City of Austin
Police Retirement System

February 17, 2016

APRS Board of Trustees Action to Improve Actuarial Condition

The Board of Trustees of the Austin Police Retirement System adopted changes to the Forward Deferred Retirement Option Program (Forward DROP) that will improve the System's actuarial condition and the security of funding all current and future benefit payments. The Texas Pension Review Board (PRB) issues guidelines for actuarial soundness that specify a preferred funding period of 15-25 years to amortize the Unfunded Actuarial Accrued Liabilities (UAAL), and PRB adds that benefits should not be improved (such as a cost of living adjustment for retirees) if the amortization period is over 25 years. http://www.prb.state.tx.us/files/reports/2015_final_primer.pdf

The last APRS actuarial valuation as of December 31, 2014, shows the funding period is 28.6 years and the funded ratio is 67.5%, with actuarial assets of $653 million and total UAAL of $315 million. However, the actuarial valuation for data as of December 31, 2015, has not been completed, and it is evident that the global downturn in overall investment returns over the last year will have a negative impact on the System's actuarial condition, as it will with all public pension plans.

APRS Trustees have examined a number of key cost drivers that are outside of the normal retirement benefits. Subsequent changes have been made within the last year in an effort to assist the System's actuarial condition in the midst of the global investment conditions. Prudent management of both assets and expenditures is essential for public pension plans to sustain the promise of delivering current and future benefits for the System's members, retirees, and their beneficiaries.

In the newly released actuarial study of the Forward DROP it was revealed that the true cost of the program adds 2.6 years to the funding period. Changes made by the board on February 17, 2016, will result in a cost neutral program. Since members with 23 years of creditable service are grandfathered from the changes, the actual reduction in the amortization period is 1.6 years.