



City of Houston Pension System

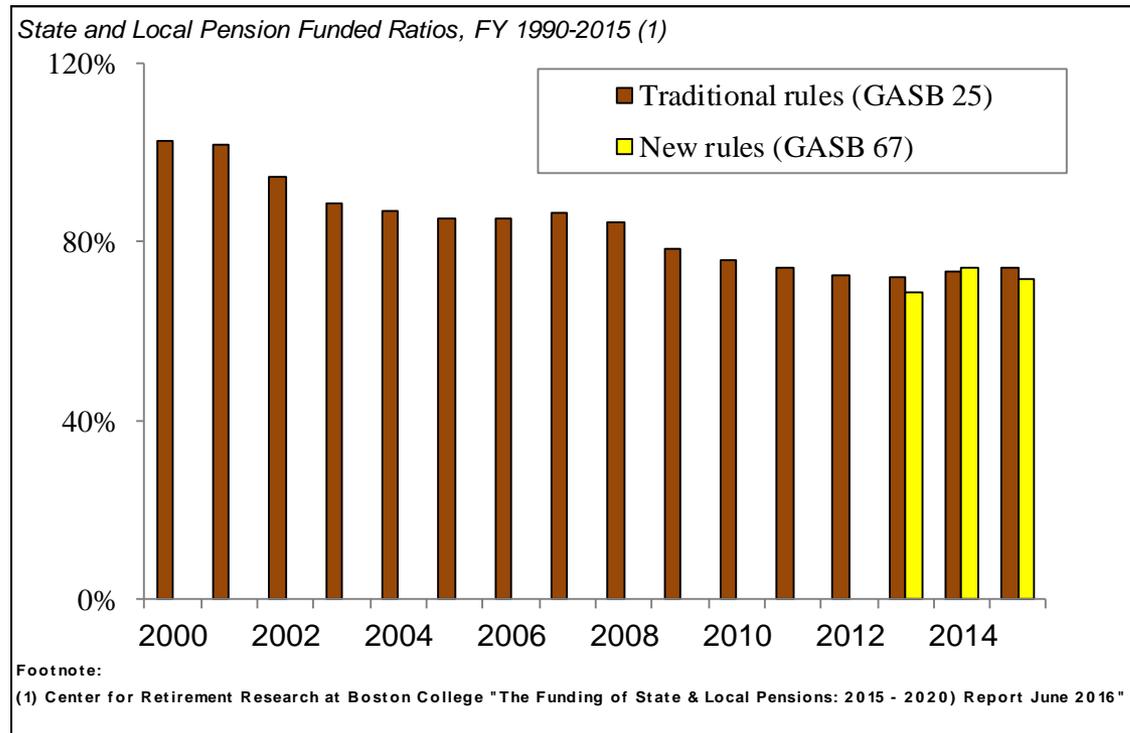
Houston City Controller Chris B. Brown
Subcommittee on Debt Financing & Pensions

August 25, 2016



Introduction to the National Pension Problem

- Similar to Houston, most major cities are facing a growing unfunded pension liability for their employee pension systems.
- Over the past decade, pension costs as a percentage of payroll have more than doubled for most major cities.
- On average, municipal pension plans are approximately 74 percent funded and 20 percent were less than 60 percent funded¹.



Houston Pension Overview

- Three separate defined benefit plans administered by three independent trust organizations.
 - Houston Municipal Employees Pension System (HMEPS) – about 25,000 participants
 - Houston Police Officers' Pension System (HPOPS) – about 9,000 participants
 - Houston Firefighters' Relief and Retirement Fund (HFRRF) – about 6,600 participants



2001 Pension Benefit Changes

HMEPS

- City Council and the state legislature enacted changes in pension benefits which increased the present value of future liabilities.
- The city's Actuarially Required Contribution (ARC) including the benefit change was initially estimated to be ~15% of covered payroll.
- After implementation, the ARC increased to ~53% of covered payroll.

HPOPS

- Per HPOPS statute, pension benefits were based on highest bi-weekly pay and included overtime and one-time pay.
- The ARC increased from ~11% to ~30% of covered payroll due to "benefit spiking."

HFRRF

- HFRRF's board exercised a provision to increase benefits without city approval if the actuaries determine an increase would not pose a material risk to the fund's ability to pay the benefit.
- The ARC increased from ~10% to ~30% of covered payroll.



Historical Perspective

Houston's Pension System Reforms

2003 State Constitutional Amendment

- November 2003, a state constitutional amendment passed which prohibited municipalities from reducing any accrued pension benefits for vested employees.
- The amendment provided a one-time opportunity that allowed political subdivisions to hold an election to exclude themselves from its provisions.
- May 2004, a general election was held and Houston voters elected to opt-out of the state constitutional amendment.
- Although available, the option to reduce accrued pension benefits has not been utilized to date.



2004 & 2007 Pension Reform (HMEPS & HPOPS)

HMEPS (2004)

- Eligibility age for retirement changed from “Rule of 70” to “Rule of 75.”
- Reduced future benefit accrual rates and increased employee contribution rate from 4% to 5%.
- City increased dollar contributions into the plan for FY2005 through FY2007 and transferred a \$300 M note into the plan.

HPOPS (2004)

- Eliminated provisions which led to “benefit spiking.”
- Established a new lower liability benefit structure for officer’s sworn-in after 10/9/2004.
- Established a schedule for increasing employer contributions into the plan through 6/30/2023.

HMEPS (2007)

- Established a lower liability benefit structure for employees hired after 1/1/2008.
- Established a schedule for increasing employer contributions into the plan for FY2008 through FY2011.



2011 & 2015 Pension Reform

HMEPS (2011)

- Established that the city will contribute either the previous year's rate plus 2% or the previous year's contribution plus \$10 million, whichever is greater.
- The provision would remain in effect until ARC is met.

HPOPS (2011)

- Provided for a portion of the FY2012 employer contribution to be made with an "in kind" contribution of real estate valued at \$17 million.

HFRRF (2015)

- Employees will contribute 12 percent of payroll towards the fund, up from 9 percent.
- City's ARC will decrease from 33% to 25.8% for one year, and then drop to 24% in the following two years.
- Legislature did not approve these changes.



Impact of GASB 67 & GASB 68

GASB required changes in the way public pension systems report their liabilities.

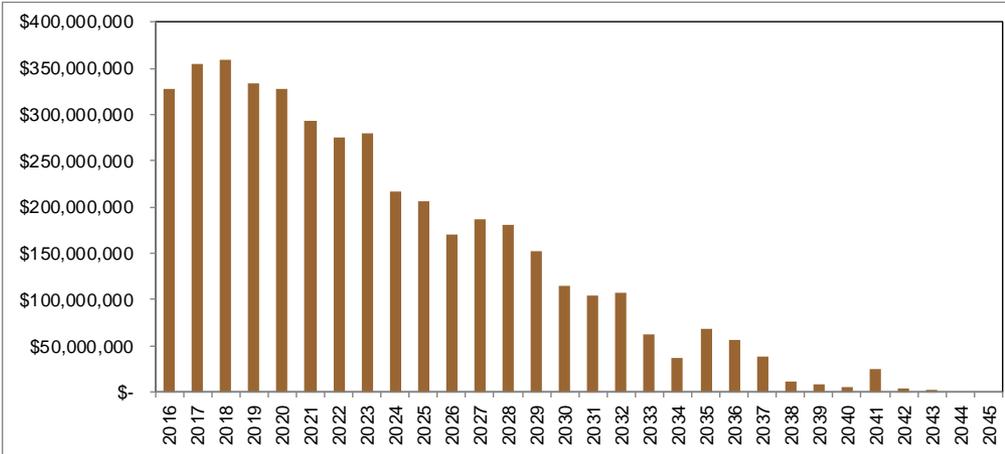
Impact to city's balance sheet:

- FY 2014 (Pre GASB 68)
 - Net Pension Obligation
 - \$1.197 Billion
- FY 2015 (Post GASB 68)
 - Net Pension Liability
 - \$5.574 Billion
- FY 2015 CAFR
 - FY 2015 Net Position \$146 Million
 - FY 2014 Net Position: \$3.172 Billion
 - Delta \$3.026 Billion



City of Houston Debt Service Schedule vs Projected ARC

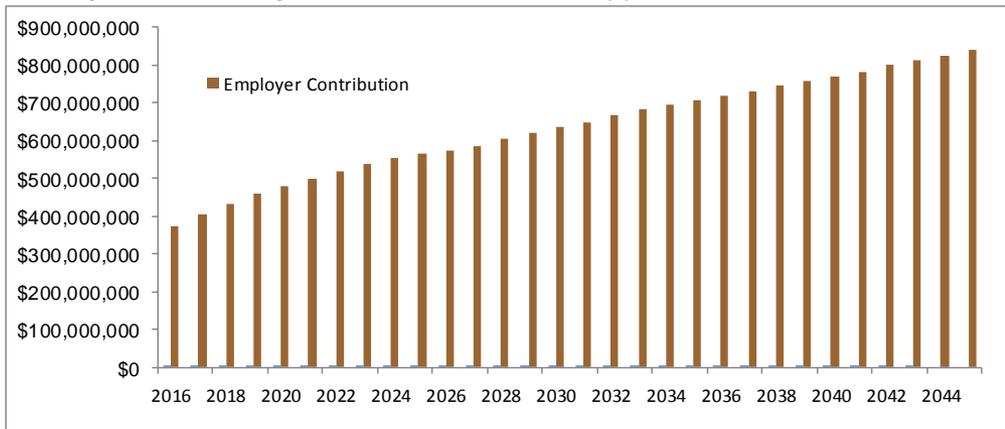
Total City of Houston Debt Service (Excluding Commercial Paper) (1)



Footnotes:

(1) City of Houston CAFR FY 2015

City of Houston Projected Pension Contribution (1)



Footnotes:

(1) Retirement Horizons Incorporated "City of Houston Retirement Design Study" January 2014



Path Forward

- Pension Reform
- Prop 1 Revenue Cap
- Structurally Balanced Budget



Thank you.

