

SUBJECT: Revisions to Houston firefighters' pension fund

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 7 ayes — Tillery, Woolley, Crownover, Salinas, Goodman, Telford, Williams
0 nays
2 absent — George, Rangel

WITNESSES: For — Donny Meyers and Max Patterson, Houston Firefighters Relief and Retirement Fund; Lonnie Vara, City of Houston
Against — None

BACKGROUND: In 1997, the 75th Legislature enacted Art. 6243e.2(1), V.T.C.S. to establish the Houston firefighters' relief and retirement fund, repealing the original 1975 statute. In 1999, the 76th Legislature amended Art. 6243e.2(1) to increase benefits paid to retired Houston firefighters and their beneficiaries. HB 1173 by Yarbrough designated up to \$4 million from the Houston Firefighters Relief and Retirement Fund to be used to supplement the benefits of retired firefighters and other eligible beneficiaries. The act provided for a \$4,000 lump-sum benefit to retirees or survivors of firefighters killed in the line of duty. It also extended eligibility to participate in the deferred retirement option plan (DROP) — an enhanced retirement benefit program — from five to seven years after the firefighter had completed 20 years of participation in the pension fund.

DIGEST: CSHB 1569 would amend the statute governing the Houston firefighters pension fund by increasing the monthly benefit for DROP participants by 2 percent of the member's original benefit for every full year of participation in the DROP. The bill would increase eligibility to participate in the DROP from seven years to 10 years.

CSHB 1569 would make supplemental benefits permanent and would allocate a total of \$5 million to be paid to retired firefighters and eligible

survivors. The bill would set the minimum benefit level for all retired firefighters and eligible beneficiaries at the federal poverty guideline for a family of five, rounded up to the nearest \$1,000 (about \$19,000 to \$20,000 under the current guideline).

CSHB 1569 also would:

- ! increase the monthly benefit payable to retired or disabled members, other than DROP participants, or to eligible survivors by \$25 beginning in July 2001, following a similar increase awarded in July 2000;
- ! require that cost-of-living adjustments for non-DROP participants begin at age 48 rather than age 50; and
- ! increase the lump-sum payment upon death, retirement, or disability from \$4,000 to \$5,000.

CSHB 1569 would authorize the board to create a proportional retirement program to provide portability for non-DROP participants among Houston's separate municipal, police officer, and firefighter pension funds. Firefighters who transferred to the police department or civilian municipal departments could count their participation in the firefighter's pension fund as part of the service credit for benefits in those plans. The board could adopt rules to implement and administer the program. If the board found the provisions for this program incompatible with other provisions governing the pension fund, it could terminate the program.

This bill would take effect September 1, 2001, except that the provisions governing the proportional retirement program would take effect October 1, 2001.

**SUPPORTERS
SAY:**

CSHB 1569 would encourage the retention of experienced Houston firefighters by extending their eligibility to participate in the DROP for another three years. Firefighters now maximize their pension benefits after 27 years and have no incentive to remain with the department after that. Keeping these experienced firefighters would benefit the city and reduce the cost of recruiting and training rookie firefighters. The city of Houston and Houston firefighters both agree that these changes are desirable.

Increasing benefits and mandating a "living wage" level for all retirees would

represent fair and equitable treatment of people who have risked their lives to protect Houston citizens. The pension fund is overfunded by more than \$125.6 million because of the fund's successful but prudent investment strategies. Benefit allocations can be increased without threatening the actuarial soundness of the program or requiring increased contributions by active firefighters or the city.

CSHB 1569 would continue efforts begun in 1997 to clean up a statute that was extremely difficult to understand because of piecemeal amendments to the original 1975 statute over the years. This bill would streamline and clarify the current statute. The provisions on cost-of-living adjustments, increased eligibility to participate in the DROP, and increased lump-sum payments would codify changes adopted by the State Pension Review Board in May 2000 and by fund trustees.

OPPONENTS
SAY:

No apparent opposition.

NOTES:

The committee substitute removed a provision in the filed version limiting participation in DROP to 10 years. It also amended the section on the proportional retirement program to make its creation permissive rather than mandatory.

The companion bill, SB 820 by Brown, was considered by the Senate Intergovernmental Relations Committee on March 6 and left pending.