



Our View of City of Houston Pension "Reform" Proposals

EXECUTIVE SUMMARY: The City of Houston recently summarized its legislative proposals for three pension funds. The Houston Firefighters Relief and Retirement Fund offers these clarifications on the City's statements, especially as it relates to overall fairness of proposed adjustments to firefighters' benefits in view of historic pay disparities and the investment performance of our system.

I. Introduction

The City of Houston unilaterally ended discussions with the Houston Firefighters Relief and Retirement in late February after a sustained combined effort to make pension system adjustments which could be mutually agreeable. The City submitted its own bill language to sponsors without mutual agreement with the HFRRF.

- *HFRRF never expected nor advocated for the status quo.* The HFRRF, Mayor, and City Council agreed to negotiate proposed bill language on a conditional term sheet in October 2016, but subsequent discussions failed when the City added or changed terms and introduced what it deemed "non-negotiable" items.
- The City engaged in a sustained strategy of talking first with the Houston Police Officers Pension System and Houston Municipal Employees Pension System before inviting the HFRRF to the table on the same issues. It was an effort to exert pressure on HFRRF to get in line with City proposals.
- *HFRRF should not be punished through unilateral legislative measures for engaging in good faith efforts scuttled by the City.*

II. Summary of City of Houston Amendments and HFRRF Reaction

The City of Houston rejected reasonable implementing language offered by HFRRF over many months of discussions.

- Benefits and Contributions. The HFRRF proposed as much as \$802 million in pension benefits reductions, or **almost 33 percent** of \$2.5 billion which the City says it can achieve in immediate cost reductions.
 - The City's total unfunded liability to HFRRF is **only 18 percent of its total obligation** to the three pension systems.
 - *It appears the City's legislative proposals seek as much as \$1.2 billion in cost reductions from the firefighters' pension fund. This is punitive and unfair given the disproportionate share of burden as well as historic pay disparities.*
- Risk Sharing. In part of its legislative proposal, the City says it and the three pension systems will "share the risk that returns on pension assets are less than projected so that the City's maximum contribution is capped."
 - *The City's proposal is an effort to shift risk-bearing to employees and retirees. This further reduces the bond of trust between the City and its employees. Houston will experience an early retirement crisis of its own making.*

III. City of Houston's Background and HFRRF Reaction

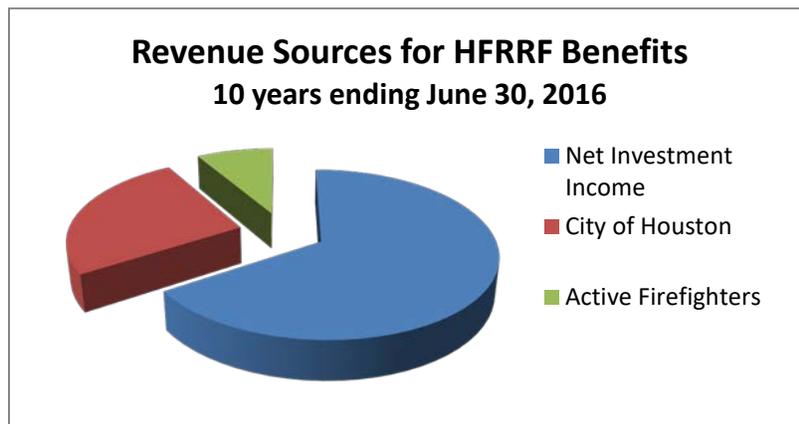
As part of a larger effort to cast blame on Houston's pension systems for their unfunded liabilities, the City of Houston attempts to make it appear the HFRRF's funded ratio of 89% results from its inability to achieve investment gains and accurately make actuarial assumptions.

- *This is a cheap shot, a gross insult to most people's intelligence about pension funds. It demonstrates how far the City is willing to go be punitive to firefighters.* Bob May, an actuary on the Pension Review Board, has said that nationwide actuarial organizations disagree on whether 60, 70, or 80% funded ratios are 'healthy.' HFRRF is 89% funded.
- *While the City is seeking to discredit HFRRF, our pension fund is proud of its accomplishment when compared to other Texas pension funds:*

Pension Review Board Actuarial Valuation Report January 26, 2017		
Ranking, by funded ratio, of Texas public employee pension systems with more than \$1 billion in assets under management		
System Name	Funded Ratio	Actuarial Value of Assets
Houston Firefighter's Relief and Retirement Fund	89.70%	\$3,877,650,516
San Antonio Fire and Police Pension Fund	88.82%	\$2,858,461,847
Texas County & District Retirement System	88.70%	\$24,529,762,155
Texas Municipal Retirement System	85.79%	\$23,708,162,580
CPS Energy Pension Plan	84.19%	\$1,403,119,018
Dallas Employees' Retirement Fund	80.40%	\$3,320,582,000
Teacher Retirement System of Texas	79.70%	\$138,786,120,728
Houston Police Officers Pension System	77.50%	\$4,662,115,000
Employees Retirement System of Texas	75.20%	\$26,557,130,705
Austin Employees' Retirement Fund	68.10%	\$2,308,087,140
Fort Worth Employees Retirement Fund	60.70%	\$2,154,874,311
Houston Municipal Employees Pension System	54.20%	\$2,582,510,000
Dallas Police and Fire Pension (Combined Plan)	45.10%	\$2,680,124,303

Source Data: Texas Pension Review Board Actuarial Valuation Report January 26, 2017

- *Contrary to the City's effort to cast HFRRF in unfavorable light vis-à-vis contributions and investment performance, the pension fund is a money-making machine.* City contributions have comprised 25% of revenue available for benefits the last 10 years while firefighter salary contributions have combined with 80 years of fund investing to create 75% of the revenue available.



HFRRF Conclusion: *The Houston Firefighters Relief and Retirement Fund is not deserving of punitive City of Houston legislative proposals. Firefighters should not be asked to shoulder an oversized burden of the City's financial reform out of their retirement because of our success. HFRRF opposes these efforts and stands ready to offer proposals previously offered the City.*