

Austin Police Retirement System News

Summer 2020

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Retired Police Member

Ret. Sgt. Keith Harrison,
Vice Chair

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Sgt. Scott Askew

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Letter From Board Chair Tyler Link

In January I was elected to the position of Chair of the Austin Police Retirement System. Ret. Sgt. Keith Harrison was elected as Vice Chair. It is an honor and privilege to serve, and one I take seriously. We also have several new additions to the APRS Board. In November, Ed Van Eenoo, City of Austin Deputy Chief Financial Officer, was appointed as the designee for the CFO as named in state law. In January, three newly elected active member officers were sworn in: Sgt. Scott Askew, Sgt. Michael Cowden, and Cpl. Nick Moore. Ret. Lt. Carl Zimmerman was re-elected to a second four-year term and also took his oath of office in January.



These are challenging times for the System given the actuarial funding status and the global economic impact of the COVID-19 pandemic. We have been working diligently with the APRS actuary for the last few years and accomplished some large steps that included: conducting an actuarial experience study, appropriately revising actuarial assumptions, and actuarial modeling of various options to improve the long-term sustainability of the pension fund. Please see separately in this newsletter recommendations of the APRS Board of Trustees regarding actuarial funding improvements, adopted by motion of the Board on May 20th and May 26th.

We have also been engaged in discussions with the System's plan sponsor, the City of Austin, and City officials were informed of the APRS Board's adopted positions. Needed changes will require legislation so we are also gearing up to work the 87th Texas Legislature, which begins a new session in January.

Given all that is happening in our community, we hope that you will continue to maintain your hope and trust in the APRS Board of Trustees. We are dedicated to fulfilling our fiduciary duty to the System and its members. Please do not hesitate to contact me or other Trustees if you have questions or comments.

Letter From Executive Director Pattie Featherston

What a tumultuous year for all of us, but we at APRS are most sympathetic to the challenges of our police officer members this year. At APRS, in light of the growing threat of the COVID-19 pandemic, we closed the System office in late March and staff began working mostly offsite.



Our staff has really amazed me in how they weathered this disruption and diligently stepped up to continue exceptional service to our members. We hope you have had the same impression. We want to thank each of you for your patience and encouraging words. We have had a great deal of positive feedback, even in the midst of significantly increased volume in our administrative work. Thank you! Please continue to let us know how we can help you and if we can better serve you.

Actuarial Valuation as of December 31, 2019

On July 15, 2020, the Board of Trustees received the annual actuarial valuation for data as of December 31, 2019. It shows the value of total actuarial assets is \$852,294,229, and the total actuarial liability is \$1,459,529,788. The unfunded actuarial accrued liability (UAAL) is \$607,235,559, bringing the funded ratio to 58.4%. While this stretches the amortization period to "infinite," keep in mind that the unfunded liability is not owed immediately or even in the near years. There is time to improve the situation. By planning sensible long-term solutions, the System is in a position to chart a better course ahead. Your APRS Board is committed to addressing the System's funding status transparently with all stakeholders.

Board Discussion, Actuarial Funding

In May, the APRS Board of Trustees adopted positions recommended to improve the actuarial funding of the System, which will require state law changes. Recommendations include:

- Benefit changes for future new hires
 - Reduced multiplier from 3.2% to 2.5%
 - Eligibility at age 50 with 25 years of service instead of 23 years at any age
 - Final average salary based on best 60 months instead of 36
- Increased member contributions of 2%, from 13% to 15% of pay
- Increased City contributions sufficient to reach a funding period of 30 years or less
- Future development of a variable contribution rate to keep a funding period of 30 years or less
 - Cost sharing, with the City paying at least 60% of needed contribution increases
 - Cap on member contributions so it will never exceed a total 24% of pay when combined with 6.2% Social Security

The APRS Board sought an immediate increase in City funding and stood ready to ask the membership for an increase in member contributions as well. The Board may reconsider some aspects of prior positions at its September meeting and/or in subsequent discussions.

More information can be found at <https://www.ausprs.org/articles/APRS-Update-to-City-Manager>.

Model QDRO Available

For members faced with divorce, a model Qualified Domestic Relations Orders (QDRO) is available on the APRS website. It is a document in addition to a divorce decree that specifies if a former spouse is awarded any portion of the APRS member's retirement benefit and how much. Please note the model was last updated and approved in July 2017. Always check the website for the current version. Any updates, however, do not impact any QDROs already adopted by the court. If this situation applies to you, please submit a draft QDRO to APRS for legal review and approval before it is finalized with the court. Once the QDRO has been finally acted upon by the court, you will need to submit the final copy to APRS. The QDRO award is calculated only on the employment years that coincide with the time period of the marriage. Benefit distributions are impacted by the QDRO in various ways. APRS can provide further details about how this works.



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Jennifer Grahmann,
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City Manager Budget Proposed to City Council

In response to letters from the APRS Executive Director, City Manager Spencer Cronk replied on July 2 and specified key concepts of the managers' upcoming budget recommendations, which he presented to the City Council on July 13. It included a "placeholder for pension reform" with an increase in City funding equivalent to a 2% of member payroll contribution increase, according to City staff, but which is contingent on state legislation revising the pension plan, including a new retirement tier.

Legislative changes recommended by the City Manager include a structure for an actuarial determined contribution rate that can vary as needed, and a risk sharing arrangement wherein members would share part of the burden of needed increases.

The Manager also recommended changes in the APRS Board governance, meaning the composition of the Board of Trustees, as well as the roles of the Board and the City in making important decisions related to pension administration. In particular, the Manager points to a need for greater City involvement in approving benefit changes and COLAs, as well as System policies related to investments, actuarial funding and actuarial assumptions. <https://www.ausprs.org/articles/City-Manager-Reply>

City Council Budget Decisions

In mid-August the Austin City Council adopted the City's budget for the fiscal year beginning October 1, 2020. There is no additional funding for APRS, except for the "placeholder" described above as recommended by the City Manager which is contingent on legislation. In addition, the Council reduced funding for the Austin Police Department, specifically by not funding three more cadet classes in FY 2021, in addition to one cancelled in the current fiscal year.

The APRS actuary provided analysis about the impact on actuarial funding due to reduced staffing, which was sent to the entire City Council prior to passage of the final budget. <https://www.ausprs.org/articles/Actuary-Analysis--Impact-of-Reducing-Police-Officers>

Next Steps

APRS Chair Tyler Link issued a statement on August 17: <https://www.ausprs.org/articles/Statement-From-APRS-Chair-Tyler-Link> . Key points include:

- APRS benefits are guaranteed under the Texas Constitution
- City of Austin is responsible for the payment of benefits
- APRS is created by state law
- Legislature will determine pension benefits, contributions rates and governance

APRS will continue discussions with the City to evaluate ways to address the deficient actuarial funding status and to protect the benefits earned by its members.

The 87th Texas Legislature convenes on January 12, 2021. There will be lots of competing topics, including the redistricting of legislative and congressional districts, all with the backdrop of COVID -19 and potential restrictions to the usual pattern of meetings.

2019 Annual Financial Report

The APRS Board adopted and published the final 2019 audited Annual Financial Report, which is posted on the website at <https://www.ausprs.org/reports>. The System's independent auditor, Montemayor Britton Bender PC, issued an unqualified opinion on the System's financial statements. The opinion is the best report an independent auditor may issue. It indicates the APRS financial statements are presented fairly and are prepared in accordance with Generally Accepted Accounting Principles in the U.S. (GAAP).

The Annual Report includes the Public Pension Standards Award for Administration 2019, as presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and National Council on Teacher Retirement (NCTR).

Highlights of the 2019 Annual Financial Report include:

The total market value of assets increased from \$719 million as of December 31, 2018, to \$858 million as of December 31, 2019, primarily due to positive market and economic indicators increasing investment income. While 2019 was an excellent year for the portfolio in terms of investment returns, the market in 2020 has experienced a significant market decline due to the impact of COVID-19.

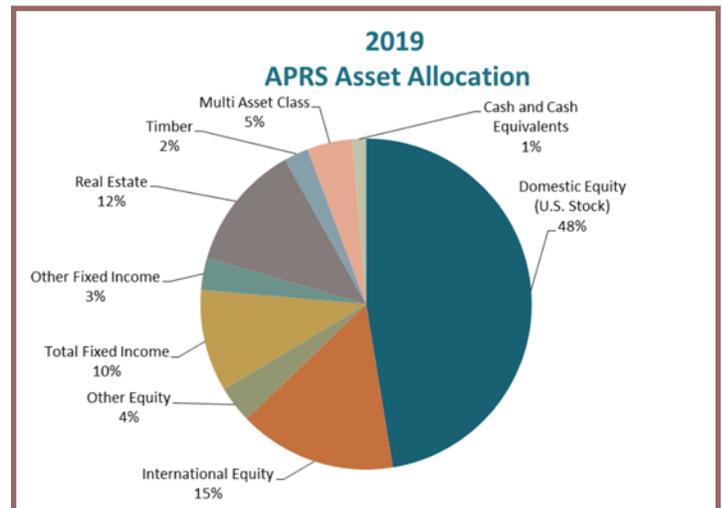
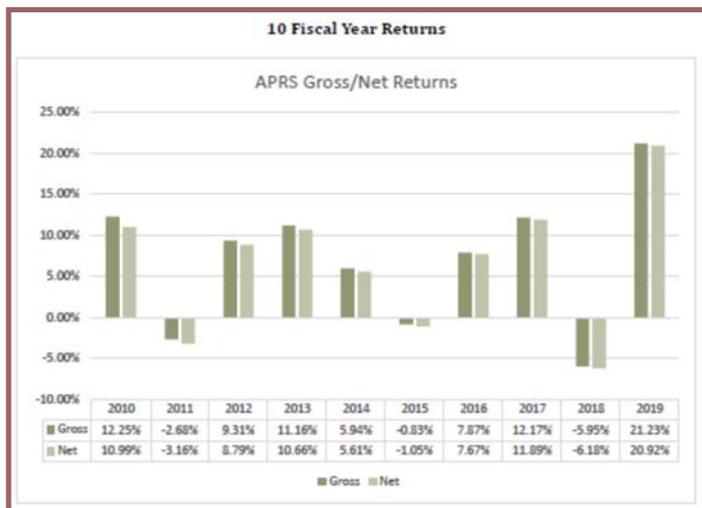
Total contributions increased from \$57.8 million to \$59.2 million, primarily due to an increase in membership and service credit purchases.

Membership grew from 2,909 in December 2018 to 2,934 in December 2019; Active Members Declined, Annuitants Increased:

	<u>2019</u>	<u>2018</u>
Current active participating members	1,872	1,892
Retirees and beneficiaries currently receiving benefits (950) and terminated employees entitled to future monthly benefits (112)	<u>1,062</u>	<u>1,017</u>
Total Membership	2,934	2,909

Investment Returns and Assumptions

The System's rate of return in 2019 reflects a gain of 20.92 percent net of expenses. The long-term net return since inception of the fund is 8.16%, the 10-year return is 6.33%, and the 3-year return is 8.28%. The charts below exhibit the gross and net gains and losses each year for the last ten years, as well as the asset allocation for the fund's investment strategy.



Board Approves PROP and 5 Year DROP Interest Rate

At the Regular Board Meeting on August 19, 2020, the APRS Board of Trustees adopted a continued interest rate of 2.25% on participating accounts in the Post Retirement Option Plan (PROP) and the Five Year Forward DROP program for those who are eligible for the variable interest rate and who entered the Five Year Forward DROP after July 31, 2015.

PROP Policy Changes

Federal law recently changed the required minimum distribution (RMD) age from 70-1/2 to 72, and the APRS policy has been revised accordingly. However, those who turned 70-1/2 on or before 12/31/2019 already reached the RMD age and must begin or continue the minimum distributions in 2020.

The Board policy adopted August 19, 2020, requires each PROP participant that has reached the RMD age to submit an initial statement from a professional tax advisor with an explanation of how the participant will comply with federal law. This must include the calculation of the required distribution amount based on the balance in the PROP account at the time, and if that amount is not being taken from the PROP account with APRS, the tax advisor statement must also specify from what other account(s) the distribution will occur.

The tax advisor statement may be required annually if the member is taking a distribution that is less than the amount calculated by APRS as the minimum required. Failure to file the required statement could result in the distribution of the entire account. Distributions from a PROP with APRS, in whole or in part, can be rolled over to another qualified plan to postpone federal taxes.

It is critically important for the sake of all its members that APRS maintain its tax qualification status under federal law. Failure to satisfy the minimum distribution requirements could jeopardize this status. It also could subject individual members to a tax of 50% of the amount that should have been paid to the participant during the year but was not.

Keep Your Death Benefit Beneficiary Form Updated

We see a continuing need to emphasize the importance of keeping beneficiary forms current. State law allows a member to designate a spouse or non-spouse to receive a death benefit, which is different from a chosen survivor selected to receive the member's continued annuity upon death.

It is very important for APRS members to be aware that failure to have a valid APRS beneficiary form on file with the System, and to keep it current, can complicate the management of the final affairs of a deceased officer. Members should especially review death benefit beneficiary designations any time you have a change in life circumstance, such as marriage, divorce, death of a spouse or other designated beneficiary, or birth of a child.

The beneficiary form for death benefits can be submitted online: see <https://www.ausprs.org/designation-form-for-death-benefits>. Multiple beneficiaries can be named, and this designation may be changed during the member's career or during retirement. The death benefit paid for an active member's account is paid in the amount of two times the balance of the deceased member's contribution account balance, with a minimum of \$10,000. The benefit paid for a deceased retiree is \$10,000 (or a proportionate amount if retired under the Proportionate Retirement Program).