



Pension Reform

Effective Date July 1, 2017

Meetings with City of Houston

- Meetings with COH began in February 2016 and are continuing today.
- Early in the discussions the COH was informed that no agreement would be reached without the City making up their short fall contributions in a lump sum payment of \$750 million.
- HPOPS understood/understands that the COH contributions must be lowered to a more manageable level.

Meeting with the City of Houston

- Mayor Turner made it clear that the COH wanted \$1 billion in Net Pension Liability (NPL) cost savings and he wanted a lower annual cost to the City.
- Understanding the sensitivity to all members regarding benefit reform, HPOPS had its Actuary run 49 scenarios in order to accomplish Mayor's objective.

Actuarial Assumption Changes

- The discount rate or assumed rate of return is being lowered from 8% to 7%.
- The ultimate salary scale and payroll growth rate assumptions were changed to 2.65%.
- The actuarial cost method is being changed from Projected Unit Credit to Ultimate Entry Age Normal.
- The AVA was marked to Market Value, plus an expected \$750 million in a lump sum payment, discounted from January 1, 2018 at 7%.

Alternative Assumptions, Methods, and Provisions

- Prospective Cost of Living Adjustments (COLAs) are based on investment return and not inflation.
 - Calculated as 100% of the average 5 year investment return less 5%
 - Minimum of 0%
 - Maximum of 4%
- Assumed COLA is 2.00% per year.

Alternative Assumptions, Methods, and Provisions

- 3-year moratorium on all COLAs for member under age of 70.
 - For Fiscal Years 2018, 2019, and 2020.
- After moratorium, COLAs delayed until age 55 for retired members.
- Line-of-Duty Death Survivors will begin receiving COLAs regardless of age.
- Officers will no longer receive COLAs while employed in the DROP.

Alternative Assumptions, Methods, and Provisions

- Current and future DROP participants
 - Employee contributions to pension system will no longer be credited to DROP account.
 - Retirement rates for participants currently in DROP are anticipated to increase by 10%.
- Prospective employee contributions rates will be 10.5% for all participants.
- Current and future participants in DROP may not participate in DROP for more than 20 years.

Alternative Assumptions, Methods, and Provisions

- In 2004 a new benefit tier was initiated through the Meet & Confer Process.
- The DROP was ended for officers hired after 10/9/2004.
- Members hired as classified police officers after 10/9/2004 could retire once they were age 55 and had 20 years of service.
- These officers will now be eligible to retire using the Rule of 70.
 - Officer's age + Years of Service = 70

Alternative Assumptions, Methods, and Provisions

- DROP Interest crediting formula
 - 65% of the 5 year compounded investment return
 - Minimum of 2.5%
 - No maximum limit
- Actuarial assumed DROP Interest Credit is 5.10%.

Alternative Assumptions, Methods, and Provisions

- Retired DROP participants are no longer allowed to defer a portion of their monthly annuity into the DROP.

Alternative Assumptions, Methods, and Provisions

- City Contribution Corridor is being established in order to control COH contributions between an upper limit and lower limit.
- Breaching these boundaries will cause action by the COH and HPOPS in order to bring the City's contributions back into the corridor limits.

Conclusion

- From the forgoing I think you will agree that we have come the equivalent distance of light years.
- This has not been easy!
 - Houston Police Officers are not happy.
 - Normally we expect around 180 retirements per fiscal year.
 - This fiscal year we will have approx. 300 retirements.
 - We expect this trend to continue into next fiscal year.

Conclusion (Continued)

- We are currently in the final stage of our negotiations.
- The HPOPS Board of Trustees will hopefully vote to support the legislation soon.
- I'll stop now to answer your questions.