

The Good News About Pensions

by Rhonda Smith, Executive Director



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HMEPS is in a strong position today because of early, proactive steps taken by its leadership to work with the City to secure the System's long-term viability. While many other pension systems today face serious challenges to maintaining their long-term viability, HMEPS has been singled out as an "inspiration" by the Ft. Worth Star Telegram

for resolving such challenges, and was identified by the Center for State & Local Government Excellence as one of five pension systems in the U.S. that has made reforms that make them "more fiscally sustainable while continuing to provide retirement security to their members."

HMEPS has already taken significant steps to secure the pension plan for the long term. Nearly a decade ago, HMEPS faced a long-term funding liability similar to those confronting some public pension systems today. By working together with the City of Houston, HMEPS took concrete steps to shore up its liability, resulting in a stronger system that is the bedrock upon which City employees have built a secure and hard-earned retirement. In fact, HMEPS began working proactively to improve the system's funded status in 2004, long before the current outcry over public pensions.

Working with the City through the Meet and Confer process, HMEPS made the tough but necessary choices, including cutting future benefits by over \$850 million, implementing increases in employee contributions and retirement age, and providing the City budgetary flexibility to weather the economic downturn. Thanks to proactive leadership, HMEPS now has over \$2 billion in assets, has substantially increased its funding and is strongly positioned, both for the short and long term.

- **City of Houston municipal employees receive a modest retirement pension.** A common misconception is that all pensions are too lucrative or "gold-plated" and being paid to folks who exit the workplace in their 50s. But that is not a fair or accurate representation of the hard-working employees who serve the City. At HMEPS, those employees who are hired after 2008 are not eligible for full retirement until age 62. The average HMEPS retiree is 67 and receives an annual benefit of less than \$23,000 a year – hardly a gold-plated pension in today's world.

- **City municipal employees share in the financing of their pension.** A significant number of current HMEPS members contribute 5 percent of their wages to help fund their pension. These employee contributions, along with investment returns, comprise the majority of public pension fund revenues.
- **Retirement systems remain a small portion of the city's budget.** The city pensions are not paid out of general operating revenues, but instead, from trusts to which the employees and the City contributed while they were working. Legislators and plan sponsors often focus on pension contributions as a percent of payroll. Pension contributions as a percent of budgets, however, provide a broader framework for projecting how public pensions will affect local activities. An analysis of the City's 2011 annual financial report indicates that contributions to HMEPS represent 5.4 percent of the City's total budget.
- **Long-term investment returns of public funds continue to exceed expectations.** In ordinary times, over 2/3 of the pension funding comes from returns on the system's investments, which are professionally managed, and which returned over 22% last fiscal year. HMEPS has over \$2 billion in assets and is a long-term investor with a well diversified investment portfolio and a time horizon that lasts over decades. HMEPS, while not immune to the effects of the recession, has weathered the storm better than most public pension systems in part because of sound management of its assets. Over the ten-year period ending June 30, 2011, HMEPS' investment performance is in the top one percent of public funds.

We all know that governments are facing challenges, and retirement plans like HMEPS are ready to work with them. Instead of blaming the City's fiscal woes on pension systems, the City's overall debt service, which has been passed on from administration to administration until it has reached epic proportions, should be the more immediate concern. Public employees did not create the problem, but they have worked to be part of a reasonable and fair solution.