

Defined Contribution Switch

Throughout the pension reform process, opponents of Houston's plan have repeatedly pitched defined contribution plans as the solution to the City's pension problems. [As we have previously discussed](#), defined contribution plans would do nothing to control the \$8.1 billion unfunded liability for existing employees. They fail to solve the City's primary pension challenge: what to do about the money we already owe to current City pension participants? The City has a plan to solve this problem. Defined contribution advocates also say they have a plan, but they won't they explain what it is or how it works.

Defined contribution places the risk of having sufficient money in retirement on firefighters, police officers, and municipal workers instead of sharing the risk with employees as the City's plan does. The most outspoken on this topic haven't supported any form of risk sharing, such as cash balance plans or other methods that share risk. But even more problematic is the defined contribution "plan" they are pushing doesn't even exist.

"Plan" is in quotes, because there doesn't appear to be a plan, and that's the real problem. Opponents of the City's reform can't or won't speak publicly about the details of what they're proposing. Simple aspects like what the contribution rate for employees will be and what the City will contribute have never been stated. Ignored are simple questions like how long an employee has to work before vesting in the City's matching component. Most importantly, no one has ever laid out what the cost to taxpayers will be versus the City plan.

Contrast this with the City's plan. We released pages and pages of details on the plan in October. The full plan has been implemented in statute, the legality has been reviewed by counsel at the State Legislature, cost sensitivity analyses have been performed by multiple parties, stress tests have been performed, and cost estimates have been widely distributed. But those calling for defined contribution have had years to do this work, yet they haven't produced a single thing.

The City has been transparent and will not repeat the mistakes of 2001 when policy makers weren't given the full story on pension system changes. Unintended consequences were the result, and this has cost the City greatly.

If changes of this magnitude need to be made, they should be done out in the open. Proponents of the change to defined contribution, if they have it, should share all of the following information immediately:

- A full plan description of the new defined contribution plan;
- A full actuarial study of the modified City' plan with defined contribution added;
- An review of the legality of their proposal by respected attorneys;
- A sensitivity analyses that shows the cost impact at 7% and the impact if the funds fail to achieve 7% investment returns.

As Houston's pension solution moves toward adoption, it holds the promise of lasting, sustainable reform that protects the pocketbooks of Houston taxpayers while ensuring that City of Houston

employees will receive reasonable retirement benefits. Opponents of the plan call for last-minute changes and proposals with no details which threaten to upset the bill's delicate compromises and widespread support. Killing the City's reform bill will increase the bill for Houston taxpayers nearly \$300M in additional costs in just the next two years.

If someone can't explain their plan, then maybe there's no plan at all. Maybe it's just bad math. If defined contribution is such a great deal for the City, the information above should be produced immediately. Otherwise, we're left to wonder whether those promoting the concept are really just pushing their own self-interests and selling an empty bag of tricks – a bag they know Houston taxpayers will be left holding when the bill comes due.