HOUSE RESEARCH ORGANIZATION bill analysis | 4/21/1999 | HB 3532 Coleman (CSHB 3532 by Greenberg)

SUBJECT: Revising the Houston Municipal Employees Pension System

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Greenberg, Bonnen, Clark, George, Salinas

0 nays

4 absent — Tillery, Rangel, Telford, Williams

WITNESSES: For —Sabrina Foster, Mayor and City Council of Houston; David Long, Houston Municipal Employees Pension System

Against —None

BACKGROUND: The Houston Municipal Employees Pension System provides retirement, death, and disability benefits for eligible City of Houston employees, with the exception of police officers and firefighters. The System currently has about 20,000 active and retired participants. The provisions that govern the System are found in VACS Article 6243g.

Currently, pension members participate in either Group A or Group B programs, with participants who joined after September 1, 1981, required to join Group B. The Group A program requires members to contribute an average of 4 percent of their monthly salary into the pension system. The Group B program is noncontributory. The City of Houston contributes to both programs. The pension benefits are greater for Group A members.

Currently, the Group A contributory program multiplier is 2.25 percent for service less than 20 years and 2.75 percent for service greater than 20 years. The Group B benefit multiplier is 1.5 percent for service less than 10 years and 1.75 percent for service between 10 and 20 years. For service over 20 years, the multiplier is 2 percent.

The death benefit for deaths resulting outside of service is 50 percent of the accrued benefit of the member. For service-related death of an active member, the benefit is currently calculated at 80 percent of the member's average final salary. Death benefits after retirement are calculated at 75 percent of the accrued benefit.

DIGEST:

CSHB 3532 would amend VACS Article 6243g, which governs Municipal Pension Systems in cities of 1.5 million or more residents, by making substantive changes in member pension benefits, participation, and membership requirements in retirement programs, and change Municipal Pension Board powers.

CSHB 3532 would increase the multiplier for normal retirees of the system. A member's average monthly salary would be multiplied by 2.50 percent for each year of the first 20 years of service credited to the Houston Municipal Pension member. The multiplier would be 3.25 percent for each additional year and would be prorated to the nearest 12th of the year. This multiplier percentage would be effective August 1, 2000.

For retired members who retired under the Group B plan, the bill would set the multiplier rate at 1.75 percent for the first ten years of credited service. The multiplier would rise to 2 percent for each of the next ten years of service, and to 2.5 percent in each subsequent year.

The Pension Board would be permitted to require periodic updates on the member's physical and employment status, if the member was receiving retirement benefits.

The normal retirement eligibility for members would be expanded by allowing members to retire if the combination of years of credited service and member age equaled at least 70, with a minimum of 5 years of credited service for the retiring member.

The bill also would amend the level of city contributions to the municipal pension system by creating a minimum city contribution of an amount not less than 10 percent of a pension member's salary or two times a Group A member's contribution rate.

CSHB 3532 would increase survivor benefits of a member who died on the job. For survivors of certain pension members, the surviving spouse would receive 85 percent of what the member would have received had the member been disabled at the time of retirement.

The survivor benefit would be 100 percent of the salary of the deceased member's salary if the pension member died while performing job duties or 85 percent if the member died after beginning to receive retirement benefits. The bill also would increase the pension benefits for a member's dependent children.

CSHB 3532 would make changes to the effective dates of member participation for the deferred retirement option plan (DROP). The bill would allow certain members who left municipal employment to opt for the DROP program within a specified time. The rate used to calculate credits to a member's DROP account would be changed to include credit based on the years of municipal service and average monthly salary.

CSHB 3532 would require that all incoming municipal employees hired on or after September 1, 1999, become Group A members, with the exception of those employees that exercised a one-time option to not become a member. Persons who were rehired also would become Group A members, as would persons elected to office after this date. Persons hired between September 1, 1981 and September 1, 1999, would remain Group B members.

CSHB 3532 would add new provisions for the crediting of service for members in military service. A member would receive credited service for serving in the military if the member previously worked for the city, did not receive a dishonorable discharge, returned to city work within a specified time after military discharge, and made the necessary contributions to the pension system. The credited service would not exceed five years.

CSHB 3532 also would add to the authority of the Pension Board to make the implementation of the bill and other provisions that may have tax consequences contingent on the approval of the Internal Revenue Service. CSHB 3532 would repeal Article 6243g, sections 25, 26, 27, and 31.

CSHB 3532 would take effect September 1, 1999.

SUPPORTERS SAY:

CSHB 3532 is the product of compromise. After much arduous negotiation, the City of Houston, the Houston Municipal Employees System and the Houston Municipal Employees Union crafted an ambitious benefits package that represents the combined interests of all the parties with a stake in the pension system.

The pension members would benefit because of the improved benefits package. The increase in the retirement benefit multiplier would result in a greater take-home pension check during retirement. The increase in survivor benefits would significantly improve the lives of a deceased member's spouse and dependent children.

Retention of city employees would be improved. The City of Houston would be able to offer a competitive retirement package that would make current municipal employees less inclined to look for other work with better benefits. This would help the city's recruitment of new municipal workers, as the city would be able to offer a stronger benefit packages to incoming workers. Worker morale also would be improved.

Although the cost to the City of Houston would increase due to the increased city contributions to the pension system, the costs would be spread out over a 40-year amortization period. This would, in part, allow the system to remain actuarially sound.

OPPONENTS SAY:

Houston taxpayers would be burdened by the increased city contribution. The city contribution would increase from 7.8 percent to 12.7 percent by July 2001. This increase translates into an increase of $234.5 million in unfunded actuarial accrued liability from $70.3 million. In absolute terms, the proposal would increase city contributions over the ten-year period ending in 2007 by 49 percent.

NOTES:

The committee substitute amended what would be considered the last day in the definition of "effective retirement date" and changed the method of appointment for certain board members. Post retirement increases were deleted, the pension multiplier was prorated to the 12th of a year. Certain disability requirements were changed for former employee system eligibility. The formula for disability benefits was changed to require any disability or survivor benefit, rather than any retirement benefit. The substitute also changed the measure from which military service credit contributions are made from discharge to three times the period of the person's military service.

The companion bill, SB 3532, by Gallegos, is pending in the Senate Intergovernmental Relations Committee.