



CITY OF HOUSTON

Finance Department

Interoffice

Correspondence

To: Budget and Fiscal Affairs Committee Members
From: Kelly Dowe, Director ^{KD}
Finance Department
cc: Mayor Annise D. Parker
Date: July 2, 2012
Subject: Pension Actuarial Services

The administration anticipates placing a contract to City Council with Retirement Horizons Inc. (RHI) for pension actuarial services on the July 11, 2012 agenda.

RHI was contracted in early 2008 to assist in the independent actuarial audits of each of the three retirement systems sponsored by the City of Houston (Houston Firefighter's Relief and Retirement fund, Houston Police Officers' Pension System and Houston Municipal Employees Pension System). While the City was unable to obtain the data necessary to fully complete these audits because the pension systems refused to provide it, RHI was able to create actuarial models for each of the three pension systems. While these activities did not represent full actuarial and financial audits as required by State statute (HB2664 passed by the 80th legislature of the State of Texas; Texas Government code section 802.1012), it did provide the basis for further pension sustainability modeling.

The City's Long-Range Financial Management Task Force, formed by a Council Amendment to the FY2012 budget ordinance, repeatedly requested more information on the sustainability of the City's three pension systems than the pensions are willing to provide. They recognized that a full understanding of the pension systems and plans is critical in solving the City's long-range financial issues. Study of these issues was also requested by Council in June 2012 in FY2013 Budget Amendment 1.01. Retirement Horizons is uniquely qualified for this task due to their previous work in modeling the City's three pension systems.

The scope of work will include:

- Performing independent actuarial audits as required by law.
- Independent replication of actuarial valuations performed by the retirement systems.
- Analysis of alternative actuarial assumptions and methods.
- Study of possible plan design alternatives that could improve the sustainability and affordability of the pensions systems.
- Actuarial analysis and consulting support for pension negotiations.
- Study of proposed changes in financial accounting pronouncements.
- Data editing and consolidation of information not supplied according to RHI format.
- Attendance at meetings as requested by the City.

The scope will also include consultation with the City regarding the results of the independent audits or considerations of proposed plan design and assumption changes. The administration would like to retain RHI for said services under a two-year contract with a one 1-year renewal option. In order to move forward now, the Contingency line item in General Government would be the source of funding for this contract.