

November 26, 2014

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

RE: GASB Statement No. 67 – Austin Police Retirement System

Dear Board:

We are pleased to present to the Board the GASB Statement No. 67 measured as of December 31, 2013 for the Austin Police Retirement System.

The calculation of the liability associated with the benefits referenced in this report was performed for the purpose of satisfying the requirements of GASB No.67 and is not applicable for purposes, such as determining the plans' funding requirements. A calculation of the plan's liability for other purposes may produce significantly different results.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of December 31, 2013. The total pension liability was rolled-back from the valuation date to the plan's fiscal year ending December 31, 2012 to obtain the beginning amount using generally accepted actuarial principles. There were no assumption changes that required an adjustment to the roll-back liabilities. It is our opinion that the assumptions used for this purposes are internally consistent, reasonable, and comply with the requirements under GASB No.67. Certain schedules should include a 10-year history of information. As provided for in GASB No. 67, this historical information is only presented for the years in which the information was measured in conformity with the requirements of GASB No. 67. The historical information in this report will begin with the information presented for the fiscal year ending December 31, 2013.

It is our understanding that this early adoption of GASB Statement No.67 will be utilized for the Plan sponsor's 2014 Comprehensive Annual Financial Report (CAFR).

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

Respectfully submitted,

Foster & Foster, Inc.

By: 

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

BRH/lke
Enclosures

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013

<u>ASSETS</u>	MARKET VALUE
Cash and Cash Equivalents:	
Short Term Investments	8,627,567.48
Checking Account	119,553.73
Prepaid Expenses	5,467.00
Total Cash and Equivalents	8,752,588.21
Receivable:	
Member Contributions	881,414.79
Member Buy-Back Contributions	10,157.01
City Contributions	1,466,538.60
Investment Income	2,638,959.91
Total Receivable	4,997,070.31
Investments:	
Partnership Interests	39,800,964.00
Corporate Bonds	31,313,961.00
Corporate Stocks	262,015,944.83
International Stocks	32,018,930.00
International Government Securities	36,834,768.79
Real Estate Interests	129,019,250.00
Mutual Funds:	
Alternatives	51,580,614.00
Total Investments	582,584,432.62
Retiree Death Benefit Fund	689,005.84
Net Fixed Assets	528,700.69
TOTAL ASSETS	597,551,797.67
 <u>LIABILITIES AND NET ASSETS</u>	
Liabilities:	
Payable:	
Refunds of Member Contributions	126,060.46
Other	2,315,335.19
Total Liabilities	2,441,395.65
Net Assets, including DROP Account Balances	595,110,402.02
TOTAL LIABILITIES AND NET ASSETS	597,551,797.67

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2013
 Market Value Basis

ADDITIONS

Contributions:

Member	18,731,630.86
Buy-Back	736,328.70
City	30,136,241.70
City for Proportionate Retirement Program	871,133.99
City for Retiree Death Benefit	153,388.67

Total Contributions 50,628,723.92

Investment Income:

Net Increase in Fair Value of Investments	46,660,294.84
Interest & Dividends	5,189,718.18
Less Investment Expense ¹	(2,325,862.97)

Net Investment Income 49,524,150.05

Total Additions 100,152,873.97

Total Distributions 42,825,265.09

Administrative Expense 1,114,855.97

Total Deductions 43,940,121.06

Net Increase in Net Position 56,212,752.91

NET POSITION RESTRICTED FOR PENSIONS

Beginning of the Year 538,897,649.11

End of the Year 595,110,402.02

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

NOTES TO THE FINANCIAL STATEMENTS
(For the Year Ended December 31, 2013)

Plan Description

Plan Administration

The Plan is administered by a Board of Trustees comprised of:

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

Plan Membership as of December 31, 2013:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	683
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	26
Active Plan Members	<u>1,732</u> <u>2,441</u>

Benefits Provided

The Plan provides retirement, disability and death benefits.

Retirement benefits are calculated as 3.20% of Average Final Compensation times Creditable Service.

Normal Retirement:

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

Disability:

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

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

Death Benefits:

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

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

Retiree Death Benefit Fund:

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

Contributions

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

Investments

Investment Policy:

The following was the Board's adopted asset allocation policy as of December 31, 2013:

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

Concentrations:

The Plan did not hold investments in any one organization that represent 5 percent or more of the Pension Plan's fiduciary net position.

Rate of Return:

For the year ended December 31, 2013 the annual money-weighted rate of return on Pension Plan investments, net of pension plan investment expense, was 8.9 percent.

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

Deferred Retirement Option Program

Forward DROP:

Completion of 23 years of Creditable Service, excluding military service. Participation period not to exceed 60 months. Rate of Return: 5.00%, compounded annually.

Retro DROP:

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

The DROP balance as December 31, 2013 is \$19,980,264.

NET PENSION LIABILITY OF THE SPONSOR

The components of the net pension liability of the sponsor on December 31, 2013 were as follows:

Total Pension Liability	\$ 909,000,224
Plan Fiduciary Net Position	\$ (595,110,402)
Sponsor's Net Pension Liability	\$ 313,889,822
Plan Fiduciary Net Position as a percentage of Total Pension Liability	65.47%

Actuarial Assumptions:

The total pension liability was determined by an actuarial valuation as of December 31, 2013 using the following actuarial assumptions applied to all measurement periods.

Inflation	3.75%
Salary Increases	7.50%
Investment Rate of Return	8.00%

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class.

These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2013 are summarized in the following table:

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

Discount Rate:

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
Sponsor's Net Pension Liability	\$ 420,721,849	\$ 313,889,822	\$ 223,197,912

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years
(Dollar Amounts in Thousands)

	12/31/2013
Total Pension Liability	
Service Cost	28,769,060
Interest	68,919,471
Changes of Benefit Terms	
Differences Between Expected and Actual Experience	-
Changes of Assumptions	
Benefit Payments, Including Refunds of Employee Contributions	(42,825,265)
Net Change in Total Pension Liability	54,863,266
Total Pension Liability - Beginning	854,136,958
Total Pension Liability - Ending (a)	\$ 909,000,224
Plan Fiduciary Net Position	
Contributions - Employer	31,160,764
Contributions - Employee	19,467,960
Net Investment Income	49,524,150
Benefit Payments, Including Refunds of Employee Contributions	(42,825,265)
Administrative Expense	(1,114,856)
Other	-
Net Change in Plan Fiduciary Net Position	56,212,753
Plan Fiduciary Net Position - Beginning	538,897,649
Plan Fiduciary Net Position - Ending (b)	\$ 595,110,402
Net Pension Liability - Ending (a) - (b)	\$ 313,889,822
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.47%
Covered Employee Payroll	\$ 144,089,468
Net Pension Liability as a Percentage of covered Employee Payroll	217.84%

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years

(Dollar Amounts in Thousands)

	12/31/2013
Actuarially Determined Contribution	29,460,533
Contributions in Relation to the Actuarially Determined Contributions	31,160,764
Contribution Deficiency (Excess)	\$ (1,700,232)
Covered Employee Payroll	\$ 144,089,468
Contributions as a Percentage of Covered Employee Payroll	21.63%

Notes to Schedule

Valuation Date: 12/31/2011
 Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method:	Entry Age Normal Actuarial Cost Method.
Amortization Method:	Level Percentage of Pay, Closed.
Remaining Amortization Period:	30 Years.
Actuarial Asset Method:	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets.
Payroll Growth:	4.00% per year for amortization of the Unfunded Actuarial Accrued Liability.
Interest Rate:	8.00% per year, compounded annually, net of investment related expenses.
Retirement Rates:	See following tables.
Termination Rates:	See following tables.
Disability Rates:	See following tables. 55% of disablements are assumed to be service related.
Salary Increases:	See following tables.
Mortality Rates- All lives:	RP-2000 Combined Healthy Mortality Tables for male and females projected to 2014 - Sex Distinct.

Termination Rates

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

¹ APRS service combined with Proportionate Retirement Program service.

Disability Rates

<u>Age</u>	<u>Probability of Disablement During Year</u>
20	0.00014
22	0.00016
24	0.00018
26	0.00021
28	0.00025
30	0.00031
32	0.00040
34	0.00054
36	0.00062
38	0.00092
40	0.00132
42	0.00173
44	0.00255
46	0.00334
48	0.00379
50	0.00404
52	0.00456
54	0.00532
56	0.00660
58	0.00911
60	0
62 & Above	

Salary Increases

<u>Years of Service</u>	<u>Increase in Salary¹</u>
0	18.00%
1	11.20%
2	5.80%
3	0.90%
4	0.90%
5	7.10%
6	0.50%
7	0.50%
8	0.50%
9	7.10%
10	0.30%
11	0.30%
12	0.30%
13	7.10%
14	0.20%
15	0.10%
16	0.10%
17	0.10%
18	0.10%
19	0.10%
20	0.10%
21	0.10%
22	0.10%
23	0.10%
24	0.10%
25 & Above	0.00%

¹ Expected increases in salary as shown above are in addition to 4.00% increase per year due to general wage increases.

Retirement Rates

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

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

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

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

SCHEDULE OF INVESTMENT RETURNS

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