HOUSE
RESEARCH
ORGANIZATION bill analysis   4/4/2007

HB 1390
Turner
(CSHB 1390 by Bailey)

SUBJECT: Houston firefighters' relief and retirement fund revisions

COMMITTEE: Urban Affairs — committee substitute recommended

VOTE: 6 ayes — Bailey, Murphy, Menendez, Latham, Mallory Caraway,
                Martinez Fischer

                0 nays

                1 absent — Cohen

WITNESSES: For — Kevin Brolan, Houston Firefighters Relief and Retirement Fund;
                (Registered, but did not testify: Jonathan Needle, Houston Firefighters
                Relief and Retirement Fund; Ann Travis, City of Houston; Johnny
                Villarreal, Houston Firefighters Local 341)

                Against — None

BACKGROUND: In 1997, the 75th Legislature enacted V.T.C.S., art. 6243e.2(1) to establish
                the Houston firefighters' relief and retirement fund, repealing the original
                statute enacted in 1975. In 1991, 2001, and 2003, the Legislature amended
                the statute to increase benefits and extend eligibility to participate in the
                deferred retirement option plan (DROP), and made other revisions to
                eligibility, benefits and board structure.

DIGEST: CSHB 1390 would establish a post-retirement option plan (PROP) for
                retired employees and surviving spouses, amend statutes governing board
                structure and authority, and make other changes to statutes governing the
                Houston firefighters' relief and retirement fund.

                Post-retirement option plan (PROP). The bill would establish a PROP
                for new retirees who participated in a DROP during active service, current
                retirees whether or not they participated in a DROP, and the surviving
                spouse of a member who was eligible to participate in a PROP.

                PROP participants wo uld be able to elect to have all or part of their
                monthly pension payments credited to their PROP account and could elect
                to stop having the amounts being credited at any time. Participants could
                elect to receive partial payments from the PROP account in an amount

determined by the participant. The participant could choose to be paid the entire account balance in one lump sum.

The board would have the authority to adopt rules governing the PROP plan, including limiting the number of distribution transactions, establishing a minimum dollar amount for crediting of benefit amounts, and establishing a date after which the crediting of additional benefits of a member or surviving spouse to a PROP account was not allowed.

Board structure and powers. The bill would reduce the residency requirement for board service from three years to one for two board members selected from the municipality who were not municipal officers or employees. A quorum would be made up of six, rather than a majority, of board members.

The bill would authorize the board to form standing or ad hoc committees to further administration of the fund. A "committee of the whole" could be established only by order of the board, fund rule, or policy and would have the same power as the board within the authority of that committee. A pension benefit committee established by the board could deliberate and act in place of the board regarding decisions about individual benefits, and final actions would be binding, subject only to any right of appeal to the board that was in place at the time an application was filed.

Fund assets could be used to purchase insurance or participate in a self-insurance pool to provide for legal defense of the fund, cover any insurable risk to the fund, and provide for the legal defense of or indemnify and hold harmless board members and fund employees.

Definition of retirement age. The bill would define "normal retirement age" as the age at which the member attained 20 years of service or 10 years of service if the member was at least 50 years of age.

Prorated increase for DROP participants. The plan's 2 percent annual increase in pension benefits for DROP participants would be prorated for the member's last year. A member who terminated active service would receive a prorated increase of 0.166 percent of the benefit for each month of participation in that year. This provision would take effect October 1, 2007.

The 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, 2007.

SUPPORTERS
SAY:

CSHB 1390 would authorize a new retirement savings benefit for retired Houston firefighters, clarify board requirements and responsibilities, and continue efforts begun in 1997 to clean up a statute that is difficult to understand because of piecemeal amendments to the original law enacted in 1975.

The bill would authorize the fund's board of directors to establish a PROP as a tax-free savings vehicle for retirees and spouses of deceased firefighters, much as a DROP plan allows active employees to set aside a portion of their pensions in tax-free savings. Many firefighters did not have the option of participating in a DROP before retirement and would like to take advantage of a similar savings vehicle for retirees. Also, prorating final payments to DROP plans would conform with new federal requirements under the Pension Protection Act of 2006.

The changes in board operation made in the bill generally would reflect current board practices. Reducing the residency requirement for public members would increase the pool of residents available to serve on the board.

Although it has not been determined to be actuarially sound, this pension fund is in better shape than other municipal plans in Houston. The provisions in the bill would not have a local cost and would not affect the actuarial soundness of the fund.

OPPONENTS
SAY:

No apparent opposition.

NOTES:

The committee substitute removed a provision that would have allowed the board to use fund assets to pay the chair of the board annual compensation of up to one-half of the annual base salary of a firefighter with 17 years of firefighter service if the chair was assigned to serve full-time at the fund.

The companion bill, SB 619 by Jackson, was considered in a public hearing by the Senate Intergovernmental Relations Committee on March 14 and was left pending.