

# Houston Municipal Employees Pension System

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**Presented to the Houston City Council Budget and Fiscal Affairs Committee**

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**HMEPS**  
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

# Overview of HMEPS' 26,675 Members

TYPE	TOTAL	AVERAGE AGE	AVERAGE ANNUITY
ACTIVE MEMBERS Group A: 7,857 Group B: 1,932 Group D: 2,556	12,345 Vested: 8,108	47	<b>Salary: \$44,120</b>
SERVICE RETIREES	6,663	67	\$22,783
DISABLED	398	63	\$9,355
SURVIVORS	1,656	68	\$11,884

# The Path to Shared Reform

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The City and HMEPS have worked together over the last 10 years through the Meet & Confer process to achieve successful reforms for long-term sustainability and a stronger plan:

- Significant Benefit and Plan Changes
  - over **\$850 million** in future benefit reductions
- Agreed City Contribution Payments
- Moving towards low-cost full funding
  - Normal Cost – 6% of Payroll

These reforms were NOT intended as instant solutions, but to put us on a long term path for sustainability

# The Path to Shared Reform

## ★ BENEFIT AND PLAN CHANGES ★

City & HMEPS enter into a Meet & Confer Agreement:

2004	2007
<p>HMEPS members' and retirees' future benefits are reduced by over <b>\$850</b> million:</p> <ul style="list-style-type: none"><li>✓ Lower Future Benefits</li><li>✓ Reduced COLAs</li><li>✓ Increased employee contributions</li><li>✓ Increased Retirement Age &amp; Eligibility Requirements</li></ul>	<p>Establishes a new non-contributory <b>Group D</b> for all employees newly hired after 1/1/2008:</p> <ul style="list-style-type: none"><li>✓ Modest Benefit Formula</li><li>✓ No COLA</li><li>✓ No DROP</li><li>✓ No survivor benefit</li><li>✓ Increased Retirement Age and Eligibility Requirements</li></ul>

# The Path to Shared Reform

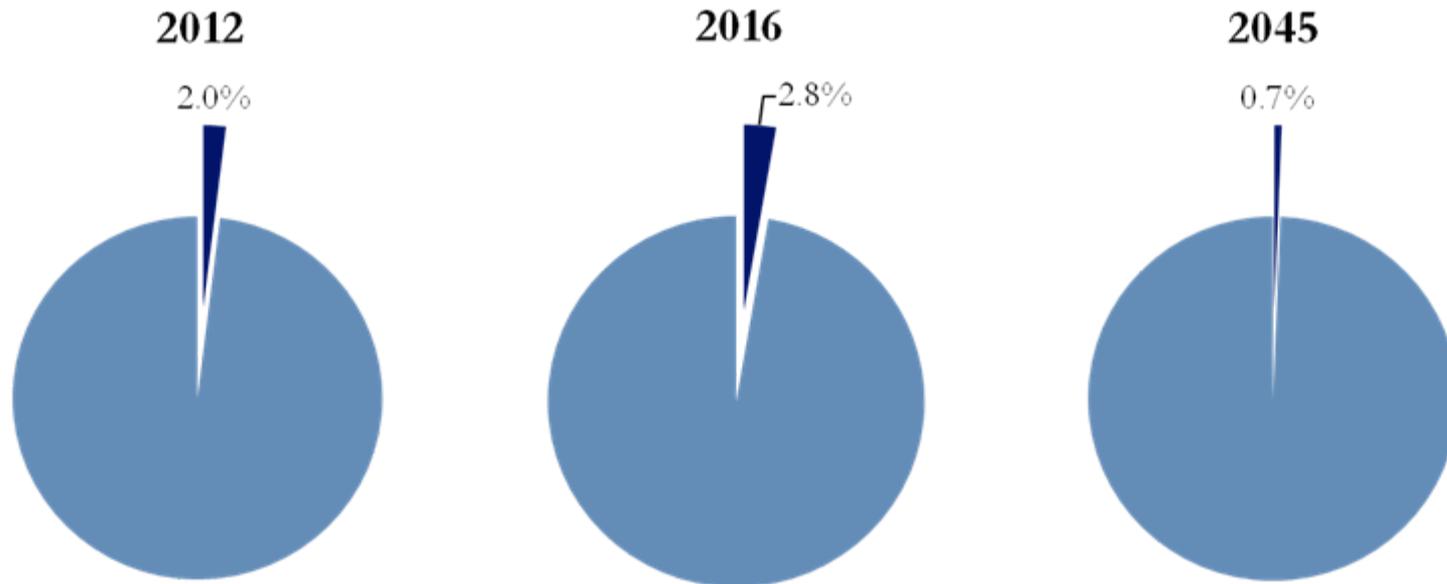
## ★ CITY OBLIGATION ★

City & HMEPS amended the Meet & Confer Agreement:

FY05-07	FY08-FY11
<p>The City negotiated a three-year schedule of fixed contribution amounts.</p> <ul style="list-style-type: none"><li>➤ Predictable and agreed-upon funding</li><li>➤ However, less than the ARC</li></ul>	<p>The City negotiated a <b>four-year</b> period of fixed contribution amounts.</p> <ul style="list-style-type: none"><li>➤ Predictable and agreed-upon funding</li><li>➤ However, less than the ARC</li></ul>

2011 Meet & Confer Agreement provides for full funding of the ARC within the decade

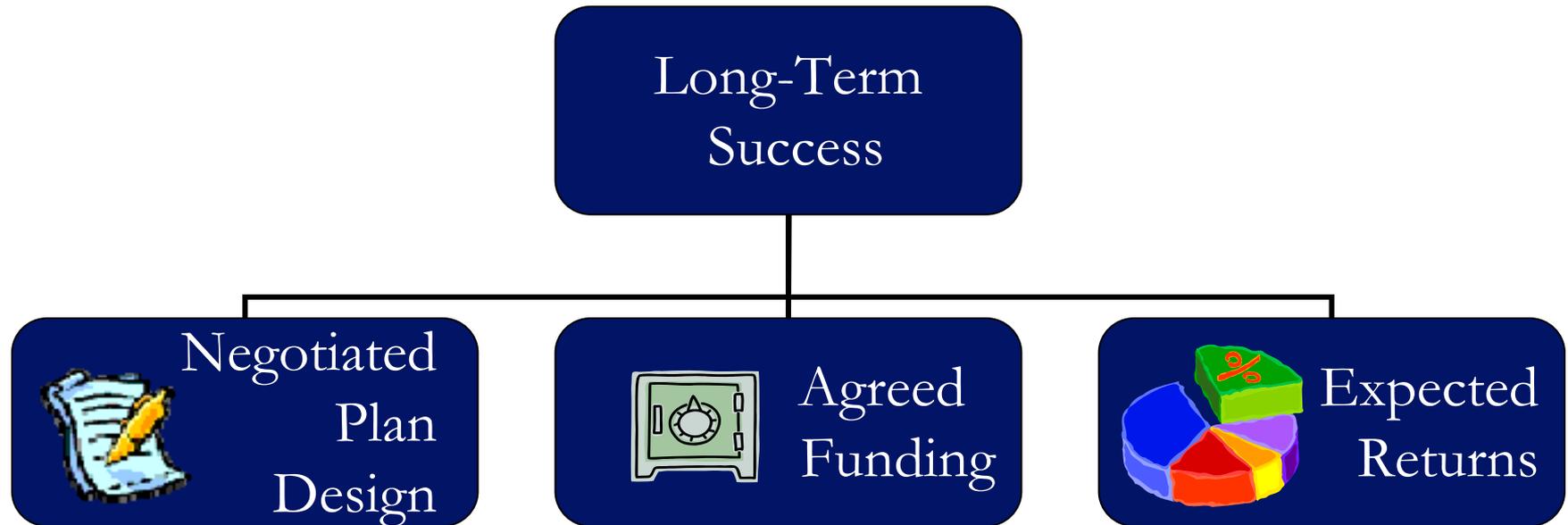
# HMEPS Contribution Attributable to General Fund



Sources: Long Range Financial Management Task Force Forecasts & actuarial projections of payroll and normal cost

# Requirements for Success

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# Key Points

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- **Negotiated Plan Design:** Proactive and appropriate restructuring based on good-faith, fair meet & confer negotiations, as established by the Texas Legislature.
- **Agreed Funding:** Funding obligations are understood and met. The City negotiated predictable contribution schedules that increase towards low-cost full funding.
- **Expected Returns:** The pension fund earns an average annual return of 8.5% or better over the long term. The 8.5% benchmark was met for the 10- and 20-year periods ending 6/30/2012.

# Well-Positioned for Long-Term Success

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- The Center for State & Local Government Excellence recently identified HMEPS as one of five pension systems in the U.S. that has made reforms that make them “more fiscally sustainable while continuing to provide retirement security to their members.”
- Mayor Parker noted (Feb. 2012) that HMEPS adheres to “every one of the best practices” outlined in a June 2011 NIRS study highlighting “Lessons from Well-Funded Public Pensions Plans.”

# NIRS and HMEPS' Reforms

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June 2011 National Institute on Retirement Security report:  
“Lessons From Well-Funded Public Pension Plans”

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1. Funding is based on the actuarially determined contribution amounts
2. Benefit improvements actuarially valued before adoption
3. COLAs granted “responsibly”
4. Employees share in the cost of the plan
5. Funding is based on a “reasonable” assumed investment return rate
6. Provisions included to prevent benefit spiking

# Returning to Proper Funding

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**Appropriate Funding is Paramount** – When funding falls short or is otherwise delayed, the results of that forbearance must be made up later.

- Current (2011) Meet & Confer sets path to increase funding toward the ARC (expected to occur around 2016)
- FY 2016 estimated City contribution to HMEPS = 2.8% of estimated 2016 General Fund (Source: Long Range Financial Management Task Force Report)

# City Contributions vs. ARC

FISCAL YEAR	CONTRIBUTIONS (Millions)	ARC (Millions)
2012	\$98.5	\$133.1
2011	\$88.5	\$115.0
2010	\$83.5	\$ 99.3
2009	\$78.5	\$ 93.8
2008	\$75.0	\$109.6

**Total Deferred City Contributions = \$126.8 MM (excluding interest)**

# NIRS – Actuarial Valuation of Changes

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- All changes to HMEPS benefits have been subjected to actuarial evaluation.
- All changes to HMEPS benefits have been agreed to by both the City and HMEPS.

# NIRS – Responsible COLAs

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HMEPS' COLAs have been adjusted several times.

- ✓ Post-2005 employees receive a 2% COLA on the their original pension.
- ✓ Post-2008 employees receive **no COLA.**

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COLAs help avoid potential serious deterioration of an individual's standard of living time over time.

Example: with 3% annual inflation and no COLA, each dollar of a retiree's benefit will be worth about 56 cents by the 20<sup>th</sup> year of retirement.

# NIRS – Shared Cost

- A significant number of HMEPS members contribute 5% of salary to help fund their pension.
- These contributions, along with investment returns, ordinarily comprise the majority of public pension fund revenues.



# NIRS – Reasonable Assumed Investment Returns

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- HMEPS' long-term investment performance is consistent with the target 8.5% return. As of 6/30/12, the 10-year return is 8.52% and the 20-year return is 8.68%.
- The investment return assumption, as with other assumptions, is periodically analyzed by actuaries. Both the history of returns and expert projections are considered.
- An “Experience Study,” which analyzes this and many other actuarial assumptions, is scheduled for 2013.

# NIRS – No Spiking

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- HMEPS has had provisions in its plan for decades to prevent spiking.
- Pension is based upon:
  - Highest 78 pay periods (3 years)
  - Overtime is not included

# Lessons Learned

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**Focus on the Long Term.** Avoid “knee jerk” reactions based on short-term issues.

**Stay focused and disciplined.** The ARC is structured to pay off the unfunded liability in 30 years: This requires discipline and time.

**Communication is key.** Prior to 2009, HMEPS representatives would periodically appear before the City Council Pension Review Committee. We welcome the opportunity to continue to provide plan information to the Budget & Fiscal Affairs Committee.

# Key Points

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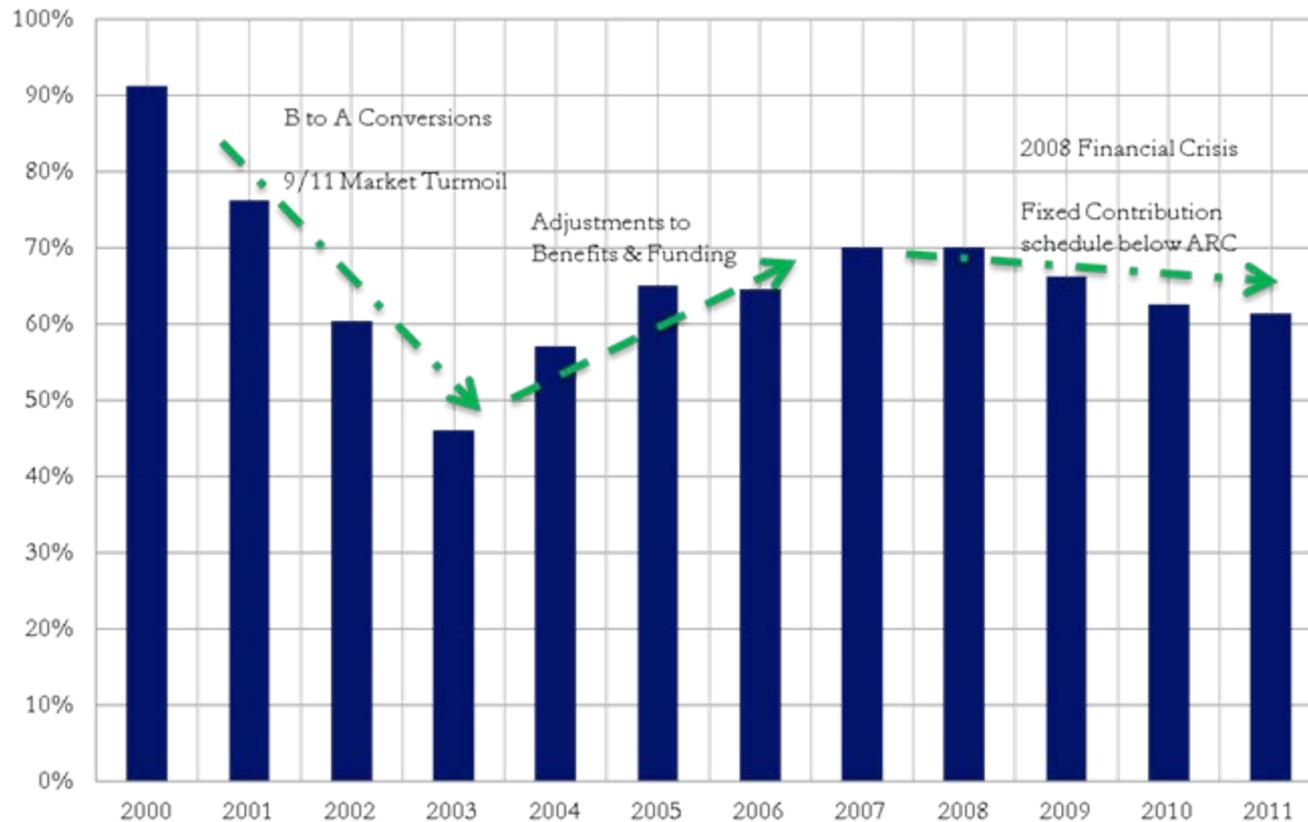
- **HMEPS has been ahead of the curve.** Under the meet & confer process, we have already made changes to the plan that others around the nation are just now calling for their states to implement. The changes were significant and they are working.
- **Good solutions take time.** As a defined benefit plan, we maintain a long-term focus. Because of the Meet & Confer Agreement, the plan is moving in the right direction and will continue to be secure and sustainable for the long term.

**Reform + Time = Success**

# Appendix

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# HMEPS Funding Ratio



# HMEPS Investment Returns (ending 6/30/12)

