



City of Houston COH PENSION SYSTEMS

Budget & Fiscal Affairs Committee

May 29, 2012

Finance Department

Craig Mason, Chief Pension Executive



QUARTERLY UPDATE

Presented to

THE BUDGET & FISCAL AFFAIRS COMMITTEE

May 29, 2012



COH PENSION SYSTEMS

- THE BENEFIT LEVELS DRIVE THE FUNDING LEVELS
- SAMPLES OF THE CURRENT AND FUTURE BENEFIT LEVELS ARE:

	<u>Retirement Income as a % of Pre-retirement Income</u>	
	<u>Current</u> *	<u>Future</u> **
HFRRF	158%	158%
HPOPS	112%	55%
HMEPS	119%+SS	45%+SS

- CURRENT BENEFIT LEVELS ARE CREATING NEAR TERM FINANCIAL STRESS ON THE CITY
- CHANGES IN FUTURE BENEFITS FOR “NEW” EES ARE EXPECTED TO MITIGATE THE FINANCIAL STRESS IN THE LONG TERM AT HPOPS AND HMEPS
- FINANCIAL STRESS EXPECTED TO CONTINUE FOR THE LONG TERM AT HFRRF

* Actual averages paid to recent retirees with 25 + years of service at retirement. (Slide 3)

** Projected benefits payable to “new” employees who will retire with 25 years of service. (Slide 4)



COH PENSION SYSTEMS

SUMMARY OF ACTUAL BENEFITS PAID TO RECENT RETIREES (Based on averages published in each pension system's CAFR)

	<u>HFRRF</u>	<u>HPOPS</u>	<u>HMEPS(i)</u>
1. Retirees during fiscal year 2011 with over 25 years of service:			
a. Number	123	114	32
b. % of total retired during the year	96%	86%	10%
2. Average monthly salary at retirement (AMS)	\$4,365	\$6,650	\$4,342
3. Average benefit amount paid at retirement:			
a. A lifetime annuity with an initial monthly amount of	\$3,936	\$3,877	\$3,309
Plus			
b. A lump sum from DROP of (ii)	\$500,000	\$603,481	\$312,750
4. Total average combined retirement benefit value (iii):			
a. Expressed as a lump sum	\$1,160,351	\$1,253,933	\$867,908
b. Expressed as a lifetime annuity with an initial monthly amount of	\$6,916	\$7,474	\$5,173
c. Initial monthly annuity amount as a % of pre-retirement income (AMS)	158%	112%	119% (iv)

NOTES

(i) HMEPS 2011 CAFR did not report retirees during 2011. The data shown is for FY2010.

(ii) Published amounts from CAFRs for HPOPS and HMEPS. Estimated for HFRRF since HFRRF declined to provide the information.

(iii) Actuarial equivalency of lump sum and annuity values based on the following assumptions: age 58 at retirement, 8.5% interest, 3% simple COLA, 50%/50% blend of GAM94 male and female mortality tables, member and spouse same age, 100% survivor benefit.

(iv) HMEPS members are also eligible for Social Security benefits for which the City and employees each contribute 6.2% of pay.



COH PENSION SYSTEMS

SUMMARY OF FUTURE RETIREMENT BENEFIT LEVELS (Based on 25 years of service at retirement)

	<u>HFRRF(1)</u>	<u>HPOPS(2)</u>	<u>HMEPS(3)</u>
A. Initial annuity payable for life as a % of pre-retirement income	90%	55%	45%+SS
B. Additional lump sum payable from DROP	\$500,000	none	none
C. Automatic annual increase in annuity	Yes	Yes	No(4)
D. Employee contribution rate (% of pay)	9%	10.25%	6.2% to SS
E. Minimum age eligible for unreduced benefit	None	55	62

NOTES

- (1) Assuming no changes in current benefits. DROP amount estimated.
- (2) Applies to actives hired after 10/9/2004 - 27% of total current actives
- (3) Applies to actives hired after 1/1/2008 - 21% of total current actives
- (4) Social Security amounts are increased based on CPI



COH PENSION SYSTEMS

CURRENT FUNDING STATUS AS OF JULY 1, 2011
 (\$ Amounts in 000s)

	<u>HMEPS</u>	<u>HPOPS</u>	<u>HFRRF</u>	<u>Total</u>
1. Total funding liability*	\$4,124,703	\$5,434,463	\$4,235,700	\$13,794,866
2. Amount funded with current market value of assets:				
a. \$ amount	\$2,129,441	\$3,530,617	\$3,203,080	\$8,863,138
b. % of total funding liability	51.6%	65.0%	75.6%	64.2%
3. Amount to be funded with expected future employee contributions	\$126,708	\$303,334	\$214,646	\$644,688
4. Amount to be funded with future City contributions (Unfunded Liability)	\$1,868,554	\$1,600,512	\$817,974	\$4,287,040

*The present value of projected benefits expected to be paid to current members assuming an 8.5% discount rate



COH PENSION SYSTEMS

ACTUARIAL DETERMINATION OF GASB ARC* RATES

(\$ Amounts in 000s)

	<u>HMEPS</u>	<u>HPOPS</u>	<u>HFRRF</u>	<u>TOTAL</u>
1. Total Unfunded Liability	\$1,868,554	\$1,600,512	\$817,974	\$4,287,040
2. Portion of the Unfunded Liability allocated by the actuary to be amortized as a level % of payroll over a fixed number of years (Unfunded Accrued Liability)	\$1,461,524	\$770,090	\$335,922	\$2,567,536
3. GASB ARC rates of payroll for FY2013				
a. Normal Cost rate payable over the life of the plan	5.9%	20.1%	18.2%	
b. 30 year amortization rate for the Unfunded Accrued Liability	<u>17.6%</u>	<u>12.6%</u>	<u>8.7%</u>	
c. Total	23.5%	32.7%	26.9%	

*Annual expense for financial reporting purposes. May not be consistent with the annual contribution for funding purposes.



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CURRENT CONTRIBUTIONS (FUNDING) VS. CURRENT GASB ARC (EXPENSE)

(\$ Amounts in 000s)

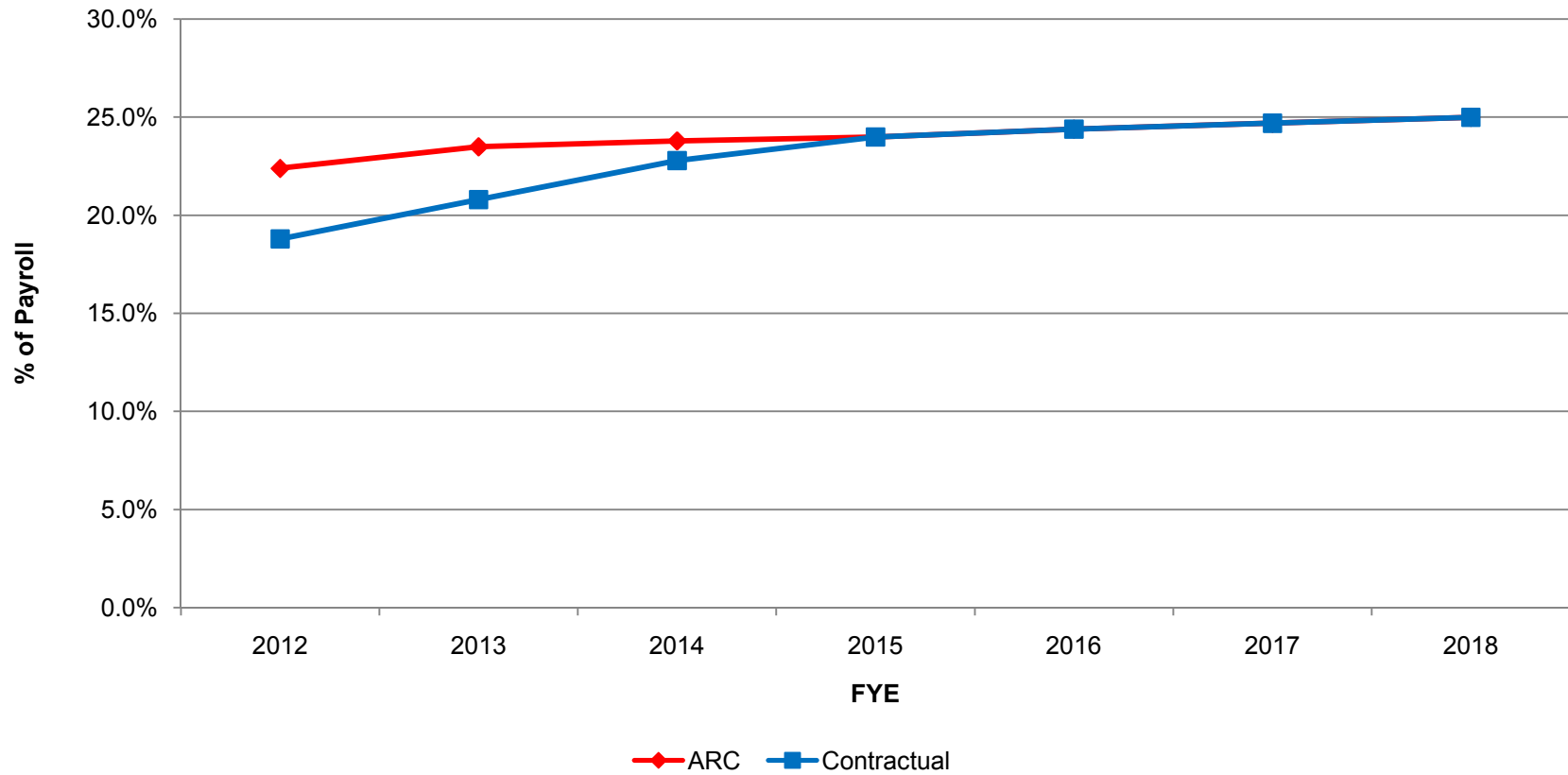
	<u>HMEPS</u>	<u>HPOPS</u>	<u>HFRRF</u>	<u>TOTAL</u>
1. GASB ARC \$ amounts for FY2013				
a. Normal Cost	\$30,900	\$77,600	\$47,200	\$155,700
a. 30 year amortization of UAL	\$92,200	\$48,700	\$22,500	\$163,400
c. Total	\$123,100	\$126,300	\$69,700	\$319,100
2. Actual statutory or contractual City Contributions				
a. For FY2013	\$109,000	\$93,000	\$61,900	\$263,900
b. For FY2012	\$98,500	\$83,000	\$62,200	\$243,700

City contributions are made in accordance with meet and confer agreements with HMEPS and HPOPS, and in accordance with statute for HFRRF

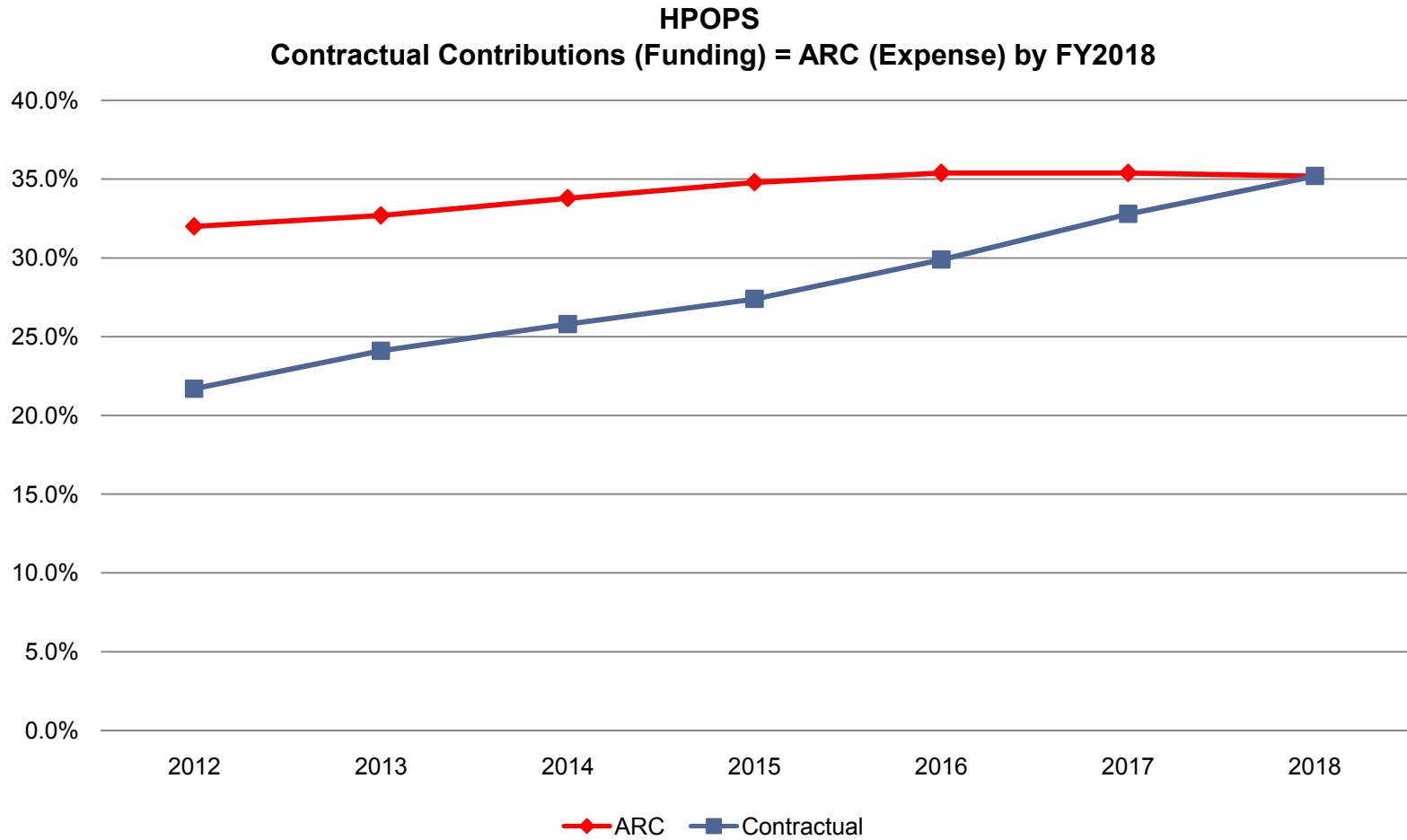


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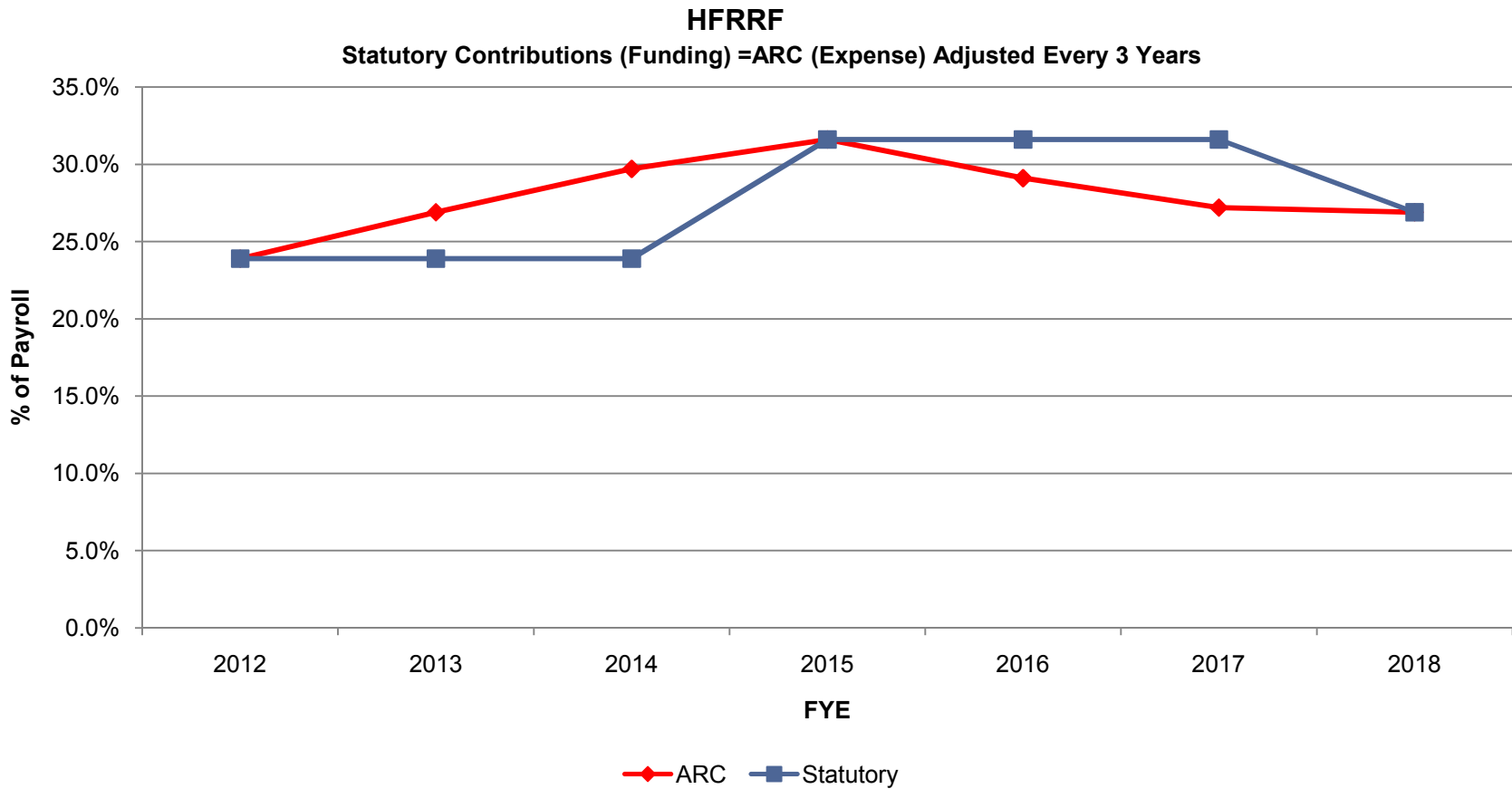
HMEPS
Contractual Contributions (Funding) = ARC (Expense) By FY2015



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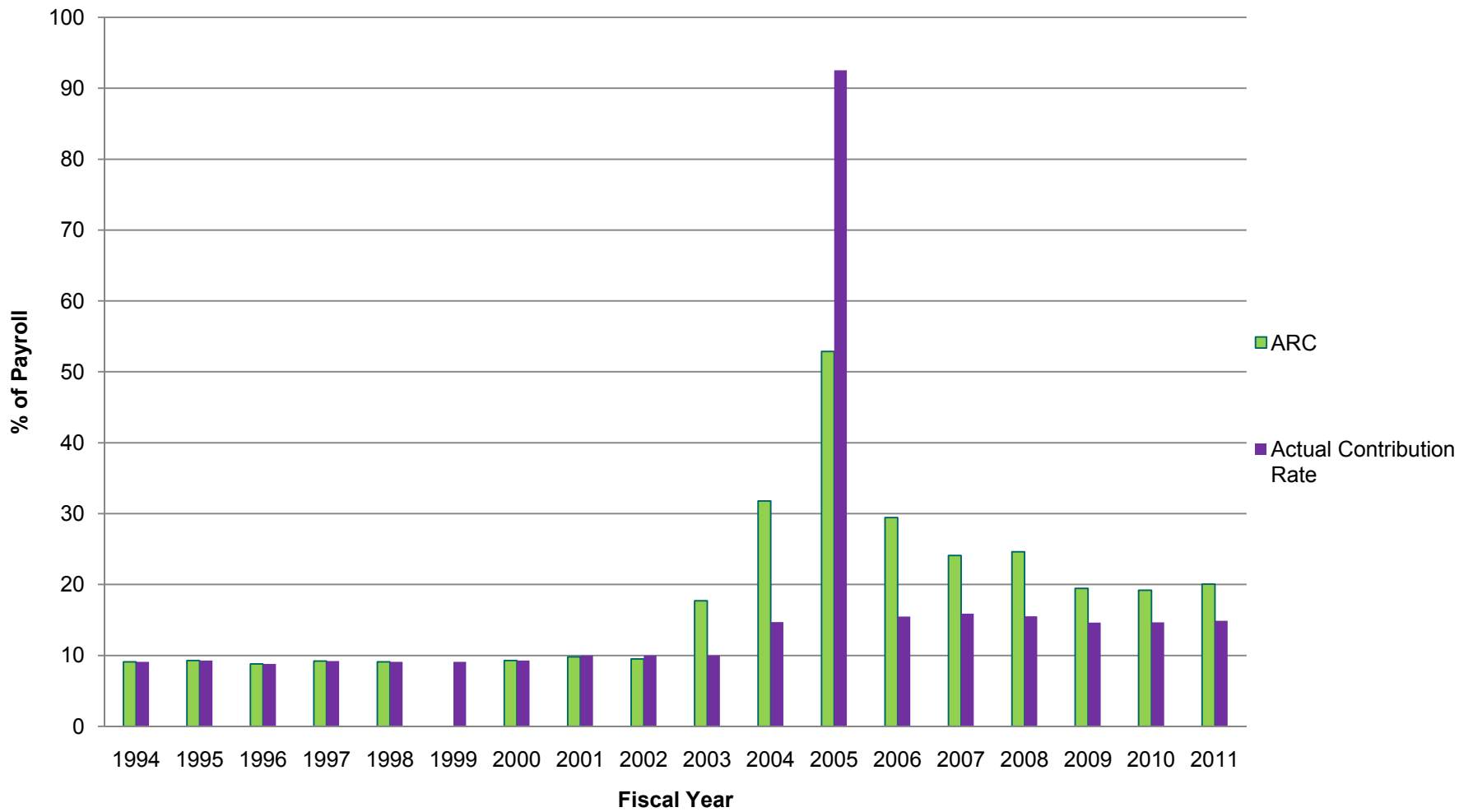


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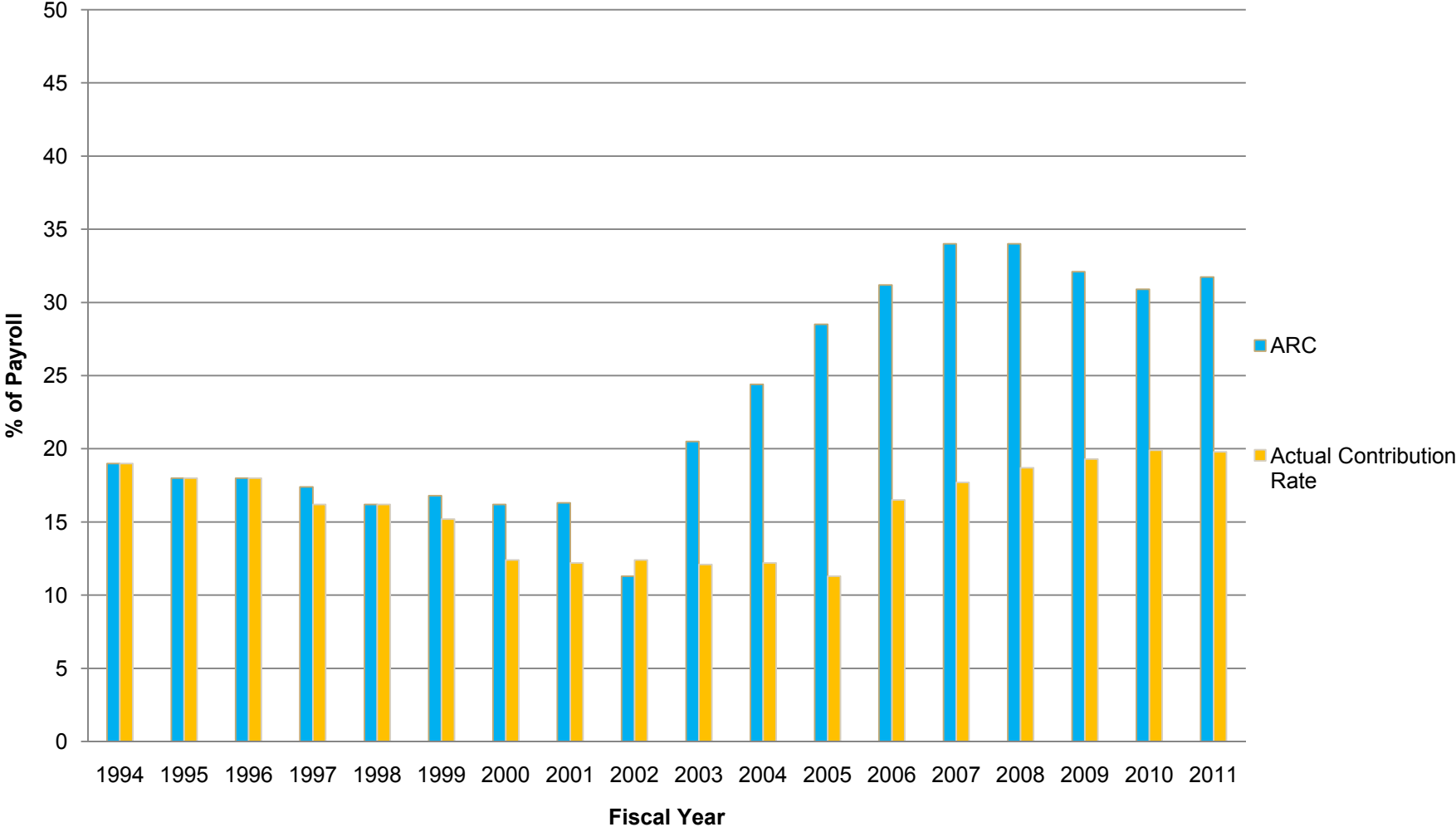
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HMEPS Historical Contributions and ARC Amounts



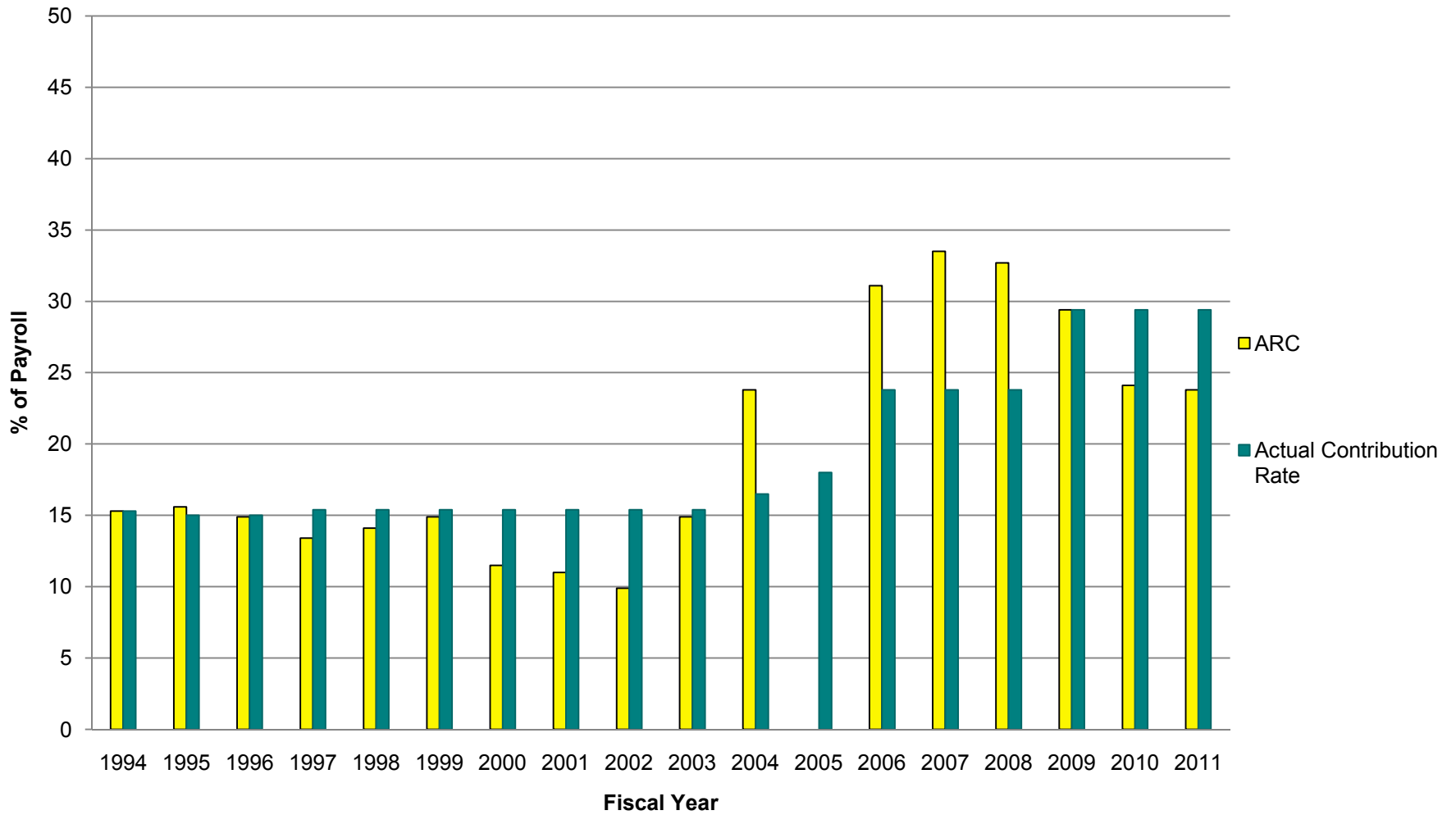
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HPOPS Historical Contributions and ARC Amounts



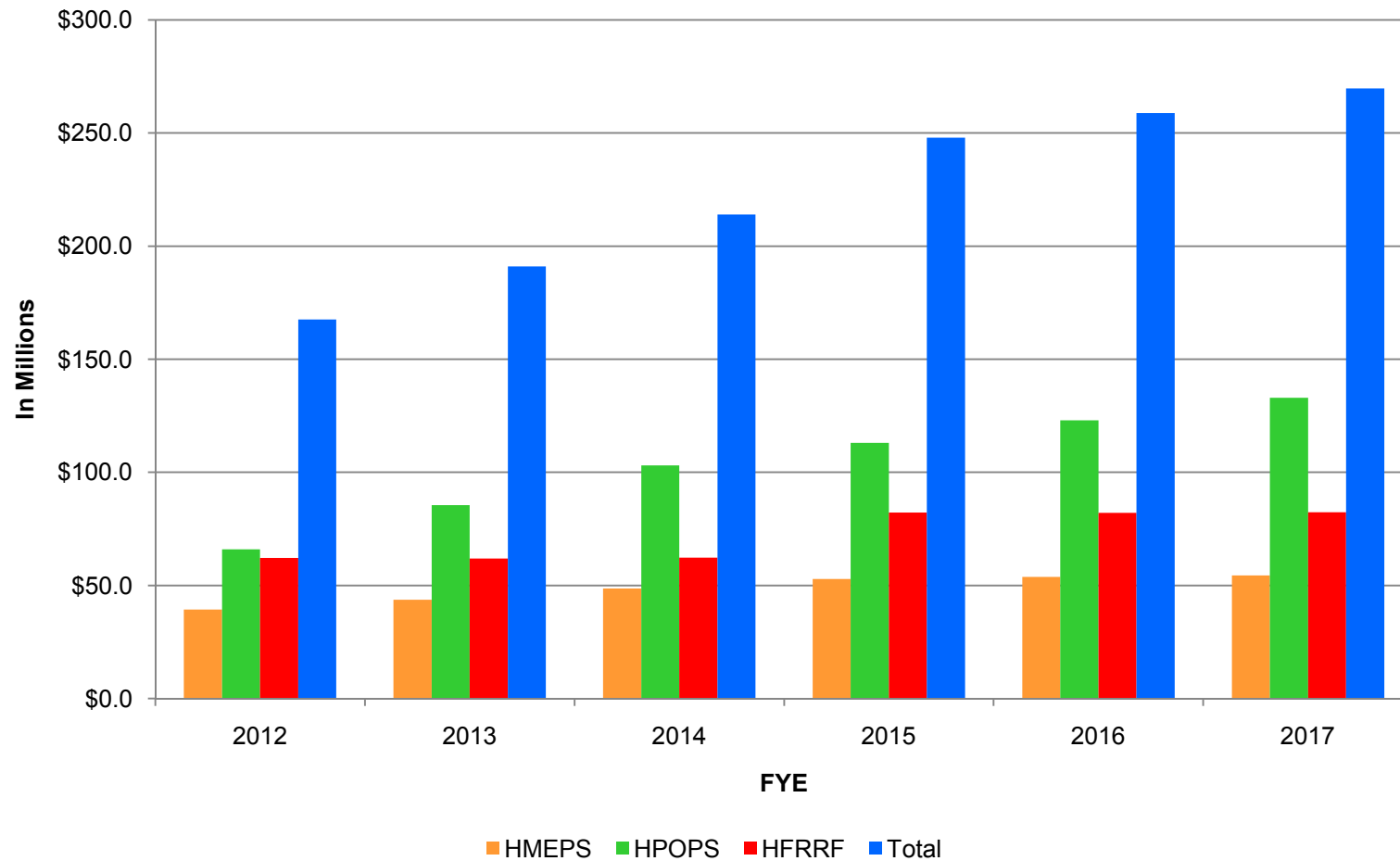
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HFRRF Historical Contributions and ARC Amounts



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Projected City Contributions From The General Fund

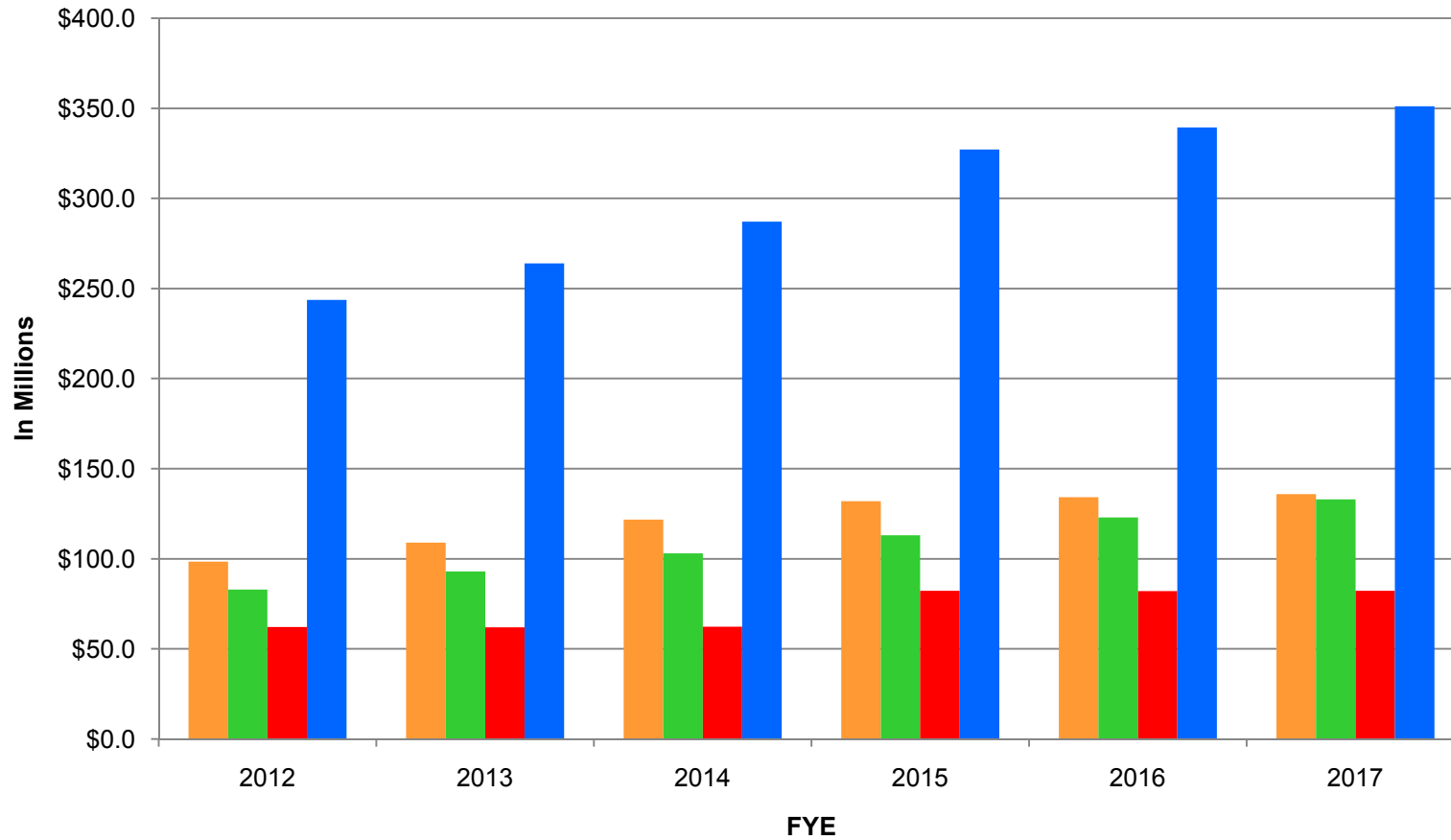


The approximate additional General Fund contribution for Social Security retirement benefits for HMEPS is between \$13-\$14 Million



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Projected City Contributions From All Sources



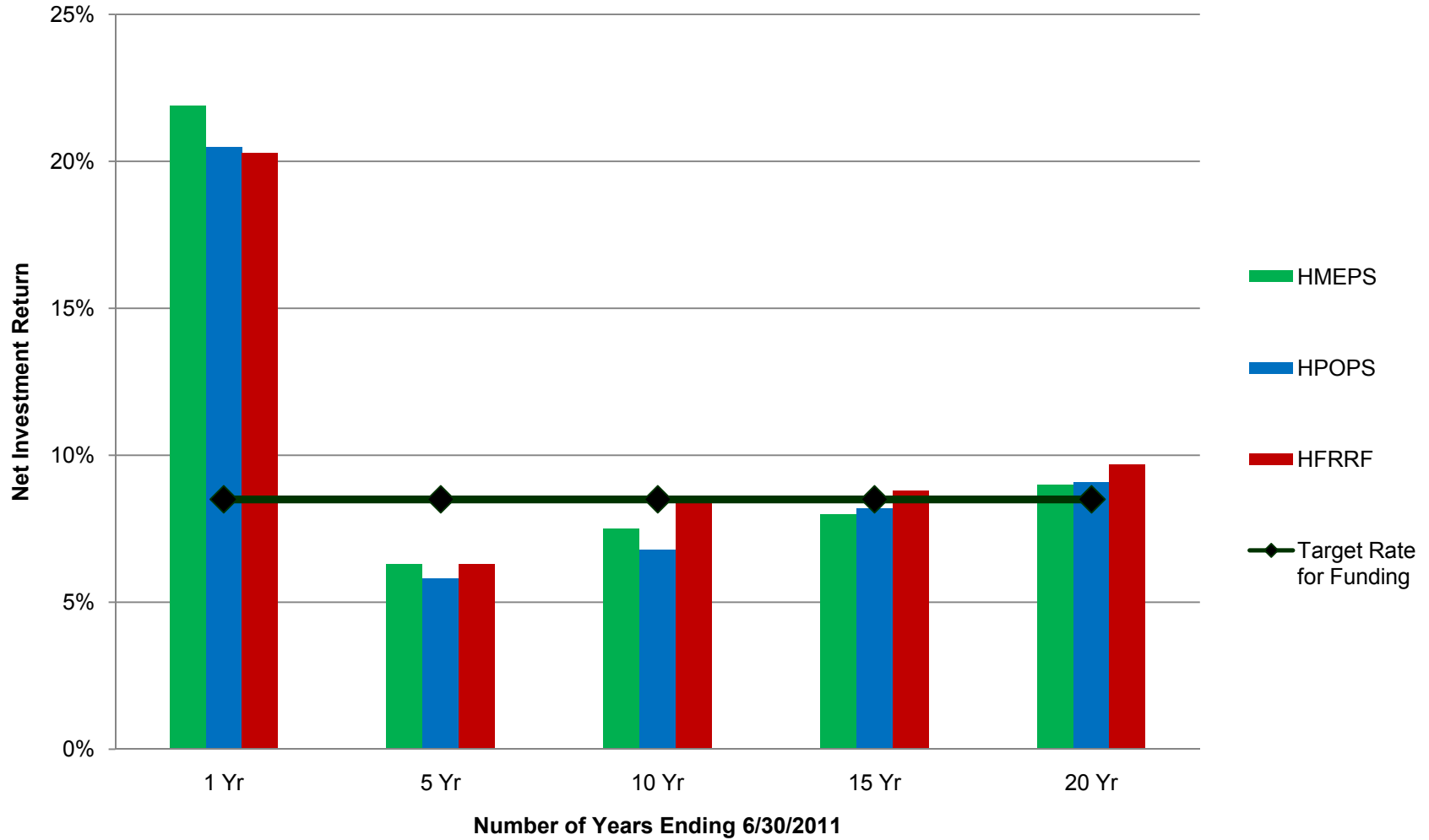
■ HMEPS ■ HPOPS ■ HFRRF ■ Total

The approximate additional contribution for Social Security retirement benefits for HMEPS is between \$33-\$34 Million



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Historical Investment Rates of Return



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Options for Mitigating Financial Stress

Affecting Current Retirees

1. Reduce **future** cost of living (COLA) increases

Affecting Active Employees:

	HMEPS		HPOPS		HFRRF	
	Hired Prior to <u>1/1/2008</u>	Hired After <u>1/1/2008</u>	Hired Prior to <u>10/9/2004</u>	Hired After <u>10/9/2004</u>	Hired Prior to <u>x/xx/xxxx</u>	Hired After <u>x/xx/xxxx</u>
1. Reduce benefit accrual rates	Done	Done	Not Done	Done	Not Done	Not Done
2. Increase eligibility age for full retirement	Done	Done	Not Done	Done	Not Done	Not Done
3. Eliminate DROP ⁽¹⁾	Not Done	Done	Not Done	Done	Not Done	Not Done
4. Eliminate automatic annual COLAs ⁽²⁾	Not Done	Done	Not Done	Not Done	Not Done	Not Done
5. Make post-retirement survivor's benefit optional ⁽³⁾	Not Done	Done	Not Done	Not Done	Not Done	Not Done
6. Increase employee contributions	Done	N/A ⁽⁴⁾	Not Done ⁽⁵⁾	Done	Not Done ⁽⁵⁾	Not Done

Notes:

- (1) In lieu of DROP, may add a partial lump sum option actuarially equivalent to an annuity amount
- (2) May provide COLAs on an ad hoc basis or contingent upon the plan's funded status
- (3) The annuity amount would be actuarially adjusted to a "normal form" of a straight life annuity
- (4) Any increases in employee contributions would necessarily be offset by an increase in the benefit accrual rates
- (5) Not done since 2004



