



Finance Department

Presentation to the City of Houston Budget and Fiscal Affairs Committee

Review of City Employee Pension Systems

August 6, 2013

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AGENDA

- Link Between Pension Liabilities and Benefits
- Review of Current Benefits
- Review of Future Benefits
- Review of Current Funding Status
- Near-Term Projections of City Contributions
- Other Matters



LINK BETWEEN PENSION LIABILITIES AND BENEFITS

- The liabilities of a pension plan are inextricably linked to the benefits payable from the plan to the employees
- The value of a liability to the plan = The value of a benefit to the employee
- To understand a plan's liability, and its cost to the City and taxpayers, one must understand the benefits provided to employees
- Today's objectives:
 - Review benefits provided – actual current benefits and future expected benefits
 - Review the associated plan liabilities – current and near term projected annual funding obligations
 - Understand how benefits and liabilities translate into near-term City contributions



REVIEW OF CURRENT BENEFITS

Summary of Retirement Benefits Paid to Recent Retirees With 30 or More Years of Service

	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS</u>
1. Retirements during FYE	2012	2012	2011
2. Number of retirements	76	53	7
3. Percentage of total retirements during the year	84.4%	37.1%	1.8%
4. Average monthly pre-retirement salary	\$4,446	\$6,710	\$3,996
5. Average initial monthly annuity for life	\$4,172	\$3,915	\$2,789
6. Average Initial monthly annuity as a % of pre-retirement salary	93.8%	58.3%	69.8%
7. Plus an average lump sum from DROP	\$700K - \$1MM *	\$880,637	\$320,514
8. Plus future automatic cost of living adjustments	Yes	Yes	Yes
9. Plus Social Security benefits	No	No	Yes

Source: The 2012 CAFR for each pension system - HFRRF Pg. 63, HPOPS Pg. 99, HMEPS Pg. 93.

* The DROP amount for HFRRF is estimated since the HFRRF CAFR does not include the average DROP benefits and the HFRRF Board has refused to provide the City this information.



REVIEW OF CURRENT BENEFITS

Summary of Retirement benefits Paid to Recent Retirees with 25-30 Years of Service

	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS</u>
1. Retirements during FYE	2012	2012	2011
2. Number of retirements	12	70	35
3. Percentage of total retirements during the year	13.3%	49.0%	8.9%
4. Average monthly pre-retirement salary	\$4,981	\$6,844	\$3,266
5. Average initial monthly annuity for life	\$3,788	\$4,011	\$2,310
6. Average Initial monthly annuity as a % of pre-retirement salary	76.0%	58.3%	70.7%
7. Plus an average lump sum from DROP	\$400K - \$600K *	\$466,282	\$249,370
8. Plus future automatic cost of living adjustments	Yes	Yes	Yes
9. Plus Social Security benefits	No	No	Yes

Source: The 2012 CAFR for each pension system – HFRRF Pg. 63, HPOPS Pg. 99, HMEPS Pg. 93.

* The DROP amount for HFRRF is estimated since the HFRRF CAFR does not include the average DROP benefits and the HFRRF Board has refused to provide the City this information.



SUMMARY OF LIABILITY / BENEFIT VALUES AT RETIREMENT OF CURRENT BENEFITS

	HFRRF		HPOPS		HMEPS	
	<u>30+</u>	<u>25-30</u>	<u>30+</u>	<u>25-30</u>	<u>30+</u>	<u>25-30</u>
1. Years of service at retirement						
2. Liability/benefit value at retirement *						
a. Expressed as a lump sum	\$1,621,987	\$1,200,932	\$1,584,857	\$1,187,780	\$798,437	\$645,212
b. Expressed as a monthly annuity for life	\$8,766	\$6,490	\$8,811	\$6,603	\$4,659	\$3,765
3. Annuity value as a % of pre-retirement salary	197.2%	130.3%	131.3%	96.5%	116.6%	115.3%
4. Potential additional annuity from social security**	N/A	N/A	N/A	N/A	37.0%	39.0%

- Based on the actuarial assumptions regarding mortality and interest used by the pension systems for determining the funding obligations of the benefits and assuming retirement at age 58 and the mid points of the estimated drop range for HFRRF.

** From the Georgia State University / AON Retiree Income Replacement Project - SS replacement ratios range from 50% at the \$20,000 annual salary level to 26% at the \$90,000 annual salary level for a single worker at age 65.



CALCULATION OF LIABILITY / BENEFIT VALUES AT RETIREMENT OF CURRENT BENEFITS

Calculation of Values* at Retirement of Liabilities to Plan and Benefits to Retirees

	HFRRF		HPOPS		HMEPS	
	30+	25-30	30+	25-30	30+	25-30
1. Years of service at retirement	30+	25-30	30+	25-30	30+	25-30
2. Average monthly annuity benefit:						
a. Initial monthly amount	\$4,172	\$3,788	\$3,915	\$4,011	\$2,789	\$2,310
b. Lump sum value of liability to plan/benefit to employee	\$771,987	\$700,932	\$704,230	\$721,498	\$477,923	\$395,842
3. Lump sum value of liability to plan/benefit to employee of DROP	\$850,000	\$500,000	\$880,637	\$466,282	\$320,514	\$249,370
4. Total value of liability to plan/benefit to employee						
a. Expressed as a lump sum	\$1,621,987	\$1,200,932	\$1,584,867	\$1,187,780	\$798,437	\$645,212
b. Expressed as an annuity with an initial monthly amount of	\$8,766	\$6,490	\$8,811	\$6,603	\$4,659	\$3,765
5. Average monthly pre-retirement salary	\$4,446	\$4,981	\$6,710	\$6,844	\$3,996	\$3,266
6. Value of retirement income as a % of average pre-retirement salary	197.2%	130.3%	131.3%	96.5%	116.6%	115.3%
7. Estimated additional income replacement ratio from social security**	N/A	N/A	N/A	N/A	37.0%	39.0%

• Values illustrated are based on an assumed age at retirement of 58 the actuarial assumptions regarding mortality and interest used by the pension boards' actuaries for determining the funding obligations for the benefits, and the mid points of the estimated drop range for HFRRF.

** From the Georgia State University/AON Retiree Income Replacement Project – Social Security replacement ratios for a single worker at age 65 range from 50% at the \$20,000 pre-retirement income level to 26% at the \$90,000 pre-retirement income level.



SUMMARY OF ACTIONS TAKEN TO ADDRESS FUTURE BENEFITS AND LIABILITIES

	HFRRF	HPOPS		HMEPS	
	All <u>Firefighters</u>	Hired Prior to <u>10/9/2004</u>	Hired After <u>10/9/2004</u>	Hired Prior to <u>1/1/2008</u>	Hired After <u>1/1/2008</u>
1. Reduced benefit accrual rates	Not Done	Not Done	Done	Done	Done
2. Increased eligibility age for full retirement	Not Done	Not Done	Done	Done	Done
3. Eliminated DROP	Not Done	Not Done	Done	Not Done	Done
4. Eliminated automatic annual COLAs	Not Done	Not Done	Not Done	Not Done	Done
5. Made post-retirement survivor's benefit optional	Not Done	Not Done	Not Done	Not Done	Done
6. Increased employee contributions	Not Done *	Not Done *	Done	Done	N/A

* Since 2004.

Note: No changes have been made to retirees benefits. All changes have only affected future employees.



SUMMARY OF FUTURE RETIREMENT BENEFITS AS A RESULT OF ACTIONS TAKEN

	HFRRF (i)		HPOPS (ii)		HMEPS (iii)	
	<u>25</u>	<u>30</u>	<u>25</u>	<u>30</u>	<u>25</u>	<u>30</u>
1. Years of service at retirement						
2. Initial annuity as a % of pre-retirement salary	76.0%	93.8%	55.0%	65.0%	45%+SS	50%+SS
3. Additional lump sum from DROP	\$400K - \$600K	\$700K - \$1M	None		None	
4. Plus future automatic cost of living adjustments	Yes		Yes		No (iv)	
5. Employee contribution rate (% of pay)	9.00%		10.25%		6.2% to SS	
6. Minimum age eligible for unreduced benefit	None		55		62	

NOTES:

- (i) Assuming no changes in current benefits (DROP values estimated).
- (ii) Applies to actives hired after 10/09/2004 - 30.3% of current actives.
- (iii) Applies to actives hired after 01/01/2008 - 23.5% of current actives.
- (iv) Social Security benefits are increased based on CPI.



CURRENT FUNDING STATUS AS OF JULY 1, 2012

(\$ Amounts in 000s)

	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS</u>	<u>Total</u>
1. Total funding liability*	\$4,429,742	\$5,682,661	\$4,286,755	\$14,399,158
2. Amount funded with current market value of assets:				
a. \$ amount	\$3,175,131	\$3,566,968	\$2,024,235	\$8,766,334
b. % of total funding liability	71.7%	62.8%	47.2%	60.9%
3. Amount to be funded with expected future employee contributions	\$213,555	\$304,224	\$118,987	\$636,766
4. Amount to be funded with future City contributions (Unfunded Liability)	\$1,041,056	\$1,811,469	\$2,143,533	\$4,996,058

*The present value as of July 1, 2012 of projected benefits expected to be paid to current members assuming an 8.5% discount rate.

Based on the 2010 census of 782,643 households, the total unfunded liability per household is \$6,384.



ACTUARIALLY DETERMINED FY2014 CONTRIBUTION RATES

(\$ Amounts in 000s)

	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS</u>	<u>TOTAL</u>
1. Total Unfunded Liability	\$1,041,056	\$1,811,469	\$2,143,533	\$4,996,058
2. Portion of the Unfunded Liability allocated by the actuary to be amortized as a level % of payroll over 30 years (Unfunded Accrued Liability)*	\$489,642	\$858,081	\$1,622,736	\$2,970,459
3. 30 Year UAL amortization contribution (% of Payroll)	12.8%	14.0%	20.3%	
4. Normal Cost Contribution rate payable over the life of the plan (% of Payroll)	<u>18.3%</u>	<u>20.5%</u>	<u>5.8%</u>	
5. Total actuarially determined current contribution rate	31.1%	34.5%	26.1%	

Frames of Reference

- **NASRA Survey 2011 of 126 Plans – Median employer contribution rate was 10.3% of payroll if employees were covered by Social Security and 13.4% of payroll if employees were not covered by Social Security.**
- **State Pension Review Board Survey 2011 of 12 locally sponsored plans other than COH – Average employer contribution rate was 17.3% of payroll.**
- **Under the actuarial cost method used to determine the unfunded accrued liability, the ratio of the actuarial value of assets to the actuarial liability, commonly referred to as the funded ratio, is 59% for HMEPS, 82% for HPOPS and 87% for HFRRF.**



ACTUAL VS. ACTUARIAL FY2014 CITY CONTRIBUTIONS

(\$ Amounts in 000s)

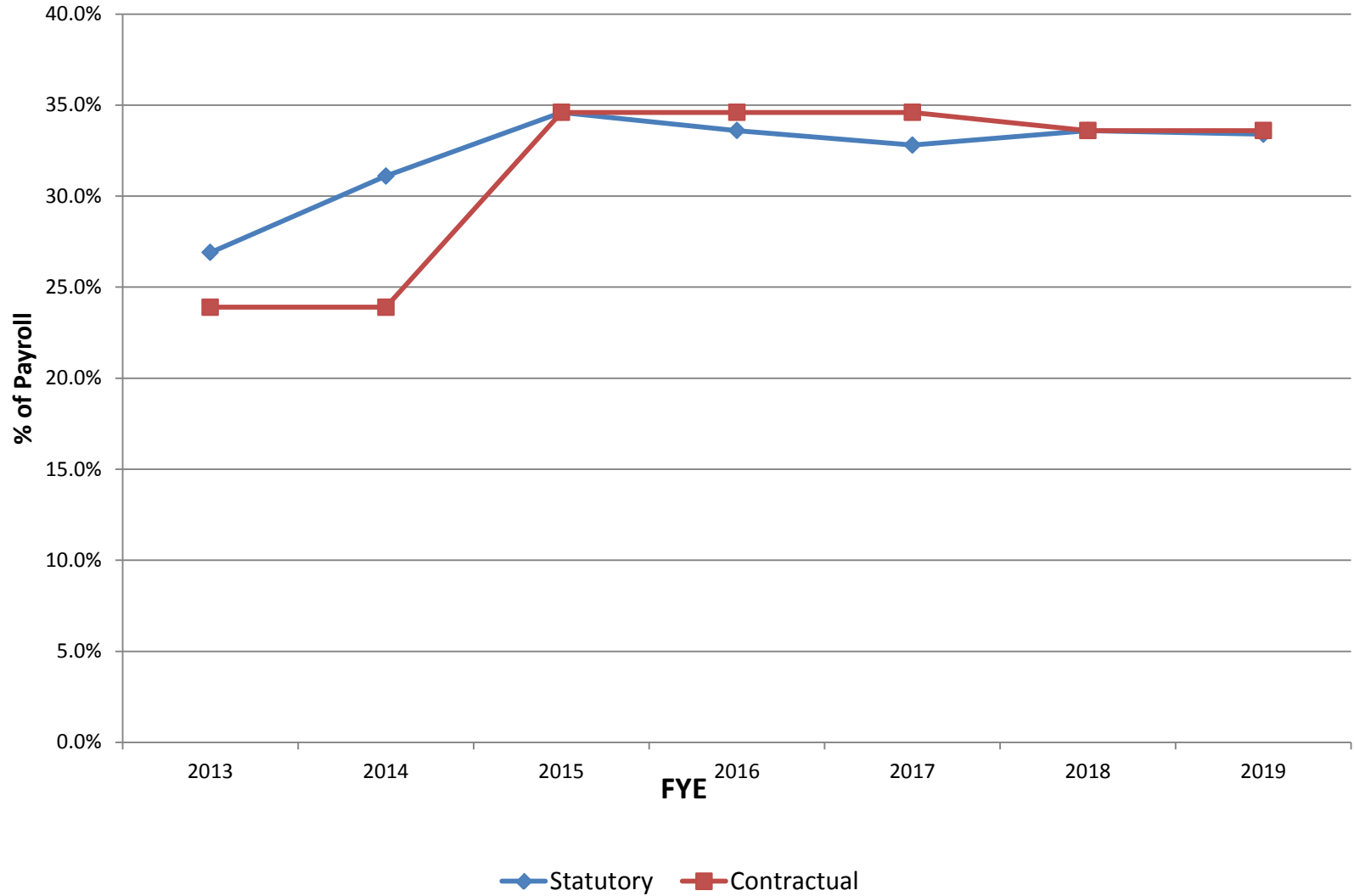
	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS</u>	<u>TOTAL</u>
1. Suggested Actuarially Determined City Contributions FY2014	\$81,200	\$137,600	\$152,100	\$370,900
2. Estimated Actual City Contributions FY2014*	\$62,400	\$103,000	\$136,400	\$301,800
3. Actual as % of Suggested Actuarial	76.8%	74.9%	89.7%	81.4%

* Actual City contributions are made in accordance with meet and confer agreements with HMEPS and HPOPS, and in accordance with state statute for HFRRF.



HFRRF

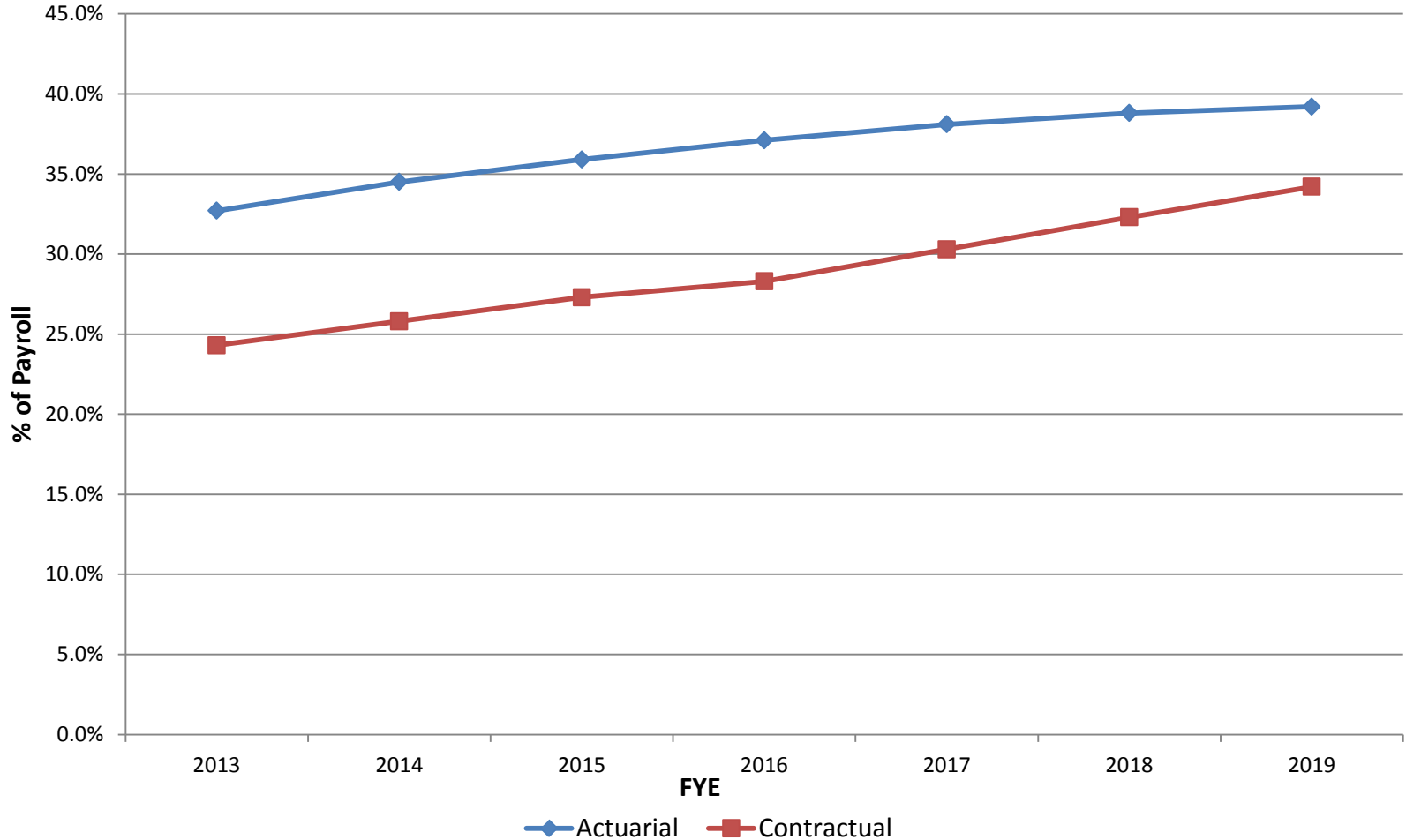
Statutory Contributions = Actuarial Contributions Adjusted at 3 Yr. Intervals





HPOPS

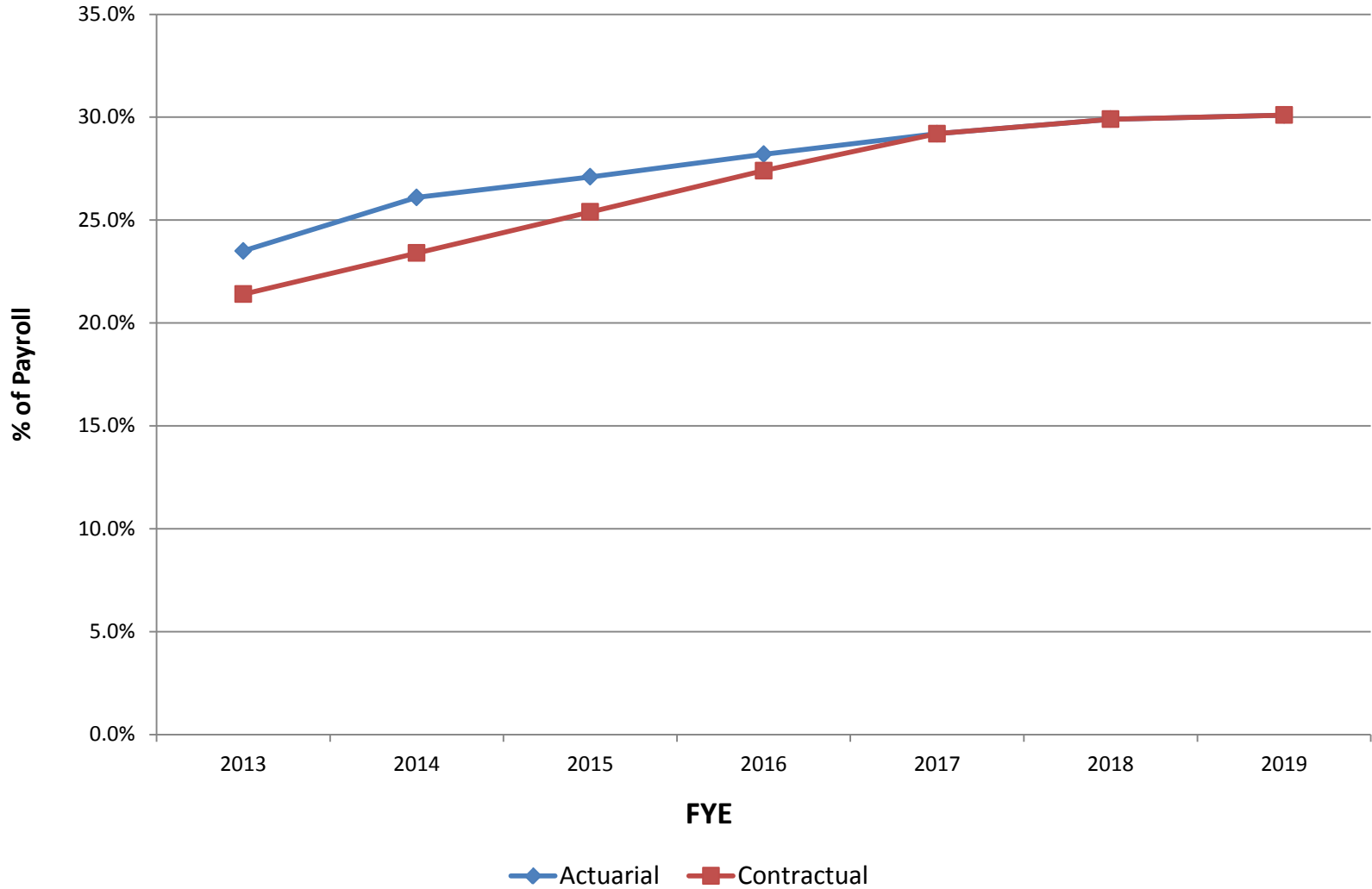
Contractual Contributions Remain Less than the Actuarial Contributions For The Near Future





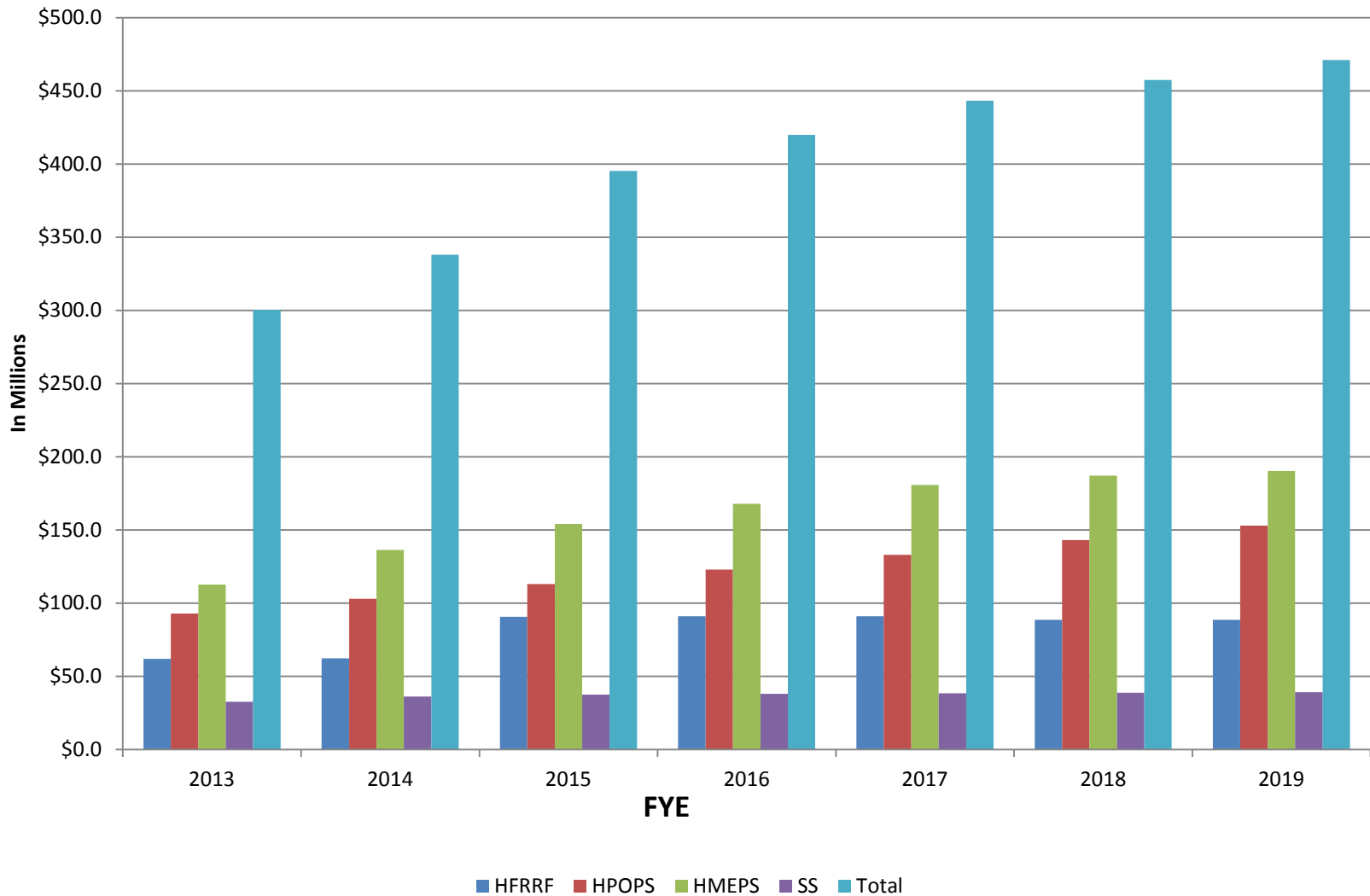
HMEPS

Contractual Contributions = Actuarial Contributions by FY 2017





PROJECTED TOTAL CITY CONTRIBUTIONS FROM ALL SOURCES





OTHER MATTERS

- City Lawsuit against HFRRF to get data to enable the City's actuary to verify by replicating the fund actuary's results and comply with a state law mandating the City to engage an actuary to conduct an independent actuarial audit of the funds actuary's results
 - District court ruled in favor of the City
 - Appeal is in process
- The City has requested HMEPS and HPOPS to provide data to its actuary so that the actuary can perform the required actuarial audits of those plans' actuarial results
 - HMEPS and HPOPS have indicated they are not willing to provide the requested data because of concerns over the confidentiality of individual benefit information
 - The City believes that the confidentiality of individual information is sufficiently protected by:
 - State Law,
 - The required confidentiality agreement between the City and the City's actuary, and
 - The manner in which the data has been requested which masks individual identifying information.
 - HMEPS and HPOPS want the City's actuary to enter into a separate confidentiality agreement with them
- Former City Employees, now working with Houston First, lawsuit against HMEPS for denial of pension benefits
 - City "intervened" in support of employees
 - District court ruled in favor of HMEPS
 - Appeal is in process



Finance Department

Questions?