

SUBJECT: Changes to the Houston Police Officers Pension System

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Greenberg, Bonnen, Clark, Rangel, Telford
0 nays
4 absent — Tillery, George, Salinas, Williams

WITNESSES: For — Bill Elkin, Houston Police Retired Officers Association; Sabrina Foster, Mayor and City Council, Houston; John Lawson, Houston Police Officers Pension System; Hans Marticivc, Houston Police Officers' Union
Against — None

BACKGROUND: Police officer pension systems for cities larger than 1.2 million are governed by art. 6243g-1 and art. 6243g-3, VACS. These provisions apply only to the City of Houston. These articles provide for a pension board, a pension system with a method of payment of benefits, a deferred retirement option plan (DROP), and an excess benefit plan. They provide guidelines to the pension board for determining pension members' eligibility and contribution requirements, disbursements, eligibility for disability survivor benefit payments, and federal income tax qualification.

The three active police officers who serve on the pension board are elected by active and retired members of the pension system. The two retired members receiving pensions who serve on the board are chosen by the elected members of the board.

Pension benefits are capped at 80 percent of final compensation, including pension members in the DROP program.

The pension system is not obligated to provide a 13th benefit check in a given fiscal year to retirees. The system also is not required to provide one-time lump-sum payments upon retirement from service, exit from the DROP program, disability, or death of an active member.

Pension members are not allowed to leave any portion of their DROP accounts in the system. Active members of the Executive Official Pension Plan of the Houston Municipal Pension System are ineligible to participate in the Houston Police Officers Pension Plan.

DIGEST:

HB 3377 would repeal the current statutes addressing police officers' pension systems and replace them with art. 6243g-4, VTCS, governing pension systems in cities with a population of 1.5 million or more. The bill would take effect September 1, 1999.

The bill would change the method of choosing the three active and two retired members on the Police Pension Board of Trustees, subject to a referendum of all active, inactive, or retired members of the pension system. The members would decide whether (1) the three active employee board members should be elected only by the active members of the police department and the two retired board members should be elected only by the inactive and retired members, or (2) the three employee board members and the two retired board members all should be elected by the active, inactive, and retired members. The referendum would have to be held no later than September 30, 1999.

HB 3377 would empower the board to invest surplus pension funds consistent with procedures under the Government Code. The board could choose an investment manager to assist in managing the surplus.

The bill also would set system contribution guidelines for members, amend the DROP plan, amend the system's disability benefits, provide for the rights of members' survivors, amend provisions concerning employment, termination, and refunds, and add miscellaneous provisions.

HB 3377 would empower the board to take steps necessary to ensure that the pension system complied with federal income-tax regulations that deal with qualified pension, profit sharing, and stock bonus plans and with contributions under qualified plans.

Monthly benefits of members that retire between November 23, 1998, and January 1, 2000, would be subject to the benefit formula existing before the bill's effective date.

SUPPORTERS
SAY:

HB 3377 would make the administration of the Houston Police Officers Pension System easier by eliminating redundancy in the two statutes that now govern the system. The bill would reduce much of the overlap between these statutes that has caused confusion for all parties involved.

HB 3377 is the product of compromise. In November 1998, the City of Houston and the Police Officers Pension System met to craft the proposals contained in the bill. The bill's provisions thus reflect the interests and concerns of all parties with a stake in the pension system.

The referendum on how to elect the three active and two retired board members would allow the membership to determine the method of election they would prefer.

HB 3377 would eliminate the current 80 percent cap on final compensation of pension benefits and would include a new standard measure — total direct pay, including certain contributions to take-home pay — rather than base pay to determine pension benefits. This new measure would result in greater pension benefits for officers.

Other increased benefits would result from HB 3377. The bill would add another benefit payment to the 12 payments made within one calendar year under certain conditions. The system also could make lump-sum payments of \$5,000 to members under certain provisions, with police officers retaining the choice of whether to reinvest that money in another program to reduce their tax burden.

Currently, police officers who accumulate sick leave or vacation time are paid for this time. HB 3377 would give these officers the option of having these payments rolled over into the DROP program to be paid in a lump sum at the end of their service, when most pension members would be in a lower tax bracket.

The bill also would allow retired members to leave all or part of their DROP accounts in the pension system, where these monies would accrue interest. This option would increase members' choices in making retirement decisions.

Together, these increased benefits would translate to a higher compensation package for police officers and an improved recognition of their service,

which would encourage experienced officers to remain on the payroll.

OPPONENTS
SAY:

HB 3377 would result in increased costs to the City of Houston. The city would have to contribute 18.9 percent to the system instead of the current 14.7 percent. Also, the projected costs seem to be based on assumptions that are not defined clearly. The actuarial impact statement calculates that there may be a reduction in the city contribution rate of about 1.2 percent from the current contribution. The board of trustees who have fiduciary responsibility for the pension system are operating under different assumptions that do not account for this reduction. The true costs to the city should be estimated before this bill is considered.

The structure of future elections of pension board members should not be left to a referendum. The statute should specify whether board members would be elected by the direct vote of inactive and retired members or by a vote of the entire membership.

NOTES:

The committee substitute amended the definition of “average total pay” and added the requirement for a referendum to decide the structure of board elections. The substitute also amended the terms that would constitute a signature for purposes of an election petition.

The substitute changed the retirement credit to a half-day from a full day. It also would authorize the board to make changes to the DROP program to maintain financial soundness. It added a cardiovascular-related disability to the list of eligible job-related disabilities and added city contributions for unused sick leave, vacation pay, and accumulated overtime. The substitute also made other nonsubstantive and conforming changes.

The companion bill, SB by 1542 by Gallegos, was considered by the Senate Intergovernmental Relations Committee on April 14 and left pending.