

HOUSTON POLICE OFFICER'S PENSION SYSTEM



TRUST FUND

- In 1947, the legislature of the State of Texas created, by law, a trust fund to pay retirement and disability benefits to police officers and other beneficiaries.
- The City of Houston is a statutory contributor.
- Houston Police Officers are also statutory contributors.

TRUST FUND TRUSTEES

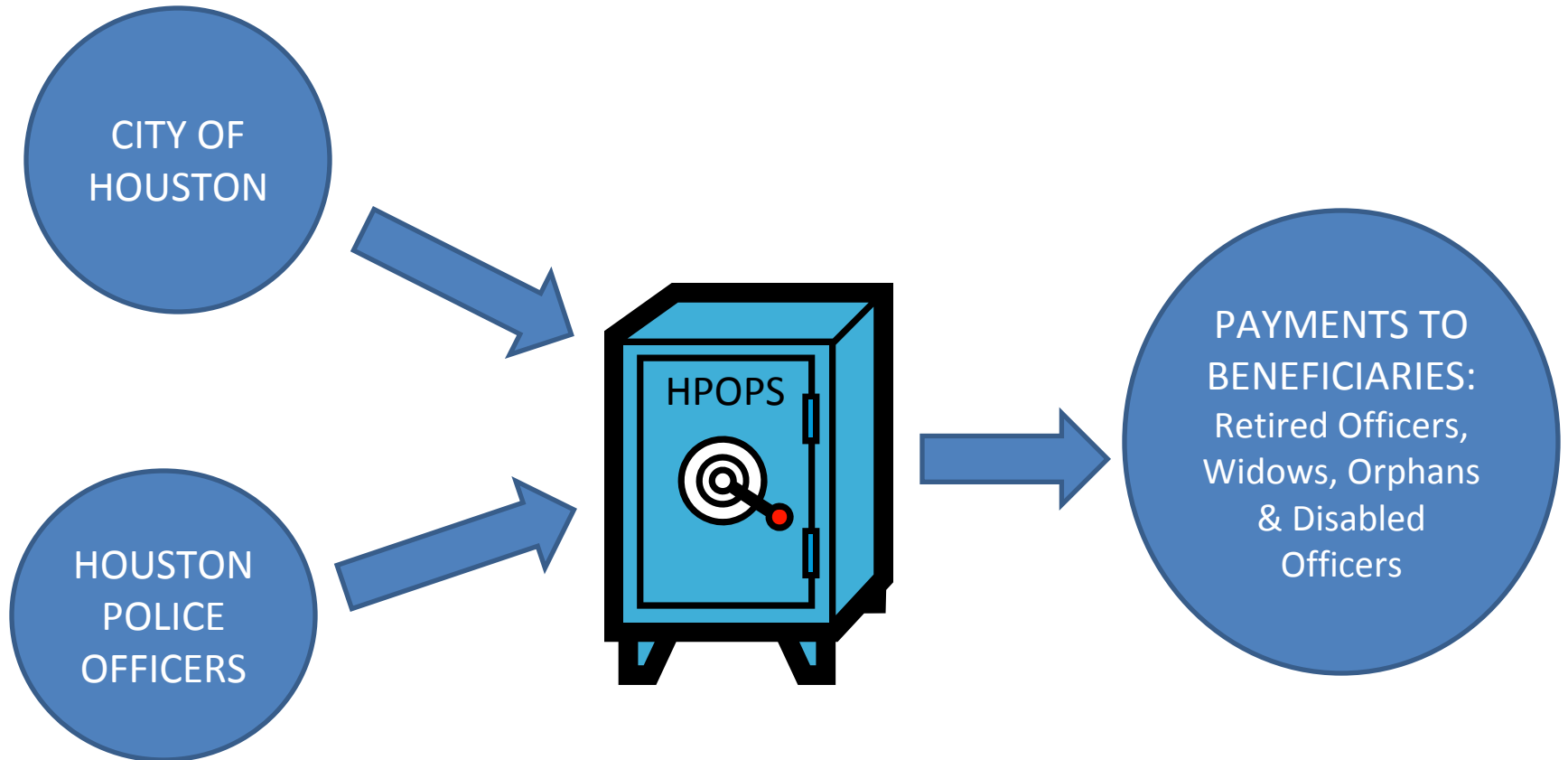
- Trustees are the governing body of the trust and, by law, are responsible for the administration, management, and operation of the trust fund.
- Trustees are fiduciaries and must bear an unwavering duty of loyalty to the beneficiaries of the trust, to the exclusion of all other parties.
- Trustees, per the Texas Constitution, set the assumptions for the actuarial analysis.
- Trustees manage the fund using a 30 year time horizon.

CITY'S ROLE

- *The court stated that a statutory pension fund is not an agency of the city nor did it give the city any control over the pension funds or make them city property.*
- *“It is true that the city pays money into this trust fund, but once it is paid into the fund, the city loses control over it and it no longer belongs to the city.”*

Bolen v. Board of Firemen

TRUST FUND



INVESTMENT RETURN ASSUMPTION

- By law and contract the actuarial assumptions are set exclusively by HPOPS.
 - Reviewed approx. every 5 years (Experience Study)
 - City agreed that 8.5% reasonable in 1998 Meet & Confer contract.
 - Mercer reports to City in 2004 that 8.5% is reasonable.
 - RHI reports to City in 2008 that 8.5% reasonable.
 - Last experience study was conducted in 2009. It also said 8.5% was reasonable.
 - Changes, if any, will be determined following the study.
 - Over the long term, HPOPS has returned over 8.5% and a reduction in the return assumption may result in higher City contributions.

INVESTMENT RETURNS

- 30 year average is 10.5%
- 20 year average is 9.1%
- 10 year average is 8.2%

- While the past 10 years have been a challenging investment period, we must keep our focus on the long term.

MEET AND CONFER

CITY OF
HOUSTON



TRUST

MEET & CONFER

- A voluntary process whereby:
 - Trustees (who have a duty of loyalty exclusively to the trust's beneficiaries)
- Negotiate with
 - The City (who represent the taxpayers)
- That culminates in terms mutually agreed to by the parties and a binding contract.
- Institutional integrity by both parties is paramount to the process.

CITY's IOUs to HPOPS

- Since 1997, the City has contributed less than the Actuarial Required Contribution (ARC).
- Large part of the unfunded liability is a direct result of the City's shortfall funding.
 - Fund would be 90% funded had the City paid the ARC every year.
- Pursuant to law and agreed to by contract, the City is required to make up amounts under-contributed.

2011 CONTRACT PROVISIONS

- 12 Year Contract - Expires in 2023
- City given option to exercise a temporary shortfall of funding secured by giving HPOPS interest in downtown properties.
- Known future contributions for City.
- Legislative standstill provision.
- Maintains tiered benefits for pre and post 2004 police officers.

HPOPS EXPECTATIONS OF CITY FOLLOWING NEW CONTRACT

- Become familiar with the contract provisions agreed to by the parties.
 - HPOPS relied on the City's agreement to each provision of the contract.
- Prudent fiscal planning in order to fulfill their funding obligations.
- Honor all the contract provisions until 2023.

PREPARING FOR FUTURE PENSION OBLIGATIONS?

- The Meet & Confer contract is very specific as to the City's future contributions to HPOPS:
 - FY 2012 - \$83M (less optional \$17M secured by interest in police HQ building and parking garage).
 - FY 2013 - \$93M (less optional \$8.5M secured by additional interest in police HQ building and parking garage).
 - FY 2014 - \$103M.
 - All subsequent fiscal years - contribution will increase \$10M until ARC is reached.
 - Additionally, by July 1, 2015 City must repay \$25.5M shortfall from FY 2012 & FY 2013.

LEGISLATIVE STANDSTILL PROVISION

- Until June 30, 2023 HPOPS and the City agreed to cooperatively & separately defend & protect the contract against any future legislative changes at the local, state or federal level.
- HPOPS & the City further agreed not to file or support, and to oppose, any legislative effort that, in any way, affects the terms and conditions of the contract or the governing statute.
- City has the right to seek legislation that may affect benefits of new hires.

FUTURE ECONOMIC OUTLOOK

- Both the Governor and the State Controller have announced that the Texas economy is healthy and growing.
- Frequent media reports that Houston is the most prosperous City in the nation.
- When the City receives increased revenues in the next fiscal year, it represents, not a chance to spend freely, but an opportunity to improve the funding of these trust funds by contributing the ARC.
 - This was the single pension issue that had total consensus by members of the Long-Range Financial Management Task Force and is a NIRS recommendation.

STATUTORY AUDITS of PLAN REPORTS

- Purpose of the law?
 - To insure the City's awareness of future contributions required of them so they can manage their fiscal affairs so as to fulfill their obligations.
- State requires the City to every 5 years have an independent actuary audit (explain) the most recent reports prepared for the retirement system.
- HPOPS will follow the law.

POTENTIAL STAFFING CRISIS

- HPD has about 5400 police officers
- Over 1800 are retirement eligible (34%)
- Should actions and/or rhetoric cause older officers to flee the department, the City could potentially find itself with a staffing crisis

Houston Chronicle

- Headline after December committee meeting:

“City Council Seeks Options for Lowering Pension Obligations”

TRUST PROSPECTIVE

- Would like to see the following headline:

“City Council Seeks Options for Fulfilling Pension Obligations”