of December 31, 2019 to \$938 million as of December 31, 2020. Table 5 reconciles the changes in the fund during the year. Total contributions increased from \$59.2 million to \$60.7 million.

Table 6 shows the development of the actuarial value of assets. The actuarial value of asset method generally recognizes the difference between the actual and expected market value of assets over a five-year

period. The total actuarial value of assets is \$904 million, which is lower than the market value of assets of \$938 million. This indicates that there are currently deferred gains to be recognized in the future.

When measured on a market value, the approximate investment return net of investment-related expenses for the fiscal year ending December 31, 2020 was 11.6%. When measured on an actuarial value, the net investment return was 8.3%, which is higher than the assumed return of 7.25%. APRS experienced a \$9.2 million actuarial asset gain over the past year. Table 7 shows a history of investment return rates. The APRS five-year average market return is 8.4% and the five-year average actuarial return is 6.1%.

Table 8 provides a history of the contributions paid into APRS and the administrative expenses and benefit payments that have been paid out of APRS. This table shows that APRS received less contributions than it paid out in administrative expenses and benefit payments, or -\$18.0 million (or -1.9% of assets) for the year ending December 31, 2020. Negative cashflow is expected for a pre-funded pension program. The entire reason for setting aside assets is to have the ability to use investment earnings to pay for benefits. If the cashflow was always going to be positive, there would be no reason to pre-fund the system.

All of the tables referenced in this discussion appear in Section C of this report.

Data

The valuation was based upon information as of December 31, 2020 furnished by APRS staff, concerning system benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by APRS staff. The tables in Section F show key census statistics for the various groups included in the valuation.

Sustainability

The financial outlook of APRS has improved significantly. At this time last year, the outlook for APRS was a depletion of the System's assets within 50 years if no changes were made to the benefits and contribution rates of the System. The passage of HB 4368 put in place a new lower tier of benefits which will slow the growth of APRS liabilities over the long-term, but more importantly the legislation changed the financing structure of APRS to a methodology that is intended to insure the long-term sustainability of APRS.

SECTION C

TABLES

Table 1
Comparison of Valuation Liabilities
(Inclusive of the Retiree Death Benefit Fund)

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| 1. Payroll | | |
| a. Annualized Payroll on Valuation Date | \$ 164,961,691 | \$ 168,732,391 |
| b. Projected Contributory Payroll | 169,910,542 | 173,846,030 |
| 2. Total Normal Cost Rate | | |
| a. Gross normal cost rate | 24.201% | 24.078% |
| b. Administrative expenses | 0.900% | 0.900% |
| c. Total (Item 2a + Item 2b) | <u>25.101%</u> | <u>24.978%</u> |
| 3. Actuarial Accrued Liability for Active and Active DROP Members | | |
| a. Present value of future benefits for active members | \$ 1,090,425,560 | \$ 1,113,273,398 |
| b. Less: present value of future normal costs | <u>(352,158,055)</u> | <u>(367,752,072)</u> |
| c. Actuarial accrued liability | \$ 738,267,505 | \$ 745,521,326 |
| 4. Total Actuarial Accrued Liability for: | | |
| a. Retirees and beneficiaries | \$ 793,871,767 | \$ 702,378,940 |
| b. Inactive members | 10,035,146 | 11,629,522 |
| c. Active and Active DROP members (Item 3c) | <u>738,267,505</u> | <u>745,521,326</u> |
| d. Total | \$ 1,542,174,418 | \$ 1,459,529,788 |
| 5. Actuarial Value of Assets | \$ 904,436,131 | \$ 852,294,229 |
| 6. Unfunded Actuarial Accrued Liability (UAAL) (Item 4d - Item 5) | \$ 637,738,287 | \$ 607,235,559 |
| 7. Funded Ratio | 58.6% | 58.4% |

Table 2
Actuarial Present Value of Future Benefits
(Inclusive of the Retiree Death Benefit Fund)

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| 1. Active Members (not in DROP at the valuation date) | | |
| a. Service Retirement | \$ 1,009,165,238 | \$ 1,009,843,332 |
| b. Disability Benefits | 5,536,956 | 5,707,413 |
| c. Death Before Retirement | 6,559,534 | 6,523,386 |
| d. Termination | <u>18,190,093</u> | <u>18,326,978</u> |
| e. Total | \$ 1,039,451,821 | \$ 1,040,401,109 |
| 2. Active DROP Members | \$ 50,973,739 | \$ 72,872,289 |
| 3. Inactive Members | | |
| a. Vested Terminated | \$ 9,478,294 | \$ 10,954,504 |
| b. Non-Vested Terminated | <u>556,852</u> | <u>675,018</u> |
| c. Total | \$ 10,035,146 | \$ 11,629,522 |
| 4. Annuitants | | |
| a. Service Retirement | \$ 753,648,618 | \$ 664,537,903 |
| b. Disability Retirement | 2,718,140 | 2,327,794 |
| c. Beneficiaries and QDROs | <u>37,505,009</u> | <u>35,513,243</u> |
| d. Total | \$ 793,871,767 | \$ 702,378,940 |
| 5. Total Actuarial Present Value of Future Benefits | \$ 1,894,332,473 | \$ 1,827,281,860 |

Table 3
Analysis of Normal Cost
(Inclusive of the Retiree Death Benefit Fund)

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|--------------------------|--------------------------|
| 1. Gross Normal Cost Rate | | |
| a. Service Retirement | 22.498% | 22.482% |
| b. Disability Benefits | 0.284% | 0.286% |
| c. Death Before Retirement | 0.218% | 0.203% |
| d. Termination | 1.201% | 1.107% |
| e. Total | <u>24.201%</u> | <u>24.078%</u> |
| 2. Administrative Expenses ¹ | 0.900% | 0.900% |
| 3. Total Normal Cost | 25.101% | 24.978% |
| 4. Less: Member Rate | 13.000% | 13.000% |
| 5. Employer Normal Cost Rate | 12.101% | 11.978% |

¹ Includes normal cost associated with the Retiree Death Benefit Fund and a load for assumed administrative expenses of the System.

Table 4
Historical Summary of Active Member Data

| Valuation as of December 31 ¹ , | Active Members | | Covered Payroll | | Average Salary | | Average Age | Average Service |
|---|---------------------|---------------------|--------------------------|---------------------|----------------|---------------------|----------------|--------------------|
| | Number ² | Percent Increase | \$ Amount (thousands) | Percent Increase | \$ Amount | Percent Increase | | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| 2011 | 1,679 | | 133,709 | | 79,636 | | 39.7 | 11.7 |
| 2012 | 1,709 | 1.8% | 140,273 | 4.9% | 82,079 | 3.1% | 39.6 | 11.5 |
| 2013 | 1,732 | 1.3% | 145,871 | 4.0% | 84,221 | 2.6% | 39.9 | 11.6 |
| 2014 | 1,777 | 2.6% | 150,860 | 3.4% | 84,896 | 0.8% | 40.0 | 11.7 |
| 2015 | 1,761 | -0.9% | 151,855 | 0.7% | 86,232 | 1.6% | 40.1 | 11.1 |
| 2016 | 1,837 | 4.3% | 158,761 | 4.5% | 86,424 | 0.2% | 39.8 | 10.8 |
| 2017 | 1,866 | 1.6% | 162,491 | 2.3% | 87,080 | 0.8% | 40.3 | 11.7 |
| 2018 | 1,892 | 1.4% | 166,565 | 2.5% | 88,036 | 1.1% | 40.5 | 12.0 |
| 2019 | 1,872 | -1.1% | 168,732 | 1.3% | 90,135 | 2.4% | 40.9 | 12.5 |
| 2020 | 1,775 | -5.2% | 164,962 | -2.2% | 92,936 | 3.1% | 41.1 | 12.7 |

Notes:

¹ Information prior to December 31, 2017 is based on the information provided in the prior actuary's actuarial valuation reports

² Information for December 31, 2017 and later includes all active and active DROP members

Information prior to December 31, 2017 includes only active members not in DROP at the valuation date

Table 5

Reconciliation of Plan Net Assets

| | Total | Pension | RDBF |
|--|----------------------|----------------------|-------------------|
| 1. Market value of assets at beginning of year | \$ 857,839,229 | \$ 856,318,838 | \$ 1,520,391 |
| 2. Revenue for the year | | | |
| a. Contributions for the year | | | |
| i. Member Contributions - Payroll | \$ 22,180,985 | \$ 22,180,985 | \$ 0 |
| ii. Member Contributions - Service Credit Purchases | 1,941,041 | 1,941,041 | 0 |
| iii. City Contributions - Pension | 35,624,312 | 35,624,312 | 0 |
| iv. City Contributions - Retiree Death Benefit | 210,259 | 0 | 210,259 |
| v. City Contributions - Proportionate Retirement | 742,566 | 742,566 | 0 |
| vi. Total | <u>\$ 60,699,163</u> | <u>\$ 60,488,904</u> | <u>\$ 210,259</u> |
| b. Net Investment income for the year | \$ 98,573,363 | \$ 98,560,096 | \$ 13,267 |
| c. Total revenue | \$ 159,272,526 | \$ 159,049,000 | \$ 223,526 |
| 3. Disbursements for the year | | | |
| a. Retirement and disability benefits | \$ 61,936,649 | \$ 61,936,649 | \$ 0 |
| b. Lump Sum DROP Distributions | 8,374,685 | 8,374,685 | 0 |
| c. Lump Sum PROP Distributions | 5,091,482 | 5,091,482 | 0 |
| d. Retiree Death Benefits | 90,218 | 0 | 90,218 |
| e. Refund of Member Contributions | 1,463,254 | 1,463,254 | 0 |
| f. Administrative expenses | 1,929,168 | 1,929,168 | 0 |
| g. Total disbursements | <u>\$ 78,885,456</u> | <u>\$ 78,795,238</u> | <u>\$ 90,218</u> |
| 4. Increase in net assets (Item 2c - Item 3g) | \$ 80,387,070 | \$ 80,253,762 | \$ 133,308 |
| 5. Market value of assets at end of year (Item 1 + Item 4) | \$ 938,226,299 | \$ 936,572,600 | \$ 1,653,699 |
| 6. Actual net investment income (Item 2b) | \$ 98,573,363 | \$ 98,560,096 | \$ 13,267 |
| 7. Expected net income at 7.25% | | | |
| a. Market value of assets at beginning of year | \$ 62,193,344 | | |
| b. Contributions for the year | 2,200,345 | | |
| c. Disbursements | (2,859,598) | | |
| d. Total | <u>\$ 61,534,091</u> | | |
| 8. Excess investment income (Item 6 - Item 7d) | \$ 37,039,272 | | |
| 9. Estimated dollar weighted market yield | 11.6% | 11.6% | 0.8% |
| 10. Actuarial Value of Assets | | | |
| a. Actuarial value of assets at the beginning of year | \$ 852,294,229 | \$ 850,773,838 | \$ 1,520,391 |
| b. Actuarial value of assets at the end of year | \$ 904,436,131 | \$ 902,782,432 | \$ 1,653,699 |
| c. Investment income for the year | \$ 70,328,195 | \$ 70,314,928 | \$ 13,267 |
| d. Estimated dollar weighted actuarial yield | 8.3% | 8.4% | 0.8% |
| e. Expected return on the actuarial value of assets | \$ 61,132,079 | | |
| f. Asset gain/(loss) (Item 10c - Item 10e) | \$ 9,196,116 | | |

Table 6 Development of Actuarial Value of Assets

Year Ending
December 31, 2020

1. Excess/(Shortfall) of investment income for 2020 (Table 5, Item 8) \$ 37,039,272
2. Development of amounts to be recognized as of December 31, 2020:

| Fiscal Year End | Remaining Deferrals of Excess | | Net Deferrals Remaining | Years Remaining | Recognized for This Valuation | Remaining after This Valuation |
|--------------------|-------------------------------------|---------------------------------|----------------------------|--------------------|----------------------------------|-----------------------------------|
| | (Shortfall) of Investment Income | Offsetting of Gains/(Losses) | | | | |
| | (1) | (2) | (3) = (1) + (2) | (4) | (5) = (3) / (4) | (6) = (3) - (5) |
| 2016 | \$ 0 | \$ 0 | \$ 0 | 1 | \$ 0 | \$ 0 |
| 2017 | 0 | 0 | 0 | 2 | 0 | 0 |
| 2018 | 0 | 0 | 0 | 3 | 0 | 0 |
| 2019 | 5,545,000 | 0 | 5,545,000 | 4 | 1,386,250 | 4,158,750 |
| 2020 | <u>37,039,272</u> | <u>0</u> | <u>37,039,272</u> | 5 | <u>7,407,854</u> | <u>29,631,418</u> |
| Total | \$ 42,584,272 | \$ 0 | \$ 42,584,272 | | \$ 8,794,104 | \$ 33,790,168 |

3. Market value of assets including RDFB assets
- a. Including RDFB assets \$ 938,226,299
- b. Excluding RDFB assets \$ 936,572,600
4. Actuarial value of assets
- a. Including RDFB assets (Item 3.a. - Item 2, Column 6) \$ 904,436,131
- b. Excluding RDFB assets \$ 902,782,432
5. Ratio of actuarial value to market value 96.4%

Notes: Remaining deferrals in Column (1) for prior years are from Table 6 of the prior year's report. Column 2 is a direct offset of the current year's excess/(shortfall) return against prior years' excess/(shortfall) of the opposite type (offset against oldest base first).

Table 7 History of Investment Return Rates

| Year Ending December 31, ¹ | Market Returns ² | Actuarial |
|--|--------------------------------|-----------|
| (1) | (2) | (3) |
| 2008 | -26.3% | |
| 2009 | 8.8% | |
| 2010 | 11.8% | |
| 2011 | -3.5% | |
| 2012 | 9.7% | -0.4% |
| 2013 | 8.9% | 6.9% |
| 2014 | 5.7% | 6.5% |
| 2015 | -0.3% | 4.4% |
| 2016 | 5.7% | 5.4% |
| 2017 | 11.7% | 5.9% |
| 2018 | -5.8% | 4.5% |
| 2019 | 20.7% | 6.6% |
| 2020 | 11.6% | 8.3% |
| Average Returns | | |
| Last Five Years: | 8.4% | 6.1% |
| Last Ten Years: | 6.2% | N/A |

Notes:

¹ Results prior to December 31, 2017 are based on the information provided in the prior actuary's actuarial valuation reports

² Net of Administrative Expenses through December 31, 2018

Table 8
History of Cash Flow
(thousands \$)

| Year Ending December 31 ¹ , | Distributions and Expenditures | | | | External Cash Flow for the Year | Market Value of Assets | External Cash Flow as Percent of Market Value |
|---|--------------------------------|---------------------------------|---|-------------|---------------------------------------|---------------------------|---|
| | Contributions | Benefit Payments and Refunds | Administrative Expenses ² | Total | | | |
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| 2008 | \$ 34,943 | \$ (26,118) | | \$ (26,118) | \$ 8,825 | \$ 387,120 | 2.3% |
| 2009 | 38,448 | (28,173) | | (28,173) | 10,275 | 432,028 | 2.4% |
| 2010 | 40,081 | (30,876) | | (30,876) | 9,205 | 492,545 | 1.9% |
| 2011 | 43,641 | (34,863) | | (34,863) | 8,778 | 484,089 | 1.8% |
| 2012 | 47,302 | (40,009) | (1,163) | (41,172) | 6,130 | 538,898 | 1.1% |
| 2013 | 50,629 | (42,825) | (1,115) | (43,940) | 6,689 | 595,110 | 1.1% |
| 2014 | 54,065 | (45,403) | (1,327) | (46,730) | 7,335 | 638,019 | 1.1% |
| 2015 | 57,948 | (50,005) | (1,466) | (51,471) | 6,477 | 644,174 | 1.0% |
| 2016 | 56,105 | (50,828) | (1,397) | (52,225) | 3,880 | 686,020 | 0.6% |
| 2017 | 59,493 | (56,548) | (1,563) | (58,111) | 1,382 | 769,475 | 0.2% |
| 2018 | 57,848 | (63,983) | (1,421) | (65,404) | (7,556) | 718,520 | -1.1% |
| 2019 | 59,196 | (66,319) | (1,721) | (68,040) | (8,844) | 857,839 | -1.0% |
| 2020 | 60,699 | (76,956) | (1,929) | (78,885) | (18,186) | 938,226 | -1.9% |

Notes:

¹ Results prior to December 31, 2017 are based on the information provided in the prior actuary's actuarial valuation reports

² Information was not provided in the prior actuary's valuation reports

Table 9
Total Experience Gain or Loss
(Inclusive of the Retiree Death Benefit Fund)

| Item (1) | Year Ending December 31, 2020 (2) |
|---|---|
| A. Calculation of total actuarial gain or loss | |
| 1. Unfunded actuarial accrued liability (UAAL), previous year | \$ 607,235,559 |
| 2. Normal cost for the year | 43,023,638 |
| 3. Administrative expenses for the year | 1,929,168 |
| 4. Contributions for the year | (60,699,163) |
| 5. Interest at 7.25% | |
| a. On UAAL | \$ 44,024,578 |
| b. On normal cost | 1,559,607 |
| c. On administrative expenses | 69,932 |
| d. On contributions | (2,200,345) |
| e. Total | \$ 43,453,772 |
| 6. Changes due to assumptions | 0 |
| 7. Expected UAAL, end of year (Sum of Items 1 through 6) | 634,942,974 |
| 8. Actual UAAL, end of year | 637,738,287 |
| 9. Total (gain)/loss for the year (Item 8 - Item 7) | \$ 2,795,313 |
| B. Source of gains and losses | |
| | <u>% of AAL</u> |
| 1. Asset (Gain)/Loss | 0.60% \$ (9,196,116) |
| 2. Demographic (Gains)/Losses | 0.78% <u>11,991,429</u> |
| 3. Total | 0.18% \$ 2,795,313 |

Table 10
Funding History
(Inclusive of the Retiree Death Benefit Fund)

| Valuation Date December 31 ¹ , | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) (3) - (2) | Funded Ratio (2)/(3) | Annual Covered Payroll | UAAL as % of Payroll (4)/(6) |
|--|------------------------------------|--------------------------------------|---|-------------------------|---------------------------|---------------------------------|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 2009 | \$ 518,433,065 | \$ 735,334,345 | \$ 216,901,280 | 70.5% | \$ 122,928,285 | 176.4% |
| 2010 | 547,364,486 | 778,005,374 | 230,640,888 | 70.4% | 127,731,696 | 180.6% |
| 2011 | 554,190,027 | 826,366,581 | 272,176,554 | 67.1% | 135,264,530 | 201.2% |
| 2012 | 559,077,407 | 858,949,998 | 299,872,591 | 65.1% | 141,561,047 | 211.8% |
| 2013 | 605,530,903 | 913,591,470 | 308,060,567 | 66.3% | 147,138,718 | 209.4% |
| 2014 | 653,980,764 | 971,213,766 | 317,233,002 | 67.3% | 152,544,227 | 208.0% |
| 2015 | 690,696,986 | 1,039,229,249 | 348,532,263 | 66.5% | 155,832,755 | 223.7% |
| 2016 | 733,105,429 | 1,109,862,137 | 376,756,708 | 66.1% | 163,894,324 | 229.9% |
| 2017 | 779,484,342 | 1,185,017,294 | 405,532,952 | 65.8% | 162,490,560 | 249.6% |
| 2018 | 807,978,988 | 1,389,660,616 | 581,681,628 | 58.1% | 166,564,996 | 349.2% |
| 2019 | 852,294,229 | 1,459,529,788 | 607,235,559 | 58.4% | 168,732,391 | 359.9% |
| 2020 | 904,436,131 | 1,542,174,418 | 637,738,287 | 58.6% | 164,961,691 | 386.6% |

Notes:

¹ Results prior to December 31, 2017 are based on the information provided in the prior actuary's actuarial valuation reports

Table 11 Retiree Death Benefit Fund

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. The following table illustrates the allocation of the total plan assets and liabilities between the primary pension fund and the Retiree Death Benefit Fund.

| | <u>Pension Fund</u> | <u>Retiree Death Benefit Fund</u> | <u>Total</u> |
|---|-------------------------|---------------------------------------|-------------------------|
| 1. Total Actuarial Present Value of Future Benefits | | | |
| a. Active Members | \$ 1,089,333,010 | \$ 1,092,550 | \$ 1,090,425,560 |
| b. Inactive Members | 9,982,854 | 52,292 | 10,035,146 |
| c. Annuitants | 791,065,226 | 2,806,541 | 793,871,767 |
| d. Total | <u>\$ 1,890,381,090</u> | <u>\$ 3,951,383</u> | <u>\$ 1,894,332,473</u> |
| 2. Present Value of Future Normal Costs | \$ 351,811,215 | \$ 346,840 | \$ 352,158,055 |
| 3. Actuarial Accrued Liability (item 1 - item 2) | \$ 1,538,569,875 | \$ 3,604,543 | \$ 1,542,174,418 |
| 4. Valuation Assets | \$ 902,782,432 | \$ 1,653,699 | \$ 904,436,131 |
| 5. Unfunded Actuarial Accrued Liability (UAAL) (item 3 - item 4) | \$ 635,787,443 | \$ 1,950,844 | \$ 637,738,287 |
| 6. City Contribution Rate to be Allocated to the Retiree Death Benefit Fund | | | |
| a. Normal Cost Rate | | 0.028% | |
| b. Payment Required to Amortize UAAL over 15 years (as of 12/31/2020) | | 0.104% | |
| c. Total Allocated Rate | | 0.132% | |

SECTION D

ASSESSMENT AND DISCLOSURE OF RISK ASSOCIATED WITH MEASURING PENSION OBLIGATIONS AND DETERMINING PENSION PLAN CONTRIBUTIONS

Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions

The determination of the accrued liability and an actuarially determined contribution (or funding period) requires the use of assumptions regarding future economic and demographic experience. Risk measures, as illustrated in this report, are intended to aid in the understanding of the effects of future experience differing from the assumptions used in the course of the actuarial valuation. Risk measures may also help with illustrating the potential volatility in the accrued liability and an actuarially determined contribution (or funding period) that result from the differences between actual experience and the actuarial assumptions.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions due to changing conditions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition include:

1. Investment risk – actual investment returns may differ from the expected returns;
2. Asset/Liability mismatch – changes in asset values may not match changes in liabilities, thereby altering the gap between the accrued liability and assets and consequently altering the funded status and contribution requirements;
3. Contribution risk – actual contributions may differ from expected future contributions. For example, actual contributions may not be made in accordance with the plan's funding policy or material changes may occur in the anticipated number of covered employees, covered payroll, or other relevant contribution base;
4. Salary and Payroll risk – actual salaries and total payroll may differ from expected, resulting in actual future accrued liability and contributions differing from expected;
5. Longevity risk – members may live longer or shorter than expected and receive pensions for a period of time other than assumed;
6. Other demographic risks – members may terminate, retire or become disabled at times or with benefits other than assumed resulting in actual future accrued liability and contributions differing from expected.

The effects of certain trends in experience can generally be anticipated. For example, if the investment return since the most recent actuarial valuation is less (or more) than the assumed rate, the cost of the plan can be expected to increase (or decrease). Likewise, if longevity is improving (or worsening), increases (or decreases) in cost can be anticipated.

The actuarially determined employer contribution rates shown on the Executive Summary provide a guide for the adequacy of the current statutory contribution rates received from the membership and the City. As shown on the exhibit, the current contribution rates are not sufficient to ensure the sustainability of the System. The timely receipt of the actuarially determined contributions is critical to support the financial health of the System. Users of this report should be aware that contributions made at the actuarially determined rate do not necessarily guarantee benefit security.

PLAN MATURITY MEASURES

Risks facing a pension plan evolve over time. A young plan with virtually no investments and paying few benefits may experience little investment risk. An older plan with a large number of members in pay status and a significant trust may be much more exposed to investment risk. Generally accepted plan maturity measures include the following (please see a description of the measures following the table):

| Valuation as of December 31 st | 2020 | 2019 | 2018 | 2017 |
|---|-------|-------|-------|---------------|
| Ratio of market value of assets to payroll | 5.7 | 5.1 | 4.3 | 4.7 |
| Ratio of actuarial accrued liability to payroll | 9.3 | 8.6 | 8.3 | 7.3 |
| Ratio of actives to retirees and beneficiaries | 1.7 | 2.0 | 2.1 | 2.2 |
| Ratio of net cash flows to market value of assets | -1.9% | -1.0% | -1.1% | 0.2% |
| Duration of actuarial accrued liability | 14.6 | 14.8 | 15.1 | Not available |

RATIO OF MARKET VALUE OF ASSETS TO PAYROLL

The relationship between assets and payroll is a useful indicator of the potential volatility of contributions. For example, if the market value of assets is 2.0 times the payroll, a return on assets 5% different than assumed would equal 10% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in plan sponsor contributions as a percentage of payroll.

RATIO OF ACTUARIAL ACCRUED LIABILITY TO PAYROLL

The relationship between actuarial accrued liability and payroll is a useful indicator of the potential volatility of contributions for a fully funded plan. A funding policy that targets a funded ratio of 100% is expected to result in the ratio of assets to payroll and the ratio of liability to payroll converging over time.

The ratio of liability to payroll may also be used as a measure of sensitivity of the liability itself. For example, if the actuarial accrued liability is 2.5 times the payroll (5 to 2 ratio), a change in liability 2% other than assumed would equal 5% of payroll. A higher (lower) or increasing (decreasing) level of this maturity measure generally indicates a higher (lower) or increasing (decreasing) volatility in liability (and also plan sponsor contributions) as a percentage of payroll.

RATIO OF ACTIVES TO RETIREES AND BENEFICIARIES

A young plan with many active members and few retirees will have a high ratio of active to retirees. A mature open plan may have close to the same number of actives to retirees resulting in a ratio near 1.0. A super-mature or closed plan may have significantly more retirees than actives resulting in a ratio below 1.0.

RATIO OF NET CASH FLOW TO MARKET VALUE OF ASSETS

A positive net cash flow means contributions exceed benefits and expenses. A negative cash flow means existing funds are being used to make payments. A certain amount of negative net cash flow is generally expected to occur when benefits are prefunded through a qualified trust. Large negative net cash flows as a percentage of assets may indicate a super-mature plan or a need for additional contributions.

DURATION OF ACTUARIAL ACCRUED LIABILITY

The duration of the actuarial accrued liability may be used to approximate the sensitivity to a 1% change in the assumed rate of return. For example, a duration of 10 indicates that the liability would increase approximately 10% if the assumed rate of return were lowered 1%.

ADDITIONAL RISK ASSESSMENT

Additional assessment may include scenario tests, sensitivity tests, stochastic modeling, stress tests, and a comparison of the present value of accrued benefits at low-risk discount rates with the actuarial accrued liability. A robust measurement of additional risk assessment is outside the scope of the annual actuarial valuation. However, we recommend that some scenario testing and sensitivity testing be included in any sustainability study conducted in the future.

SECTION E

SUMMARY OF PLAN PROVISIONS

Summary of Plan Provisions for Austin Police Retirement System

Creditable Service (APRS Service)

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.

Earnings

Base pay plus longevity pay. Overtime or special pay is not included.

Average Final Compensation

Average Earnings for the highest 36 months (60 months for new member beginning January 1, 2022) over the last 120 months of service.

Member Contributions

13.000% of Earnings. 15.000% of Earnings beginning January 1, 2022. Subject to a possible increase of up to 2% of pay (17% of pay total) of the ADC exceeds the corridor maximum.

City Contributions

21.737%, effective October 1, 2020.

Beginning January 1, 2022, City contribution will consist of two components:

- City Contribution Amount – Fixed City payment plan established to eliminate the legacy unfunded liability existing as of December 31, 2020 over a 30-year period, plus
- City Contribution Rate – An actuarially determined contribution (ADC) based on plan costs (reduced by the member rate) in addition to the fixed payment plan for the legacy unfunded liability, subject to certain constraints. A corridor (see page RSV-3) for the ADEC was established as of December 31, 2020 to keep the rate within a certain range to ensure long-term funding but moderating volatility. The City Contribution Rate is the ADC except:
 - If the ADC is less than the corridor midpoint but APRS is less than 90% funded then the City Contribution Rate is the corridor midpoint,
 - If the ADC exceeds the corridor maximum the City Contribution Rate is the corridor maximum.

Normal Retirement

Date:

Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age. For new members beginning January 1, 2022, age 62, or age 50 and 25 years of Creditable Service. Creditable Service for retirement eligibility includes Proportionate Service Credit and excludes pre-membership military service.

Benefit:

3.20% of Average Final Compensation (2.50% for new member beginning January 1, 2022) times Creditable Service (including pre-membership military service).

Form of Benefit:

Life Annuity. At the death of the member, the excess, if any, of the member's accumulated contributions over the amount of payments made to the member will be paid in a lump sum to the member's beneficiary. (Other benefit options available).

Vesting

Schedule:

100% after 10 years of Creditable Service, including Proportionate Service Credit.

Benefit Amount:

Members 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:

10 years of Creditable Service (service requirement is waived if the disability is a direct or proximate result of the performance of the member's employment). Members who are eligible for normal retirement may not apply for disability benefits.

Benefit:

Monthly benefit is calculated in the same manner as the member's normal retirement benefit. Benefit will be calculated with a minimum of 20 years of Creditable Service if the disability is a direct or proximate result of the performance of the member's employment.

Death Benefits

Before Retirement Eligibility:

Lump sum payment equal to twice the amount of the member's accumulated contributions, subject to a minimum of \$10,000.

After Retirement Eligibility (member is married at the time of death):

In lieu of the lump sum benefit described above, the surviving spouse may select a retirement option in the same manner as if the member had retired immediately prior to his death. When monthly benefits are payable in lieu of the lump sum, a \$10,000 death benefit will be paid to the surviving spouse.

After Retirement Eligibility (member is not married at the time of death):

In lieu of the lump sum benefit described above, the member's beneficiary may select a Fifteen Year Certain benefit calculated in the same manner as if the member had retired immediately prior to his death. When monthly benefits are payable in lieu of the lump sum, a \$10,000 death benefit will be paid to the beneficiary.

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.

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.

The City is required to make additional contributions to APRS equal to the cost of the PRP which is currently estimated to be 0.737% of payroll. Beginning in 2022, the cost of the PRP will be included as part of the Legacy Liability and the actuarially determined City Contribution Rate.

Forward DROP

Eligibility:

Completion of 23 years of Creditable Service (including Proportionate Service Credit and excluding pre-membership military service).

Participation Period:

Not to exceed 60 months. For members with less than 23 years of APRS Service as of February 17, 2016, the maximum participation period was extended to 84 months.

Rate of Return:

Effective August 1, 2015, equal to the PROP interest rate (currently 2.25%). Members with 23 years of APRS service as of July 31, 2015 will receive 5.00% interest credit per year. Additionally, members with less than 23 years of APRS Service as of February 17, 2016 will not receive interest crediting while in DROP.

DROP Fee/Charge:

For members with less than 23 years of APRS Service as of February 17, 2016, a charge for DROP participation will be applied as shown below. The charge will only apply during the period of DROP participation.

| <u>Year of DROP Participation</u> | <u>Fee/Charge</u> |
|-----------------------------------|-------------------|
| 1 | 25% |
| 2 | 20 |
| 3 | 15 |
| 4 | 10 |
| 5 | 5 |
| 6 | 5 |
| 7 | 5 |

Form of Distribution:

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

Miscellaneous:

For members with less than 23 years of APRS Service as of February 17, 2016, member contributions will continue to be required during the DROP participation period, but these contributions will be retained by the System.

Retro DROP

Eligibility:

Completion of 23 years of Creditable Service (included Proportionate Service Credit and excluding pre-membership military service). Members with less than 23 years on April 1, 2015 will not be eligible to participate in Retro DROP.

Participation Period:

Not to exceed 36 months.

Rate of Return:

5.0%.

Form of Distribution:

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

Post-Retirement Option Plan (PROP)

Retiring members who have participated in DROP may transfer all or a portion of their DROP lump sum into their PROP account for later disbursement.

Retired members may defer receipt of a minimum of \$250 of their monthly annuity. These deferred benefits will be accumulated and available for later disbursement. Participants may change their deferral amount twice per calendar year. The interest crediting rate on a member's PROP deferrals is set by the Board. The current crediting rate is 2.25%.

Cost of Living Adjustment

None.

SECTION F

ACTUARIAL ASSUMPTIONS AND METHODS

Summary of Actuarial Assumptions and Methods

The assumptions and methods applied in this actuarial valuation were adopted by the Board of Trustees effective with the December 31, 2018 actuarial valuation. The actuarial assumptions used for the December 31, 2019 actuarial valuation are based on an experience review for the five-year period from January 1, 2013 through December 31, 2017, dated May 15, 2019. Please see this report for a discussion of the analysis and rationale for the recommended assumptions.

I. Valuation Date

The valuation date is December 31 of each plan year. This is the date as of which the actuarial present value of future benefits and the actuarial value of assets are determined.

II. Actuarial Cost Method

The actuarial valuation is used to determine the adequacy of the current City contribution rate, describe the current financial condition of APRS, analyze changes in the condition of APRS, and provide various summaries of the data.

The actuarial valuation uses the Entry Age Normal (EAN) actuarial cost method. Under this method, the first step is to determine the contribution rate (level as a percentage of pay) required to provide the benefits to each member, or the normal cost rate. The normal cost rate consists of two pieces: (i) the member's contribution rate, and (ii) the remaining portion of the normal cost rate which is the employer's normal cost rate. The total normal cost rate is based on the benefits payable to each individual active member.

The Unfunded Actuarial Accrued Liability (UAAL) is the liability for future benefits which is in excess of (i) the actuarial value of assets, and (ii) the present value of future normal costs. The employer contribution provided in excess of the employer normal cost is applied to amortize the UAAL.

The Entry Age actuarial cost method is an "immediate gain" method (i.e., experience gains and losses are separately identified as part of the UAAL). However, they are amortized over the same period applied to all other components of the UAAL.

III. Actuarial Value of Assets

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment returns in excess of (less than) expected investment income. Offsetting unrecognized gains and losses are immediately recognized, with the shortest remaining bases recognized first and the net remaining bases continuing to be recognized on their original timeframe. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year).

IV. Actuarial Assumptions

Investment Return: 7.25% per year, net of investment-related expenses (composed of an assumed 2.50% inflation rate and a 4.75% real rate of return)

Mortality Decrements:

Pre-retirement

PubS-2010 Employee Mortality Table for males and females. Generational mortality improvements projected from the year 2010 using the ultimate mortality improvement rates in the MP tables.

Healthy Annuitants

PubS-2010 Healthy Retiree Mortality Table for males and females. Generational mortality improvements projected from the year 2010 using the ultimate mortality improvement rates in the MP tables.

Disabled Annuitants

PubS-2010 Disability Mortality Table for males and females. Generational mortality improvements projected from the year 2010 using the ultimate mortality improvement rates in the MP tables.

Service Retirement Decrements:

Members Who Have 23 Years of Service by Age 55

The following rates reflect the members expected departure from active service and are applied based on years of service:

| Years of Service | Probability of Retirement |
|-------------------------|----------------------------------|
| 23 | 28% |
| 24 | 18 |
| 25 | 18 |
| 26 | 18 |
| 27 | 25 |
| 28 | 25 |
| 29 | 25 |
| 30+ | 35 |

Years of Service includes APRS Service and Proportionate Service Credit.
100% probability of retirement at age 62.

Members Who Do Not Have 23 Years of Service by Age 55

The following rates reflect the members expected departure from active service and are applied based on the member's age:

| Age | Probability of Retirement |
|------------|----------------------------------|
| 55 | 50% |
| 56 | 25 |
| 57 | 25 |
| 58 | 25 |
| 59 | 25 |
| 60 | 25 |
| 61 | 25 |
| 62+ | 100 |

Deferred Retirement Option Program (DROP)

Members eligible for either the Back DROP or 5-year Forward DROP (or both) are assumed to select the most valuable option based on their individual situation at each possible retirement age. Members eligible for only the 7-year Forward DROP are assumed to not participate in DROP.

Post-Retirement Option Plan (PROP) Investment Accounts

75% of members with a PROP account at the valuation date will elect to leave their lump sum in APRS until age 60 and 25% of members will elect to receive their PROP balance at the valuation date. No future PROP deferrals are assumed and current active members are not assumed to enter PROP. Average annual rate credited to the PROP accounts will be 2.25%.

Withdrawal of Employee Contributions

Members that terminate with a vested benefit are assumed to choose the most valuable option available to them at the time of termination: withdrawal of contributions or deferred annuity. Non-vested members are assumed to receive an immediate refund of accumulated contributions.

Disability Retirement Decrements:

Disability Rates

Rates for males and females at selected ages are shown below:

| Age | Rate |
|-----|---------|
| 20 | 0.0004% |
| 25 | 0.0025 |
| 30 | 0.0099 |
| 35 | 0.0259 |
| 40 | 0.0494 |
| 45 | 0.0804 |
| 50 | 0.1188 |
| 55 | 0.1647 |
| 60 | 0.2180 |

Disability rates are set to zero when members become eligible for retirement

In Line of Duty Disability

55% of disability retirements assumed to be in the line of duty.

Termination Decrements for Reasons Other Than Death or Retirement:

Withdrawal Rates

The following service-based rates apply:

| Years of Service | Probability of Termination |
|------------------|----------------------------|
| 0 | 12.00% |
| 1 | 6.00 |
| 2-5 | 2.00 |
| 6-22 | 0.75 |
| 23+ | 0.00 |

Years of Service includes APRS Service and Proportionate Service Credit.

Termination rates are set to zero when members become eligible for retirement

Salary Increases: Increases are assumed to vary by years of APRS Service. Salary increases include an underlying inflation component of 2.50% and a productivity component of 0.50%.

| Anniversary of Academy Graduation | Percentage Increase |
|--|----------------------------|
| 1* | 15.20% |
| 2 | 3.00 |
| 3 | 3.00 |
| 4 | 3.00 |
| 5 | 3.00 |
| 6 | 10.00 |
| 7 | 3.00 |
| 8 | 3.00 |
| 9 | 3.00 |
| 10 | 10.00 |
| 11 | 3.00 |
| 12 | 3.00 |
| 13 | 3.00 |
| 14 | 10.00 |
| 15 | 3.00 |
| 16 | 10.00 |
| 17+ | 3.00 |

*Rate of Increase for 1st Anniversary of Graduation is for an Officer Position. If member is still a cadet on the valuation date then the increase in the upcoming year will be, either: (1) 46.70% for a regular Academy graduate, or (2) 17.40% plus the 15.20% Step Rate for a Modified Academy graduate.

Cost-of-Living Adjustments (COLA): Cost of living adjustments are granted on an ad hoc basis. No future COLAs are assumed.

Administrative Expenses: 0.90% of payroll. Included in this assumption would be any administrative expenses associated with the proportionate retirement program, which is currently assumed to be 0.017% of payroll.

Payroll Growth: Member Payroll is assumed to grow at 3.00% per year.

Marital Assumptions: 85% of active members are assumed to be married. Male spouses are assumed to be three years older than female spouses.

Decrement Timing: All decrements – mortality, service retirement, disability retirement, and termination of employment for reasons other than death or retirement – are assumed to occur at the middle of the valuation year.

Census Data and Assets

- The valuation was based on members of APRS as of the valuation date and does not take into account future members.
- All census data was supplied by APRS and was subject to reasonable consistency checks.
- There were data elements that were modified for some members as part of the valuation in order to make the data complete. However, the number of missing data items was immaterial.
- Asset data was supplied by APRS.

Other Actuarial Valuation Procedures

- No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Sections 415 or 401(a)17.
- Annualized Payroll on Valuation Date is the annualized payroll of active members on the valuation date. Projected Contributory Payroll for the upcoming fiscal year (used in determining the amortization period) is the estimated pensionable earnings received by all plan members for the just completed calendar year (including earnings for members who are no longer active employees on the valuation date) increased by the assumed payroll growth rate.

Actuarial Model: This report was prepared using our proprietary valuation model and related software which in our professional judgment has the capability to provide results that are consistent with the purposes of the valuation. We performed tests to ensure that the model reasonably represents that which is intended to be modeled.

SECTION G

DETAILED SUMMARIES OF MEMBERSHIP DATA

Detailed Summaries of Membership Data

| <u>Table</u> | | Page # |
|--------------|--|--------|
| A | Summary of Active Membership Data | 2 |
| B | Summary of Annuitant Membership Data | 3 |
| C | Status Reconciliation | 4 |
| D | Active Members – Distribution by Age and Service | 5 |
| E | Annuitants – Distribution by Age | 6 |



Table A

Summary of Active Membership Data

December 31, 2020

Active members

| | | |
|--|----|-------------|
| a. Number | | 1,737 |
| b. Total payroll at the valuation date | \$ | 160,592,415 |
| c. Average salary | \$ | 92,454 |
| d. Average age | | 40.8 |
| e. Average benefit service | | 12.4 |

Active members currently in DROP

| | | |
|--|----|-----------|
| a. Number | | 38 |
| b. Total payroll at the valuation date | \$ | 4,369,276 |
| c. Average salary | \$ | 114,981 |
| d. Average age | | 53.6 |
| e. Average benefit service | | 27.6 |
| f. Total annual benefits | \$ | 3,328,906 |
| g. Average annual benefit | \$ | 87,603 |
| h. Total DROP Balance | \$ | 9,471,149 |

Vested inactive members

| | | |
|------------------------------------|----|-----------|
| a. Number | | 49 |
| b. Total annual deferred benefits | \$ | 1,663,714 |
| c. Average annual deferred benefit | \$ | 33,953 |
| d. Average age | | 48.4 |

Nonvested inactive members

| | | |
|-----------------------------|----|---------|
| a. Number | | 66 |
| b. Member contributions due | \$ | 556,852 |
| c. Average refund due | \$ | 8,437 |

Table B

Summary of Annuitant Membership Data

December 31, 2020

Service Retirees

| | | |
|---------------------------|----|------------|
| a. Number | | 912 |
| b. Total annual benefits | \$ | 63,476,801 |
| c. Average annual benefit | \$ | 69,602 |
| d. Average age | | 63.2 |
| e. Total PROP Balance | \$ | 29,618,654 |

Disability Retirees

| | | |
|---------------------------|----|---------|
| a. Number | | 6 |
| b. Total annual benefits | \$ | 209,742 |
| c. Average annual benefit | \$ | 34,957 |
| d. Average age | | 50.5 |
| e. Total PROP Balance | \$ | 0 |

Beneficiaries

| | | |
|---------------------------|----|-----------|
| a. Number | | 70 |
| b. Total annual benefits | \$ | 3,023,637 |
| c. Average annual benefit | \$ | 43,195 |
| d. Average age | | 73.3 |
| e. Total PROP Balance | \$ | 298,336 |

QDROs

| | | |
|---------------------------|----|---------|
| a. Number | | 57 |
| b. Total annual benefits | \$ | 896,025 |
| c. Average annual benefit | \$ | 15,720 |
| d. Average age | | 59.6 |
| e. Total PROP Balance | \$ | 0 |

Total Members in Payment

| | | |
|---------------------------|----|------------|
| a. Number | | 1,045 |
| b. Total annual benefits | \$ | 67,606,205 |
| c. Average annual benefit | \$ | 64,695 |
| d. Average age | | 63.6 |
| e. Total PROP Balance | \$ | 29,916,990 |

Table C
Status Reconciliation

| | Active | Active DROP | Vested Terminated | Non-vested Terminated | Retiree | Disability Retiree | Beneficiary | QDRO |
|--------------------------|--------------|----------------|----------------------|--------------------------|------------|-----------------------|-------------|-----------|
| Beginning of Year | 1,819 | 53 | 43 | 69 | 824 | 5 | 70 | 51 |
| Re-hired | - | - | - | - | - | - | - | - |
| Termination, non-vested | 8 | - | - | - | - | - | - | - |
| Termination, vested | 8 | - | - | - | - | - | - | - |
| Entered DROP | 11 | - | - | - | - | - | - | - |
| Retirement | 66 | 26 | 5 | - | - | - | - | - |
| Disability retirement | 1 | - | - | - | - | - | - | - |
| Contribution refund | 32 | - | - | 21 | - | - | - | - |
| Death | 1 | - | - | - | 9 | - | 3 | - |
| Total Out | 127 | 26 | 5 | 21 | 9 | 0 | 3 | 0 |
| Continuing | 1,692 | 27 | 38 | 48 | 815 | 5 | 67 | 51 |
| Total In | 45 | 11 | 11 | 18 | 97 | 1 | 3 | 6 |
| End of Year | 1,737 | 38 | 49 | 66 | 912 | 6 | 70 | 57 |

Table D

Active Members – Distribution by Age and Service

| Age | Years of Service | | | | | | | | | Total |
|--------------|------------------|-----------|------------|------------|------------|------------|------------|------------|-----|------------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40+ | |
| Under 25 | 24 | | | | | | | | | 24 |
| | \$ 62,697 | | | | | | | | | \$ 62,697 |
| 25 - 29 | 158 | 29 | | | | | | | | 187 |
| | \$ 70,202 | \$ 76,737 | | | | | | | | \$ 71,215 |
| 30 - 34 | 129 | 105 | 15 | | | | | | | 249 |
| | \$ 73,466 | \$ 80,203 | \$ 83,729 | | | | | | | \$ 76,925 |
| 35 - 39 | 39 | 128 | 146 | 38 | 1 | | | | | 352 |
| | \$ 73,424 | \$ 80,604 | \$ 90,906 | \$ 99,150 | \$ 87,882 | | | | | \$ 86,104 |
| 40 - 44 | 18 | 45 | 88 | 132 | 40 | | | | | 323 |
| | \$ 75,468 | \$ 80,478 | \$ 89,386 | \$ 104,522 | \$ 109,512 | | | | | \$ 96,047 |
| 45 - 49 | 7 | 23 | 42 | 93 | 151 | 34 | | | | 350 |
| | \$ 71,747 | \$ 81,702 | \$ 89,157 | \$ 105,322 | \$ 117,102 | \$ 114,496 | | | | \$ 107,132 |
| 50 - 54 | | 4 | 13 | 52 | 72 | 62 | 4 | | | 207 |
| | | \$ 93,232 | \$ 94,285 | \$ 103,593 | \$ 114,419 | \$ 118,018 | \$ 104,017 | | | \$ 110,902 |
| 55 - 59 | | | 6 | 19 | 15 | 17 | 12 | 3 | | 72 |
| | | | \$ 92,111 | \$ 102,238 | \$ 114,226 | \$ 115,918 | \$ 120,475 | \$ 101,102 | | \$ 110,114 |
| 60 - 64 | | | 1 | 1 | 4 | 2 | 2 | | | 10 |
| | | | \$ 101,210 | \$ 118,987 | \$ 97,367 | \$ 128,196 | \$ 115,194 | | | \$ 109,644 |
| Over 64 | 1 | | | | | | | | | 1 |
| | \$ 175,663 | | | | | | | | | \$ 175,663 |
| Total | 376 | 334 | 311 | 335 | 283 | 115 | 18 | 3 | | 1,775 |
| | \$ 71,738 | \$ 80,352 | \$ 90,091 | \$ 103,904 | \$ 114,812 | \$ 116,843 | \$ 116,231 | \$ 101,102 | | \$ 92,936 |

Table E

Annuitants – Distribution by Age and Category

| Age | Number | Annual Benefit | Average Annual Benefit |
|--------------|--------|----------------|------------------------|
| Under 60 | 397 | 29,277,393 | 73,747 |
| 60 - 64 | 208 | 13,892,900 | 66,793 |
| 65 - 69 | 205 | 12,151,591 | 59,276 |
| 70 - 74 | 116 | 6,373,253 | 54,942 |
| 75 - 80 | 54 | 2,755,901 | 51,035 |
| Over 80 | 65 | 3,155,167 | 48,541 |
| Total | 1,045 | 67,606,205 | 64,695 |

SECTION H

GLOSSARY

Glossary

Actuarial Accrued Liability (AAL): That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of Future Plan Benefits which is not provided for by future Normal Costs. It is equal to the Actuarial Present Value of Future Plan Benefits minus the actuarial present value of future Normal Costs.

Actuarial Assumptions: Assumptions as to future experience under the Fund. These include assumptions about the occurrence of future events affecting costs or liabilities, such as:

- mortality, withdrawal, disablement, and retirement;
- future increases in salary;
- future rates of investment earnings and future investment and administrative expenses;
- characteristics of members not specified in the data, such as marital status;
- characteristics of future members;
- future elections made by members; and
- other relevant items.

Actuarial Cost Method or Funding Method: A procedure for allocating the Actuarial Present Value of Future Benefits to various time periods; a method used to determine the Normal Cost and the Actuarial Accrued Liability. These items are used to determine the ADC.

Actuarial Gain or Actuarial Loss: A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates. Through the actuarial assumptions, rates of decrements, rates of salary increases, and rates of fund earnings have been forecasted. To the extent that actual experience differs from that assumed, Actuarial Accrued Liabilities emerge which may be the same as forecasted, or may be larger or smaller than projected. Actuarial gains are due to favorable experience, e.g., the Fund's assets earn more than projected, salaries do not increase as fast as assumed, members retire later than assumed, etc. Favorable experience means actual results produce actuarial liabilities not as large as projected by the actuarial assumptions. On the other hand, actuarial losses are the result of unfavorable experience, i.e., actual results that produce actuarial liabilities which are larger than projected. Actuarial gains will shorten the time required for funding of the actuarial balance sheet deficiency while actuarial losses will lengthen the funding period.

Actuarially Equivalent: Of equal actuarial present value, determined as of a given date and based on a given set of Actuarial Assumptions.

Actuarial Present Value (APV): The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

- a. Adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, marital status, etc.),
- b. Multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and
- c. Discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Future Plan Benefits: The Actuarial Present Value of those benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. The Actuarial Present Value of Future Plan Benefits includes the liabilities for active members, retired members, beneficiaries receiving benefits, and inactive, nonretired members either entitled to a refund or a future retirement benefit. Expressed another way, it is the value that would have to be invested on the valuation date so that the amount invested plus investment earnings would be provide sufficient assets to pay all projected benefits and expenses when due.

Actuarial Valuation: The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a plan. An Actuarial valuation for a governmental retirement system typically also includes calculations of items needed for compliance with GASB.

Actuarial Value of Assets or Valuation Assets: The value of the Fund's assets as of a given date, used by the actuary for valuation purposes. This may be the market or fair value of plan assets, but commonly actuaries use a smoothed value in order to reduce the year-to-year volatility of calculated results, such as the funded ratio and the ADC.

Actuarially Determined: Values which have been determined utilizing the principles of actuarial science. An actuarially determined value is derived by application of the appropriate actuarial assumptions to specified values determined by provisions of the law.

Amortization Method: A method for determining the Amortization Payment. The most common methods used are level dollar and level percentage of payroll. Under the Level Dollar method, the Amortization Payment is one of a stream of payments, all equal, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the Amortization payment is one of a stream of increasing payments, whose Actuarial Present Value is equal to the UAAL. Under the Level Percentage of Pay method, the stream of payments increases at the assumed rate at which total covered payroll of all active members will increase.

Amortization Payment: That portion of the pension plan contribution or ADC which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Actuarially Determined Contribution (ADC) or Annual Required Contribution (ARC): A calculated contribution for a defined benefit pension plan for the reporting period, most often determined based on the funding policy of the plan. Typically, the calculated contribution has a normal cost payment and an amortization payment.

Closed Amortization Period: A specific number of years that is counted down by one each year and therefore declines to zero with the passage of time. For example, if the amortization period is initially set at 30 years, it is 29 years at the end of one year, 28 years at the end of two years, etc. See Funding Period and Open Amortization Period.

Decremets: Those causes/events due to which a member's status (active-inactive-retiree-beneficiary) changes, that is: death, retirement, disability, or termination.

Defined Benefit Plan: An employer-sponsored retirement benefit that provides workers, upon attainment of designated age and service thresholds, with a monthly benefit based on the employee's salary and length of service. The value of a benefit from a defined benefit plan is generally not affected by the return on the assets that are invested to fund the benefit.

Defined Contribution Plan: A retirement plan, such as a 401(k) plan, a 403(b) plan, or a 457 plan, in which the contributions to the plan are assigned to an account for each member, and the plan's earnings are allocated to each account, and each member's benefits are a direct function of the account balance.

Employer Normal Cost: The portion of the Normal Cost to be paid by the employers. This is equal to the Normal Cost less expected member contributions.

Experience Study: A periodic review and analysis of the actual experience of the Fund which may lead to a revision of one or more actuarial assumptions. Actual rates of decrement and salary increases are compared to the actuarially assumed values and modified as deemed appropriate by the Actuary.

Funded Ratio: The ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL). Plans sometimes calculate a market funded ratio, using the market value of assets (MVA), rather than the AVA.

Funding Period or Amortization Period: The term "Funding Period" is used in two ways. In the first sense, it is the period used in calculating the Amortization Payment as a component of the ADC. This funding period is chosen by the Board of Trustees. In the second sense, it is a calculated item: the number of years in the future that will theoretically be required to amortize (i.e., pay off or eliminate) the Unfunded Actuarial Accrued Liability, based on the statutory employer contribution rate, and assuming no future actuarial gains or losses.

GASB: The Governmental Accounting Standards Board is an organization that exists in order to promulgate accounting standards for governmental entities.

Normal Cost: That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method. Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment). For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated. Under the entry age normal cost method, the Normal Cost is intended to be the level cost (when expressed as a percentage of pay) needed to fund the benefits of a member from hire until ultimate termination, death, disability or retirement.

Open Amortization Period: An open amortization period is one which is used to determine the Amortization Payment but which does not change over time. In other words, if the initial period is set as 30 years, the same 30-year period is used in determining the Amortization Period each year. In theory, if an Open Amortization Period is used to amortize the Unfunded Actuarial Accrued Liability, the UAAL will never completely disappear, but will become smaller each year, either as a dollar amount or in relation to covered payroll.

Unfunded Actuarial Accrued Liability: The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, also called the Funding Surplus.

Valuation Date or Actuarial Valuation Date: The date as of which the value of assets is determined and as of which the Actuarial Present Value of Future Plan Benefits is determined. The expected benefits to be paid in the future are discounted to this date.

HISTORICAL INFORMATION AND BENEFITS SECTION

Changes in Plan Provisions

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 percent to 3.0 percent with an equivalent special ad hoc increase granted to retirees.

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 with 20 years of service to purchase additional time 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 percent to 11 percent.

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 receiving 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 was increased from \$7,500 to \$10,000.

October 2007

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

December 2007

Benefit formula multiplier was increased from 3.0 percent to 3.2 percent with an equivalent special ad hoc increase granted to retirees.

January 2009

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

March 2009

APRS joined the Texas Proportionate Retirement System, which allows 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.

September 2009

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

October 2010

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

October 2011

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

October 2012

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

February 2015

Effective February 18, 2015, the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro DROP was eliminated.

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, Retro DROP was eliminated 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 to purchase military service. All others will continue to pay 25 percent 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.

October 2015

The City's contribution rate was decreased from 21.63 percent to 21.313 percent on October 1, 2015. The change was due to an actuarial study conducted to assess the cost of participation in the Proportionate Retirement Program.

February 2016

A new Forward DROP program was created. Modifications included elimination of interest paid to the account, elimination of member contributions being credited to the account, a graduated fee in each year of the Forward DROP period, and an option to elect up to seven years in the new Forward DROP.

Changes would not apply to members with 23 years of creditable service as of February 17, 2016. Grandfathered members could choose either the old Five Year Forward DROP or the new Seven Year Forward DROP.

October 2020

The City's contribution rate was increased from 21.313 percent to 21.737 percent to fund APRS participation in the Texas Proportionate Retirement Program, as required by state law and following an actuarial review of costs as required every five years.

Interest Paid on Member Accounts

| YEAR | INTEREST PAID |
|-------|---------------|
| 2020 | 0.0% |
| 2019 | 0.0% |
| 2018 | 0.0% |
| 2017 | 0.0% |
| 2016 | 0.0% |
| 2015 | 0.0% |
| 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% |

*Beginning in 2007, interest (if granted) is only paid on vested members accounts

Interest Paid on Retirement 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.

Retirement interest is paid only to vested members' (10 years of service) accounts at the end of the calendar year based on the amount in the member account on the first day of that calendar year.

COLA's Paid to Retirees and Beneficiaries

| YEAR | COLA PAID |
|------|-----------|
| 2020 | 0.0% |
| 2019 | 0.0% |
| 2018 | 0.0% |
| 2017 | 0.0% |
| 2016 | 0.0% |
| 2015 | 0.0% |
| 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% |

Cost of Living Adjustments for retirees.

On January 1 of each year the Board may approve a cost-of-living adjustment for those retirees who retired on or before December 31 of the previous year. The amount of the adjustment is set by the Board upon recommendation by the System's actuary that such an adjustment will not make the Fund financially unsound, and the adjustment is not inconsistent with the Plan provisions. The adjustment is prorated for any benefit which has been in effect for less than a year, with the proration being 1/12 for each monthly payment received during the prior year.

Comparative Statement of Membership

| Active Members | 2020 | 2019 |
|---|---------------------|---------------------|
| Total Number of Active Members, January 1 | 1,872 | 1,892 |
| Add: New Members | 56 | 70 |
| Deduct: Members Terminated/Refunded | (48) | (40) |
| Deceased Members | (1) | (1) |
| Members Transferred to Retiree/DROP System | (104) | (49) |
| TOTAL ACTIVE MEMBERS, DECEMBER 31 | <u>1,775</u> | <u>1,872</u> |
| Vested Terminated | | |
| TOTAL VESTED TERMINATED MEMBERS, DECEMBER 31 | <u>49</u> | <u>43</u> |
| Non-Vested Terminated | | |
| TOTAL NONVESTED TERMINATED MEMBERS, DECEMBER 31 | <u>66</u> | <u>69</u> |
| Retired Members | | |
| Total Number of Retired Members, January 1 | 950 | 906 |
| Add: New Retired Members | 107 | 57 |
| Deduct: Retired Members Deceased | (12) | (13) |
| TOTAL RETIRED MEMBERS, DECEMBER 31 | <u>1,045</u> | <u>950</u> |
| TOTAL APRS MEMBERS, DECEMBER 31 | <u>2,935</u> | <u>2,934</u> |

Summary of Plan Benefits

Introduction

This is a general overview of the Austin Police Retirement System (APRS or System) membership and benefits. In the event of any inconsistency between this general overview and state or federal law as modified, interpreted, and applied from time to time, the state or federal law will govern and control.

APRS is an IRS tax-qualified 401(a) defined benefit plan governed by Texas state law.

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 the date of employment.

Contributions

Each member of the system contributes 13 percent 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 or withdraws by terminating and/or retiring.

The City of Austin contributes 21.737 percent of every member's base pay bi-weekly and 21.737 percent of member's longevity pay annually.

Creditable Service

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

- Membership Service
- Probationary Service
- Pre-Membership Military Service
- Uniformed Leave of Absence Service
- Reinstated Forfeited Service
- Cadet Service
- Permissive Service Credit
- Deferred Retirement Permissive Service Credit

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. Please note that proportionate service counts for eligibility purposes only and does not add to additional service credit years for pension calculation purposes. Participating systems include:

- Austin Police Retirement System
- City of Austin Employees' Retirement System (COAERS)
- 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
- Teacher Retirement System of Texas (TRS)
- Texas Municipal Retirement System of Texas (TMRS)
- Texas County and District Retirement System (TCDRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program.

Vesting

When a member reaches ten (10) years of creditable service, which may include approved Proportionate Service Credit if applicable, they become a vested member of the retirement system.

Retirement

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

- Age 62
- Age 55 with 20 years of creditable service
- Any age with 23 years creditable service

Retirement Benefit Calculation

The basic retirement benefit Life Annuity is calculated by using the following formula: 3.2 percent times the years of creditable service times the average monthly salary for the highest 36 months of the last ten years of contributing service. The monthly annuity benefit payment begins the month following the member's retirement from the System.

Retirement Benefit 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 System for calculation. The options that include benefits to a survivor are figured according to the ages of both member and survivor included in the plan. A member's benefit is permanently reduced if an option is chosen that provides survivor benefits. Please note: A member may not change their chosen option or survivor after they have already retired.

- 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
- Fifteen Year Certain and Life Annuity

Retroactive Deferred Retirement Option (Retro DROP)

The retroactive deferred retirement option plan, referred to as Retro DROP, is a one-time benefit paid at retirement to a member with a subsequent associated reduced monthly annuity. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military or permissive service credit. The maximum amount of service to be used in computation of the Retro DROP after normal service retirement of 23 years is 36 months. Effective April 1, 2015, the Retro DROP program will only apply to members with 23 years of creditable service as of that date.

Forward Deferred Retirement Option (Forward DROP)

The Forward DROP allows active police officers to freeze their retirement benefit calculation, but continue working 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, as of the date of his or her election to participate in the Forward DROP.

- Five-Year Forward DROP for members with 23 years of creditable service as of February 17, 2016:

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. 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, member contributions and a simple interest calculation on December 31st for balances on deposit as of January 1st of the same

calendar year. Effective August 1, 2015, the interest rate for new DROP members will be the same as PROP, which was 2.25 percent in fiscal year 2018. Members with 23 years of service by July 31, 2015 earn interest at 5.0 percent.

- Seven-Year Forward DROP for members with 23 years of creditable service after February 17, 2016:

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 eighty-four (84) months. During the period that a member participates in Forward DROP, employee contributions will be collected but not credited to the member's Forward DROP account. There will be no interest applied to the member's Forward DROP account. In addition, a fee is applied to the participant's monthly Forward DROP amount.

Post Retirement Option Plan (PROP)

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 account, in an amount elected by the member.

Post Retirement Option Plan (PROP) Monthly Annuity Deferral Program

The PROP Monthly Annuity Deferral plan allows 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.

Disability Retirement Benefits

To be eligible for disability retirement, the applicant must be unable to perform employment duties due to becoming physically or mentally incapacitated. 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,

- If the member has less than 10 years of creditable service, the disability must have been a direct or proximate result of the performance of the member's employment duties with the City or the System. The disability will be calculated at 20 years of service.
- If the member has 10 years or more of creditable service, the disability does not have to be a direct or proximate result of the performance of the member's employment duties with the City or the System. On-duty disabilities will be calculated at 20 years of service and Off-duty disabilities will be calculated using the actual number of years of service the member has once the disability is granted.
- If the member is retirement eligible, they cannot apply for disability retirement; however, they can apply for normal retirement.

Death and Survivor Benefits

- At the death of an active or vested member, the designated beneficiary(ies) are entitled to a lump sum benefit of twice the members accumulated contributions with a \$10,000 minimum payment.
- At the death of an active or vested member who is eligible to retire, the designated survivor will be entitled to receive monthly payments under a retirement option in lieu of a 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 member's 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).
- At the death of a retiree, a tax-free death benefit of \$10,000 (or a proportionate amount if the member retired under the Proportionate Retirement Program) is paid to the designated beneficiary(ies) or estate. If the member has a PROP or DROP account at the time of their death, those funds are paid to the designated beneficiary(ies) for those programs. If a survivor option was chosen, the elected survivor begins to receive the elected portion of the annuity. If the Life Annuity was chosen, the monthly benefits cease.