

**TEXAS PENSION REVIEW BOARD CHAIRMAN PRAISES HOUSTON'S PENSION SOLUTION
IN REVIEW FOR LAURA AND JOHN ARNOLD FOUNDATION**

But City leaders express concern about continued push to force all retirement risk onto workers

Houston's Pension Solution will strengthen finances for the City and its pension systems and "would also accomplish key principles of responsible pension reform," according to a new review by Josh McGee, chair of the Texas Pension Review Board. McGee is vice president for public accountability at the Laura and John Arnold Foundation (LJAF), which today released his analysis of the pension reform plan supported by Houston City Council and pension systems and currently before the Texas Legislature.

"The Laura and John Arnold Foundation's analysis indicates that the proposed changes would improve the stability of the pension system," McGee writes, noting key enhancements including more conservative anticipated rates of return on investment, benefit adjustments to make the plans affordable and sustainable, and establishment of a risk-sharing corridor that protects taxpayers against runaway pension costs by requiring pension system changes if the City's payments go too high.

"The bottom line is that (Houston's) proposal would make important changes to Houston's pension systems that would help protect workers' retirement security and improve the City's overall fiscal health," McGee notes. Houston's Pension Solution is supported almost unanimously by Houston City Council, by two of the City's three pension systems, and by business and community groups such as the Houston Hispanic Chamber of Commerce, Houston Area Urban League, and the Greater Houston Partnership.

Mayor Sylvester Turner expressed appreciation for McGee's supportive review, and especially for the article's call to action by the Texas Legislature. "My fellow Houstonian Josh McGee, in his role as chair of the Texas Pension Review Board, has dedicated hours upon hours to this important initiative. He understands how important it is for the Legislature to adopt Houston's solution to the pension challenges that threaten our City, its taxpayers and its employees," the mayor said. "We are pleased that he recognizes our plan is the only credible solution that addresses existing liability and manages future risk."

However, McGee's review falls short in expressing concern about risks borne by employees, and offers advice that seems at odds with those stated concerns, Mayor Turner pointed out. With regard to the corridor, which McGee has previously lauded as "a system that will no longer allow the City to rack up huge debts owed to public workers," the review board chair's new analysis expresses concern that public employees are shouldering more risk.

"While the analysis worries about public employees sharing in the risk of their retirement investments, it ignores that fact that the City and taxpayers have borne virtually all of the risk up to this point," the mayor said. "Shared sacrifice is required to solve this problem, and that means employees had to take on more risk so the City and taxpayers didn't carry the entire load. More troubling is the suggestion that employees should be given 401(k) plans instead – if you're worried about putting risk on public employees like our police and firefighters, you don't solve that problem by making them carry all of the risk with a defined contribution plan."

Other City officials concurred. Police Chief Art Acevedo noted McGee's analysis implies that possible increases to employees' pension contributions have prompted a "wave of retirements among police officers", and suggested that a closer look would indicate that many recent retirees are long-term police officials who generally hold rank and are retiring largely because pension reform reduces the rapid rate at which their benefits were growing as long as they kept working. "Certainly, take-home pay influences where we decide to work, but there's no reason to believe that people will choose a career at Houston's police department if they're offered comparable pay and a more generous and secure retirement package at the suburban communities around us," Chief Acevedo said. "Defined contribution plans would undermine HPD recruiting."

Fire Chief Samuel Pena also expressed concern at McGee's suggestion that the City force public safety professionals into 401(k) retirement plans. "Our firefighters put themselves in danger to protect the lives and property of others," Chief Pena added. "Suggesting that we also endanger their retirements to protect ourselves from any economic risk is fundamentally unfair. Anyone who thinks firefighters aren't likely to notice a switch to defined contribution retirement plans doesn't know firefighters very well. A defined contribution plan for firefighters will adversely impact recruitment and retention for HFD."

Jane Cheeks, the City's director of human resources, pointed out that citing research about employee turnover in the private sector overlooks a major reason many people enter public service: they want to give back. "The City has many specialized roles unique in the workforce, with police officers and firefighters being excellent examples," she said. "It is also true that many of our employees, particularly in administrative roles, have skill sets that transfer well to the private sector. And so they frequently accept lower pay and thankless work because they want to go home feeling they did something good for their community. That motivation distinguishes them from many private sector workers whose employers are focused on profit, not service."

The analysis' suggestion that the City should not rule out future consideration of defined contribution pensions also ignores the important role employees and their pension systems play in any negotiations for change in retirement plans, Mayor Turner added. "At times, Josh merges the pension systems and the City into one entity that he just calls 'the city,'" the mayor said. "He says we should strengthen the city's investment policy, when he really means the pension systems' investment policies. The pension systems are separate entities. They have separate boards the City does not control. And they represent employees' interests. We have to work with others, to collaborate and compromise, in order to develop a solution that can make it through the Texas Legislature. Suggesting that everything can be decided by the City of Houston undervalues the importance of our employees and their pension boards."

Still, the mayor called the LJAF report a welcome call to action. "As Josh points out, 'There is a deal on the table, and now is not the time to turn back,'" Mayor Turner said. "We will hold up our end of the bargain if the Legislature gives us that chance, and we will prove Josh McGee right when he says Houston's Pension Solution 'has the potential to serve as a model for others looking for solutions to their own pension problems.'"