

The Path to Shared Reform

HMEPS is in a strong position today because of early, proactive steps taken by its leadership to work with the City to secure the System's long-term viability. While many other pension systems today face serious challenges to maintaining their long-term viability, HMEPS has been singled out as an "inspiration" by the Ft. Worth *Star Telegram* for resolving such challenges.

Nearly a decade ago, HMEPS faced a long-term funding liability similar to those confronting some public pension systems today. By working together with the City of Houston, HMEPS took concrete steps to shore up its liability, including having its members and retirees give up future benefits and employees increase their own contributions. The result is a stronger system that serves its participants and lessens the burden on the taxpayers of the City of Houston. Following is a timeline of key events and major steps taken to improve the pension fund:

2001 - The 2001 Actuarial Valuation shows a \$465.5 unfunded actuarial liability (UAL). The City's projected future contributions: \$85 million in 2003; \$100 million in 2006; and \$195 million in 2020. In February 2002, HMEPS notifies the City of its concern about the projected funding requirement, and requests that the City increase its contribution rate above the 10% rate.

2003 In July 2003, the City begins contributing at the rate of 14.7%. The UAL increases to approximately \$1 billion primarily from three areas:

- investment losses during a period of severe market underperformance
- changes in actuarial assumptions for the Deferred Retirement Option Plan
- membership changes in group participation

2004 City and HMEPS enter into Meet and Confer Agreement, with 2 major outcomes:

- HMEPS members and retirees give back roughly \$850 million in future benefits, including delayed retirement eligibility, lower benefits, reduced COLAs, and increased employee contributions.
- The City receives a three-year period of fixed contributions (\$66 million in FY05, \$69 million in FY 06 and \$72 million in FY 07). HMEPS agrees to the fixed funding schedule due to the City's issuance of a \$300 million pension obligation note to HMEPS in November 2004.

2007 City and HMEPS enter into a 4th Amendment to the Meet and Confer Agreement:

- Establishes a new non-contributory Group D for all employees newly hired after January 1, 2008, with a modest benefit formula, delayed retirement age, and no COLA, DROP or survivor benefit.
- The City receives a four-year period of fixed contributions - \$75 million, \$78.5 million, \$83.5 million, and \$88.5 million, to allow flexibility and budget planning.

2011 The Amended and Restated Meet and Confer Agreement was negotiated between HMEPS and the Mayor's office.

- New agreement provides future funding for the pension plan that is reasonable and actuarially sound. Protecting the retirement security of the hard-working Houston municipal employees has been and will continue to be our foremost concern.
- Under the Agreement, the City contributes \$98 million to HMEPS in Fiscal Year 2012. For each of the succeeding fiscal years, the City contributes either the previous fiscal year's rate plus 2 percent of payroll or the previous fiscal year's contribution amount plus \$10 million, whichever is greater. This provision will stay in place until the actuarially determined contribution rate is met, at which time that rate becomes the effective contribution rate.