AUSTIN POLICE RETIREMENT SYSTEM

POLICY TO DETERMINE FUNDING GOALS AND GUIDELINES

I. Introduction and Purpose

The Austin Police Retirement System (APRS or the "System") is established in state law by Article 6243n-1, Texas Revised Civil Statutes (the "APRS statute"). The APRS statute provides for a Board of Trustees authorized to administer the plan provisions. The City of Austin (the "City") is the plan sponsor. This policy was jointly developed by the System and the City.

The purpose of this policy is to align with best practices in pension management, as well as to implement the requirements for public retirement systems in Texas pursuant to Section 802.2011, Texas Government Code.

The primary objective of the funding policy is to identify guidelines intended to produce actions toward meeting the long-term pension obligations for the benefit of the members of the System. To achieve this goal, the policy sets forth procedures to pay off any Unfunded Actuarial Accrued Liability (UAAL) over a fixed period of time.

II. Funding Objectives

The primary funding objective of the System is to pay the benefits promised under the System and protected by the Texas Constitution. Additional funding objectives of the System include: (1) maintaining a strong benefit plan to attract future generations of members; (2) have each generation of members and their employer pay the cost of benefits as such benefits accrue; and (3) to ensure the long-term affordability and sustainability of the plan for both members and their employer.

Following these objectives, the 2021 Legislature amended the APRS statute to establish three primary funding mechanisms to ensure that there is a scheduled payment for paying-off the UAAL. First, the APRS statute establishes a fixed payment schedule for the City to finance the initial UAAL (determined as of December 31, 2020) over a 30-year period, beginning on January 1, 2022 (referred to as the "Legacy Liability"). Second, the APRS statute provides that the member contribution to the System would equal 15% of pay. Finally, the APRS statute provides that the City will contribute an actuarially determined employer contribution rate (ADEC), which will fund the employer portion of the normal cost of the System (the normal cost in excess of the member contributions) and fund each occurrence of new unfunded liabilities over a fixed 30-year period beginning one year after the valuation date on which the new unfunded liability is identified (referred to as the City

Contribution Rate). The City Contribution Rate is subject to certain "corridors" as discussed in more detail below. In total, the City contribution each year is comprised of its scheduled payment to the Legacy Liability and the determined City Contribution Rate. If the calculated City Contribution Rate exceeds the upper corridor limit, then the Member Contribution Rate is adjusted to the excess of the calculated City Contribution Rate above the corridor limit, but in no circumstance shall the Member Contribution Rate exceed 17% of pay.

III. Actuarial Valuations, Actuarial Methods, and Experience Studies

Actuarial valuations (referred to in the APRS statute as the Risk Sharing Valuation Study or "RSVS") will be conducted annually based on data as of December 31 each year, using the assumptions and methods adopted by the Board after each experience study or more frequently if recommended by the System actuary. Please see the section below concerning the RSVS.

The Board will commission a comprehensive actuarial experience study at least every five years pursuant to Sec. 802.1014, Texas Government Code, the next of which will be based on data as of December 31, 2022. The City may elect to have its own actuary conduct an independent actuarial experience study or to review the experience study of the system's actuary. To the extent the hypothetical city contribution rates calculated by the system's actuary and the City's actuary differ by more than two percent of pensionable payroll, a reconciliation process is entered into as detailed in the APRS statute. Assumptions are based on actuarial standards of practice taking into account both actual experience and reasonable future expectations.

Key actuarial methods utilized by the System actuary include:

- Actuarial cost method: entry age normal – which allocates the cost of accruing benefits as a level percentage of pay over the period from the member's entry into the plan until their termination or retirement.
- Actuarial asset method: five-year smoothing method recognizing 20% of the differences between expected and actual investment income in the current and each subsequent year, with offsetting unrecognized gains and losses immediately recognized.
- Funding period: this is the length of time over which the unfunded liabilities of the System are expected to be eliminated. A 30-year amortization period is used in determining the payments on unfunded liability layers (see RSVS discussion below). The aggregate funding period for the system is the weighted average of the amortization layers.

IV. Risk Sharing Mechanisms

a. Risk Sharing Valuation Study

Each year an RSVS valuation is performed by the System's actuary. The RSVS valuations will calculate the City Contribution Rate as specified by statute, consistent with the corridor requirements outlined below. This Estimated City Contribution Rate is determined based on the employer normal cost of the System and the amortization payments of the "new" liability layers created after the Legacy Liability was established. The Estimated City Contribution Rate is then compared to the "City Contribution Corridor" to determine the final City Contribution Rate.

b. City Contribution Corridor

As set forth in the APRS statute, an initial RSVS valuation calculated a City Contribution Corridor for the next 30 years. The mid-point of this corridor was established as the expected normal cost of the System over the subsequent 30-years following the initial RSVS assuming that the active population remains constant and based on the actuarial assumptions and methods as of the initial RSVS. The City Contribution Corridor maximum (or ceiling) for each year is 5% of pay above the corridor mid-point for that fiscal year. The City Contribution Corridor minimum (or floor) for each year is 5% of pay below the Corridor mid-point for that fiscal year but can never be less than zero.

c. City Contribution Rate and the Corridor

If the Estimated City Contribution Rate determined in connection with the RSVS is within the City Contribution Corridor, then the final City Contribution Rate is equal to the Estimated City Contribution Rate with the following exceptions:

- If the System's funded ratio is less than 90% as determined under the RSVS, then the final City Contribution Rate is the greater of the Estimated City Contribution Rate or the corridor midpoint for that fiscal year, but not to exceed the maximum of the City Contribution Corridor for that fiscal year.
- If the funded ratio is greater than 90% as determined under the RSVS, then the final City Contribution Rate is equal to the Estimated City Contribution Rate, but not to be less than the minimum of the City Contribution Corridor for that fiscal year.

In addition to the City Contribution Rate, the City shall also pay the established Legacy Liability payment. If the System's funded ratio should exceed 100% then the Legacy Liability shall be considered fully paid and no additional Legacy Liability payments shall be made.

d. Member Contribution Rate and Exceeding the Corridor

The APRS statute also provides a risk-sharing component for the active members. The legislation increased the member contribution rate to 15% of pay. However, if the Estimated City Contribution Rate exceeds the City Contribution Corridor maximum, then the member rate shall be increased by the amount of the Estimated City Contribution Rate that is in excess of the City Contribution Corridor maximum, but not by more than 2% of pay.

In subsequent years, the member contribution rate will continue to be adjusted to reflect the excess as determined under the RSVS for that year. If the Estimated City Contribution Rate should again fall below the City Contribution Corridor maximum in a subsequent year, the member rate will decrease back to 15% of pay.

Should the Estimated City Contribution Rate exceed the City Contribution Rate Corridor maximum by more than 2% of pay, the System will promptly notify the City and engage in planning as needed with the City to ensure that continued progress toward the goals of this policy will be made.

V. Changes to Contributions or Benefits

Future benefit enhancements (including retiree COLAs) are not authorized under the current APRS statute and would require legislation.

The System and City will review this policy periodically, but no less frequently than in connection with any actuarial experience study. This funding policy is also intended to be consistent with the APRS statute, which is controlling.

Sheldon Askew, Chair
APRS Board of Trustees

5/17/2023
Date

Kirk Watson, Mayor
City of Austin

07/14/2023
Date