

Review of COH Pension Systems  
by  
Craig Mason  
for  
The Budget and Fiscal Affairs Committee  
May 10, 2010

The Challenge

Primarily as a result of benefit changes in 2000-2002, the City's actuarially calculated contribution rates increased to unsustainable levels by 2005:

- a. From 10% of payroll to 52% of payroll at HMEPS
- b. From 17% of payroll to 30% of payroll at HPOPS
- c. From 15% of payroll to 30% of payroll at HFRRF

Current Contribution levels

Benefit and funding policy changes have been made at HMEPS and HPOPS to mitigate the unsustainable City contribution levels. The unsustainable City contribution level at HFRRF has not been addressed.

The current (FY2010) City contributions are:

- a. \$83.5 million (14.7% of payroll) for HMEPS
- b. \$73.0 million (18.8% of payroll) for HPOPS
- c. \$73.2 million (29.4% of payroll) for HFRRF

And the FY2011 City contributions are scheduled to be:

- a. \$88.5 million (14.9% of payroll) for HMEPS
- b. \$78.0 million (19.8% of payroll) for HPOPS
- c. \$77.8 million (29.4% of payroll) for HFRRF

Current Investment Performance

The investment returns are strong for the current year with each of the funds generating an investment rate of return between 18% and 20% through March 31, 2010. The resulting increases in market values from 7/1/2009 through 3/31/2010 are:

- a. \$1.730 billion to \$1.962 billion at HMEPS
- b. \$2.671 billion to \$3.085 billion at HPOPS
- c. \$2.369 billion to \$2.783 billion at HFRRF

### HPOPS Future

Under the existing funding policy at HPOPS, which was mutually agreed upon in the 2004 Meet & Confer Agreement, the City contributions to HPOPS are scheduled to increase gradually over the next 5 years to approximately 25% of payroll.

The actuarial projection, based on 7/1/2009 data, indicates that the schedule of increasing City contributions, coupled with the projected reduced benefit payments to “new” police officers, are “borderline sufficient” to pay the benefits when they are due. Because of the current year’s strong investment performance, the actuarial projection based on 7/1/2010 data is expected to indicate a projected higher level of sufficiency.

**In view of the above, and assuming a long term future contribution level of approximately 25% of payroll is sustainable, there is no need to make any further changes in either the benefits or the funding policy at HPOPS.**

### HMEPS Future

Under the existing funding policy at HMEPS, the City contribution level is projected to “spike” from approximately 15% of payroll in FY2011 to approximately 25% of payroll in FY2012. Since the City also contributes 6.2% of payroll to Social Security for HMEPS members, the total City contribution for retirement benefits for HMEPS members would be over 31% of payroll. Because of the current year’s strong investment performance, the “spike” may not be as steep based on the 2010 actuarial valuation.

**In order to avoid any further reduction in benefits for HMEPS members, I have recommended that HMEPS consider changing the funding policy to one which will not only smooth out the “spike” in 2012, but also will be both sustainable and sufficient over the long term.**

### HFRRF Future

Absent any changes in benefits or funding policy, the projected City contribution level to HFRRF, taking into consideration the current year’s strong investment performance, is estimated to be in the 35% - 40% of payroll range.

**The Mayor has informed HFRRF that the City cannot sustain that level of contribution and has requested that HFRRF collaborate with the City Administration in developing a revised benefit program for future firefighters that can be sustainable. (see attached letter)**



ANNISE D. PARKER  
MAYOR

OFFICE OF THE MAYOR  
CITY OF HOUSTON  
TEXAS

March 26, 2010

Members of the HFRRF Board:

I appreciated the opportunity to meet with the HFRRF Board. You were gracious and attentive with your time. It is my hope our meeting will mark the beginning of a productive dialogue and I am encouraged to hear this year's investment performance is good and making back some of the severe losses of the prior year.

As encouraging as current performance is, I am focused on the long-term prospects. There are serious concerns about the City's ability to fund current benefit levels. By your own actuarial analysis it is estimated that by 2015 the City's contribution rate will be in a range from 36.5% to 45.2% of payroll.

These contribution rates are unsustainable. I strongly believe they will result in significant negative sentiment among elected officials and taxpayers who will ultimately balk at paying these costs. This would jeopardize the security of the members' current benefits. The structural imbalance that exists between the firefighters current benefit levels and taxpayers willingness to fund such benefits is best addressed at the local level and by mutual agreement.

I have the following requests to the HFRRF Board:

1. Adopt the contribution rate calculated by your own actuary of 23.8% for fiscal year 2011, instead of a prior year's calculated rate of 29.4%. Our City is in the midst of a severe budget crunch and adopting this rate would save \$14.5 million dollars. Such action on your part will have no effect on current or future benefits and will be a show of good faith to the citizens of Houston.
2. Work with the Administration to revise the benefit plan for the firefighters to a level that can be sustained on a long-term basis by City contributions that reflect the historic 2 to 1 contribution ratio. I believe this can be accomplished while keeping the current plan of benefits intact for current firefighters and would be supported by voters.

Our firefighters have given much to the City of Houston. I respect and admire the job they do and want them to have a secure retirement, but we must balance those retirement benefits with the city's fiscal constraints. Please help me as we work through what is the most significant budget difficulties the city has faced in more than two decades. I look forward to your response. In the meantime, I am always available to discuss this further.

Sincerely,

A handwritten signature in cursive script that reads "Annise Parker".

Annise D. Parker  
Mayor