Turner's Pension Plan Bad For Houston Taxpayers

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Houston Mayor Sylvester Turner announced that his office has reached a preliminary deal with the police, fire, and city workers in hopes of avoiding the ever-looming pension crisis.

According to Turner, the series of proposals will immediately reduce the unfunded liabilities by $2.5 billion. With the rest being paid off through a 30-year closed amortization schedule. Simply put, this is a 30-year payment plan to reduce the liabilities from an estimated $7.7 billion (as of June 30th, 2016) to zero.

Turner based his proposal on a 7% rate of return on investments instead of the 8-8.5% that the city and pension boards have used in the past. However, many with intimate knowledge believe that 7% is still too optimistic given the current economy.

All three pension systems have identified cuts – or benefit changes – to reduce their portion of the burden: police $1.1 billion, fire $800 million, municipal $700 million, totaling a 33% reduction in overall unfunded liabilities. However, at this point that is nothing taxpayers should count on especially since Turner wouldn't go into specifics about what the changes are, only saying that they would be in the areas of cost of living adjustments, future benefit accrual rates, or the deferred retirement option program.

The city will also be required to make full annual required payments to the pension systems. The constant underpayments in the past is one of many the reasons the debt has skyrocketed to its current level.

While this all sounds promising, Houstonians should be weary that the proposal is calling for $1 billion in new pension obligation bonds – a measure which taxpayers will be on the hook for long after his administration leaves office.

During the municipal election cycle, Turner's opponent Bill King repeatedly laid out his plan for addressing pensions, which included issuing bonds. However, Turner always slammed that approach saying that taking on more debt is not the answer.

Less than a year later we are seeing Turner embrace the concept himself.

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The bonds will allow city officials to continue to "pay down" pension debt, while conveniently disregarding the added $1 billion in bond debt and its 3-5% interest. Ultimately, the city would just be trading one debt for another for future taxpayers to pay off, all so that the city can avoid another credit downgrade.

Where the plan gets dicey is with Turner's "cost management component" which he says will act as a thermostat. If market conditions don't prove to be as favorable as he anticipates, this new plan would force the city and pension boards back to the negotiating table, and this is where the firefighter's draw the line. Although they aren't on board with this aspect of the plan, Turner says it is non-negotiable and he will be moving forward with or without them.

Turner is stubbornly maintaining his stance on keeping defined benefit plans saying that it wouldn't be cost effective in the end. It's hard to believe that the City of Houston is privy to information that the private sector isn't, seeing as most businesses have switched pension systems by now, even Harris County has long switched to a defined contribution plan.

Anything less than that structural reform is basically a Band-Aid on a broken limb. Maintaining defined benefit plans continues to put all of the risk and responsibility on taxpayers.

And of course, a part of the plan is to fully repeal the voter-imposed property tax cap – undoubtedly to increase taxes to pay for the risky plans and pension obligation bonds.

Turner referenced, numerous times, the mistakes made over the past fifteen years, but it's important to note that much of the current pension debt accumulated because of increased worker benefits approved by the legislature – through a bill carried by Turner during his time as a state representative.

Turner's plan paints an optimistic picture, but the future remains bleak. While the pension boards give little, taxpayers are expected to accept bond issuances, get rid of their tax cap, and continue to assume the primary responsibility of all municipal employee pensions.

While Turner's plan is exceedingly hazardous for taxpayers, at the present it is a plan rather than an actual change in policy. Changes will ultimately have to be approved by city council, the pension boards, and state lawmakers.