

Honoring Pension Obligations

Council Member Stephen C. Costello
Chair, Budget and Fiscal Affairs Committee

August 6, 2013 BFA Meeting

- ▶ August 6, 2013 the Budget and Fiscal Affairs committee (BFA) presentation by Craig Mason, City of Houston Chief Pension Executive, on the pension funding shortfall
- ▶ Council Members discussed fully honoring all three of the City's pension obligations
- ▶ Honoring and fully funding pensions calls for the Actuarially Required Contribution (ARC) to be paid
- ▶ The City is currently paying a lower, negotiated rate to the Houston Municipal Employees' Pension System (HMEPS) and the Houston Police Officers' Pension System (HPOPS), but the Houston Firefighters' Relief and Retirement Fund (HFRRF) is fully paid with a three year smoothing

Actual versus Actuarial

		HMEPS			HPOPS			HFRRF			TOTAL	
	FY	Contract	Actuarial	Δ	Contract	Actuarial	Δ	Statutory	Actuarial	Δ	Δ	Actuarial
Current FY	2014	\$ 136	\$ 152	\$ (16)	\$ 103	\$ 138	\$ (35)	\$ 62	\$ 81	\$ (19)	\$ (69)	\$ 371
+3 years	2017	\$ 181	\$ 181	\$ -	\$ 133	\$ 167	\$ (34)	\$ 91	\$ 86	\$ 5	\$ (29)	\$ 434
+5 years	2019	\$ 190	\$ 190	\$ -	\$ 153	\$ 175	\$ (22)	\$ 89	\$ 88	\$ 1	\$ (22)	\$ 454

*In millions

- ▶ The City has strived to meet the HMEPS and HPOPS ARC, but has not since 2002
- ▶ This only increases the unfunded liability and future ARCs

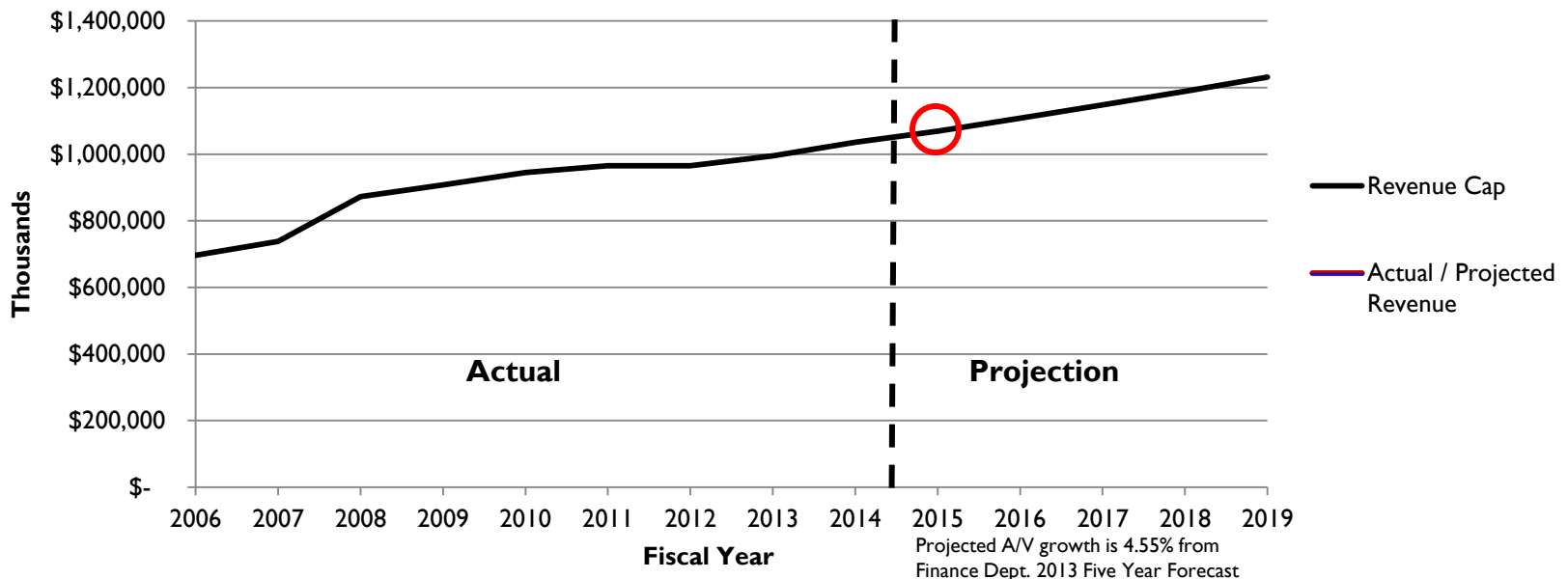
Options for funding the shortfall (Δ)

- ▶ The ARC is the amount the City has to pay to make the pension's unfunded liability go to zero based on a 30 year horizon
- ▶ A high unfunded liability means a pension runs the risk of not being able to pay benefits in the future
- ▶ Limited choices
 - ▶ Pay more to the pensions to make the ARC
 - ▶ Increase City General Fund revenue
 - ▶ Decrease City General Fund expenditures
 - ▶ Develop affordable pension ARCs

Increase General Fund Revenue

- ▶ Ad valorem (property tax) Revenue is projected to exceed Proposition 1 and H limits in FY15
- ▶ Last recovery cycle saw over 10% valuation growth
- ▶ Prop 1 and H limits will be hit with less than 10% growth

Ad valorem tax revenue and City Charter cap



Decrease General Fund expenditures

- ▶ Average yearly cost of City employee (salary + benefits)
 - ▶ Civilian – \$61,353
 - ▶ Classified – \$67,684
- ▶ Pension ARC payment shortfalls
 - ▶ 2014 - \$69.23 million =
1,128 Civilian or 1,023 Classified employees
 - ▶ 2017 - \$29.46 million =
480 Civilian or 435 Classified employees
 - ▶ 2019 - \$21.84 million =
356 Civilian or 323 Classified employees

Develop affordable pension ARCs

- ▶ December 11, 2012 presentation solutions
 - ▶ No COLAs = \$166 million reduction in contributions per year
 - ▶ Ending DROP contributions = \$71 million reduction in contributions per year
- ▶ Further analysis performed by Retirement Horizons Inc
 - ▶ Additional opportunities
 - ▶ Intermediate levels of changes
 - ▶ Just new employees or both new and legacy employees