



City of Houston Annual Pension Update 2024

Seven Years After Pension Reform

Nearly seven years following the historic pension reforms the data reflects the significant impact on the City’s finances that the reforms promised to produce. As a direct result of the reforms, our net pension liability continues to be less than half what it was prior to reforms, funded ratios of the plans are up and our net position has improved. The rating agencies have taken notice of these improvements. Additionally, the City continues to make the full actuarially required payments at a stable rate of pay resulting in budgetary stability.

Effect on Net Pension Liability

Prior to reforms, the City estimated the Net Pension Liability (NPL) of the systems was approximately \$8.21B. Including the reduction in liability to the Pension Obligation Bonds , the NPL was cut in half to \$4.03B in FY2018. Based on the latest data as provided by the systems the NPL is \$1.79B. Currently, the net pension liability shows an improvement of over \$6B compared to pre-reform.

Net Pension Liability				
(\$ billions)	Municipal	Police	Fire	Total
Fiscal Year 2018 Liability Without Reform	3.18	3.44	1.59	8.21
Fiscal Year 2018 Liability Post-Reform	2.12	1.26	0.64	4.03
Fiscal Year 2019	2.14	1.25	0.69	4.07
Fiscal Year 2020	2.45	1.51	0.98	4.94
Fiscal Year 2021	1.57	0.21	(0.29)	1.49
Fiscal Year 2022	1.61	0.72	(0.13)	2.20
Fiscal Year 2023	1.63	0.68	0.06	2.37
Fiscal Year 2024	1.45	0.37	(0.00)	1.82
Increase/(Decrease) (2024 compared to 2023)	(0.18)	(0.31)	(0.06)	(0.55)

Source: City of Houston Annual Comprehensive Financial Report.



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Funded Ratio

Another indicator of plan health is the funded ratio, which compares the assets to the total liabilities of the plan. This indicator has been steadily improving since the reforms were enacted for all three plans and has stabilized in recent years for the Fire plan.

Funded Ratio ¹			
Fiscal Year	Municipal	Police	Fire
2016	48%	62%	81%
2017	52%	68%	86%
2018	58%	81%	87%
2019	59%	82%	86%
2020	54%	79%	81%
2021	71%	97%	106%
2022	71%	90%	103%
2023	71%	91%	99%
2024	75%	95%	100%

Source: City of Houston Annual Comprehensive Financial Report

Actuarial Funded Ratio ²			
Fiscal Year	Municipal	Police	Fire
2016	56%	78%	81%
2017	56%	78%	80%
2018	58%	79%	81%
2019	59%	82%	83%
2020	59%	82%	86%
2021	63%	85%	93%
2022	66%	88%	95%
2023	69%	89%	96%
2024	73%	92%	93%

Source: City of Houston Annual Comprehensive Financial Report and Pension System Risk Sharing Valuation

¹ The Funded Ratio is calculated based on the Fair Value of Assets.

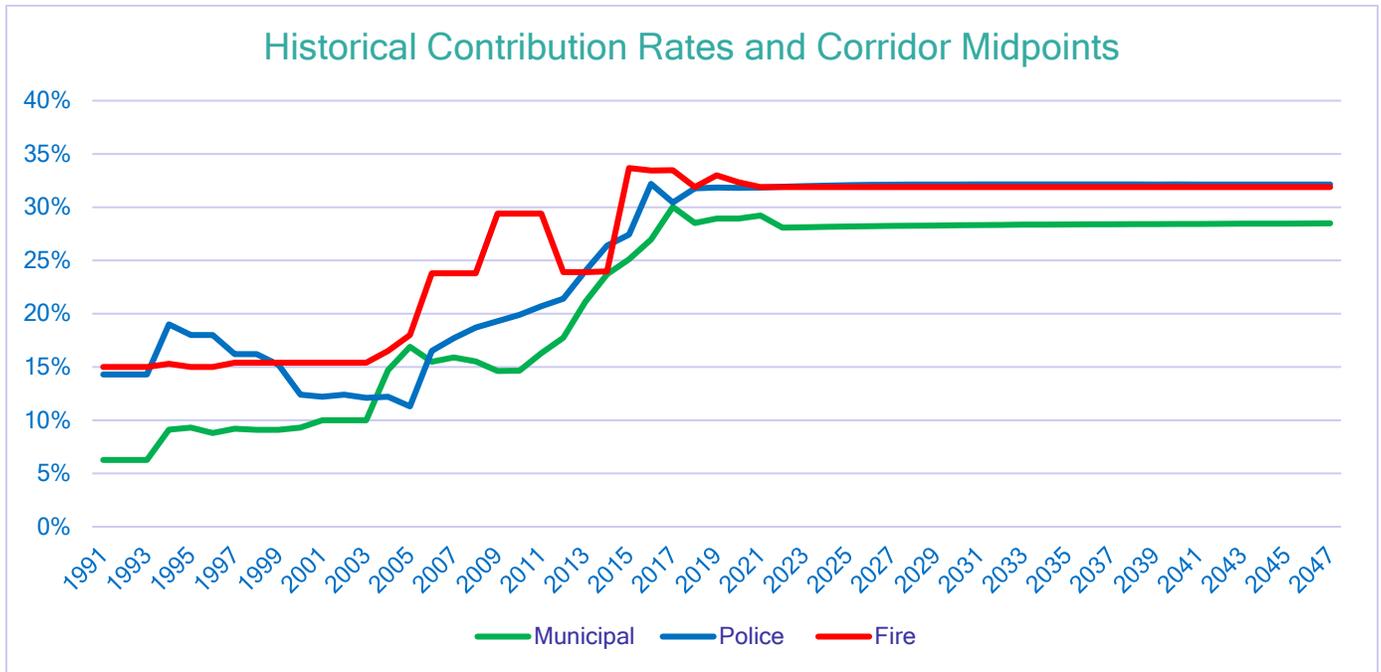
² The Actuarial Funded Ratio is calculated based on the Actuarial Value of Assets. This is the ratio that is used when conducting the Risk Sharing Valuation Studies to calculate the actuarially required contribution amounts for each pension system.



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Predictable contributions now and into the future

The Risk Sharing Valuation Study process sets the “corridor” that establishes the upper and lower bounds for the City’s contribution rate for a 30-year period, decreasing volatility and adding predictability to the City’s payments.



Sources: Pension System Actuarial Valuation Reports, City of Houston Annual Comprehensive Financial Reports, and Pension System Risk Sharing Valuation Studies.



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Budgeting to fully-fund the systems

In prior years, only the actuarially required contribution was made for the fire system, with the municipal and police systems funded at lower levels due to budgetary constraints. Following the reforms which began with FY2018, the City is now making the full actuarially required contributions for all three pension systems.

Fiscal Year	Municipal Contributions		Police Contributions		Fire Contributions	
	Actuarial	Actual	Actuarial	Actual	Actuarial	Actual
2014	26.1%	21.4%	34.5%	26.6%	31.1%	24.0%
2015	27.5%	25.0%	36.0%	27.4%	33.2%	33.7%
2016	27.4%	27.0%	38.1%	32.2%	N/A	33.4%
2017	31.8%	30.0%	39.6%	30.4%	30.8%	33.5%
2018	27.8%	28.1%	31.8%	33.2%	31.9%	31.9%
2019	28.2%	28.7%	31.7%	32.0%	37.7%	33.0%
2020	28.6%	28.2%	31.6%	32.1%	37.2%	32.3%
2021	29.1%	28.7%	29.6%	31.9%	36.3%	31.9%
2022	29.4%	29.1%	29.2%	32.0%	30.8%	31.9%
2023	29.4%	28.8%	27.0%	32.0%	22.6%	26.9%
2024	28.9%	28.5%	26.8%	32.0%	23.2%	26.9%
2025	28.5%	N/A	24.9%	N/A	26.1%	N/A
2026	28.0%	N/A	22.6%	N/A	26.5%	N/A

Sources: Pension System Actuarial Valuation Reports, City of Houston Annual Comprehensive Financial Reports, and Pension System Risk Sharing Valuation Studies.

Prior to reforms the City saw double digit year-over-year growth in contributions made to the systems. Since reform, the increase is modest, due to the relatively flat contribution rates year to year, with the growth in dollars being driven by the modest growth in payroll.



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Fiscal Year	Municipal City Contribution (\$ millions)	Police City Contribution (\$ millions)	Fire City Contribution (\$ millions)	Total City Contribution (\$ millions)	YOY Increase (Percentage%)
2014	128.3	103.4	64.3	296.0	14%
2015	145.0	113.7	92.6	351.3	19%
2016	160.0	137.4	94.3	391.7	12%
2017	182.6	133.8	93.7	410.1	5%
2018	171.6	137.1	83.0	391.7	(4%)
2019	176.3	142.4	89.9	408.6	4%
2020	176.4	149.1	83.8	409.3	0.2%
2021	184.8	151.1	77.5	413.4	1%
2022	197.3	152.4	81.4	431.1	4%
2023	204.9	159.9	72.5	437.3	1%
2024	213.0	163.0	76.4	452.4	3%

Source: Annual Comprehensive Financial Reports. Note, the FY2018 contributions do not include pension obligation bond proceeds in the amount of \$750M for police and \$250M for municipal.

Impact on net position

Primarily due to the pension reform in 2017, there was a major improvement in the City’s net position—going from \$95M in the red to \$1.855B in the black – a swing of \$1.9B.

The trend has continued since then with the City of Houston’s Annual Comprehensive Financial Report for the period ending June 30, 2024, released in December 2024, showing a substantial betterment in the City’s net position- going to \$8.881B- an increase of \$1.288B from the previous year.



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Overall Economy

Fiscal Year 2024 has seen overall positive investment returns in the market. Although the beginning of the Fiscal Year saw global markets decline due to a recession in Europe and a Federal Reserve rate hike in the US - the stability in the market afterwards was followed by a favorable response, with the three pension plans exceeding the annual set investment rate of return of 7% by the fiscal year-end of June 30, 2024.

Note:

This report is based on data from City of Houston Annual Comprehensive Financial Report for FY2024 and other sources.