

PROPOSED HOUSTON 2014 FIREFIGHTER PENSION PLAN

LEGAL AUTHORITY TO CREATE A CITY PLAN

The Texas Constitution, Art. 16, sec. 67(c).

Under the Texas Constitution, cities have a choice. They may voluntarily participate in a statewide system of benefits or they may create their own system of benefits.

Under this authority, and in addition to the existing firefighter pension plan (HFRRF), the City of Houston proposes creation of a new pension system for future firefighters.

\$90,000,000.00

The City's projected FY2015 contribution to the existing firefighter pension plan (HFRRF).

This obligation is equivalent to 33% of firefighter payroll.

HFRF IS NOT SUBJECT TO MEET AND CONFER

HFRF members control:

Board of Trustees (8 of 10 seats)

Fund

Benefit Levels

City Contribution Rate

Rule Enforcement and Interpretation

Houston taxpayers have no local input or control. The State exercises little or no oversight.

PROPOSED HOUSTON 2014

FIREFIGHTER PENSION PLAN

- Will, over time, lower the City's long-term benefit costs
- Basic benefit structure is similar to that implemented by HPOPS for officers hired after Oct. 9, 2004
- Only for eligible firefighters hired on or after the plan's effective date

Has no impact on firefighters hired before the plan's effective date. They continue to participate in HFRRF.

BENCHMARKS

Plan prepared by pension specialists at the law firm of Norton Rose Fulbright

- Incorporates industry best practices
- Designed to compare favorably with HMEPS and HPOPS plans for new employees
 - Municipal employees hired after Jan. 1, 2008
 - Police officers hired after Oct. 9, 2004

Anticipated cost levels and projected savings evaluated by actuaries at Retirement Horizons Inc. (RHI)

- Cost methods GASB approved and most widely used by public plans
- Conservative assumptions utilized

PLAN ADMINISTRATION

- Administered and governed by the City as Employer and Plan Sponsor
- Plan assets to be held and managed by an independent institutional trustee

GOVERNANCE

5 appointed committee members:

- Senior employee in Finance Dept
- Senior employee in Human Resources Dept
- Firefighter appointee
- Independent Mayoral appointee with Council approval
- Independent Controller appointee with Council approval

COMMITTEE RESPONSIBILITIES

- Pension administration
- Plan documentation and participant data recordkeeping
- Selection of independent institutional trustee
- Development of long term funding policy
- Selection of actuary for ongoing actuarial valuation services
- Selection of vendors and service providers
- Employee communications

PLAN COMPARISON

<i>Plan Comparison</i>	<i>Current HFRF</i>	<i>2014 Firefighter Plan</i>	<i>Police Plan</i>
Pension Formula	2.5% average <i>monthly salary</i> , first 20 years of service 3.0% next 10 years of service Maximum 80% of average pay	2.25% average <i>base pay</i> , first 20 years of service 2.0% next 17.5 years of service Maximum 80% of average base pay	2.25% final <i>average pay</i> , first 20 years of service 2.0% next 17.5 years of service
Retirement Eligibility	20 years of service	Age 55 and 10 years of service	Age 55 and 10 years of service
Final Average Pay (FAP)	Highest 78-periods of <u>gross</u> pay (Includes overtime) <i>← only example in TX</i>	Highest consecutive 78-periods of <u>base</u> pay (Excludes overtime)	78 pay periods of base pay preceding termination of service (Excludes overtime)
Employee Contributions	9.0% of gross pay	Greater of 9.0% of base pay or 1/3 rd of the total actuarially determined contribution rate	10.25% of base pay
DROP	Included	None	None
Partial Lump Sum Option	None	Included. Maximum lump sum is 20% of member's annuity.	Included. Maximum lump sum is 20% of member's annuity.
Retiree COLA	Automatic	<u>Discretionary</u>	Automatic

PLAN COMPARISON CONTINUED

<i>Plan Comparison</i>	<i>Current HERRF</i>	<i>2014 Firefighter Plan</i>	<i>Police Plan</i>
Survivor Annuity	100% of retiree pension paid to spouse and eligible children	Same	Same
Supplemental Annuity	\$150 per month	Same	Same
Special Lump Sum	\$5,000	None	None
Disability	<ul style="list-style-type: none"> Greater of accrued benefit or 50% average monthly salary if not capable of usual and customary duties 	<ul style="list-style-type: none"> Greater of accrued retiree pension or 45% average base pay If catastrophic injury, 75% average base pay 	<ul style="list-style-type: none"> Greater of accrued retiree pension or 45% final average base pay If catastrophic injury, 100% final average base pay
<ul style="list-style-type: none"> On-Duty Basic On-Duty Special Off-Duty 	<ul style="list-style-type: none"> Greater of accrued benefit or 75% if not capable of any substantial gainful activity. Greater of accrued benefit or 25% of average monthly salary + 2.5% average base pay per year of participation up to maximum of 50% average base pay 	<ul style="list-style-type: none"> Greater of accrued retiree pension or 22.5% average base pay 	<ul style="list-style-type: none"> Greater of accrued retiree pension or 22.5 average base pay
Death Benefit			
<ul style="list-style-type: none"> On-Duty Off-Duty 	<ul style="list-style-type: none"> 100% average monthly salary Greater of 25% average monthly salary plus 2.25% for each year of participation up to 50% average monthly salary or the accrued retiree pension. 	<ul style="list-style-type: none"> 100% average base pay 10+ years of service: 2.25% average base pay for first 20 years + 2% average base pay years after 20 <10 years of service: 22.5% average base pay. 	<ul style="list-style-type: none"> 100% average total direct pay 10+ years of service: 2.25% final average pay for first 20 years + 2% final average base pay years after 20 <10 years of service: 22.5% final average pay

CONTRIBUTION RATES

	HFFRRF	2014 FF Plan
Member contribution	9% of gross pay	Greater of 9% of eligible earnings, which exclude overtime, or 1/3 rd of total actuarially determined rates for both Member and City contributions.
City contribution	Not limited. FY2014 – 23.9% FY2015 – 33.2% Projected to remain in excess of 30% through FY2031.	Capped at 2 times rate of Member contributions.

NORMAL COST ESTIMATE FOR HOUSTON 2014

FIREFIGHTER PLAN

<i>Normal Cost Rate % of Payroll Average Entry Age</i>	<i>City</i>	<i>Member</i>	<i>Total</i>
22 years	15.5%	9.0%	24.5%
27 years	16.0%	9.0%	25.0%
32 years	16.5%	9.0%	25.5%

LOWER LONG-TERM COST STRUCTURE THAN THE HFRRF RETIREMENT SYSTEM

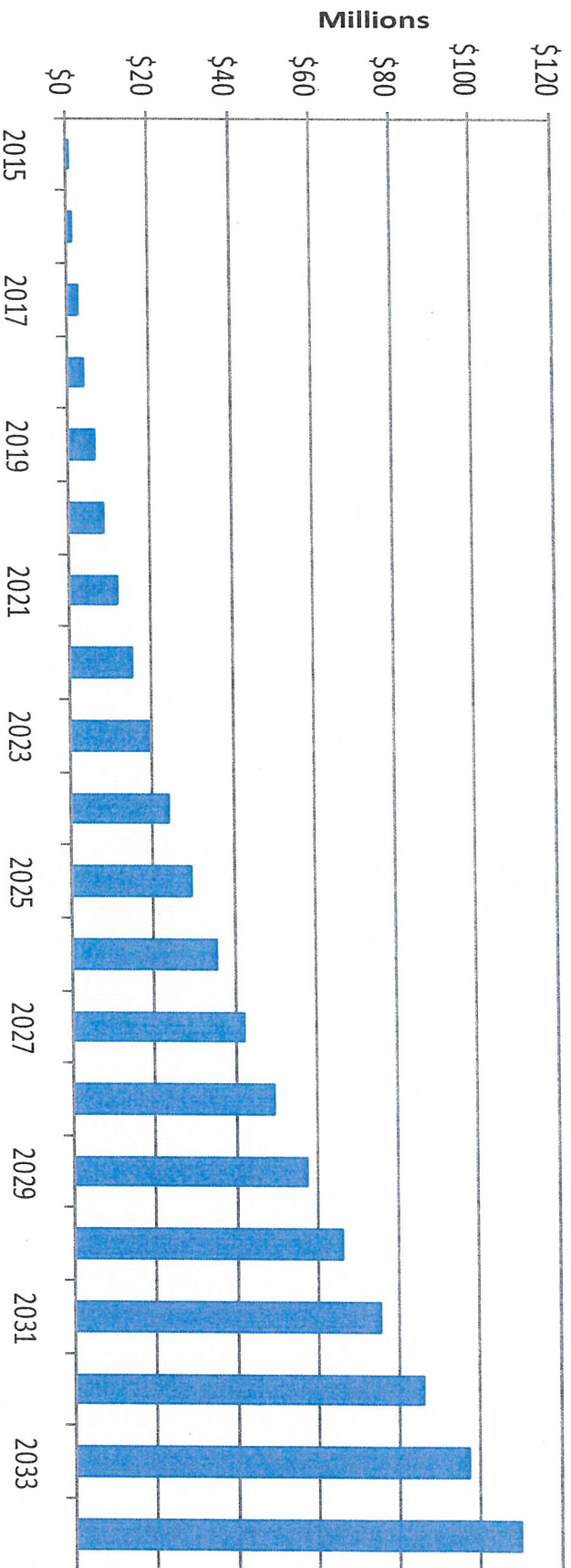
Considering normal cost rates of both HFRRF and 2014

FF Plan:

- \$385,000 initial net savings (FY2015, 9 1/2 months)
- \$988,000 annual net savings starting in FY2016
- \$109,727,000 - Cumulative annual net savings realized by FY2034

SAVINGS

Cumulative Potential Savings from Houston 2014 Firefighter Pension Plan



HFRRF Baseline Projection Assumptions:

- Total covered payroll grows at 3.0% per annum
- All future new hires enter HFRRF system
- All new hires and City contribute to the HFRRF system
- Total firefighter payroll increases from approximately \$300 million to \$500 million over 20 years

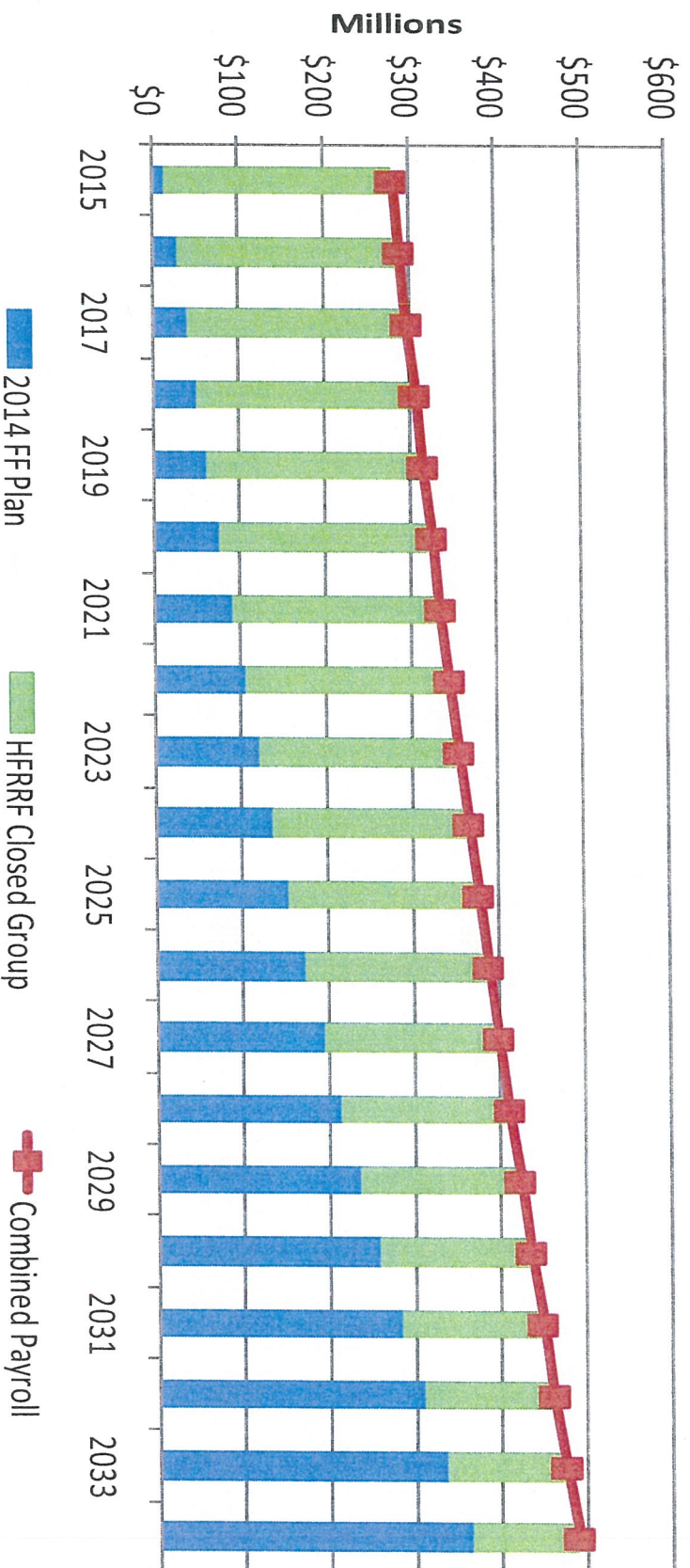
RHI Assumptions for Houston 2014 Firefighter

Pension Plan:

- Payroll growth at 3.0%
- All future new hires enter 2014 FF Plan system
- Total new hire payroll increases from \$0 to over \$350 million over twenty years
- In 20 years, firefighters covered by the 2014 FF Plan will comprise 70% of payroll

PAYROLL COSTS

Covered Payroll Projections



Current HFRRF projections:

- Assume use of a portion of member and City contributions to amortize HFRRF's unfunded liability
- Long-term investment return at rate of 8.5%
- City contribution rate to decrease from 33.2% in FY2014 to 29.5% in FY2034
- HFRRF funded ratio to improve from 87% to 92% over next 20 years

Houston expects to adopt a more conservative investment policy for the 2014 FF Pension Plan.

Preliminary long-term investment return assumption is projected at 6.0% per annum.

<i>Normal Cost Rate % of Payroll Investment Return Assumption *</i>	<i>City</i>	<i>Member</i>	<i>Total</i>
5.0%	21.33%	10.67%	32.00%
6.0%	16.00%	9.00%	25.00%
7.0%	11.00%	9.00%	20.00%
8.5%	5.50%	9.00%	14.50%

**Assumes average entry age of 27 years*

- HFRRF's automatic annual COLA will continue to be a significant cost driver
- HFRRF's UAL is expected to increase from \$533 million to \$688 million over the next 20 years
- Savings from the 2014 FF Plan can be used to accelerate reduction of HFRRF's unfunded actuarial liability
- Use of 2014 FF Plan savings can reduce HFRRF's UAL by approximately \$171 million over 20 years