

SUBJECT: Increasing benefits for Houston Police Officers Pension System

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 5 ayes — Telford, Woolley, Berlanga, Serna, Tillery

0 nays

4 absent — Goolsby, Rangel, Sadler, Williams

WITNESSES: For — W. M "Bill" Elkin, Houston Policy Retired Officers Association;
John E. Lawson, Houston Police Officers Pension System and 20 other
Houston police officers or retired police officers

Against — None

On — William L. Jeffrion, City of Houston

BACKGROUND : The City of Houston Police Officers' Pension System (HPOPS) has nearly 7,000 active and retired members. The system has two plans, Plan 1 and Plan 3. Both plans permit members to retire with 20 years service at 45 percent of their last year base salary, with increases of 2 percent a year up to 80 percent of base salary. At 30 years, for instance, a member would receive 65 percent of base salary. Retired members of Plan 1 are entitled to an annual cost of living adjustment (COLA) of two-thirds of the Consumer Price Index (CPI) with a minimum of 2.5 percent and a maximum of 8 percent, upon retirement. Plan 3 members may not receive the COLA until they reach age 55. Most members of the system retire with about 25 years service.

HPOPS duty-related disability benefit is equal to the service retirement benefit accrued to the date of the disability multiplied by a percentage dependent on the degree of disability.

Section 415 of the Internal Revenue Code prohibits a person's retirement benefits from exceeding 100 percent of their three highest years working salary or \$120,000 when they become eligible for social security, generally age 67. The amount allowable under Section 415 is reduced substantially

the younger persons are when they retire. Many police personnel retire around age 50. Excess benefit plans are an accepted way to pay retirees who would be affected by Section 415.

DIGEST:

CSHB 1203 would increase benefits for HPOPS members by increasing the benefit multiplier from 2.25 percent to 2.50 percent for the first 20 years of service, beginning September 1, 1997, and would make a number of other benefit changes, including:

- increasing the minimum annual COLAs from 2.5 percent to 3 percent beginning September 1, 1997;
- changing the duty-related disability benefit to the greater of 50 percent of the member's base salary or the member's accrued pension benefit;
- supplementing surviving spouse benefits with a payment of \$88.05 per month to pay the cost of the retiree group medical insurance premium beginning September 1, 1997;
- increasing the benefits for current and future police chiefs by allowing their retirement benefits to be based on the base pay for their rank, rather than the second highest classification in the department;
- recomputing pension benefits for members retiring prior to September 1, 1997, who are entitled to a survivor benefits based on 50 percent of base salary for the first 20 years of service; and
- creating an excess benefit plan to provide benefits to members whose benefits would otherwise be restricted by Section 415 of the Internal Revenue Code.

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NOTES: The substitute made a number of changes to the original version of the bill, including deleting the provision requiring that the City of Houston contribution rate be the greater of twice the employees rate (8.75 percent) or the actuarial rates, whichever was greater, and providing monthly supplemental payments for survivors.