Gabriel Roeder Smith & Company
Consultants & Actuaries

THE CITY OF SAN ANTONIO

POSITIONING THE CITY'S SPONSORSHIP OF THE FIRE AND POLICE PENSION FUND FOR THE FUTURE

JANUARY 27, 2015

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631

469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

January 27, 2015

The Honorable Mayor Ivy R. Taylor
City of San Antonio
100 Military Plaza
San Antonio, TX 78205

Subject: Review of Proposed Legislative Package for the Fire and Police Pension Fund

Dear Mayor Taylor:

On September 24, 2014, the Board of the Fire and Police Pension Fund, San Antonio (the Fund) approved a package of proposed changes (the proposal) that is intended to be presented to the 2015 Texas Legislature.

We have been asked by the City of San Antonio (the City) to assist in reviewing the legislative amendments proposed by the Fund. This letter will:

- Analyze the amendment proposal and its impact on the Fund;
- Evaluate whether the legislative amendment proposal is within the range of accepted best practices for pension fund management;
- Provide a comparison of the key elements of retirement plans within the City's peer group; and
- Provide information on the current pension environment and on changes either proposed or approved by retirement plans within the City's peer group.

We hope that the City and the Fund find our comments helpful and that this report will prompt a meaningful dialog about the future of the retirement benefits for the membership of the Fund. Thank you for the opportunity to work on this assignment.

Mr. Falls and Mr. Randall are Enrolled Actuaries and Members of the American Academy of Actuaries. They meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, all are experienced in performing actuarial valuations and projections for large public retirement systems.

We are happy to answer any questions you have about the information presented here.

Respectfully submitted,
Gabriel, Roeder, Smith & Company

R. Ryan Falls
R. Ryan Falls, FSA, FCA, MAAA, EA
Senior Consultant

Mark R. Randall
Mark R. Randall, FCA, EA, MAAA
Executive Vice President

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SECTION I

EXECUTIVE SUMMARY

Executive Summary

Given the strong financial status of the Fund, the City is in a unique position that, in the near future, the Fund should become "fully funded"; meaning the Fund's assets should at least equal the accrued liabilities. Reaching a fully funded status allows the City to consider several options regarding the retirement program for its Fire and Police Employees while working to strike the right balance between the City's desire to compensate public safety officers and the City's planning and budgetary needs. These options include: (1) do the current retirement benefits allow the City to attract the appropriate candidates and retain employees for its Fire and Police positions, (2) what is the most appropriate level of contributions for the City, and (3) should the City look at ways to reduce the long-term risk of its retirement program?

Analysis of Amendment Proposal

In September 2014, the Board of the Fire and Police Pension Fund approved a package of proposed changes that is intended to be presented to the 2015 Texas Legislature.

The Fund's retained actuary prepared an actuarial impact statement which estimated the impact of the proposal on the actuarial valuation of the Fund. Based on the stated assumptions, provisions, and methods, we believe that the estimates prepared by the Fund's retained actuary are reasonable.

One provision of the proposal enhances the cost-of-living adjustments (COLAs) for a subgroup of current retirees (members that retired between 1999 and 2003). A similar enhancement was made to other subgroups of retirees three times over the past ten years. The proposal would also remove the requirement that this type of benefit enhancement be adopted by the State Legislature and instead would grant the Fund's Board the authority to make further changes to this provision in the future. Due to the potential for similar plan changes in the future, the City may want to know what the cost of the Fund would be if the COLA enhancement were extended to all plan members.

Another provision in the proposal would lower the City's contribution rate. The proposed decrease in the City's contribution rate would result in an estimated $4.3 million reduction in the City's annual contribution. It is important to note that a lower contribution rate today will result in the City making that lower contribution rate for a longer period of time before the unfunded liability is eliminated. Lower City contributions will provide assistance for short-term budgeting, but it will delay the date on which the Fund would otherwise have been fully funded.

The City contributed $76 million to the Fund in fiscal year 2014 and approximately $38 million of the contribution was directed towards eliminating the current unfunded liability. The October 1, 2013 actuarial valuation of the Fund indicates that the current unfunded liability should be eliminated in approximately seven years. The proposed decrease in the City's contribution rate along with the proposed benefit changes would increase the time it takes for the Fund to become fully funded by approximately six years. Based on current payroll levels, the City would contribute $4.3 million per year less for approximately seven years but would need to contribute $33.7 million for six additional years (a net increase of approximately $170 million) to pay off the Fund's unfunded liability.

In Section II of this report, we have provided our detailed comments on the package of proposed changes approved by the Board of the Fund.

Best Practices for Pension Fund Management

Current best practice from actuaries, governmental associations, and others would encourage public retirement systems and their sponsors to adopt a written funding policy to secure member benefits and mitigate the risks to the plan sponsor. For the City, a funding policy would be a road map with a systematic set of procedures used to determine the level of contributions to be made by the City and document the City's approach towards benefit modifications. Most importantly, all stakeholders would have a clear understanding of the City's contribution commitment to the Fund and the potential for future benefit modifications.

In Section III, we discuss the risks that the City is subject to and the considerations of a possible funding policy for the future.

Comparison to Peer Group

Overall, the benefits provided by the Fund are comparable with the other cities within the City's peer group.

With the exception of some periodic ad hoc cost of living adjustments granted by a few plans, the most notable trend with benefit changes has been to institute new tiers of less expensive benefits for new hires.

The most notable feature is that the funding period for the Fund is significantly less than the funding period for the other retirement systems sponsored by cities within the peer group. This strong financial position results from the continued financial commitment from the City as well as effective management from the Fund's Board and staff.

Section IV provides benchmarking of retirement plans within the peer group of the City.

Recommendation

The most important step for the City is to adopt a clear, written funding policy that articulates the City's approach to the long-term contributions and benefits of the Fund as well as communicates the policy to all stakeholders.

The Fund is one of the best-funded plans in the State of Texas. However, even cities with well-funded plans should have a strategy for the long-term contributions and benefits of their pension plans when assessing proposed changes.

SECTION II

PENSION FUND LEGISLATIVE PACKAGE

Pension Fund Legislative Package

The Proposal

It is our understanding that the proposed legislative package (the proposal) includes the following changes to benefits, governance and contributions:

Benefit Changes

a. Extend the 100% of CPI cost-of-living adjustment (COLA) to all members who retired between October 1, 1999 and September 30, 2003. Currently, all members that retired after October 1, 1999 receive a COLA of 75% of CPI.
b. Reduce the formula for a Disability Pension Benefit from 50% of average salary to 47.5% of average salary.
c. Change the maximum service allowed for BackDROP from 34 years to 33 years.
d. Update the benefit formula to the following percentages:

	Current Plan		*Proposed Plan*	
Service Years	**Benefit %**	**Cumulative %**	**Benefit %**	**Cumulative %**
1-20	2.250%	20 years = 45.00%	2.375%	20 years = 47.50%
21-27	5.000%	27 years = 80.00%	5.000%	27 years = 82.50%
28	2.000%	28 years = 82.00%	2.500%	28 years = 85.00%
29	2.000%	29 years = 84.00%	0.500%	29 years = 85.50%
30	2.000%	30 years = 86.00%	0.500%	30 years = 86.00%
31-33	0.500%	33 years = 87.50%	0.500%	33 years = 87.50%

Governance Change

e. Give the Board discretion regarding adjusting the retirement date applicable to the determination of whether a retired member receives a 75% of CPI COLA or a 100% of CPI COLA, subject to safeguards determined by the Fund.

Contribution Change

f. Reduce the City's contribution rate from 24.64% of payroll to 23.25%. (The member rate of 12.32% of payroll remains unchanged.)

Review of Actuarial Impact Statement

Segal Consulting, the retained actuary for the Fund, prepared an actuarial impact statement, dated September 26, 2014, which estimated the impact of the proposal on the actuarial valuation of the Fund. In total, Segal Consulting estimated that the proposal would increase the unfunded actuarial accrued liability (UAAL) by $73 million, increase the normal cost rate by 0.85% of payroll (or, $2.6 million in the first year), and increase the funding period (or, years to eliminate the unfunded liability) by 5.6 years.

Based on the stated assumptions, provisions, and methods, we believe that the estimates prepared by Segal Consulting are reasonable. The results of any actuarial calculation are dependent upon the actuarial assumptions and methods used and we only focused on the stated assumptions used by Segal Consulting. It should be noted that even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods.

Based on our review of the actuarial impact statement, we have the following further observations:

- The increase in the benefit formula would likely increase the rate of retirement at certain ages and Segal Consulting did incorporate an increase in the retirement assumption for members eligible to retire with 25 to 29 years of service. With the understanding that there is no actual experience available to set this assumption, the increase in the retirement assumption resulting from the proposal appears reasonable.

- As stated in the actuarial impact statement, the actuarial impact reflects the cost of extending the 100% of CPI COLA to all members who retired between October 1, 1999 and September 30, 2003. The actuarial impact statement is consistent with the proposed benefit changes to the Fund. However, the actuarial impact statement does not discuss the long-term cost associated with continuing to provide new groups of retirees with the 100% CPI COLA.

- The actuarial impact statement is based on the results of the October 1, 2013 actuarial valuation. The results of the actuarial impact statement could be different if the calculations were updated based on the October 1, 2014 actuarial valuation; however, we have no reason to believe that the impact would be significantly different.

- Our analysis only included a review of the documentation prepared by Segal Consulting as part of the actuarial impact statement. This documentation included the letter dated September 26, 2014 and the accompanying summary of actuarial valuation results, including the "Step-by-Step Cost Impact of Legislative Changes" that summarized the impact of each individual element of the proposal. We did not replicate the liability calculation for the Fund or any individual plan member.

Review of Proposal Provisions

In general, the proposal calls for an increase in plan benefits and a decrease in the City contribution rate. Most of the recent literature on the funding and governance for public pension plans indicates that the goal should be to attain a fully funded pension plan. Currently, the Fund, with the support of the City, is in the enviable position of being very close to attaining this goal. It should be noted that, even with the enactment of the proposed legislative package, the Fund would still have one of the shortest funding periods in its peer group.

Based on the materials that we received, these elements of the proposal were developed without a clear vision for the ultimate goal for the benefits and contributions of the Fund. In the following section titled "Funding Policy and Sponsor Risks", we outline a process for developing a roadmap for the ultimate benefits and contributions of the Fund.

We have a few additional comments on portions of the proposal:

1. <u>Reduce City Contribution Rate</u> – It is important for the City to understand that the portion of today's UAAL that will be amortized by City contributions is the same, regardless of the pattern of contributions. In other words, a lower contribution rate today will result in making

that lower contribution rate for a longer period of time. This assumes that the members' contribution is not expected to change and that the goal of achieving a fully funded pension plan does not change.

Moreover, while the lower City contributions into the Fund will provide assistance for short-term budgeting, it will likely delay the time when the Fund is fully funded.

2. Extend the 100% of CPI COLA – The 100% of CPI COLA is only extended to members who retired between October 1, 1999 and September 30, 2003 in this proposal. When reviewing this modification, it is important to note that the group that is eligible for the 100% of CPI COLA has previously been extended three times in the last 10 years (in 2004, the applicable retirement date was October 1, 1991). If it can reasonably be expected that the effective date for the retiree group covered by the 100% of CPI COLA will be extended again in the future, then the true long-term cost of the Fund may be more than the amounts presented in the actuarial impact statement.

   The actuarial impact statement clearly states that the impact of the proposal only incorporates the members who retired between October 1, 1999 and September 30, 2003 and this is a reasonable approach to the impact statement. However, the City may want to know what the cost of the Fund would be if the 100% of CPI COLA were extended to all plan members in some way (e.g., after 10 years of retirement), especially in light of the proposed governance changes relating to the 100% CPI COLA.

   With the proposed governance changes, it is also important for the Fund to articulate and follow (if applicable) the procedures and policies that would be put into place for deciding when to extend the 100% of CPI COLA.

SECTION III

FUNDING POLICY AND SPONSOR RISKS

Funding Policy and Sponsor Risks

The recent recession and significant changes in accounting for public employee pension plans have resulted in a renewed focus on formal funding policies for public pension plans. Now, more than ever, public retirement systems need to have a sound, written funding policy to secure member benefits and mitigate the risks to the plan sponsor.

There have been reports issued by actuaries, governmental associations, and others to assist with the development of guidelines for funding policies, including the:

- Report from the Pension Funding Task Force 2013 (convened by the Center for State and Local Government Excellence), titled "Pension Funding: A Guide for Elected Officials";
- GFOA Best Practice "Core Elements of a Pension Funding Policy"; and
- Report in 2014 from the Conference of Consulting Actuaries Public Plans Community, titled "Actuarial Funding Policies and Practices for Public Pension Plans".

All of the recent guidance on funding policy has the following common themes:

- The goal of the policy should be to achieve a fully funded public pension plan,
- A reasonable allocation of the cost of plan benefits, and
- An understanding of the risks that are inherent in the arrangement.

Developing a clear, written funding policy can help decision makers understand the tradeoffs related to reaching specified goals and document the reasoning that underlies the decisions. Through this process, decision-makers can come to a better understanding of the principles and practices that help sustain benefits over the long-term.

For the City, a funding policy would be a systematic set of procedures used to determine: (1) the level of contributions to be made by the employer in a specific year and series of years, and (2) the City's approach towards benefit modifications. Additionally, all of the parties involved would have a clear understanding of the City's contribution commitment to the Fund and the potential for future benefit modifications.

The first step in developing a funding policy is to understand the risks facing the City and to develop a policy that manages the risks.

Risks to the Plan Sponsor

As the sponsor of a defined benefit pension plan, the City is currently exposed to a number of risks associated with the retirement plan. In order for the City to assess the current plan and consider any potential changes to the plan, it is important for the City to understand its risk exposure.

The largest risk to the City associated with sponsoring the defined benefit pension plan is that the costs of the benefits provided by the Fund may be significantly different than anticipated. The biggest factors that will cause this to happen are:

- Investment risks – investments of the Fund are significantly different than current expectations (through over/under-performance or change in investment policy) which result in a notably different contribution requirement and/or the funding period;
- Demographic risks – changes within the covered population, such as changes in retiree longevity or changes in employment patterns, which impact the cost of benefits; and
- Benefit or plan design risks – changes to the benefit provisions that alter the cost of benefits.

If the impact of these risk factors results in an increase to the costs of the benefits provided by the Fund (e.g., under-performance of assets, increase longevity of retirees, unanticipated benefit increases, etc.), then:

- The City could have to increase the contribution rate;
- The City may have to contribute the current contribution rate for longer than anticipated; or,
- The future benefits provided by the Fund may have to be decreased which could have a negative impact on staffing and recruiting.

Alternatively, these factors could also improve the financial status of the plan (e.g., excess investment returns, limited mortality improvement, etc.). In these situations, the pressure on the City and the Fund to increase benefits and permanently lower contributions can be significant.

Current Contribution Commitment

As the City considers the best way to achieve these goals, it is first important to understand the current financial state of the Fund and how the current contributions are being allocated.

The results of the October 1, 2013 actuarial valuation indicate that the Fund has a normal cost rate (i.e., cost of future benefit accruals) of 24.74% of payroll and an UAAL of $233 million. Additionally, the Fund currently receives annual contributions of 36.96% of pay (12.32% from members and 24.64% from the City) to fund these obligations. As a result, the Fund receives annual contributions of 12.22% of pay (total contribution of 36.96% of pay, less the normal cost rate of 24.74% of pay) to direct towards eliminating the UAAL. As of October 1, 2013, the Fund was expected to completely eliminate its UAAL within eight years.

This strong financial position results from the dedication and commitment from all parties involved in the management of the Fund; including the Board, the membership, the staff, and the City. According to the Texas Pension Review Board's Actuarial Valuations Report from May 2014, the Fund's funding period is notably less than all other major pension funds in the State. The fact that the Fund has a funding period of approximately eight years indicates that the current funding arrangement and current benefit arrangement will almost certainly result in a fully funded pension plan.

Components of a Funding Policy

Without a funding policy in place, there can be a lot of uncertainty from all stakeholders when a pension plan approaches a fully funded status. For example, the plan sponsor may not be sure what the most appropriate level of future contributions should be, the pension fund may be concerned that the plan sponsor will irrevocably reduce contributions, and the plan membership may feel that they are due for an increase in benefits while the funds are available.

As a result, the City can take an important step towards quelling any concerns from the stakeholders in San Antonio by documenting its approach to contributions as the Fund marches closer and closer to being fully funded.

Based on the information available to us, we believe that the investment risks are adequately managed by the Fund with diversification of asset classes and asset smoothing. Additionally, the demographic risks are measured and managed by the Fund through the use of regular actuarial valuations and actuarial experience studies. The Fund is a well-run public retirement system and we have every reason to believe that these procedures will continue.

Since the City currently contributes a statutory (or fixed) contribution rate to the Fund, the types of questions that the City needs to answer in a funding policy are:

- How long should the current contribution level be sustained once the Fund is fully funded?
- Once the plan is fully funded, what is the City's target level of contributions?
- Based on the City's target level of contributions, what benefit modifications would the City consider and under what circumstances?
- What steps can the City take to reduce the likelihood that the contribution to the Fund will increase in the future?
- Under what circumstances will the City consider increasing the contribution to the Fund?

Considerations for the City's Funding Policy

Below, we have summarized a few considerations for each of these questions. These are our observations only. The examples in the following discussion are primarily provided for illustrative purposes and may only represent a single option amongst a wide range of possible alternatives.

How long should the current contribution level be sustained once the Fund is fully funded?

- The financial markets can be volatile. Once a pension plan reaches a 100% funded ratio, the funded ratio can drop back beneath 100% by the very next valuation.
- We would recommend that the City commit to the current contribution level until the funded ratio of the Fund well exceeds 100%. For example, the threshold could be 110% based on the lessor of the actuarial value of assets and the market value of assets.
- Using a threshold of more than 100% also provides a margin for future adverse experience that drops the funded ratio.

Once the plan is fully funded, what is the City's target level of contributions?

- Even after the Fund is fully funded, the contributions to the plan should at least cover the normal cost. The normal cost represents the cost associated with the accrual of new benefits during the year so in most circumstances the normal cost should always be contributed in order to keep up with new accruals.
- In order to avoid the possibility of increasing contributions in the future, we would recommend that the City continue to contribute more than the normal cost of the Fund. For example, the City could continue to contribute 4% of payroll to the pension fund in excess of the normal cost rate.

- Currently, the City contributes approximately 12% of payroll to the Fund in excess of the normal cost rate which is used to eliminate the existing UAAL. Once the plan is fully funded, any contributions in excess of the normal cost would be used to provide a "cushion" for the possibility of an adverse future event that might otherwise require an increase in contributions by the City.

Based on the City's target level of contributions, what benefit modifications would the City consider and under what circumstances?

- Currently, the City contributes approximately 12% of payroll in excess of the normal cost rate. When the pension plan is fully funded, the City should be able to use this excess contribution to do one or more of the following: (1) provide a contribution to the Fund in excess of the normal cost, (2) provide a benefit increase for plan members, and (3) reduce the overall contribution to the Fund.
- As an example, the City could contribute 4% of payroll in excess of the normal cost, direct 4% of payroll towards a benefit enhancement, and still lower the overall contribution rate to the Fund by 4% of payroll.
- If the City's target level of contributions can continue to sustain the Fund and also provide for a reasonable benefit increase, then the City should carefully study the design changes and understand the risk associated with them.
- For example, the City could consider supporting an enhancement to the defined benefit plan, similar to what is contained in the proposal. Also, the Fund periodically seeks to modify the COLA provisions for retirees that are only eligible for the 75% CPI COLA. The City could also support an initiative to make these periodic changes permanent.
- It is important for the City to understand that enhancements to the defined benefit plan will further increase the same investment, demographic and benefit risks that the City is currently exposed to through the defined benefit plan.
- In order to mitigate the investment and demographic risks associated with enhancing the defined benefit plan, the City could consider adopting a "hybrid" approach that would continue the current defined benefit plan but then also provide a supplemental defined contribution benefit in addition to the defined benefit. This would provide a valuable benefit to the membership of the Fund while exposing the City to less additional risk.

What steps can the City take to reduce the likelihood that the contribution to the Fund will increase in the future?

- There are a lot of demands on the financial resources of a city. Once a plan sponsor lowers the contribution rate to a pension plan, it can be very difficult to later increase the contribution rate to higher past levels.
- Once a pension plan is fully funded, any contributions in excess of the normal cost provide a margin against future events that may increase the cost of the benefits. If the City wants to reduce the likelihood that the contribution will increase again in the future, the City could provide a larger contribution in excess of the normal cost to provide a larger margin for adverse experience.
- If the City decides to establish a supplemental defined contribution plan, the City could stipulate that the contributions will be deposited into the defined contribution plan as long as the defined benefit remains fully funded. With this arrangement, the future contributions to the defined contribution plan (not current balances) could be diverted to the defined benefit plan if contribution increases were necessary. For example, the City would contribute 4% of payroll to a defined contribution account for every active member. If the funded ratio of the defined

benefit plan falls beneath 100%, then some or all of the future 4% of payroll contributions would be diverted to the defined benefit plan until the defined benefit plan is once again fully funded.

Under what circumstances will the City consider increasing the contribution to the Fund?

- The City is ultimately responsible for financing the benefits provided by the Fund. As a result, future contribution increases for the City are a real possibility. The funding policy should indicate when the City will consider increasing the contributions. For example, the City could say that they will increase the contribution by 2% in every year that the funded ratio is less than 90% or the funding period exceeds 15 years.
- As discussed, certain contribution increases could be mitigated by establishing a supplemental defined contribution plan where the future contributions can be diverted to the defined benefit plan, if necessary.

Developing a written funding policy can be an intricate and time consuming process, but the ultimate result will be a clearly communicated path for the City and all of the stakeholders.

SECTION IV

COMPARISON TO PEER GROUP

Comparison to Peer Group

The City has identified those Texas cities that it considers its peer group. We have reviewed the retirement benefit provisions of the pension plans that these cities use to cover their police and fire employees. The following tables summarize the data for the 10 retirement systems that cover the peer group cities' police and fire employees.

The source of the information shown for these 10 retirement systems is Public Pension Search Tool. The Public Pension Search Tool includes details on state and local pension plans in Texas as reported to the Pension Review Board and submitted by each plan in response to a public information request from the Comptroller's office. This information can be found at:

http://www.texastransparency.org/application.php/pension/

Retirement Eligibility

Plan Name	Normal Retirement (age/svc)	DROP Eligibility
San Antonio Police and Firefighters	20 years of service	BackDROP, max 60 mos
Austin Firefighters	50/10 or YCS of 25 with no age limit	7 yr. max. (5% interest credit)
Austin Police	55/20 or YCS of 23 with no age limit or 62 yo	DROP, 60 months max; RetroDROP, 36 months maximum backdate
Corpus Christi Firefighters	54/20	RETRO DROP, max 36 mos
Dallas Police and Firefighters (hired before 2/28/2011)	50/5	Forward DROP
Dallas Police and Firefighters (hired after 2/28/2011)	55/20	Forward DROP
El Paso Firefighters (hired prior to 6/30/2007)	45/20	BackDROP 6 months minimum, 36 months maximum
El Paso Firefighters (hired on/after 6/30/2007)	50/25	BackDROP 6 months minimum, 36 months maximum
El Paso Police (hired prior to 6/30/2007)	45/20	BackDROP 6 months minimum, 36 months maximum
El Paso Police (hired on/after 6/30/2007)	50/25	BackDROP 6 months minimum, 36 months maximum
Fort Worth Firefighters	65/5 or Rule of 80 subject to YCS 5	DROP, 5 yr
Fort Worth Police (hired prior to 1/1/2013)	65/5 or Rule of 80 subject to YCS 5 or 25 years of service	DROP, 5 yr
Fort Worth Police (hired on or after 1/1/2013)	65/5 or Rule of 80 subject to YCS 5 or 25 years of service	DROP, 5 yr
Houston Firefighters	20 years of service	DROP, 13-yr max & BackDROP, 3 year max backdate
Houston Police (hired before 10/9/2004)	20 years of service	BackDROP, no max
Houston Police (hired on or after 10/9/2004)	55/10	None

Benefit Determination

Plan Name	Benefit Multiplier	Post-Retirement Increase Provisions	Social Security
San Antonio Police and Firefighters	Years of Credited Service x 2.25% (First 20 YCS) then 5.0% (21-27 YCS) then 2.0% (28-30 YCS) then 0.50% (> 30 YCS) x Final Average Salary	Generally, retirements before October 1, 1999 receive annual adjustments of 100% of the CPI and retirements on or after October 1, 1999 receive annual adjustments of 75% of the CPI	No
Austin Firefighters	Years of Credited Service x 3.3% x Final Average Salary	Determined by the actuary if providing a COLA will not impair financial stability of the Fund	No
Austin Police	Years of Credited Service x 3.2% x Final Average Salary	Determined by the actuary if providing a COLA will not impair financial stability of the Fund (max 6%)	Yes
Corpus Christi Firefighters	50.80% x Final Average Salary + $137 x YCS in excess of 20	No automatic COLA	No
Dallas Police and Firefighters (hired before February 28, 2011)	Years of Credited Service x 3.0% x Final Average Salary	Hired before 12/31/2006: 4% Hired after 12/31/2006: 0%.	No
Dallas Police and Firefighters (hired after February 28, 2011)	Years of Credited Service x 2.0% (First 20 YCS) then 2.5% (Next 5 YCS) then 3.0% (>25 YCS) x Final Average Salary	None	No
El Paso Firefighters (hired prior to 06/30/2007)	Years of Credited Service x 2.75% x Final Average Salary	3% (begins at age 60, or 5 years post-retirement)	No
El Paso Firefighters (hired on/after 06/30/2007)	Years of Credited Service x 2.50% x Final Average Salary	None	No
El Paso Police (hired prior to 06/30/2007)	Years of Credited Service x 2.75% x Final Average Salary	3% (begins at age 60, or 2 years post-retirement)	No
El Paso Police (hired on/after 06/30/2007)	Years of Credited Service x 2.50% x Final Average Salary	None	No
Fort Worth Firefighters	Years of Credited Service x 3.0% x Final Average Salary	Choice of 2% simple COLA or AD HOC based on AV as follows 4% < or = 18: 3% 18.1-24: 2% 24.1-28: 0% > or = 28.1.	No
Fort Worth Police (hired prior to 1/1/2013)	Years of Credited Service prior to 10/01/13 x 3.0% + Years of Credited Service on or after 10/01/13 x 2.5% x Final Average Salary	For credited service prior to 10/1/2013, choice of 2% simple COLA or AD HOC based on AV as follows 4% < or = 18: 3% 18.1-24: 2% 24.1-28: 0% > or = 28.1. For credited service on or after 10/12013, 2% simple.	No
Fort Worth Police (hired on or after 1/1/2013)	Years of Credited Service x 2.5% x Final Average Salary	None	No
Houston Firefighters	50% (First 20 YCS) then Years of Credited Service over 20 years x 3.0% x Final Average Salary	3%	No
Houston Police (hired before 10/9/2004)	Years of Credited Service x 2.75% (First 20 YCS) then 2.0% (>20 YCS) x Final Average Salary	2/3 increase in CPI, min 3%, max 8%	No
Houston Police (hired on or after 10/9/2004)	Years of Credited Service x 2.25% (First 20 YCS) then 2.0% (>20 YCS) x Final Average Salary	80% increase in CPI, min 2.4%, max 8%	No

Economic Factors

Plan Name	Investment Return Assumption (%)	Member Contribution (%)	Employer Contribution (%)	Funding Period	Reporting Date
San Antonio Police and Firefighters	7.50	12.32	24.64	7.25	10/1/2013
Austin Firefighters	7.75	17.60	22.05	10.51	12/31/2013
Austin Police	8.00	13.00	21.63	28.9	12/31/2013
Corpus Christi Firefighters	8.00	12.20	20.78	26.7	12/31/2012
Dallas Police and Firefighters	8.50	8.50	27.50	26	1/1/2014
El Paso Firefighters	7.75	15.28	18.50	23	1/1/2014
El Paso Police	7.75	13.89	18.50	32	1/1/2014
Fort Worth Firefighters	8.00	8.25	19.74	49.3	1/1/2014
Fort Worth Police	8.00	8.73	20.46	49.3	1/1/2014
Houston Firefighters	8.50	9.00	23.90	30	7/1/2013
Houston Police	8.50	9.00% (hired prior to 10/9/04), 10.25% otherwise	26.28	Infinite	7/1/2013

Notes:

- The police and firefighters participate in the same retirement plan in Dallas as well as Fort Worth.
- Corpus Christi Police participate in the Texas Municipal Retirement System. Due to the significantly different plan design, this group has been excluded from the comparison tables.

Summary and Current Environment

The normal retirement and DROP provisions of the Fund are similar to the provisions for police and fire employees of the City's peer group of cities (the City's normal retirement provision may be slightly better).

The benefit multiplier provisions of the Fund are lower than most of the peer cities for the first 20 years of service, but provide comparable benefits for employees who work at least 27 years of service.

The Fund's automatic COLA is tied directly to increases in CPI, so the size of the COLA will be dependent on level of inflation in a particular year. Across the peer groups, the majority of plans do not provide an automatic COLA or they provide a fixed COLA (e.g., 2%, 3%, etc.) that is not tied to changes in CPI. As a result, the cost of living adjustments provided by the Fund would be more consistent with the peer group in a low inflation environment. Alternatively, the cost of living adjustments will generally surpass the peer group in a moderate to high inflation environment.

The Fund's economic factors compare very favorably with the peer cities. The funding period is the lowest of the group with only Austin Firefighters' funding period anywhere near the Fund's funding period. The Fund also has the lowest investment return assumption, which means there is less risk that the Fund will miss its investment target versus the other cities' plans.

As seen on the tables, many of the City's peer cities have instituted new tiers of benefits for new hires. These new tiers are less generous than the already existing tiers. These new tiers were instituted to reduce the overall cost of the pension programs or bring those costs in line with the contributions the cities have agreed to make. With the exception of some periodic ad hoc cost of living adjustments granted by a few of the plans there have been little or no recent benefit enhancements made to the plans in the peer group.