



# Austin Police Retirement System Pension News

Fall 2016

## Board of Trustees

Elected by Active members:

Ret. Det. Tim Atkinson,  
Chair

Sgt. Jim Beck,  
Vice Chair

Ret. Cmdr. Mike Jung

Sgt. Andrew Romero

Cmdr. Todd Smith

Elected by Retirees:

Ret. AC Kendall Thomas

Ret. Lt. Carl Zimmerman

Statutory Trustee Positions:

Ms. Kathie Tovo,  
Mayor Pro Tem

Mr. Art Alfaro,  
City Manager  
Representative

Ms. Elaine Hart,  
City Finance Director

Mr. Chesley Wood,  
Citizen Representative

## Inside this issue:

Trustee Vacancy	1-2
Actuarial Valuation	3
Retirement Seminar	3
Investment Analysis	4
PROP Account	5
Retirement Appointments	6

## Letter from Board Chair Tim Atkinson

Kendall Thomas has served diligently as a Trustee on the Board of the Austin Police Retirement System since the inception of APRS when formed separately by the City. Kendall has recently announced his intention to set aside his continued service by the end of this year. He will certainly be missed, and his contributions over these many years are greatly appreciated. Please see a separate article informing the membership of this development, as well as how the position will be filled.

The funded status of the Austin Police Retirement System remains stronger than many public pension plans, especially the very troubled ones garnering

media attention. As described in another article, APRS is 66.6% funded with a funding period to amortize liabilities of 31.3 years. It is interesting to note that funding could be brought into a 30-year funding period, largely considered the standard for actuarial soundness, with an additional contribution rate of 1.2 percent of payroll, paid by either employees or the City or some combination.

As you know, to address the expenditure side, the Board has taken numerous steps in the last 18 months to curtail the expanding liabilities associated with the benefit plan design of the System. Please see the last two newsletters for a



description of these changes.

The good news is that thus far in 2016 investment management is providing a positive return, following losses in 2014 and 2015, which are further explained in this newsletter. Reports as of August 31, 2016, show a year to date return of 5.51 percent, bringing the market value of assets to \$674.2 million.

Continue to Page 2

## Trustee Kendal Thomas Concluding Board Service



Effective December 31, Kendall Thomas will conclude his long service as a distinguished Trustee of the APRS Board. Kendall has served on the Board since the System was founded after passage of state law that created APRS as a separate entity. His service is to be commended and greatly appreciated. Many thanks to Kendall for his contributions to the welfare of the System and its members and beneficiaries, and we wish him and his family the very best.

Continue to Page 2

## Letter from the Chairman cont'd.

On a different note, the Board continues to usher in improvements to System administration. At the August meeting, the Board adopted its first ever By-laws to clarify management of the System. In addition, we have a process in place to review all of the System's policies. Several have come under review recently with resulting improvements. Soon the System will also produce improved communications about each of its programs. In addition, there will be a significant overhaul of the web site. Thank you for your patience as this effort may take some time, and some portions of the web site may be under construction for a while.

Among other developments, we would note that the building which houses the System office is owned by APRS, and is therefore also an investment asset of

the System. The Executive Director recently brought to the Board's attention that the building is suffering from extensive deferred maintenance. The Board heard from external experts that provided a plan of action to address these deficiencies and an associated budget has been approved for repairs. Work is underway and should be completed by the end of November.

Please be sure to let me or any Trustee know if you have questions or input. I have always made a point to be accessible to any member that wishes to have discussions.

Best regards,

*Tim Atkinson*

## Trustee Thomas cont'd.

The vacancy will be filled by the Board pursuant to state law. Any current APRS retirees interested in serving and filling this vacancy should submit a brief Letter of Intent (maximum 200 words) to the Executive Director by November 30 stating why you would like to serve on the Board of Trustees. Letters may be mailed, faxed (see page 6) or emailed to pfeatherston@ausprs.org



## Letter from the Executive Director



*Pattie Featherston*

As the Chair indicated above, we have been quite busy at the System office. In addition to our regular day-to-day service to members and asset management duties, we have launched a thorough review of policies and procedures, undertaken much needed building improvements, and assisted with the actuary's annual actuarial valuation and the auditor's financial review of our annual report. In addition, we are reassessing all of our communications, which means revising the web site and a multitude of forms and documents. Most importantly, though, we are trying to improve how we explain to members the complexities of their retirement benefit plan design.

We are also happy to announce the next retirement seminar on November 7. Please see the separate article in this newsletter with pertinent details.

As always, we are pleased to serve you and hope that you will let us know if there is anything you need.

## Actuarial Valuation as of December 31, 2015

The APRS actuary, Foster & Foster, presented the final 2015 actuarial valuation for the System to the Board of Trustees at the August meeting. An annual valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements of the applicable plan year.

The actuary states that the valuation was conducted in accordance with generally accepted actuarial principles and practices, including the Actuarial Standards of Practice as issued by the Actuarial Standards Board. Further, the assumptions used, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience.

Highlights of the report include a valuation of actuarial assets at \$689.8 million. However, the total accrued liability is \$1.036 billion, leaving an unfunded actuarial accrued liability (UAAL) of \$346.34 million. This represents a 9.9 percent increase in UAAL.

The funded ratio decreased to 66.6 percent from 67.5 percent in 2014. The years to amortize the unfunded liability increased to 31.3 years from 28.6 years in 2014.

Investment gains and losses are “smoothed” in each year’s actuarial valuation over a five-year period, such that only 20 percent of a gain or loss is recognized annually. For example, the 2015 valuation marked the last year for recognizing \$57 million in losses from 2011.

A correlating portion of the gains were recognized for 2012 and 2013, which totaled \$8.5 million and \$5.0 million respectively. However, there were losses in 2014 and 2015, \$13.7 million and \$52.5 million respectively, that will continue to be recognized 20 percent annually through 2019.

The current contribution rate is 34.313 percent of active member payroll, 13.0 percent paid by employees and 21.313 percent paid by the plan sponsor, the City of Austin. The actuary calculated that to fund the liability within a 30-year fund-

ing period would require a contribution rate of 35.494 percent, or approximately 1.2 percent more than is currently paid.

While a 30-year funding period is broadly considered actuarially sound, the State Pension Review Board suggests that a funding period between 15 and 25 years is preferable. As a point of reference, the actuary also calculated the contribution rate needed to achieve a 20-year funding period which would require an increase to 38.968 percent, or approximately 4.7 percent more than is currently paid.

In a separate article the APRS Investment Consultant, The Bogdahn Group, explains the System’s experience for investment management during fiscal year 2015 in relation to global investment performance. Numbers are slightly different when based on market value versus actuarial value.



## Retirement Education Seminar

APRS will be hosting its next Retirement Education Seminar on **November 7, 2016** from 9:00 am - 4:00 pm at the Learning and Research Center located on 2800 Spirit of Texas Drive Austin, TX 78719.

A flyer regarding the seminar along with the registration form has been sent to your work email address. For those who did not receive such correspondence, please contact our office at (512) 416-7672 to have a registration form emailed to you.

Attendance space may be limited. Members with a minimum of 15 years of creditable service will be given first priority.

**We look forward to seeing you there!**



# Investment Analysis for 2015

Prepared by: The Bogdahn Group; Investment Consultant to the APRS Board of Trustees

The global equity markets delivered mixed and essentially flat results for 2015 as enthusiasm for sustained growth in the U.S. was offset by concerns of a slowdown in China. European and Japanese markets were supported by continued and aggressive central bank stimulus and Emerging markets generally lagged their developed-market counterparts by a wide margin. U.S. bonds had a similar year of flat performance in 2015. The U.S. equity markets ended the year up modestly from where they started after the S&P 500 climbed to an all-time high in May, but worries about global growth and the interest rate outlook, corporate earnings and the health of the high-yield bond sector impacted equities for the second half of the year. The U.S. equity markets produced mixed results with large caps reporting a return of +1.4% (S&P 500), the NASDAQ was up 7% while mid-caps and small-caps were down -2.4% and -4.4%, respectively. International Equity Markets delivered a loss to investors of -5.7% (MSCI ACWIxUS). Developed markets, as represented by the MSCI EAFE Index, were down -0.8%, while Emerging Markets (MSCI EME Index) fared much worse, down -14.9%.

The strongest gains in the U.S. market came within the sectors of Consumer Discretionary (up 10%) and Healthcare (up 7%). Many large consumer discretionary companies, including Netflix, Amazon, Microsoft and Alphabet (Google's holding company), experienced significant share price gains.

Healthcare saw strong M&A activity, with Pfizer buying Allergan and Anthem buying Cigna, which helped boost share prices. Meanwhile, Energy fell another 21% in 2015 amid a glut of crude oil, the price of which hit a multi-year low around \$34 a barrel in late December. In addition, the Materials sector declined (down 8%) due to a steep decline in metal prices.

For the second year in a row, small cap U.S. stocks were the weakest performers, down -4.4% in 2015 (Russell 2000), due largely to the underperformance in small cap energy names as well as a late year selloff in biotechnology stocks. Midcap stocks were also down -2.4% (Russell MidCap) for the year.

APRS' investment portfolio for 2015 returned -0.6%. Net Assets held in Trust increased \$2.2 million to \$638.7 million.

The growth in overall assets was due to a net contribution of \$6 million from noninvestment related activities, which was partially offset by an investment loss of \$2.6 million.

The Equity allocation, which represents 47% of the total fund, was down 2.9%. Positive returns within the U.S. broad market equity allocation (20% of the total fund) were offset by negative returns within the mid-cap (11% of total

fund) and international equity allocation (14% of the total fund). Continued concerns about growth outside of the U.S., international holdings faced the headwind of a strengthening U.S. dollar during 2015. The Fund's exposure to energy was a significant detractor to absolute and relative returns in 2015, as oil prices declined in the latter half of the year.

The Fixed Income allocation (12% of the Fund) posted a return of -2.4% which impacted the overall portfolio returns. The main detractor in overall returns for the fixed income portfolio was the international debt allocation (5.2% of the Fund) which declined -4.73 on currency weakness versus the U.S. dollar and on interest rate rises in anticipation of a U.S. interest rate increase.

The Real Estate allocation (18% of the Fund) was the strongest performer up 6.5%, while the Timber allocation (5% of the Fund) also posted gains with a 1.6% return in 2015. The Private Equity allocation (7% of the Fund) added 2.5% for the year mostly from recent private debt allocations. The Hedge Fund allocation (10% of the Fund) declined -1.7% due to underperformance in a manager that was liquidated and removed from the Fund.



Continue to Page 5

## Investment Analysis cont'd.

The Board of Trustees remain 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 actuarial return assumption, which was 7.8% in fiscal year 2015.



## PROP Account Disbursements

Retired members who have a PROP Account have the option of taking two minimum disbursements within a calendar year. The third disbursement will effectively close the account permanently.

PROP Distribution forms must be received on or before the 15th of each month for payment at the end of the same month. Should the 15th fall on a weekend, submission would be required on Friday. The PROP Distribution forms must be signed and notarized. You have the option of submitting the PROP Distribution form by one of the following methods:

1. Mail to APRS 2520 S IH-35 Suite 100 Austin TX 78704
2. Fax to (512) 416-7138
3. Email to Marisa Hart (Benefits Manager) at [mhart@ausprs.org](mailto:mhart@ausprs.org)

APRS staff cannot provide tax advice regarding any withdrawals from your account. Please direct any questions to your own tax advisor.

If you do not have access to a notary, APRS staff members are licensed notaries and are available by appointment.

In order to receive your PROP balance please call or email your request. Due to high volumes that are unforeseen, staff may take up to one or two business days to provide your account balance.

This article does not cover all the rules or procedures regarding a PROP account but serves only as a general guide. For a more detailed explanation or specific questions regarding your PROP account please contact our office at (512) 416-7672.

To download a the PROP Distribution form please visit our website at

[www.ausprs.org](http://www.ausprs.org)

**#1** MEMBER RESOURCES

**MEMBER RESOURCES**

**PROP**

**LUMP SUM PROP**

The PROP account is an investment vehicle that was established on September 1, 2001 to allow members to elect to roll their lump sum DROP monies into it and earn a rate of return to be established by APRS annually. It is a notional account that does not actually contain cash, stocks, bonds or other securities like a 457-plan account. The PROP account is a bookkeeping account only and a member's PROP balance is invested right along with the other assets of APRS.

**Lump Sum PROP Application** (24 KB)

**Lump Sum PROP Policies and Procedures** (27 KB)

**PROP Beneficiary** (7 KB)

**PROP Distribution Form** (25 KB)

**#2**

**#3**

# Scheduling Retirement Appointments

Please visit [www.ausprs.org](http://www.ausprs.org) to schedule your retirement appointment 30 days before your last day of work.

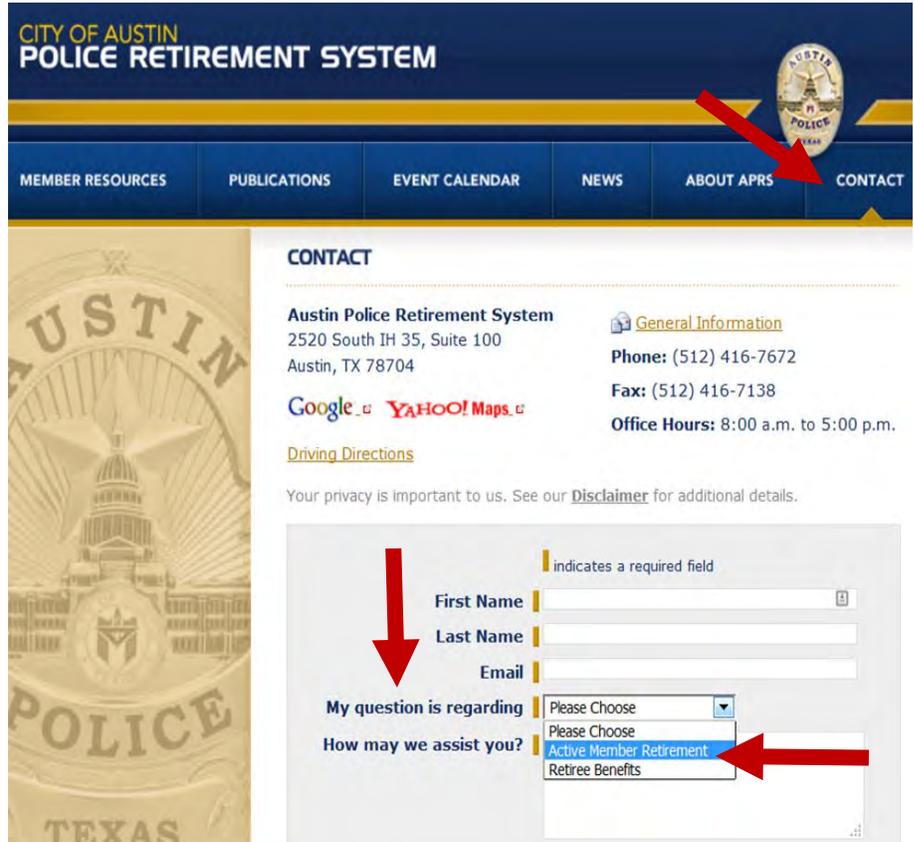
Navigate to the “Contact” tab to fill in your information.

Under the “My Question is regarding” section, you will select “Active Member Retirement.”

Include the following information within the body of the email:

1. Last day of work
2. Type of Retirement
3. Survivor Option
4. Type of Service Purchase
5. PROP Account Set Up

Within 24 hours you should receive a confirmation email and a separate appointment if needed to complete any service credit purchase(s).



**CITY OF AUSTIN  
POLICE RETIREMENT SYSTEM**

MEMBER RESOURCES PUBLICATIONS EVENT CALENDAR NEWS ABOUT APRS **CONTACT**

**CONTACT**

**Austin Police Retirement System**  
2520 South IH 35, Suite 100  
Austin, TX 78704

[Google](#) [YAHOO! Maps](#)

[Driving Directions](#)

[General Information](#)  
**Phone:** (512) 416-7672  
**Fax:** (512) 416-7138  
**Office Hours:** 8:00 a.m. to 5:00 p.m.

Your privacy is important to us. See our [Disclaimer](#) for additional details.

Indicates a required field

First Name

Last Name

Email

My question is regarding

How may we assist you?  
Please Choose  
Please Choose  
**Active Member Retirement**  
Retiree Benefits

## APRS Contact Information

City of Austin Police Retirement System  
Kendall Thomas Chesley Wood Building  
2520 South IH 35, Suite #100  
Austin TX, 78704

Phone: (512) 416 -7674  
Fax: (512) 416-7138

Office Hours: M-F 8am-5pm  
By Appointment.

[www.ausprs.org](http://www.ausprs.org)

