HOUSE
RESEARCH
ORGANIZATION bill digest 5/5/97 HB 1502
Yarbrough

SUBJECT: Revising Houston Municipal Employees Pension System

COMMITTEE: Pensions and Investments — favorable, with amendment

VOTE: 5 ayes — Telford, Woolley, Berlanga, Goolsby, Williams

0 nays

4 absent — Rangel, Sadler, Serna, Tillery

WITNESSES: For — Jack C. Ogg, Barbara Jones, Barbara Chelete, David Long, Fred Holsm and Ray Kennedy, Houston Municipal Employees Pension System

Against — None

On — William L. Jeffrion, City of Houston

BACKGROUND
: The City of Houston's Municipal Employees Pension System has about 20,000 active and retired members. The pension system provides retirement benefits for all city employees, except police officers and firefighters. The defined benefit pension plan has two plans: Plan A, which generally includes employees hired prior to September 1, 1981, receives contributions from both the city and the employee, and Plan B, established January 1, 1982, receives only city contributions.

Members in both plans are entitled to retire and receive accrued benefits if they are age 50 with 25 years, age 55 with 20 years service, or age 60 with 10 years service. Pension benefits are based on the member's average monthly salary, with a maximum being 80 percent of monthly salary. Plan A members vest with 10 years service, and Plan B members vest in five years.

Section 415 of the Internal Revenue Code prohibits a person's retirement benefits from exceeding a 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 the age of the person when they retire. Excess benefit plans are an accepted way to allow retirees who would be affected by Section 415 to receive higher retirement benefits.

DIGEST: HB 1502, as amended, would make a number of changes to the Houston Municipal Employees Pension System including:

- reducing the vesting requirement for Plan A members to five years;

- requiring the board of trustees of the system to establish a Deferred Retirement Option Plan (DROP), which would permit members to receive a lump sum payment upon retirement equal to the member's monthly retirement contributions, cost-of-living increases, member contributions and interest on the DROP account;

- increasing the benefit multiplier for Plan A members with more than 20 years service from 2.5 percent to 2.75 percent, beginning September 1, 1997, and for Plan A members with less than 20 years service, the multiplier would increase from 2 percent to 2.25 percent, beginning July 1, 1998;

- increasing the benefit multiplier for Plan B members with more than 20 years service from 1.75 percent to 2 percent, beginning September 1, 1997;

- increasing the benefit multiplier for Plan B members with between 10 and 20 years of service from 1.6 percent to 1.75 percent and for those with less than 10 years service from 1.25 percent to 1.50 percent, beginning July 1, 1998;

- providing a post-retirement death benefit equal to 75 percent of the member's benefit at the time of death, beginning September 1, 1997;

- providing a service-related death benefit equal to 80 percent of the member's final salary at the time of death, beginning September 1, 1997;

- reducing the cost-of-living adjustment (COLA) from between 2 percent and a maximum of 4 percent to a fixed 3.5 percent; and

- establishing an excess benefit plan for member's whose retirement would be restricted by Section 415 of the Internal Revenue Code.

Unless otherwise provided, the bill would take effect September 1, 1997.

NOTES:

The companion bill, SB 900 by Gallegos, passed the Senate on the Local and Uncontested calendar on April 28 and was reported favorably by the House Pensions and Investments Committee on May 1, making it eligible to be considered in lieu of HB 1502.