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White: Houston's pension reform bill deserves support

By Mayor Bill White

Isn't it always easier to tell someone else what to do rather than getting one's own life in order? So it is with various levels of government. Nonetheless, the Texas Legislature should resist the temptation to micromanage Houston city government. It can start by passing intact the bill that gives Houston's elected officials more flexibility in managing retirement benefits of city employees.

The issue has received plenty of local scrutiny. During the last city election campaign, all major candidates recognized the need to reduce benefits earned for future service in order to reduce the burden of future taxpayers and avoid cuts in essential city services. Those candidates offered a variety of solutions, so it was quite an achievement when a bipartisan City Council voted 16-1 in support of a reform plan.

Houston's pension problems arose from benefit increases adopted in 2001 and based on flawed projections. I began fighting for reforms during my first months as mayor, in early 2004. Then, as now, no one could undo billions of dollars in obligations that had already become vested. Reforms efforts were also hamstrung by state law that prevents the city from reducing retirement benefits without an agreement by employee-dominated pension boards (for police and civilian municipal employees) or changes in state law (for firefighters.)

With momentum from public support in a May 2004 referendum and consensus on council, we did pare more than \$1 billion in estimated unfunded liabilities. In the four years before our 2004 pension reforms, the police and municipal plan liabilities grew by \$2.56 billion more than did plan assets; in the next four years, assets grew by \$915 million more than did liabilities.

State law has also tied the hands of Mayor Sylvester Turner and the current City Council. In order to obtain agreement for higher employee contributions and lower retirement benefits, city negotiators offered accelerated payments into the police and municipal pension funds. Turner also persuaded two pension boards to support changes in state law that would facilitate adjustments in future benefits if the cost of existing benefits exceeded some percentage of payroll. That would be a giant stride forward. The pension issue would not be as severe today if the Legislature had given the city greater flexibility in the past.

Though the firefighter's pension board has not yet agreed to legislative reforms, each firefighter might think about a simple question: Why can't a firefighter be able to count on adequate retirement income consistent with some limit on combined city and employee contribution per employee? After all, annual contributions by employees and employers of about \$9,000 a year for 30 years invested tax-free at 7.5 percent - less than the pension Fund's historical returns - would create a \$1 million nest-egg. Some oppose any reform that does not rely exclusively on new, defined-contribution plans. Those plans place the principal risks affecting retirement income - such as investment returns and years of life - on the employee. Employers bear those risks with defined-benefit plans. Almost all American families - but not Houston's police and firefighters - participate in a form of defined benefit plan known as Social Security, in addition to receiving retirement income from other employer plans.

By permitting benefits not yet earned to be adjusted downward when the annual costs rise to some ceiling, the city's proposed legislation captures some of the benefits to the employer of a defined-contribution plan.

People who support defined contribution plans in principle - as I do - should not let that ideal undermine all progress today or ignore the practical obstacles to terminating the existing plans. Besides having to obtain changes in state law, over the objections of powerful public safety organizations, city leaders would need to identify an immediate source of funding to cure any estimated unfunded liability in a defined benefit plan to be terminated. Employer contributions would have to be set at a level that makes the city competitive in hiring and retaining outstanding police and firefighters in competition with other safety agencies, which all offer defined-benefit plans. City leaders would also have to budget new costs for police and fire participation in Social Security.

The state has large unfunded liabilities in its own pension plans, as well as other challenges such as making college education more affordable. In the remaining weeks of the session, the talents of our legislators should focus on those state responsibilities, rather than second-guessing the judgment of officials who voters chose to run their city government.

White is former mayor of Houston and served as a deputy U.S. secretary of Energy in the Clinton administration.

<http://www.houstonchronicle.com/opinion/outlook/article/White-Houston-s-pension-reform-bill-deserves-11050314.php>