

BILL ANALYSIS

Senate Research Center

S.B. 900
By: Gallegos
Intergovernmental Relations
4-17-97
Committee Report (Amended)

DIGEST

Currently, the City of Houston Municipal Employees Pension System is governed by Article 6243g, V.T.C.S. This article applies to all Texas cities having a population of 1.5 million or more. At present, it applies only to the City of Houston. The pension system is governed by a board of directors of 11 members. The board and system are charged with administering a two-track pension system, referred to in the statute as Group A and Group B. This bill would extend certain retirements benefits to group members; provide for an increase in monthly pensions as well as cost-of-living adjustments; conform the current statute with present disability legislation; provide for lump sum distribution of a portion of retirement benefits to a surviving spouse and for designated death benefits to a surviving minor or disabled child; update certain language; create the Deferred Retirement Option Plan to allow an employee who elects not to retire to defer the employee's benefits until retirement, with the employee's ongoing service adding contributions to the employee's deferred benefit account; and provide for the creation of an Excess Benefit Plan for the protection of Pension System members who receive benefits exceeding certain permitted amounts.

PURPOSE

As proposed, S.B. 900 extends pension benefits to municipal employees of cities which have a population of 1.5 million or more.

RULEMAKING AUTHORITY

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Sections 2(g) and (l), Article 6243g, V.T.C.S., to redefine "employee" and "pension fund" or "fund" have the same meanings.

SECTION 2. Amends Sections 11(a) and (b), Article 6243g, V.T.C.S., to require any member, rather than any Group A member, of the retirement and disability plans for employees of cities of 1,500,000 or more (pension system) who has attained fifty (50) years of age and completed twenty-five (25) or more years of credited serve, who has attained fifty-five (55) years of age and completed twenty (20) or more years of credited service, who has attained sixty (60) years of age and completed ten (10) or more years of credited service, or who has attained sixty-two (62) years of age and completed five (5) or more years of credited service to be eligible for a pension. Requires the amount of the monthly pension for each Group A member to be equal to the member's average monthly salary multiplied by two percent (2%) for each of the member's first twenty (20) years of credited service and two and three-quarters (2 3/4 %), rather than two and one-half percent, for each additional year of credited service of such member. Makes conforming changes.

SECTION 3. Amends Section 12(d), Article 6243g, V.T.C.S., to require the pension board of the pension system, if the earnings together with the disability pension being received by any member exceed the monthly salary of such member at the time of his separation from service, as adjusted annually by cost-of-living adjustments made in the manner provided by Section 11(g) or Section 31 of this Act, to have authority to reduce the amount of pension. Requires the Pension System, if a disability does not cease before a member becomes sixty-five (65) years of age while continuing to receive a disability pension, to reclassify the pension as a service pension, without regard to whether

the person is otherwise eligible to receive a service pension.

SECTION 4. Amends Section 13, Article 6243g, V.T.C.S., as follows:

Sec. 13. New heading: MONTHLY ALLOWANCE TO SURVIVING SPOUSES. Requires the board to order paid certain monthly allowances, if any Group A or Group B member of the Pension System, as herein defined, shall die from any cause whatsoever after having completed five (5), rather than ten (10), years or service with the city, or if, while in the service of the city, any such member shall die from any cause growing out of or in consequence of the performance of this duty, or shall die after he has been retired on pension because of length of service or disability and shall leave a surviving spouse, rather than widow or widower, or a qualifying child or children, rather than a child under the age of eighteen (18) years, or both a spouse and a qualifying child or children, rather than or both such widow or widower and a child or children. Sets forth the amounts to be paid monthly. Makes conforming changes.

SECTION 5. Amends Section 24, Article 6243g, V.T.C.S., to require the amount of the normal pension payable to a retired Group B member to equal the member's average monthly salary multiplied by one and one-quarter percent (1 1/4%) for each of the member's first ten (10) years of credit service, one and three-fifths percent (1 3/5%) for each of the next ten (10) years of credited service, and two percent (2%), rather than one and three quarters percent (1 3/4%) for each additional year.

SECTION 6. Amends Section 28(a), Article 6243g, V.T.C.S., to require the surviving spouse and/or eligible child or children of a Group B member to be eligible for a death benefit, if the member died before September 1, 1997, from certain causes.

SECTION 7. Amends Section 29(a), Article 6243g, V.T.C.S., to authorize a Group B member who terminated employment with the city or the pension system before September 1, 1997, to elect at the time of retirement or termination of employment to have his normal or early pension paid under one of the options provided by Subsection (b) of this section.

SECTION 8. Amends Chapter 358, Article 6243g, V.T.C.S., by adding Sections 31B, 31C, and 31D, as follows:

Sec. 31B. DEFERRED RETIREMENT OPTION PLAN. Defines "DROP," "DROP benefit," and "DROP member." Requires the board to design and implement a deferred retirement option plan for members of the pension system. Authorizes a member who is eligible to receive a normal retirement pension under this Act and who remains in active service with the city to file with the Pension System an election to participate in the DROP and receive a DROP benefit. Provides that except as otherwise provided by this section, an election to participate in the DROP is irrevocable. Provides that the effective date of a member's participation in the DROP is the first day of the first month following the month in which the board approves the member's DROP election. Sets forth provisions regarding the credits to a member's DROP account. Sets forth provisions regarding a DROP member who terminates active service with the city. Authorizes the beneficiaries of a deceased DROP member to collectively revoke the deceased member's election to participate in the DROP. Provides that a DROP member is ineligible for disability benefits provided by this Act, except that a DROP member who incurs an on-duty, service-related disability may revoke the member's election. Sets forth provisions regarding a DROP election revocation. Sets forth provisions applicable if an unanticipated actuarial cost incurs in administering the DROP.

Sec. 31C. MAXIMUM BENEFITS FROM THE FUND. Provides that the fund created by this Act is for the exclusive benefit of the members, retirees, and their survivors. Prohibits any part of the corpus or income of the fund from being used for, or diverted to, any purpose other than the benefit of members, retirees, and their survivors as provided by this Act. Sets forth provisions regarding benefits that exceed certain limits. Sets forth provisions regarding eligible rollover distribution. Prohibits the total salary taken into account for any purpose for any member or retiree of the Pension System from exceeding \$200,000 for any year for an

eligible participant, or \$150,000 a year for an ineligible participant. Requires these dollar limits to be adjusted from time to time in accordance with certain guidelines. Provides that for the purposes of this subsection, an eligible participant is a person who first became a member before 1996, and an ineligible participant is a member who is not an eligible participant. Sets forth provisions regarding accrued benefits and amounts representing forfeited nonvested benefits of terminated members. Requires distribution of benefits to begin not later than April 1 of the year following the calendar year during which the member becomes 70 ½ years of age or terminates employment with the employer, if later. Sets forth provisions applicable if the amount of any benefit is to be determined on the basis of actuarial assumptions that are not otherwise specifically set forth for the purpose in this Act. Authorizes the board, to the extent permitted by law, to adjust the benefits of retirees and survivors by increasing any benefit that was reduced because of Section 415 of the Internal Revenue Code of 1986. Sets forth provisions applicable if Section 415 is amended to permit the payment of amounts previously precluded under that section. Provides that benefits paid under this subsection are not considered as extra compensation earned after retirement but as the delayed payment of benefits earned before retirement.

Sec. 31D. EXCESS BENEFIT PLAN. Provides that a separate, nonqualified, unfunded excess benefit plan is created outside the fund. Defines "excess benefit plan," "qualified plan," "maximum benefit," "excess benefit participant," and "unrestricted benefit." Sets forth provisions regarding an excess benefit participant. Sets forth provisions applicable if a surviving spouse or dependent child is entitled to preretirement or postretirement death benefits under a qualified plan after the death of an excess benefit participant. Requires any benefit to which a person is entitled under this section to be paid at the same time and in the same manner as the benefit would have been paid from the fund if payment of the benefit from the fund had not been precluded by Section 31C of this Act. Sets forth additional provisions regarding an excess benefit participant or any beneficiary. Sets forth the responsibilities, rights, and duties, of the board and executive director. Sets forth provisions regarding consultants, independent auditors, attorneys and actuaries selected to perform services for the fund. Sets forth provisions regarding contributions. Provides that benefits under this section are exempt from execution, attachment, garnishment, assignment, injunction, and other writ in the same manner as retirement annuities under Section 20 of this Act and may not be paid to any person other than the person who would have received the benefits from the fund except for Section 31C of this Act.

SECTION 9. Amends Sections 11(b) and (g), Article 6243g, V.T.C.S., effective July 1, 1998, to require the amount of the monthly pension for each Group A member to equal the member's average monthly salary multiplied by two and one-quarter percent (2 1/4%) for each of the member's first 20 years of credited service and two and three-quarters percent (2 3/4%) for each additional year of service of the member. Sets forth the amount of the monthly pension for each such Group A member, from September 1, 1997, through June 30, 1998. Requires pensions for all Group A members or their survivors to be adjusted annually upward by three and one-half percent (3 ½%), not compounded. Deletes text regarding the annual adjustment of pensions for all Group A members, effective January 1, 1992.

SECTION 10. Amends Section 13, Article 6243g, V.T.C.S., effective July 1, 1998, as follows:

Sec. 13. New heading: MONTHLY ALLOWANCE TO SURVIVING SPOUSES AND CHILDREN. Sets forth the payment the board shall order paid to the surviving spouse of a member who dies from a cause growing out of or in consequences of the performance of duty with the city. Makes conforming changes.

SECTION 11. Amends Section 24, Article 6243g, V.T.C.S., effective July 1, 1998, to require the amount of the normal pension payable to a retired Group B member to equal the member's average monthly salary multiplied by one and one-half percent (1 ½%) rather than one and one quarter percent (1 1/4%), for each of the member's first ten (10) years of credit service, one and three-quarters percent (1 3/4%), rather than one and three-fifths percent (1 3/5%), for each of the next ten (10) years of credited service, and two percent, rather than one and three quarters percent

(1 3/4%) for each additional year.

SECTION 12. Amends Section 31, Article 6243g, V.T.C.S., to require pensions for all Group B members or their survivors to be adjusted annually upward by three and one-half percent (3 ½%), not compounded, rather than requiring all pensions to be adjusted annually upward or downward in accordance with certain guidelines.

SECTION 13. Repealer: Section 23, Article 6243g, V.T.C.S. (Municipal Pension System in Cities of 1,500,000 or more).

SECTION 14. Makes application of this Act prospective.
Effective date: September 1, 1997, except as otherwise provided.

SECTION 15. Emergency clause.

SUMMARY OF COMMITTEE CHANGES

Amendment 1

Page 3, line 8, strike "compounded."

Amendment 2

Page 3, line 9, insert "or Section 31" between "Section 11(g)" and "of this Act."

Amendment 3

Page 16, line 20, through page 17, line 22, to strike SECTION 9 and substitute a new SECTION 9.

Amendment 4

Page 20, line 20, through page 21, line 7, to strike SECTION 12 and substitute a new SECTION 12.