

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 29, 2003

TO: Honorable Allan Ritter, Chair, House Committee on Pensions & Investments

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB297 by Janek (Relating to a firefighters' relief and retirement fund in certain municipalities.), **As Engrossed**

No fiscal implication to the State is anticipated.

Local Government Impact

The bill would allow the board of the Houston Firefighters' Relief and Retirement Fund to form a pension benefits committee that would have authority to increase benefits beyond the levels provided in statute. The committee would not be required to meet any actuarial standards of practice in the determination of the costs of benefit improvements. If such a committee chose to increase benefits, there could be a significant fiscal impact to the City of Houston.

The bill contains a provision that would absolve the trustees, executive director, and employees of the fund from any liability for any action taken or omission made by them in good faith in the performance of their duties for the fund.

At the last actuarial valuation, July 1, 2002, the actuarial accrued liability was \$1,970 million, the actuarial value of assets was \$1,922 million, and the market value of assets was \$1,655 million. The full value of unfunded liabilities was \$315 million. City contributions were to increase from the 15.4 percent of payroll up to 28.8 percent of payroll in order to pay the normal cost and amortize the unfunded liability, which translates into a contribution of \$68 million in 2007, an increase of \$39 million over the 2002 level of \$29 million.

As of December 31, 2002, the market value of assets was \$1,540 million. The actuarial accrued liability is projected to grow by roughly one-half year at 8.5 percent interest to \$2,040 million. The full value of unfunded liabilities is estimated to increase by \$200 million. A contribution rate to pay for the \$200 million increase in unfunded liabilities over 30 years is estimated to be 5 percent. Based on projected payroll, a city contribution sufficient to pay off all current unfunded liabilities would raise to about 34 percent, which would translate to \$81 million in 2007, an increase of \$52 million over the 2002 contribution. This amount would increase if the fund's rate of return over time is less than 8.5 percent, or would decrease if the fund's rate of return over time is more than 8.5 percent.

The bill would make minor benefit changes that are not expected to have a significant fiscal impact; however, provisions allowing the board to make additional changes could have a significant impact. The following is an example of what the fiscal impact would be to the city if the board chose to uniformly increase benefits by 10 percent. The normal cost would increase by 10 percent and the actuarial accrued liability would increase up to roughly 10 percent. A contribution rate to pay for a 10 percent increase in benefits over 30 years is estimated to be an additional 8 percent of payroll annually, a total of 42 percent. In 2002 alone, the increase in payroll would be around \$17 million, or \$69 million over the 2002 amount. The additional annual \$17 million impact to the City of Houston would be greater if the fund did not earn 8.5 percent, or if benefits were increased by a greater amount.

Source Agencies: 325 Fire Fighters' Pension Commissioner

LBB Staff: JK, RR, DLBa, WM