HOUSE
RESEARCH
ORGANIZATION bill analysis 4/4/2001

HB 1573
Thompson

SUBJECT:	Recodifying Houston's municipal pension system
COMMITTEE:	Pensions and Investments — favorable, without amendment
VOTE:	5 ayes — Tillery, Woolley, Crownover, Salinas, Goodman 0 nays 4 absent — George, Rangel, Telford, Williams
WITNESSES:	For — Fred Holmes, Houston Municipal Board; Erin Perales, Houston Municipal Employees Pension System Against — None On — Eldon Harris; Chris Jones, Combined Law Enforcement Associations of Texas

BACKGROUND: V.T.C.S., art. 6243g, enacted in 1943, establishes the Houston Municipal Employees Pension System to provide pension benefits for city employees, except police officers and firefighters. The municipal pension system has three contributory groups: Group A, which generally includes employees hired between September 1, 1981, and September 1, 1999, and those who have elected to join Group A since May 1, 1996; Group B, employees hired between September 1, 1981, and September 1, 1999, who have not elected to join Group A; and Group C, certain executive employees. Plans A and C include contributions from both the employer and employee. Plan B includes only contributions from the employer.

DIGEST: HB 1573 would repeal V.T.C.S., art. 6243g, but would continue each Houston municipal employees pension fund established under the repealed chapter and the terms of trustees serving on the pension board until the expiration dates of the terms for which they were appointed or elected. The bill generally would reinstate the repealed law with some changes, as follows.

Pension board. HB 1573 would change the eligibility requirements for appointed trustees from legally qualified taxpayers who have been residents of the county for five years to registered voters who have been residents of the city for the three years preceding their appointment.

Group C membership, service requirements, and benefits. HB 1573 would allow a pension member with two years of continuous service in Group C to receive credited service in Group C for any service credit years the member may have had in Group A or B before participating in Group C, provided that:

- if the service was in Group A, the member could not have received a contribution refund unless he or she repaid the refund; and
- if the service was in Group B, the member would have to choose to purchase the service into Group C in the same manner as required to purchase into Group A from Group B.

Normal retirement pension. HB 1573 would increase the monthly pension payment to a Group A member from 2.5 percent to 3.25 percent of the member's average monthly salary for each year of the first 10 years of credited service. The bill would create a new benefit accrual-rate tier in Group A at 3.5 percent for credited service from 10 to 20 years. It would increase the monthly pension payment rate to a Group A member from 3.25 percent to 4.25 percent for each year of credit service over 20 years. For a Group B member, the monthly pension payment rate would increase from 2.5 percent to 2.75 percent for each year of credit service over 20 years.

For a pension member with credited service in any group, HB 1573 would increase the maximum allowable pension benefit from 80 percent to 90 percent of the member's average monthly salary. The bill would increase the annual cost-of-living adjustment from 3.5 percent, not compounded, to 4 percent, not compounded.

Deferred retirement option plan (DROP). HB 1573 would allow a surviving spouse or designated beneficiary of a deceased member to choose to receive the member's DROP benefit as a lump sum or in partial payments. The spouse or beneficiary would have to make the choice within six months of the member's death and could not make the choice if a survivor benefit or other distribution previously had been made. The spouse or beneficiary's decision would be irrevocable.

Disability pensions. HB 1573 would require a member to file a disability application within six months of the member's last day of credited service.

Surviving spouse and dependent child monthly allowance. HB 1573 would change current law to allow the board to approve payment of benefits directly to a dependent child at least 18 years old.

Lump-sum benefit payment. HB 1573 would change the amount at which the board could pay in one lump sum the present value of any benefit payable to a member or beneficiary, regardless of their wishes, from $3,500 to $5,000. A reemployed member with at least two years of continuous credited service after reemployment could reinstate service for which the member had received a lump-sum payment by paying into the pension fund the amount of the lump-sum payment plus 6 percent interest, not compounded.

Service for formerly ineligible employees. HB 1573 would allow a member who was ineligible to be included in the pension system because of coverage under another city pension system to buy credited service solely in Group A for eligible service that was disallowed under current law if the member:

- had been employed continuously since reemployment in certain municipal positions;
- would have been eligible to be a member of the pension system before certain changes to the current law on September 1, 1999;
- was a Group A member on September 1, 1999, and September 1, 2001;
- applied in writing to receive credited service in Group A; and
- upon approval by the board, paid into the pension fund all contributions that would have been paid during the period of claimed service plus interest.

Proportionate retirement program with participating retirement systems. HB 1573 would include members eligible for deferred retirement in the definition of eligible participants for the proportionate retirement program. It would remove combined service credit — the combined sum of a member's service credit in retirement systems that participate in the proportionate retirement program — from the determination of a member's eligibility for DROP participation.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

SUPPORTERS SAY:

HB 1573 would increase pension benefits for members of the Houston Municipal Employees Pension System. Although many municipal jobs are both demanding and low-paying, municipal employees often are willing to work under these conditions for the benefits they will receive after retiring.

HB 1573 would increase the pension benefit percentage for Group A members with 10 or less years of service and for members with more than 20 years of service. It would create a new benefit accrual tier for members with 10 to 20 years of service. It would increase the pension benefit percentage for Group B members with more than 20 years of service.

The bill would enable members to receive up to 90 percent of their average monthly salary in pension payments instead of the current 80 percent. It would increase the annual cost-of-living adjustment by one-half of 1 percent.

The original statute has been amended many times since 1943. HB 1573 would rewrite the statute to consolidate provisions, reorganize sections, and delete inoperable provisions.

OPPONENTS SAY:

HB 1573 would require increased contributions to the pension fund from the City of Houston. Over time, the costs to the city would grow. Costs to the city could increase even more if the actuarial assumptions, which some have assessed as very optimistic, were not fulfilled.

OTHER OPPONENTS SAY:

While HB 1573 would increase pension benefits for Group A members, it would do almost nothing for Group B members. Many employees who were hired after 1981 could not join Plan A and did not buy into Plan A after it was allowed in 1996 because of the cash outlay required to buy their years of credit service into Plan A. With less than 20 years of service in Group B, they would receive no increase in pension benefits. In addition, many municipal employees remain in Group B because they are not familiar with legal terminology and the differences in pension options. These employees would receive little or no increase in pension benefits under HB 1573.

NOTES: The companion bill, SB 669 by Gallegos, was heard and left pending by the Senate Intergovernmental Relations Committee on March 6.