



# HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

## Benefits Handbook *(as of July 2017)*

1201 Louisiana, Ste. 900  
Houston, TX 77002

713.595.0100 | [www.hmeps.org](http://www.hmeps.org)



## DISCLAIMER

As much as possible, the Houston Municipal Employees Pension System (HMEPS) has written this booklet in nontechnical terms, avoiding formal language of the pension laws and rules. This booklet attempts to explain the major components of HMEPS benefits, and is not intended as a legal interpretation of the applicable laws. It is an overview and should not be construed as containing all the provisions and limitations that might apply in every situation. It does not replace the provisions of state statute, Article 6243h, Tex. Rev. Civ. Stats. Ann. (Statute), as may be amended or modified (Meet and Confer Agreement), which governs the operation of HMEPS. If questions of interpretation arise as a result of the attempt to make the pension provisions easier to understand, the Statute and the rules promulgated by the HMEPS Board of Trustees are the final authority.

The information provided in this booklet is based on the HMEPS laws and rules in existence on July 1, 2017 and is subject to change or modification based on changes in the law. This handbook, current publications, forms, updates and other pertinent information can also be accessed online at [www.hmeps.org](http://www.hmeps.org).

Representatives and employees from the City of Houston are not agents of HMEPS. HMEPS is not responsible for erroneous information provided by City representatives or employees.

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## INTRODUCTION

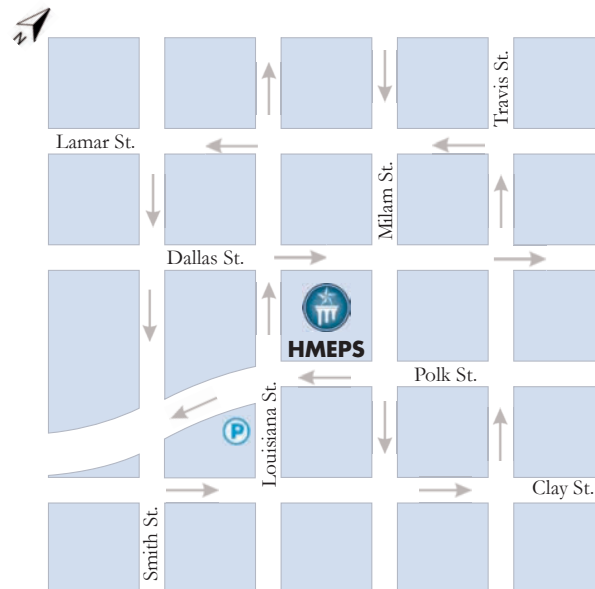
The Houston Municipal Employees Pension System (“HMEPS”) is a defined benefit pension plan that was created and is governed by the Statute. HMEPS is administered by the Board of Trustees (“Board”) of HMEPS.

This Guide is a basic handbook about HMEPS and is intended to be a general reference for HMEPS participants. It is supplemented by newsletters and other correspondence provided by HMEPS from time to time.

Should you have specific questions or need additional information, you should write or call HMEPS. When you write to HMEPS, include your full name, printed and signed, your Social Security number, and your return address and daytime phone number. Address your correspondence to:

Houston Municipal Employees Pension System  
1201 Louisiana, Suite 900  
Houston, TX 77002

You can call HMEPS at (713) 595-0100 (or out of area at (800) 858-1450). You may also visit the HMEPS office during regular business hours, Monday through Friday, 8:00 a.m. to 5:00 p.m. If you wish to visit the HMEPS office to discuss a matter in person, you should make an appointment in advance so that your meeting can proceed in a timely and efficient manner. A map of HMEPS’s location appears below.



## MEMBERSHIP



You are a **member**<sup>1</sup> of HMEPS as a condition of employment if you are an **employee**, which is (i) an eligible person who holds a municipal position with the City of Houston (“City”), whose name appears on a regular full-time payroll of the City and who is paid a regular **salary** (base pay, longevity and shift differential, if any) for his or her services; (ii) any elected City official who becomes a member of HMEPS as permitted by the Statute, provided that such an official shall be considered an employee only during his or her period of service as an elected City official; or (iii) an eligible person who is employed by the Board, on a full-time basis, to assist in administering HMEPS, and whose name appears on a regular full-time payroll of HMEPS and who is paid a regular salary for his or her services. An employee includes a person who is employed by any entity controlled directly or indirectly by the City and who is not otherwise ineligible as determined by the Board’s External Affairs Committee.

You are not eligible for membership in HMEPS if you are:

- (i) a person on a quasi-legislative, quasi-judicial or advisory board or commission;
- (ii) a part-time employee, other than an elected City official whose service is made part-time by law or charter;
- (iii) a seasonal employee;
- (iv) a bona fide independent contractor, including a consultant;
- (v) an employee in a position covered by any other pension plan of the City to which the City contributes, or an employee who is excluded from membership in another pension plan by action of the board of trustees of that pension plan, except to the extent that you are covered in another pension plan only as a beneficiary; or
- (vi) an employee who was in an HMEPS-covered position at the time such person elected (including by default) to participate in the Phase Down Program or the Deferred Cash-Out Option/Rollover Election, as authorized by “The 2004 Amendments to 2001 Meet & Confer Agreement” between the Houston Police Officers’ Union and the City of Houston, Texas, or a successor Meet & Confer Agreement between the Houston Police Officers’ Union and the City of Houston, Texas with similar provisions as determined by HMEPS.

### **Groups of Membership**

There are currently three (3) groups of membership in HMEPS: Group A, Group B and Group D.<sup>2</sup>

#### **Group A**

Group A is a contributory group, in which members make periodic contributions to HMEPS.

<sup>1</sup> Underlined terms are defined in the Glossary beginning on page 52.

<sup>2</sup> HMEPS previously had a Group C for certain employees. Beginning January 1, 2005, Group C participation ceased. Contact HMEPS if you are a former Group C member with questions about the provisions applicable to Group C members prior to January 1, 2005.

You are a member of Group A if you:

- (i) became a member or resumed membership in HMEPS on or after September 1, 1999 and before January 1, 2008;
- (ii) were a member of HMEPS prior to September 1, 1981 and did not elect by December 1, 1981 to receive a refund of contributions and become a Group B member;
- (iii) were a Group A member who terminated employment before May 3, 1991 with the minimum service requirements for retirement, elected to leave your contributions in HMEPS, were re-hired as an employee before September 1, 1999, and elected to continue as a Group A member;
- (iv) became a member, or resumed membership, as an employee or elected official after January 1, 1996 and before September 1, 1999, and elected to become a Group A member;
- (v) were a Group B member and elected to become a Group A member;
- (vi) were a Group C member and became a Group A member on January 1, 2005 pursuant to the First Amendment to Meet and Confer Agreement; or
- (vii) resumed membership in HMEPS on or after January 1, 2008 and you were a Group A or Group C member at the time of your immediately preceding separation from service.

### **Group B**

Group B is a contributory group, in which members make contributions to HMEPS.<sup>3</sup>

You are a member of Group B if you:

- (i) became a member or resumed membership in HMEPS on or after September 1, 1981 and before September 1, 1999, and did not elect to become a Group A member;
- (ii) were a Group A member and elected to receive a refund of contributions and become a Group B member; or
- (iii) resumed membership in HMEPS on or after January 1, 2008 and you were a Group B member at the time of your immediately preceding separation from service.

### **Group D**

Group D is a contributory group, in which members make contributions to HMEPS and also participate in the cash balance hybrid component as described beginning on page 23.<sup>4</sup> Prior to July 1, 2017, Group D was non-contributory.

You are a member of Group D if you:

- (i) became a member in HMEPS on or after January 1, 2008 and you were never previously a HMEPS member; or
- (ii) resumed membership in HMEPS on or after January 1, 2008, and you were a Group D member at the time of your immediately preceding separation from service.

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<sup>3</sup> Prior to July 1, 2017, Group B was non-contributory.

<sup>4</sup> The cash balance hybrid component first became effective as of the first full pay period in January 2018.



## CONTRIBUTIONS



### Member Contributions

If you are a member of Group A, Group B or Group D, you are required to make periodic contributions to HMEPS while an employee in an amount expressed as a percentage of salary, and such other contributions as may be required following an **authorized absence**.

The member contribution rate beginning with the first full pay period on or after July 1, 2017 is:

- For a Group A member: 7% of salary, increasing to a total of 8% of salary beginning with the first full pay period on or after July 1, 2018;
- For a Group B member: 2% of salary, increasing to a total of 4% of salary beginning with the first full pay period on or after July 1, 2018;
- For a Group D member: 2% of salary.<sup>5</sup>

The City or HMEPS, as applicable, “picks up” your contributions and pays them from the same source of funds that is used in paying your salary. The City or HMEPS picks up your contributions by a deduction from your salary equal to the amount of the contribution. You do not have the option of receiving the contributed amounts directly instead of having them paid by the City or HMEPS.

### Service Purchase Contributions

If you elect to make service purchase contributions to purchase **credited service** (as described beginning on page 8), you must elect to make those contributions by one of the following methods: (i) by payment of a single lump sum contribution (the “lump sum method”); (ii) through payroll deductions over a term of five years or less (the “payroll deduction method”); or (iii) by a transfer or rollover of eligible funds, with the remaining amount owed, if any, paid by either the lump sum method or the payroll deduction method.

If you choose the lump sum method, you must pay your entire contribution amount, including any required interest, to HMEPS on or before the 60th calendar day following the day you execute your election form (service purchase obligation) to make the service purchase contributions. If you choose to make these contributions through the payroll deduction method, the payments must be completed on or before the earliest of the following dates: the date of your separation from service with the City or HMEPS; the date of your retirement from the City or HMEPS; the date of your death; or the fifth anniversary of the date of your service purchase obligation.

If you have entered into a service purchase obligation and you, or, in the event of your death, your spouse or your estate, fails to complete such contributions within the required time period, then: 1) you or your spouse (or estate in the event there is no spouse) are eligible upon written request to receive a refund of the service purchase contributions you paid to HMEPS pursuant to the terms of such obligation, without interest, 2) the service covered by the service purchase obligation will be canceled, and 3) you will be deemed to never have elected to make the service purchase contributions.

<sup>5</sup> Beginning with the first full pay period on or after the later of January 1, 2018 or first date of employment, each Group D member contributes an additional 1% of salary, which is credited to a notional cash balance account in the Group D member’s name. See page 23 for more information.

## **Employer Contributions**

As contributions to fund benefits under the pension plan, the City makes periodic payments to HMEPS in an amount equal to a “city contribution rate” multiplied by the combined salaries paid to all members, plus a “city contribution amount.” The city contribution rate is based on the results of annual risk sharing valuation studies.

## **Refund of Contributions**

If your employment with the City or HMEPS is terminated for reasons other than a service disability before you have completed five years of credited service with the City or HMEPS, you are not eligible to receive a pension, and HMEPS will refund you, upon your written request, the amount paid by you to HMEPS through salary reduction, payroll deduction, or other authorized method of payment, without interest (“refund amount”),<sup>6</sup> in full satisfaction of your rights under HMEPS. In order to be eligible to receive a refund, you cannot be employed in any full time capacity by the City or HMEPS.

If you are a member with at least five years of credited service and die (other than a service-related death for which there is no minimum credited service requirement) without leaving any **eligible survivor** to receive a survivor’s benefit, then your spouse, or if there is no spouse, your estate, will receive the refund amount upon written request, in full satisfaction of your rights under HMEPS.

If you are a **retiree** and you die without leaving any eligible survivor to receive a survivor’s benefit, then your spouse, or if there is no spouse, your estate, is eligible to receive a lump-sum payment, without interest, of the excess, if any, of your accumulated member contributions to the date of your retirement (other than contributions attributable to the period of your DROP participation, if any) over the aggregate monthly retirement benefit payments received by you as a retiree. Such payment will be made within a reasonable time after the Board has determined that the individual or estate claiming the payment is eligible to receive the payment.

For example, suppose a retiree had previously paid contributions to HMEPS during employment in the amount of \$53,000. The retiree receives a monthly pension benefit of \$2,600 (for purposes of this example we assume there are no COLAs). During the first 12 months of retirement, the retiree will receive a total of \$31,200 ( $\$2,600 \times 12$ ) in retirement benefit payments. Therefore, if the retiree dies one year after retirement, there would be a remaining amount of \$21,800 ( $\$53,000 - \$31,200$ ) that can be paid to the eligible individual or estate. However, if the retiree in this example died twenty-one months or more after retirement, there would be no remaining excess amount payable to any individual or estate because the benefits would have exceeded \$53,000.

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<sup>6</sup> There is a different refund process for contributions to the cash balance hybrid component. See pages 23-24 for more information.

## CREDITED SERVICE

### Service

You begin earning **service** when you first begin performing work and services as a member in an eligible position for the City or HMEPS. Your period of service terminates on the earliest of your:

- (i) retirement;
- (ii) death;
- (iii) resignation;
- (iv) discharge; or
- (v) other cessation of actual performance of services for the City or for HMEPS, other than an authorized absence.

In addition, if you participate in the Deferred Retirement Option Plan (DROP) (pages 27-33), you will cease accruing service the day before your DROP entry date.

NOTE: Your service in HMEPS is determined under different laws than your City service (the amount of time you have worked for the City), and therefore your HMEPS service might differ from your City service. For example, the City might recognize unpaid time for non-pension related purposes, such as determining longevity pay or leave benefits, whereas your HMEPS service and credited service will not include any time that you were on leave of absence without pay or suspended from duty without pay. Also, HMEPS service and credited service do not include any time that you do not meet the definition of an employee under the Statute, are a participant in DROP, are ineligible under the Statute, are separated from service, or for which your service was forfeited and has not been reinstated pursuant to the Statute (certain military time covered by **USERRA** may be eligible as service. See page 9 for further information).

### Credited Service

You will earn a day of credited service for each day of service and **prior service** for which:

- (i) all required member contributions and employer contributions have been made to HMEPS that were not subsequently refunded or withdrawn;
- (ii) you purchased service credit or converted service credit from Group B to Group A (or Group C)<sup>7</sup> by paying to HMEPS the required amounts and such amounts were not subsequently refunded or withdrawn;
- (iii) you reinstated eligible canceled Group B or Group D service through your reemployment with the City or HMEPS within one year of your separation from service or pursuant to the service reinstatement provisions of the Statute explained further on page 14; and/or
- (iv) you previously made payments to HMEPS that, under then existing provisions of law, made you eligible for credit for such service, and such amounts were not subsequently refunded or withdrawn.

<sup>7</sup> Participation in Group C ceased January 1, 2005. For information on former Group C participation, please contact the HMEPS office.



You may also receive credited service for each day you have been voluntarily or involuntarily furloughed by the City, provided that

- (i) HMEPS receives all required City contributions and member contributions for the credited service attributable to the furlough time for the pay period in which the furlough occurs, based on the regular salary you would have received if you had worked the furlough time,
- (ii) you may receive no more than 10 days of credited service in a fiscal year (July 1 – June 30) for furlough time, and
- (iii) credited service for furlough time cannot be used to meet the five-year requirement for retirement benefit eligibility if you otherwise would not meet the five-year requirement without the furlough time.

Duplication of service or credited service in Group A, B, C or D or in HMEPS and any other defined benefit pension plan to which the City contributes is prohibited.

### ***Change in Group Participation***

A Group B member may elect, at a time and in a manner determined by the Board, to change participation from Group B to Group A for future service only.

Contact HMEPS for information on changing your group participation. NOTE: On or before December 31, 2005, a member could elect to convert previous Group B service to Group A, as authorized by the Statute and the rules promulgated by the Board. **After December 31, 2005, a member may not elect to convert previous Group B service to Group A.**

## SERVICE PURCHASE



In addition to the credited service you earn for current work, as a member you may purchase credited service for certain other types of service or work in order to increase your pension benefit and/or accelerate your eligibility for retirement. **You will be required to pay additional amounts, plus interest,<sup>8</sup> for the additional credited service.** The interest rate on any service purchase shall be the then current assumed rate of return, not compounded. **You cannot purchase credited service after you have terminated employment.**

The cost for additional credited service depends on the type of service you claim. You must complete all forms and timely provide all information requested by HMEPS in order to purchase service. Please contact HMEPS if you need additional information on claiming credit for any of the following types of service.

- (i) **Service that was Forfeited to Receive a Refund of Contributions or Service for Which Contributions Were Not Made.** If you have **previous service** for which credit is otherwise allowable except that you either withdrew your contributions or paid no required contributions (does not include Group D cash balance contributions), you may be eligible to purchase the service. To establish service for which you received a refund or for which you paid no contributions, you must pay a sum computed by multiplying your salary during the service by the member contribution rate that was in effect during the period of service, plus interest, from the date the contributions would have been deducted, if made, or from the date contributions were refunded, to the date of repayment of those contributions to HMEPS.
- (ii) **Group B members with refunded pre-1981 Group A service.** If you are a Group B member who was a Group A member before September 1, 1981, and you were eligible to purchase credit for previous service, you may purchase the credited service in Group B by paying to HMEPS an amount equal to the then-current assumed rate of return per year, not compounded, on any contributions previously withdrawn for the period from the date of the withdrawal to the date of purchase.
- (iii) **Service for which Credit was Forfeited to Receive an Early Lump Sum Distribution.** If you received an early lump sum distribution of the actuarial present value of a benefit, and you subsequently were reemployed by the City or HMEPS and have at least two years of continuous credited service after reemployment, you are eligible to reinstate the service for which you received the lump sum payment by paying to HMEPS the amount of the lump sum payment, plus interest, from the date you received the lump sum payment until the date repayment is made to HMEPS.
- (iv) **Military Service under USERRA.** If you are a member who left covered employment to join the military and you timely returned to covered employment after honorable discharge, you may be entitled to coverage for **military service** under USERRA. You must make all required contributions for the period covered by the military service in order to obtain credited service for the military service. The payment of the required contributions must be fully completed within five (5) years after your return to covered employment. HMEPS will need

<sup>8</sup> Interest is not required for certain USERRA-qualifying military service purchases.

a copy of your certificate of service (Form DD-214) showing your dates of entry into and discharge from active duty. Contact HMEPS for additional information on what constitutes USERRA-eligible service and how to obtain credited service for such service.

- (v) **Permissive Military Service.** If you are a member, you may claim as service in Group A, Group B or Group D (depending on the group in which you participate at the time the claim is made) up to sixty (60) months of honorable military service that is not otherwise eligible as service under USERRA upon satisfying the following requirements:
- a. you must have completed a minimum of five (5) years of credited service;
  - b. the military service can be claimed as service only in Group A if you are in Group A at the time the claim for service is made, in Group B if you are in Group B at the time the claim for service is made; or in Group D if you are in Group D at the time the claim for service is made.
  - c. you obtain, at your cost (if any), a report approved by the Board of the actuarially determined cost of the benefit derived from the service you are claiming; and
  - d. you pay the actuarially determined cost of the benefit derived from the service as approved by the Board, plus all administrative costs, if any, associated with crediting the service, plus interest at the rate of 6% per year, not compounded, from the due date of the amounts until payment is made in full to HMEPS.

HMEPS will need a copy of your certificate of service (Form DD-214) showing your dates of entry into and discharge from active duty. Contact HMEPS for additional information on what constitutes permissive military service and purchasing permissive military service.

### ***Uniformed Military Service under USERRA***

Many HMEPS members also serve in the National Guard or Reserve Forces of the United States, and have been or may be called to active duty. This section provides an overview of the Uniformed Services Employment and Reemployment Rights Act (USERRA) as it relates to pension benefits for HMEPS members who are called to active military duty. However, your specific situation may not be addressed or may involve circumstances requiring a different response. All benefit decisions are subject to applicable laws and regulations. If you have further questions regarding military service, contact the HMEPS office.

#### **If you are called to active military duty:**

##### **Military service that is covered under USERRA**

USERRA provides certain reemployment rights to persons who have been absent from a position of employment because of “service in the uniformed services” (covered military service). “Service in the uniformed services” means the performance of duty on a voluntary or involuntary basis in a uniformed service, including:

- Active duty
- Active duty for training
- Initial active duty for training
- Inactive duty training
- Full-time National Guard duty

- Absence from work for an examination to determine a person's fitness for any of the above types of duty
- Funeral honors duty performed by National Guard or reserve members
- Duty performed by intermittent employees of the National Disaster Medical System (NDMS), which is part of the Department of Homeland Security – Emergency Preparedness and Response Directorate (FEMA), when activated for a public health emergency, and approved training to prepare for such service (added by Pub. L. 107-188, June 2002)

The “uniformed services” consist of:

- U.S. Army, Air Force, Navy, Marine Corps, or Coast Guard, including the reserve units
- Army National Guard and Air National Guard
- The commissioned corps of the Public Health Service
- Any other category of persons designated by the President in time of war or national emergency

### **Length of time you can stay in the military and still receive service from HMEPS under USERRA**

Generally, your creditable military service in HMEPS is limited to a maximum of five years.

### **If you become disabled while in covered military service**

- If you were on leave during your military service and you cannot return to work because of your disability, your pension benefits will be handled as if you separated from service on your last day of credited service.
- If you separated from service to enter active military duty, you are not eligible for disability benefits.
- If you rejoin employment with the City and a disability develops from something that happened while you were in the military, you will be eligible for the same benefits that would be payable to any other employee who became disabled from an off-duty cause.

### **If you are killed while in covered military service**

Your covered survivor(s) will be eligible to receive a non-service-related survivor benefit provided you had at least five (5) years of credited service and you were in Group A or B. Survivor benefit(s) will be based on the HMEPS pension provisions in effect on your last day of credited service. If you were in Group D with at least five years of credited service but have not commenced retirement, you will be deemed to have made an election for a 50% joint and survivor annuity and designated your Surviving Spouse (if any) as the optional annuitant. If you have no surviving spouse, no survivor benefit or optional annuity is available.

### **How you obtain service credit for the time you served in the military**

**Immediately upon return to employment**, you should apply in writing to HMEPS for a calculation of the amount, if any, required to establish service credit for your covered military service.

- To obtain service credit for the period of covered military service, you must pay all required contributions (other than Group D cash balance contributions) on your presumed salary

during that period (the salary you would have received if you had remained working in your City position), less any contributions (other than Group D cash balance contributions) that may have been paid during that period.

- If you are a Group B or Group D member, you can obtain service credit for the period of covered military service for which no contributions were required; however, you must immediately notify HMEPS of your return so that the time can be properly credited.
- Your release from active duty status must have been under honorable conditions.
- You must return to City employment within the following time limits:
  - \* Employees who served less than 31 days must report back to work at the beginning of the next scheduled workday following their release from service and the expiration of 8 hours after a time for safe transportation back to the employee's residence.
  - \* Employees who served more than 30 days, but less than 181 days, must apply for re-employment within 14 days of release by the military.
  - \* Employees who served more than 180 days have 90 days to apply for reemployment.
- If you are required to pay contributions, you can purchase the service, without interest, by making payment to HMEPS in a lump sum or equal installments through salary deduction, but only if you do so within (a) five years of the date of your return from covered military service or (b) three times the length of your covered military service, whichever is shorter.
- Payments may not be made after you retire, or, if you are not retiring, more than 60 calendar days after the date of your separation from service or death.

#### **Status of your DROP account during military service if you are a DROP member when you join the military**

- If you are a DROP member and you timely return to City employment from covered military service and pay the required contributions on your presumed salary during the period of covered military service, you will receive the DROP credits that would have been credited to your DROP account as if you had remained working in your City position. Payments for military service credit must be made within (a) five years of the date of your return from covered military service or (b) three times the length of your covered military service, whichever is shorter. However, payments may not be made after you retire, or more than 60 calendar days after the date of your separation from City service or death, and no DROP distribution will be made until full payment is received by HMEPS. If required contributions are not paid, you will not receive any DROP credits for the period of covered military service for which required contributions were not made.
- If you are a Group B DROP member and you timely return to City employment from covered military service, you will receive the DROP credits that would have been credited to your DROP account if you had remained working in your City position during your period of covered military service to the extent that no contributions were required during that period.
- Because credited service ceases to accrue upon entry into the DROP, you will not receive credited service for the period of your covered military service.

#### **Status of your service purchase obligation during military service**

If you were in a service purchase obligation prior to entering active military duty, your obligation



will be frozen while you are on unpaid leave or receiving less than your regular salary from the City. Upon your timely return to City employment from covered military service, you will be required to reactivate your obligation and your deductions will restart. When the obligation is activated, remaining payments will be the same as when the obligation was frozen.

**If you do not timely return to a position covered by HMEPS**

If you do not timely return to a HMEPS-covered position, your benefits will be the same as if you separated from service for any other reason on your last day of credited service, except as expressly required otherwise under USERRA.

## ELIGIBILITY FOR RETIREMENT



Eligibility for retirement means that you are eligible to receive a retirement **pension** when you have attained the minimum required age and years of credited service. After you complete at least five years of credited service, you are eligible to receive a future benefit when you leave covered employment and apply for your pension benefit.

### Group A and Group B

If you are a Group A or Group B member, you are eligible to receive a normal retirement pension beginning on your **effective retirement date** after you:

- (i) Complete at least five (5) years of credited service and attain 62 years of age; or
- (ii) Complete at least five (5) years of credited service and the combination of your years of age and your years of credited service, including parts of years, is equal to or greater than the number 75 and you are at least 50 years of age (“Rule of 75”).

If you are a former Group C member who became a Group A member as of January 1, 2005 (and you are still a member), your eligibility requirements for a normal retirement pension are the same as those for Group A. In addition, if you are a former member who terminated employment prior to January 1, 2005 and you are eligible to receive a normal or deferred retirement pension as determined by the Board, your retirement eligibility for your credited service earned prior to January 1, 2005 will be governed by the retirement eligibility rules in effect at the time of such termination of employment. If you are rehired on or after January 1, 2005, your retirement eligibility is governed by section (i) or (ii) above, as applicable, for the period of credited service earned after January 1, 2005.

### Group D

If you are a Group D member, you are eligible to receive a normal retirement pension beginning on your effective retirement date after you complete at least five (5) years of credited service and attain 62 years of age.

### Terminating Employment Before Retirement

Whenever you **separate from service** before your retirement, you have some decisions to make. Your available options will depend on whether you have at least five years of credited service upon separation from service.

#### Before you have 5 years of credited service

If you do not have 5 years of credited service at the time you separate from service, retirement is not available to you.<sup>9</sup>

<sup>9</sup> In some circumstances, members and former members with credited service in the Houston Police Officers’ Pension System (HPOPS) and/or the Houston Firefighters’ Relief and Retirement Fund (HFRRF) have been authorized to combine their credited service in HPOPS and/or HFRRF with their HMEPS credited service solely for the purpose of determining eligibility for a retirement pension. Call the HMEPS office for more information about proportionate retirement.

## **Group A**

If you are in Group A, the credited service you earned is forfeited at the time of separation, and you will receive a refund, upon your written request, of your employee contributions, without interest. If you later return to covered employment, you may repay the contributions refunded to you, plus interest, and restore the credited service represented by the refund in accordance with the laws and regulations then in effect.

Currently, a Group A member who received a refund of contributions and is reemployed by the City or HMEPS, may reinstate the forfeited service by paying to HMEPS the amount of the refund plus interest from the date of the refund to the date of payment. Notwithstanding the foregoing, if the City involuntarily terminates your employment due to a reduction in workforce, as determined by the Board, before you have five years of credited service, you may make an irrevocable election to leave your contributions with HMEPS until the first anniversary of the date of termination. If you are reemployed by the City during that one-year period, all of your rights and credited service will be immediately restored. If reemployment does not occur within the one-year time period, HMEPS will refund your employee contributions without interest upon your written request.

## **Group B or Group D**

If you are a Group B or Group D member who has made required member contributions and you separate from service before completing five years of credited service, your service credit is canceled at the time of separation and you are eligible to receive a refund, upon your written request, of your employee contributions, without interest. If you are reemployed before the first anniversary of the date of separation, all credit for previous service for which no member contributions were required is restored, along with credit for previous service for which you did not receive a refund of contributions. If your service credit is canceled and you are reemployed after the first anniversary of the date of separation, you are eligible to reinstate the canceled credited service by paying the pension system the refund amount, if any, plus interest from the date contributions were refunded to the date of repayment of those contributions into the pension fund. Further, for any canceled service for which contributions were not required, you receive one year of previous service credit in group B if you are a group B member, or in group D if you are a group D member, for each full year of subsequent service up to the amount of such previous service that was canceled.

### ***After you have 5 years of credited service***

If you have at least five years of credited service when you separate from service, you could choose to retire. If you elect to retire, depending on your age, you could take a normal retirement or, if you are not yet eligible for immediate retirement, defer your retirement to a future day on or after you have attained the minimum age and years of credited service for a retirement pension. Your retirement benefit will be based on all years of credited service that you have accrued and/or purchased.

If you contributed to HMEPS, you must decide what to do about your contributions.<sup>10</sup> When you separate from service, you may choose to either:

- (i) take a refund of your member contributions. If you elect to take a refund of your contributions, all service covered by the refund is canceled. If you later return to covered employment,

<sup>10</sup> These contributions are subject to rules that are different from the rules applicable to contributions to the cash balance hybrid component. See page 23 for more information.

you may repay the contributions refunded to you, plus interest, and restore the credited service represented by the refund in accordance with the laws and regulations then in effect.

If you had a period of continuous service that included both contributory and noncontributory credited service, any refund of contributions will forfeit all service, including the noncontributory service. Contact the HMEPS office for options available to you.

- (ii) leave your contributions with HMEPS and retain all the credited service represented by the contributions.

## YOUR RETIREMENT BENEFIT

### Retirement Benefit Formula

#### Group A and Group B



The monthly benefit payment you receive when you retire is based on your years of credited service (rounded to the nearest one twelfth of a year), the **benefit accrual rate(s)** applicable to the group(s) in which you participated, and your average monthly salary. However, your normal retirement pension, exclusive of cost-of-living adjustments, cannot exceed 90% of your **average monthly salary**. **The following information applies only if you were continuously employed in an HMEPS covered position and your last day of credited service is on or after January 1, 2005. If you have more than one period of service or if your last day of credited service was prior to January 1, 2005, contact HMEPS for information about your retirement benefit.**

If you were continuously employed in an HMEPS covered position and only participated in either Group A or Group B during your employment, your monthly retirement benefit is determined as follows:

- (i) Determine your benefit percentage for your period of employment prior to January 1, 2005:
  1. Multiply the number of years of credited service you have in your first tier of service (years 1-10) by the applicable benefit accrual rate for that tier (see Chart X on page 17 for tiers and applicable benefit accrual rates in effect prior to January 1, 2005).
  2. Multiply the number of years of credited service you have in your second tier of service (years 10+-20), if any, by the applicable benefit accrual rate for that tier.
  3. Multiply the number of years of credited service you have in your third tier of service (years in excess of 20), if any, by the applicable benefit accrual rate for that tier.
  4. Add together the amounts from #1-3 above.
- (ii) Determine your benefit percentage for your period of employment on and after January 1, 2005:
  1. Multiply the number of years of credited service you have in your first tier of service (years 1-20 for Group A and years 1-10 for Group B) by the applicable benefit accrual rate for that tier (see Chart Y on page 17 for tiers and applicable benefit accrual rates in effect on and after January 1, 2005).
  2. Multiply the number of years of credited service you have in your second tier of service (years 20+ for Group A and years 10+-20 for Group B), if any, by the applicable benefit accrual rate for that tier.
  3. Multiply the number of years of credited service you have in your third tier of service (years in excess of 20 for Group B), if any, by the applicable benefit accrual rate for that tier.
  4. Add together the amounts from #1-3 above.

If you were continuously employed in an HMEPS covered position and participated in more than

one Group (A, B or C) during your employment, your monthly retirement benefit is determined using the same calculation as above, but if you changed group participation during one or more of your tiers of service, you must separately calculate the years of credited service times the applicable accrual rate(s) for each of the groups in which you participated during those tiers. If you have more than one period of service, the benefit amounts for any period(s) in which you attained sufficient credited service for retirement eligibility will be calculated separately, unless you met the requirements for the two-year rule. See pages 41 and 42 for more information.

**Benefit Accrual Rate**

Benefit Accrual Rate is the percentage applicable to each year of your credited service in Group A, and/or Group B. The charts X and Y below show the benefit accrual rates for Group A and Group B.

**Benefit Accrual Rate Charts:** The charts below show the benefit accrual rate you will receive for each year of credited service in Group A and/or Group B, as applicable, during your years of service in HMEPS if you have been continuously employed in an HMEPS covered position.

CHART X (CREDITED SERVICE PRIOR TO 1/1/05)

Years of Service (3 tiers)	Group A Benefit Accrual Rate for Each Year of Credited Service	Group B Benefit Accrual Rate for Each Year of Credited Service
Tier 1: Up to and including 10 years	3.25%	1.75%
Tier 2: Greater than 10 years up to and including 20 years	3.5%	2.0%
Tier 3: Greater than 20 years	4.25%	2.75%

CHART Y (CREDITED SERVICE ON AND AFTER 1/1/05)

Years of Service (2 tiers for Group A, 3 tiers for Group B)	Group A Benefit Accrual Rate for Each Year of Credited Service	Group B Benefit Accrual Rate for Each Year of Credited Service
Tier 1: Group A - up to and including 20 years; Group B – up to and including 10 years	2.5%	1.75%
Tier 2: Group A - greater than 20 years; Group B - greater than 10 years up to and including 20 years	3.25%	2.0%
Tier 3: Group B - greater than 20 years	N/A	2.5%

## Average Monthly Salary

Average Monthly Salary (AMS) is the amount calculated by taking the sum of your 78 highest bi-weekly salaries paid to you as an employee during your years of credited service and dividing that sum by 36. If there are less than 78 bi-weekly salaries paid to you as an employee during your period of credited service, your AMS is the amount calculated by multiplying the average of all your bi-weekly salaries paid to you as an employee during your period of credited service by 26 and dividing the product by 12. Your “salary” is your base pay, longevity pay, and shift-differential pay (if any) paid to you as an employee and attributable to services rendered as an employee. See “DROP Termination” beginning on page 31 for the AMS for retiring DROP participants.

The following is an example of the monthly retirement benefit for a hypothetical member who is eligible to retire:

EXAMPLE: A member has 25 continuous years of credited service in Group A and separates from service on December 31, 2020. The member has 20 years of credited service in Group A at the Tier 1 benefit accrual level, but 9 of those years will be at the pre-1/1/05 benefit accrual level ( $9 \times 3.25\% = 29.25\%$ ), years 10-20 will be at the post-1/1/05 benefit accrual level ( $11 \times 2.5\% = 27.5\%$ ), and the last 5 years will be at the Group A post-1/1/05 Tier 2 benefit accrual level ( $5 \times 3.25\% = 16.25\%$ ) for a total accrued benefit percentage of 73.0% ( $29.25\% + 27.5\% + 16.25\%$ ). The member’s average monthly salary is \$3,200. The member’s monthly retirement benefit upon retirement will be \$2,336 ( $\$3,200 \times 73.0\%$ ).

The following is an example of the monthly retirement benefit for a hypothetical member with credited service in both Group B and Group A who is eligible to retire:

EXAMPLE: A member has 23 continuous years of credited service and separates from service on December 31, 2020. The member was initially a Group B member, then changed to Group A for future service only after 7 years. The member has 7 years of credited service in Group B at the Tier 1 benefit accrual level ( $7 \times 1.75\% = 12.25\%$ ), and 13 years in Group A at the post-1/1/05 Tier 1 benefit accrual level ( $13 \times 2.5\% = 32.5\%$ ), plus 3 years in Group A at the post-1/1/05 Tier 2 benefit accrual level ( $3 \times 3.25\% = 9.75\%$ ) for a total accrued benefit percentage of 54.5% ( $12.25\% + 32.5\% + 9.75\%$ ). The member’s average monthly salary is \$2,500. The member’s monthly retirement benefit upon retirement will be \$1,362.50 ( $\$2,500 \times 54.5\%$ ).

You will receive your monthly retirement benefit on or about the last day of each calendar month. Your pension will cease on the last day of the month of your death.

## Group D

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The monthly benefit payment you receive when you retire is based on your years of credited service (rounded to the nearest one twelfth of a year), the applicable **benefit accrual rate(s)**, and your **average monthly salary**. However, your normal retirement pension, exclusive of cost-of-living adjustments, cannot exceed 90% of your average monthly salary.

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## Benefit Accrual Rate

Benefit Accrual Rate is the percentage applicable to each year of your credited service in Group D. The chart below shows the benefit accrual rate you will receive for each year of credited service in Group D during your years of service in HMEPS if you have been continuously employed in an HMEPS covered position.

Group D Years of Service (2 tiers)	Group D Benefit Accrual Rate for Each Year of Credited Service
<b>Tier 1:</b> Up to and including 25 years	1.8%
<b>Tier 2:</b> Greater than 25 years	1.0%

## Average Monthly Salary

Average Monthly Salary (AMS) is the amount calculated by taking the sum of your 78 highest bi-weekly salaries paid to you as an employee during your years of credited service and dividing that sum by 36. If there are less than 78 bi-weekly salaries paid to you as an employee during your period of credited service, your AMS is the amount calculated by multiplying the average of all your bi-weekly salaries paid to you as an employee during your period of credited service by 26 and dividing the product by 12. Your “salary” is your base pay, longevity pay, and shift-differential pay (if any) paid to you as an employee and attributable to services rendered as an employee.

The following is an example of the monthly retirement benefit for a hypothetical Group D member who is eligible to retire:

EXAMPLE: A Group D member has 32 continuous years of credited service and separates from service. The member will have 25 years of credited service in Group D at the Tier 1 benefit accrual level ( $25 \times 1.8\% = 45\%$ ), and 7 years in Group D at the Tier 2 benefit accrual level ( $7 \times 1.00\% = 7\%$ ) for a total accrued benefit percentage of 52% ( $45\% + 7\% = 52\%$ ). The member’s average monthly salary is \$4,500. The member’s monthly retirement benefit upon retirement will be \$2,340 ( $\$4,500 \times 52\%$ ).

## Deferred Retirement

A deferred retirement is a normal retirement that occurs at a future date. In order to be a **deferred participant** eligible for a deferred retirement, you must:

- (i) have separated from service for a reason other than death or receipt of a retirement or disability pension;
- (ii) have at least five years of credited service in HMEPS;
- (iii) have not met the eligibility requirements for an immediate normal pension; and
- (iv) have made an election, including a default election, in a manner determined by the Board, to receive a deferred retirement pension.

The amount of the monthly benefit for a deferred participant is computed in the same manner as for a normal retirement pension, but based on average monthly salary and credited service as of your last day of credited service and subject to the provisions, including the benefit accrual rate(s), of the Statute or Art. 6243g, as applicable, in effect on your last day of credited service.



### **Early Retirement (Group D only)**

If you are a Group D member who terminates employment, you may elect to receive an early retirement pension payable as a reduced benefit if you have attained:

- (i) At least ten (10) years of credited service and age 55; or
- (ii) at least five years of credited service and a combination of years of age and years of credited service, including partial years, the sum of which equals or is greater than the number 75.

The amount of the early retirement pension payable to you as a retired Group D member is equal to the normal retirement pension reduced by 0.25% for each month you are less than age 62 at retirement.

The following are examples of monthly retirement benefits for hypothetical Group D members eligible for early retirement:

EXAMPLE: A Group D member has 10 continuous years of credited service and separates from service at age 45. The member has 10 years of credited service in Group D at the Tier 1 benefit accrual level ( $10 \times 1.8\% = 18\%$ ), and an average monthly salary of \$4,500, providing a monthly retirement benefit upon normal retirement of \$810 ( $\$4,500 \times 18\%$ ). However, the former member elects to receive an early reduced retirement pension at age 55, which is 7 years prior to normal retirement. Therefore, the benefit amount is reduced by 0.25% for each month of those 7 years:

$$(7 \times 12 \text{ months}) = 84 \text{ months} \times 0.25\% = 21\% \text{ reduction}$$

$$\$810 \times .21 = \$170.10$$

$$\$810 - \$170.10 = \$639.90$$

The former member is eligible to receive an early retirement pension in the amount of \$639.90 a month beginning on his or her effective retirement date.

EXAMPLE: A Group D member has 23 continuous years of credited service and separates from service at age 52. The member has 23 years of credited service in Group D at the Tier 1 benefit accrual level ( $23 \times 1.8\% = 41.4\%$ ), and an average monthly salary of \$4,500, providing a monthly retirement benefit upon normal retirement of \$1,863 ( $\$4,500 \times 41.4\%$ ). However, the former member elects to receive an early reduced retirement pension at age 52, which is 10 years prior to normal retirement. Therefore, the benefit amount must be reduced by 0.25% for each month of those 10 years:

$$(10 \times 12 \text{ months}) = 120 \text{ months} \times 0.25\% = 30\% \text{ reduction}$$

$$\$1,863 \times .30 = \$558.90$$

$$\$1,863 - \$558.90 = \$1,304.10$$

The former member is eligible to receive an early retirement pension in the amount of \$1,304.10 a month beginning on his or her effective retirement date.

## **Benefit Options (Applicable only to former Group D members, and in limited situations to former Group A and Group B members)**

If you are an Option-eligible Participant (see below) and you have the required credited service for normal/deferred or early retirement, you must elect no earlier than 60 days before your retirement and no later than 30 days before your benefit commencement date whether to have your normal/deferred retirement pension or early retirement pension paid as an actuarially equivalent amount under one of three joint annuity options (J&S Annuity).

An 'Option-eligible Participant' means:

- (i) former group A or group B member who terminates employment with the City or the pension system on or after June 30, 2011, and who is eligible to receive a normal retirement pension, provided the member was not married as of the date of the member's termination of employment;
- (ii) a former group B member who terminated employment with the city or the predecessor system before September 1, 1997 and who is eligible to receive a normal retirement pension; or
- (iii) a former group D member who terminated employment with the city or the pension system and who is eligible to receive a normal retirement pension or an early retirement pension.

The Board has sole discretion to make determinations regarding an individual's status as an Option-eligible Participant.

The election may be revoked, in a manner and at a time established by the Board, not later than the 60th day before your benefit commencement date.

### **Annuity Options**

For each of the following three annuity options, you must designate a beneficiary to receive benefits after your death (the joint annuitant). The following rules apply to all three annuity options:

- (i) if you are married at the time of retirement, and you wish to name anyone other than your spouse as joint annuitant, HMEPS may require that your spouse sign a consent or waiver of benefits in order for the option election to be valid;
- (ii) if your joint annuitant predeceases you, no payments are due after your death;
- (iii) if you predecease your joint annuitant, no payments are due after the death of your beneficiary;
- (iv) if you are a deferred participant, you may change or revoke your option at any time until 60 days prior to the day your benefit commences (on or after the 60th day prior to the commencement of your pension benefit, your option election is irrevocable); and
- (v) if you are a deferred participant and you die prior to your benefit commencement, your joint annuitant's benefits will commence on the day your benefits would have otherwise begun unless your joint annuitant elects for earlier payment, in a time and manner determined by the Board, of the actuarial equivalent of such amount.
- (vi) If you are a retiree and you die, your joint annuitant's benefit is effective on the first day of the month following the month of your death.

### **50% Joint and Survivor Option (50% J&S Annuity)**

If you elect this option, you will receive a lifetime monthly pension, and after your death, your joint annuitant will receive a lifetime benefit equal to 50% of the amount you were receiving at the time of your death. Your pension will be reduced from the normal retirement pension amount by some amount depending upon your age and your beneficiary's age at your date of retirement. The 50% J&S Annuity ceases on the last day of the month of the joint annuitant's death or on the last day of the month in which the joint annuitant otherwise ceases to be eligible to receive the 50% J&S Annuity.

### **100% Joint and Survivor Option (100% J&S Annuity)**

If you elect this option, you will receive a lifetime monthly pension, and after your death, your joint annuitant will receive a lifetime benefit equal to the amount you were receiving at the time of your death. Your pension will be reduced from the normal retirement pension amount by some amount depending upon your age and your beneficiary's age at your date of retirement. The 100% J&S Annuity ceases on the last day of the month of the joint annuitant's death or on the last day of the month in which the joint annuitant otherwise ceases to be eligible to receive the 100% J&S Annuity.

### **Ten Year Guarantee**

This option provides you with a reduced monthly benefit for your lifetime. However, if you die before you receive ten years of pension payments (120 payments), your joint annuitant will receive the balance of the 120 payments. If you die after receiving ten years of payments, all payments will end when you die. Under this option, the amount of reduction of your monthly benefit depends on your age at retirement.

No survivor benefit or J&S Annuity is payable if:

- (i) you are an Option-eligible Participant and you do not elect one of the J&S Annuity options and you die before retirement has commenced, except that if you are an Option-eligible Participant survived by a Surviving Spouse and you are not in the service of the city or the pension system at the time of your death, and you did not elect a J&S Annuity and die before retirement has commenced, you shall be deemed to have elected a 50% J&S Annuity and designated your Surviving Spouse as the joint annuitant.
- (ii) you are an Option-eligible Participant and you elect a normal retirement pension or early retirement pension and die before retirement has commenced.
- (iii) You are an Option-eligible Participant and you die after retirement has commenced and you:
  - a. Elected a normal retirement pension or early retirement pension;
  - b. did not make a valid election; or
  - c. made an election that was void.

If you have no Surviving Spouse, then no survivor benefit or J&S Annuity is payable. If a J&S Annuity is paid, then no survivor benefit is payable.

If you are an Option-eligible Participant who previously elected a J&S Annuity for a previous period of service (Prior Election), no benefits have been paid under that Prior Election, and you terminate

employment on or after January 1, 2012, then the Prior Election is void and you must elect, in a manner and at a time determined by the Board, before your benefit commencement date whether to have your normal retirement pension or early retirement pension, as applicable, paid as a J&S Annuity. The election you make will apply to all periods of service.

If you are a former Group B member with pre-September 1, 1997 service and you were rehired in a covered position and converted the Group B service covered by a J&S Annuity to Group A service, and you terminate employment on or after January 1, 2012 and are not an Option-eligible Participant at the time of your subsequent termination, the Prior Election is void and survivor benefits for an Eligible Survivor, if any, will be payable as provided under the law, provided benefits were not paid under the Prior Election.

If you designate your spouse as a joint annuitant and before your retirement the marriage is dissolved by divorce, annulment, or an official declaration that the marriage is void, the designation is void unless after the date the marriage was dissolved you name such former spouse as a joint annuitant for the J&S Annuity.

### ***Group D Trustee-to-Trustee Transfer to Purchase An Enhanced Benefit***

If you are a Group D participant, you may elect to make a trustee-to-trustee transfer from a qualifying Code Section 457(b) plan to HMEPS to purchase an increased or enhanced benefit in accordance with the provisions of Code Sections 415(n) and 457(e)(17), and the rules and procedures adopted by the Board. The amount transferred will be held by HMEPS and will not be separately accounted for by HMEPS.

You must complete the purchase and transfer documents no earlier than 60 calendar days prior to normal (immediate) retirement, with payment due in a lump sum no later than 60 calendar days after HMEPS receives the transfer election.

The service purchase for benefit enhancement is only for a normal (immediate) retirement benefit, not deferred, early or disability retirement.

Any optional annuity election is not factored into the actuarial calculation. If you choose an optional J&S annuity, the fixed monthly enhanced benefit amount is reduced as provided for the selected option.

### ***Cash Balance Hybrid Component***

In addition to your required Group D member contributions, you contribute 1% of your salary to a cash balance hybrid component for each bi-weekly pay period during your service beginning with your first full biweekly pay period after the later of January 1, 2018 or your first date of employment. Your contributions are picked up (see page 46 for information regarding “picked up” contributions).

For each biweekly pay period of your service for which you make the required contribution, the following amounts are credited to a notional account for you (cash balance account):

- (i) your 1% of salary contribution for that biweekly pay period;
- (ii) interest on the balance of your cash balance account determined by multiplying:
  - a. an annual rate that is one-half HMEPS’s five-year investment return based on a rolling

five-fiscal-year basis and net of investment expenses, with a minimum annual rate of 2.5 percent and a maximum annual rate of 7.5 percent, and divided by 26; and

b. the amount credited to your cash balance account as of the end of the biweekly pay period.

The sole purpose of a cash balance account is to facilitate accounting for your cash balance credits on an individual basis. There will be no physical separation of any specific HMEPS assets in association with your notional cash balance account. After you separate from service, eligible amounts credited to your cash balance account will be paid from HMEPS's net assets held in trust for pension benefits according to the authorized disbursement option you elect.

On separation from service, if you have less than one year of service while contributing contributions to the cash balance account, you are eligible to receive only a distribution of the contributions credited to your cash balance account, without interest. If you have at least one year of contributions to the cash balance account, you are eligible to receive a distribution of the contributions credited to your cash balance account, including interest.

Contributions may not be made to your cash balance account for a period that occurs after the date you terminate employment. However, the Board may authorize interest at a rate that is not greater than the then-current rate being paid on active member cash balance accounts, as determined by the Board, to be credited based on your undistributed cash balance account after the date you terminate employment, provided you had at least one year of contributions to your cash balance account. If you terminated employment with less than one year of cash balance contributions and were rehired and completed a year of cash balance contributions, no interest will be paid on the cash balance account for any period between your previous termination of employment and the beginning date of contributions in the subsequent period of service.

### **Distribution options**

Upon termination of employment, you are eligible to elect to receive your cash balance account benefit in a lump-sum payment, or you may instead defer a distribution election and your cash balance account balance will remain in the pension fund and accrue interest provided you have met the one-year requirement described above. If your cash balance account is more than an amount specified by the Executive Director, you may elect to receive your cash balance account benefit in a lump-sum payment, in substantially equal periodic payments, in a partial lump-sum payment followed by substantially equal periodic payments, or in partial payments from your cash balance account, in a manner and form determined by the Board. All deferrals and payment options are subject to applicable tax laws.

If you die before the full distribution of your cash balance account, HMEPS will pay your cash balance account in a single lump-sum payment to:

- (i) your surviving spouse;
- (ii) if there is no surviving spouse, each designated beneficiary designated by you in the manner and on a form prescribed by the Board; or
- (iii) if there is no designated beneficiary, your estate.

The lump-sum payment shall be made within a reasonable time after the Board has determined that the individual or estate is eligible for the distribution. No interest will accrue on the cash balance account after the date of your death.

## Termination

You must separate from service to be eligible to receive benefits. You are considered separated from service only after your employment relationship with the City or HMEPS ends. Upon the Board's approval of your retirement benefit, you will be considered to have resigned and you will be removed from the employment rolls of the City or HMEPS not later than the day before your effective retirement date.

## Effective Retirement Date

The effective retirement date is always the first day of the month your retirement begins.

**Normal Retirement:** If HMEPS receives your application before you separate from service or within 90 calendar days thereafter, your effective retirement date will be the first day of the month following the month in which you separate from service. If you do not apply within 90 calendar days after your separation from service, your effective retirement date will be the first day of the month after HMEPS receives your application.

**Deferred Retirement:** If you separate from service with at least five years of credited service (or five years of combined credited service under the proportionate retirement program) but without having met the age requirement for a retirement pension, your effective retirement date is the later of: (1) the first day of the month following the month in which you satisfy the age and credited service requirements for a retirement pension, or (2) the first day of the month after HMEPS receives your application for a retirement pension.

**Disability Retirement:** See "Disability Retirement" section beginning on page 35.

## Lump Sum Payment of Benefits

The Board, in its discretion, may pay to a **deferred participant**, eligible survivor, alternate payee, or beneficiary in a lump sum the present value of any benefit payable to such person that is less than \$20,000 instead of paying any other benefit. If the lump sum present value of the benefit is at least \$1,000 but less than \$20,000, the Board may make a lump-sum payment only on written request by the deferred participant, eligible survivor, alternate payee or other beneficiary. The actuarial present value of a lump sum payment to a participant is determined as of the participant's last day of credited service or September 1, 1995, whichever is later. The actuarial present value of a lump sum payment to an eligible survivor, alternate payee or other beneficiary is determined as of the effective date of the payment as approved by the Board.

A member who is reemployed by the City or HMEPS and who has at least two years of continuous credited service after reemployment may reinstate service for which the member received a lump sum payment by paying to HMEPS the amount of the lump sum payment, plus interest on that amount at the then current assumed rate of return, not compounded, from the date the lump-sum payment was made to the member until the date repayment is made to HMEPS.

## Application for Benefits

You must apply for retirement benefits before you can begin receiving benefit payments. To apply for a normal or deferred retirement benefit, complete the *Retirement Request Form* to initiate the retirement process. The earliest you may apply for retirement is 6 months before your planned date

of retirement. If eligible, you will be provided an *Application for Normal or Deferred Retirement*. In addition to an application, you must submit proof of age as outlined below, a declaration of marital status, and such other information and documents as requested by HMEPS. HMEPS will review your application submission and advise you of anything else needed. If you are purchasing credited service, HMEPS must receive your full payment before you can begin receiving benefits (but not later than 60 calendar days after your separation from service). Also, because you are **not** eligible to elect to purchase credited service after you have separated from service, you should contact HMEPS prior to your separation from service if you believe you have time or service that is available for purchase.

You may change any item on your application, or withdraw your application, at any time prior to the Board meeting at which your application is presented to the Board for consideration, by submitting to HMEPS a written request to change or withdraw. A withdrawal of your application will not extend or waive any filing deadline under the Statute.

### **Proof of Age**

When you apply for retirement, you must furnish proof of your age. HMEPS must receive the required proof of age before you can begin receiving benefits. We will accept a legible copy of one of the following documents:

- Birth certificate
- Delayed birth certificate
- Census report more than 30 years old
- Certificate of Naturalization
- Official Passport/Passport Card

If you cannot furnish any one of the documents listed above, a legible copy of a document that shows your age from **two** of the following categories will be required:

- Birth certificate of your child
- Baptismal certificate more than 30 years old
- Hospital record of birth
- School record at time you entered grammar school
- Life insurance policy more than 30 years old
- DD-214 record of military service (most recent)

Also, if your name is different from the name on any of the submitted documents, you must provide HMEPS with official record(s) documenting the name change(s).

## DEFERRED RETIREMENT OPTION PLAN (DROP) (Group A & Group B Only)



The Deferred Retirement Option Plan (DROP) is an optional retirement method for Group A and Group B members who have attained normal retirement eligibility (age and years of credited service) but do not want to retire. It is an alternative method of accumulating and receiving a pension benefit from HMEPS. The decision to participate in the DROP is a personal one that each member should make only after careful consideration of his or her individual financial needs and goals. The DROP is governed by the Statute and the policies and procedures adopted by the Board. The following information applies only for DROP participation on or after July 1, 2017. If you have questions about periods of DROP participation prior to July 1, 2017, contact HMEPS for information.

### **DROP Definitions:**

**DROP participant:** A Group A or Group B member who is participating in the DROP and, unless required otherwise by the context, a person who participated in DROP and is receiving a DROP benefit or is eligible to elect a distribution of a DROP benefit.

**DROP Entry Date:** The date a member ceases to earn service credit and begins earning credit for the member's DROP account, which is the later of the date the member is first eligible to participate in the DROP or the DROP Entry Date requested by the member, as approved by the Board. The DROP Entry Date must be the first day of a month. A member cannot have a DROP Entry Date that precedes his or her date of eligibility for membership in HMEPS or that occurs prior to the date of HMEPS's receipt of the member's request to participate in DROP.

**DROP Election Date:** The date HMEPS receives a member's completed and executed "DROP Election." The DROP Election can only be obtained from an authorized HMEPS representative upon the member's timely submission to HMEPS of a completed application and required documents and information.

**Monthly DROP Credit (MDC):** An amount based on a DROP participant's credited service and average monthly salary as of the DROP Entry Date and the benefit accrual rate(s) of the applicable pension group in effect on the earlier of the member's last day of credited service or DROP Election Date. Any changes in the benefit accrual rates after the member's last day of credited service or DROP Election Date will not apply to the DROP member's monthly DROP credit or retirement pension benefit.

### ***Eligibility***

In order to be eligible to elect to participate in the DROP, you must meet or exceed the minimum qualification requirements for normal retirement pursuant to the provisions of the applicable pension group in effect on your DROP Entry Date, and be in active service with the City or HMEPS or have been separated from service no more than thirty (30) calendar days, and not otherwise have been approved for a pension benefit. You must also meet all other requirements for DROP participation of the Statute and policies and procedures adopted by the Board.



You must meet one of the following age and credited service requirements as of the DROP Entry Date:

- (i) At least age 62 with at least 5 years of credited service, or
- (ii) At least age 50 with at least 5 years of credited service provided the sum of your age and years of credited service, including parts of years, equals 75 or more.

### **Group Change and Service Purchase Obligations**

After you execute a DROP Election, you cannot enter into an obligation with HMEPS to:

- (i) purchase previous service credit, other than service credit for missed contributions during the DROP period as approved by the Board
- (ii) purchase pension credit for military service, or
- (iii) change pension group participation.

However, if you entered into an obligation described by (i) through (iii) above prior to executing a DROP Election, and all terms and conditions of the obligation have not been met as of DROP Election Date, you are eligible to participate in the DROP provided any service credit purchased under such obligation is not used to meet minimum service requirements for eligibility to participate in the DROP, and provided all other requirements for DROP participation are met. At least one biweekly paycheck stub (advice) showing appropriate deductions must be presented as evidence that such obligation was in effect at the time the DROP Election was executed. Your DROP benefit will be contingent upon your fulfilling all of the terms and conditions of any and all applicable obligations. If all terms, conditions and requirements under such obligation(s) are not completed and fulfilled, your DROP Benefit will be determined as if such obligation(s) had never existed.

If all terms and conditions of a service purchase obligation and all requirements of DROP have been met as of the DROP Election Date, you are eligible to participate in the DROP even if the service purchased under such obligation is used to establish eligibility.

### **The DROP Application Process**

The following procedure is applied to all member requests to participate in the DROP:

- (i) You must submit a request for an application to participate in the DROP. (You should notify HMEPS that you intend to make a DROP Election no earlier than sixty (60) calendar days prior to the date you are eligible to participate in DROP). The request must be submitted in a manner and on a form approved by HMEPS. A request may be faxed, mailed or delivered to the HMEPS Office. (Fax number: (713) 650-1961). The request for information is not a commitment to participate in the DROP, and therefore is not binding on you or HMEPS.
- (ii) In response to a request, HMEPS will make a preliminary determination as to whether you are eligible to participate in the DROP based on records available to HMEPS at that time. This preliminary determination may change when certified employment and personnel records are reviewed. If preliminary eligibility is determined, a DROP application packet will be provided to you. A DROP application packet includes information about DROP participation, an application to participate in the DROP, a listing of all documents you must submit to HMEPS before executing a DROP Election, and instructions regarding how to complete an applica-

tion and meet other requirements for DROP participation. If eligibility cannot be determined based on information available to HMEPS, you will be notified by HMEPS.

After eligibility has been preliminarily determined, HMEPS will review data required to establish your eligibility to participate in the DROP and to determine the amount of the monthly DROP credit you are eligible to receive.

- (iii) When the DROP application and documents for which you are responsible for submitting are received in the HMEPS Office, HMEPS will provide you with a DROP Election form. The completed application and documents must be received in the HMEPS office, and all deficiencies corrected before you can execute a DROP Election. Your DROP Election must be executed in the presence of a notary public. The signature of an authorized HMEPS representative, or the presence of a date/time stamp as normally affixed to HMEPS mail, will evidence HMEPS's receipt of your DROP Election. **If you are retiring or otherwise terminating employment and wish to participate in the DROP, you must execute a DROP Election no later than thirty (30) calendar days after your separation from service and before any other application for pension benefits has been approved by the Board, or you will not be eligible to participate in the DROP.**

If you do not provide the completed application and requested documents within a reasonable period of time as determined by HMEPS, HMEPS may determine that your application is deficient, and will notify you of the deficiency at your address of record. If the deficiency is not cured within thirty (30) calendar days after the date of the notice, your DROP application will be administratively withdrawn by HMEPS. No further action will be taken with respect to the DROP application, and you will be required to resubmit a request to apply for DROP under the rules then in effect in order to re-initiate the DROP process. A deficiency notice will not waive or extend required time periods.

- (iv) When all information and completed documents for which the City or HMEPS is responsible for submitting are received in the HMEPS Office, your eligibility to participate in the DROP can be established and the monthly DROP credit can be determined. HMEPS will then prepare your DROP Election for presentation to the Board for approval at a regularly scheduled monthly Board meeting. You may withdraw your DROP Election any time prior to the Board meeting in which it is presented for approval. Withdrawal of a DROP Election does not waive or alter the requirement that you must make a DROP Election no later than thirty (30) calendar days after your separation from service in order to participate in DROP. Upon approval by the Board, a DROP Election is irrevocable except as specifically provided by the Statute.

### ***DROP Operation and Reporting***

Upon approval of your DROP Election by the Board, a notional DROP account will be established in your name. The sole purpose of a DROP account is to facilitate accounting for your DROP credits on an individual basis. There will be no physical separation of any specific HMEPS assets in association with your notional DROP account. After you separate from service, the DROP Benefit will be paid from HMEPS's net assets held in trust for pension benefits according to the authorized disbursement option you elect.

Information about your DROP balance and activity is available online by registering on AccessHMEPS. If you do not have online access, contact the HMEPS office for assistance.

### ***DROP Credits***

For each month of the period from your DROP Entry Date to termination of employment, HMEPS will credit the following amounts to your notional DROP account (including credit of certain prorated amounts for partial months of service):

- (i) Your Monthly DROP Credit (MDC): which is a monthly amount equal to what would have been your monthly retirement benefit if you had retired on your DROP Entry Date, except that the benefit accrual rate(s) in effect on the earlier of your last day of credited service or DROP Election Date will be used to compute the monthly benefit. Prior to January 1, 2018, the MDC is adjusted each year in February for the applicable annual Cost of Living Adjustment (COLA) paid by HMEPS on pension benefits. Beginning February 2018, for future credit only, an annual COLA that increases the amount of the MDC will be credited in February of the year only if you are at least age 62 as of January 1 of that year. No COLA will be credited if the applicable COLA amount that year is \$0.

The MDC is credited to the DROP account at the end of the last day of each month, except that prorated amounts are calculated and credited on the date used for prorating.

- (ii) Interest on the DROP account: Beginning January 1, 2018, the DROP interest rate will be equal to half of the percent return on HMEPS's investments for the prior rolling five fiscal years net of investment expenses, with a minimum rate of 2.5% and a maximum rate of 7.5%, currently compounding at daily intervals.

You must pay required employee contributions to HMEPS for all time in DROP that would otherwise constitute service in order to receive allowable credits to your DROP account.

You cease to accrue credited service the day prior to your DROP Entry Date. Credits will not be made to your DROP account for any period that would not constitute service (for example, your DROP balance will be decreased for absences without pay during the DROP period, and/or if required contributions have not been paid during the DROP period). Your participation in DROP ends upon your termination of employment with the City or HMEPS.

Credits may not be made to a DROP participant's DROP account for a period that occurs after the date the DROP participant terminates employment, except that interest at a rate determined by the pension board may be paid on the person's undistributed DROP account balance after the date the person terminates employment.

### ***Surviving Spouse/Designated Beneficiary DROP Election***

If you made your current DROP Election on or after May 11, 2001, then in the event you die before the full distribution of your DROP account balance, the undistributed DROP account balance will be distributed to your surviving spouse, if any, in a lump-sum payment within a reasonable time after the Board has determined that your surviving spouse is eligible for the distribution. If you leave no surviving spouse, each designated beneficiary, as designated in the manner and form established by the Board, is eligible to receive your undistributed DROP account balance in a lump-sum payment within a reasonable time after the Board has determined that the beneficiary is eligible for the distribution.

If you made your current DROP Election prior to May 11, 2001, contact HMEPS for the beneficiary designation form for your undistributed DROP account balance, if any.

For all DROP participants, if no beneficiary is designated, the undistributed DROP account balance will be distributed to your estate. If HMEPS determines that a beneficiary designation does not comply with HMEPS' requirements, the non-complying designation is void. If there is no complying designation, the undistributed DROP account balance, if any, will be distributed to your estate under applicable law.

**Please contact HMEPS regarding further information about DROP beneficiary elections.**

### ***DROP Termination***

Any termination of your employment with the City will simultaneously terminate your DROP participation.

On termination of employment, and before any benefit or DROP payment, if you are an Option-eligible Participant, you must make the required election whether to have a normal benefit or a J&S Annuity, as described beginning on page 21. If you elect a J&S Annuity, your notional DROP account, including all DROP credits, will be recalculated from your DROP Entry Date to your termination of employment as if the J&S Annuity was selected to be effective as of the DROP Entry Date.

Prior to receiving a DROP benefit, you must contact the HMEPS office to request a DROP Distribution Package (Distribution Package). The Distribution Package will include required notices and forms, explanations of DROP benefit payment options, and other related election and designation forms. All required forms and documents must be submitted to, and accepted by, HMEPS before a DROP benefit distribution election can be presented to the Board for approval. You also may schedule and attend a DROP exit meeting with a HMEPS representative for further explanation of the DROP termination process.

If you die while participating in DROP, your surviving spouse, or all of your designated beneficiary(ies), as applicable, may elect to revoke your DROP election, and receive survivor's benefits, if eligible, as if DROP participation had not occurred. Otherwise, such surviving spouse or designated beneficiary(ies) will receive a lump-sum payment in the amount of the undistributed balance of your DROP benefit less applicable taxes, if any, and survivor's benefits, if any, will be determined with consideration given to your DROP participation. After you have retired, neither your surviving spouse or designated beneficiary(ies) may revoke your election to participate in the DROP.

Effective January 1, 2005, upon separation from service with the City, your average monthly salary for purposes of your retirement pension benefit is your average monthly salary as of the later of January 1, 2005 or DROP Entry Date. The average monthly salary times the benefit percentage determined as of the earlier of your last day of credited service or DROP Election Date will be your final retirement pension benefit. Your initial retirement pension will be your final retirement pension benefit plus any cost of living adjustments (COLAs) you received while participating in DROP. COLAs attributable to periods after retirement will be based on your final retirement pension benefit.

If you die while employed and your DROP election is not revoked, the survivor benefit payable to your eligible survivor(s) will be computed as a percentage of the monthly ordinary disability pension that you would have been eligible to receive had you become disabled the day before your DROP

entry date, except that the ordinary disability pension is computed based on your credited service as of the day before your DROP Entry Date, the benefit accrual rate(s) applicable to the credited service as of your DROP Election Date, and your average monthly salary as of the later of January 1, 2005 or DROP Entry Date. If you suffer a service-related death, your surviving spouse, if any, is ineligible to receive a service-related survivor benefit unless your DROP election is revoked.

### ***DROP Account Balance Distribution***

To the extent allowed by applicable law, you may make an irrevocable election to receive payment of a DROP benefit in a lump sum, in periodic payments, or in a combination of a lump sum and the remainder of the DROP benefit, after the lump sum, in periodic payments. Also, you may defer making a distribution election until a future date; however, the DROP account is subject to IRS Required Minimum Distributions if you have separated from the City and are age 70 ½ or older. All payment options and amounts are subject to approval by the Board. The Board may require that a DROP account balance be paid in a lump-sum disbursement based on criteria specified by the Board and applied on a uniform and non-discriminatory basis. The Board, in its sole discretion, may authorize a participant to elect to receive partial payments from the participant's DROP account in a manner and form determined by the Board. The Board may establish procedures concerning partial payments, including limitations on the timing and frequency of such payments. A participant who elects partial payments may elect to receive such participant's entire remaining DROP account balance in a single lump-sum payment. All distributions and changes in form of distribution must be made in a manner and at a time that comply with Section 401(a)(9) of the Internal Revenue Code of 1986, as amended. You are advised to consult your personal tax advisor concerning the applicable tax rules prior to electing a DROP distribution option.

### ***Revocation of an Election to Participate in DROP***

Except for the following specific provisions, your DROP Election is irrevocable.

- (i) If you incur a service disability, you may apply for a service disability retirement; however, if the Board approves a service disability for you, your election to participate in the DROP is automatically revoked and you will receive a service disability benefit as if your election to participate in the DROP had not occurred. In event of such a revocation, the balance of your DROP account will become zero (\$0.00) and the DROP account will be rescinded. You are not eligible to apply for an ordinary disability pension while participating in DROP.
- (ii) If you die while participating in the DROP, your surviving spouse, or if none, your designated beneficiary may elect to revoke your DROP election. In the event of such a revocation, the balance of your DROP account will become zero (\$0.00), the DROP account will be rescinded, and no distribution of DROP benefits will be made, but instead any applicable survivor benefits will be determined as if your DROP participation had not occurred.

### ***Retirement Pension of a DROP Participant:***

Except as provided above for Option-eligible participants under "DROP Termination," upon termination of employment, you will receive a normal retirement pension on your effective retirement date calculated as provided under the Statute for normal retirement pensions, with the following exceptions:

- (i) the number of years of credited service will be the credited service you accrued through the day prior to your DROP Entry Date;
- (ii) the benefit accrual rate(s) will be the benefit accrual rate(s) that applied at the earlier of your last day of credited service or DROP Election Date; and
- (iii) your average monthly salary will be the average monthly salary as of the later of January 1, 2005 or your DROP Entry Date.

In addition, your retirement pension will be increased by any cost of living adjustments applied during your participation in the DROP. COLAs applied after retirement will be based on the retirement pension calculated as described in (i), (ii), and (iii) above.

The following is an example of the monthly retirement benefit for a hypothetical member who enters DROP after 1/1/05 and retires after 1/1/05:

EXAMPLE: A member was originally hired in June 2007 and becomes eligible to participate in DROP in June 2019. The member makes a DROP Election in June 2019. At DROP entry, the member has 12 years of credited service in Group A and an average monthly salary of \$4,000. The member participates in DROP for 4 years. At retirement, the monthly retirement pension is based on the credited service at DROP Entry (12 years as of June 2019), the benefit accrual rates in effect on DROP Election Date (Group A accrual rates as of June 2019 are 2.50% in Tier 1), and the average monthly salary (AMS) as of June 1, 2019 (\$4,000). Accordingly, the member's monthly retirement benefit upon retirement is  $((12 \times 2.50\%) \times \$4,000 = 30\% \times \$4,000 = \$1,200$ , plus any applicable COLAs applied during the DROP period.

### ***DROP Participation after Re-employment***

If you are a former DROP participant who is subsequently rehired by the City or HMEPS, you are not eligible to again participate in the DROP, even if you have a remaining balance in your DROP account when rehired. In addition, you cannot receive any DROP distributions while you are employed.

If you are a deferred participant or retiree who is rehired into a covered position in Group A or Group B and you did not previously participate in DROP, you are eligible to participate in the DROP, provided you meet all of the requirements for DROP participation. Rehired members should contact the HMEPS office for more information.

### ***Authorized Changes to the DROP***

If an unanticipated actuarial cost occurs in administering the DROP, the Board, on the advice of HMEPS's actuary, may take action necessary to mitigate the unanticipated cost, including refusal to accept additional elections to participate in the DROP, but the Board will continue to administer the DROP for the DROP participants participating in the DROP before the date of the mitigating action.

## LIMITATION OF BENEFITS

While most people are not affected, state and federal laws may limit the amount of your annual benefit as explained below:

**HMEPS Maximum** – Your HMEPS retirement benefit, exclusive of any cost-of-living adjustments, may not exceed 90% of your average monthly salary.

**Federal Maximums** – Section 415 of the Internal Revenue Code limits the amount of annual retirement benefits you can receive. Governmental entities, however, can establish excess benefit plans for people who are adversely affected by the federal limit. As a result, the Texas Legislature amended the HMEPS pension law to establish an excess benefit plan to effectively eliminate the impact of the federal limit on HMEPS retirees. The plan requires HMEPS to pay each affected retiree by separate check an amount equal to any reduction in benefits imposed by the federal limit. Therefore, any participant affected by the federal limit will be “made whole” by the excess benefit plan and will not suffer a reduction in benefits.

**HMEPS Benefit/Contributions are Primary** – If you participate in any retirement plan (maintained by your employer) in addition to HMEPS and Social Security, including a qualified pension plan, a qualified employee annuity plan, or a 403(b) annuity, federal limits may apply to the amount of benefits and/or contributions payable under all plans except Social Security. If the combined amount exceeds a federal limit, the benefits and/or contributions payable under the other plan(s) must be reduced first to conform to the limit. HMEPS benefits and/or contributions are considered primary to any other plan.



## DISABILITY RETIREMENT



You may be eligible for disability retirement if you terminate service because of an ordinary disability or service disability, as determined by the Board.

“Disabled” or “disability” means the complete and permanent inability of an employee to perform the usual and customary duties that the employee has been performing as an employee, or any other full-time duties for which he or she is reasonably suited by training or experience. The Board makes the determination in its sole discretion whether an employee has a disability. The Board also requires medical examinations and such other evidence as the Board deems necessary to establish disability.

There are two types of disability benefits: ordinary (off-duty) and service (on-duty). To apply for an ordinary or service disability pension, you must be an HMEPS member or have separated from service less than 30 calendar days before HMEPS receives your request to apply for a disability retirement as a result of a disability that arose during your employment. **However, you may not apply for a disability retirement later than six months following your last day of credited service.** If you are granted a disability pension, you are considered to have resigned and shall be removed from the employment rolls of the City or HMEPS not later than the last day of the month in which the disability pension is approved.

### Ordinary Disability Benefits

To be eligible to apply for an ordinary disability retirement, you must complete at least 5 years of credited service. If approved, you will receive a monthly benefit beginning on your **effective retirement date** and continuing for as long as your disability continues, subject to certain limitations on disability pensions described below. The effective retirement date for a service or ordinary **disability** retirement is the later of the day following your last day of credited service or the date HMEPS receives your request to apply for disability retirement. The monthly benefit will be determined as of your last day of credited service and calculated in the same manner as a normal retirement pension. If you are in DROP, you are not eligible for ordinary disability benefits.

### Service Disability Benefits

You are covered for service disability beginning on your first day of covered employment. For a service disability, your disability must be the result of a personal injury that you suffer at a definite time and a definite place while performing your job with the City or HMEPS, without serious or willful misconduct on your part, as determined by the Board. If approved, you will receive a monthly benefit beginning on your effective retirement date and continuing for as long as your disability continues, subject to certain limitations on disability pensions described below. The benefit will be an amount equal to the greater of (a) an amount determined as of your last day of credited service and calculated in the same manner as a normal retirement pension or (b) 20% of your monthly salary at that date (plus if you are a Group A member on the date of such service disability, 1% of such monthly salary for each full year of credited service in Group A for which you paid contributions, the sum of which shall not exceed 40% of such monthly salary). For purposes of the 1% per year increase, a partial year of credited service remaining after all years, months and days of credited service have been combined will be considered a full year of credited service if the partial year is six months or more.



### ***Limitations on Disability Pensions***

If you are receiving a disability pension, you are required to submit on or before April 1st of each year a sworn affidavit stating your employment activities and earnings, if any, for the previous calendar year. (See below to determine if you qualify for an exemption from this requirement.) If the total amount of your earnings and your disability pension exceed the monthly salary you earned at the time of your separation from service (as adjusted annually by the applicable cost-of-living adjustments, or the percentage change in the Consumer Price Index), the Board is authorized to reduce the amount of your disability pension, including a reduction to \$0, for a period determined by the Board. If you fail to timely submit an affidavit of employment activities and earnings or if you submit a materially false or misleading affidavit, as determined by the Board, the Board is authorized to suspend and/or discontinue your disability pension.

**Exemption from reporting requirement.** You are not required to submit an employment activities and earnings statement if any of the following situations applies to you:

- (i) you have reached 65 years of age;
- (ii) you have five years of credited service in HMEPS and have reached 62 years of age; or
- (iii) you have five years of credited service in HMEPS and your combined age and years of credited service in HMEPS equals 75 or more, and you are at least 50 years of age.

If you receive a disability pension, you are subject at all times to investigation and verification by the Board of your continued eligibility for a disability pension, including by means of covert surveillance, and reexamination by the Board. You are required to submit to such further examination as the Board may require, including medical examination, or an examination by the Board of medical, financial or earnings reports, or any other information as the Board may reasonably request. If you refuse to submit to any such examination, the Board may, within its sole discretion, order your disability pension payments suspended, up to and including discontinuation of the disability pension.

If you have begun to receive a disability pension and the Board determines that you have recovered so that you are able to perform the usual and customary duties formerly handled by you or other full-time duties that you could perform, the Board shall suspend or discontinue your disability pension.

If you are receiving a disability pension, you may not receive a retirement pension at the same time. However, in the event the Board determines you are no longer disabled or eligible for a disability pension and discontinues your disability pension, you may apply for an immediate or deferred retirement pension as applicable. If you are eligible for an immediate or deferred retirement pension, such pension will be calculated and payable in accordance with the laws and rules in effect at the time of your last day of credited service, and will be based on your credited service up to the time of your disability.

## SURVIVOR BENEFIT



NOTE: The survivor benefits explained below apply to persons who qualify as a **surviving spouse or dependent child** of a member, deferred participant or retiree who left employment or died on or after July 1, 2017. Please contact HMEPS if you have questions about the provisions applicable in your situation.

Your surviving spouse and/or dependent child(ren) will each be eligible to receive a survivor benefit if you die:

- a. from any cause on or after you have five (5) years of credited service with the City or HMEPS and you are a Group A or Group B member or deferred participant;
- b. while you are in the service of the City or HMEPS, from any cause directly resulting from a specific incident in the performance of your duties for the City or HMEPS (“service-related death”)
- c. after the date you retire on a Pension received due to your length of service or due to a disability, and you were a Group A or Group B member at the time of your separation from service with the City or HMEPS; or
- d. from any cause on or after you have five (5) years of credited service with the City or HMEPS while still in service with the City or HMEPS, and you were a Group D member at the time of your death.

To be eligible for a survivor benefit, your surviving spouse must have been legally **married** to you continuously (i) as of the date of your separation from service with the City or HMEPS and (ii) at the time of your death. A dependent child is eligible for a survivor’s benefit if the dependent child is your natural or adopted son or daughter who is unmarried and was supported by you before your termination of employment, and is (i) younger than 21 years of age; or (ii) as determined by the Board, totally and permanently disabled from performing any full-time employment because of an injury or illness, serious mental illness, intellectual disability, or pervasive developmental disorder, that began before the child became 18 years of age and before your termination of employment.

Survivor benefits will be payable monthly to a surviving spouse for life and to the guardian of each dependent child on behalf of the child until the earlier of the date: (1) the child marries; (2) the child is no longer under the age specified in the Statute for a dependent child; (3) or otherwise is no longer eligible. For this purpose, a child’s “guardian” is the person who has primary responsibility for the child’s care and support, such as the surviving spouse of the participant or the child’s legal guardian, managing conservator or any other person with a similar legal relationship to the child. However, the Board may approve payment of a survivor benefit directly to a child who is at least 18 years of age instead of to the guardian or any other person.

A dependent child who is receiving a survivor benefit on the basis of disability is subject to the same reporting requirements as are applicable to disability benefit recipients as explained under “Limitations on Disability Pensions” beginning on page 36.

## **Calculation of Survivor Benefit**

Except as provided below for a service-related death and death in retirement, your **eligible survivor(s)** will receive a monthly amount calculated as a percentage of the retirement benefits you would have been eligible to receive had you been totally disabled with an ordinary disability on your last day of credited service. The survivor benefit is calculated and payable as follows:

### **Surviving spouse only (your surviving spouse is the only eligible survivor)**

- (i) If you were actively employed at the time of your death, your surviving spouse will receive a survivor benefit in an amount equal to the following applicable percentage (spousal survivor benefit) as follows:
  - a. if a non-service-related death, the spousal survivor benefit is 80% if you and your surviving spouse were married for at least one continuous year as of your date of death, except that the spousal survivor benefit may not be less than \$100 a month.
  - b. if a non-service-related death, the spousal survivor benefit is 50% if you and your surviving spouse were married for less than one continuous year as of your date of death.
  - c. if a service-related death, the spousal survivor benefit is 80% of your final average salary. However, if you suffer a service-related death while participating in the DROP, your surviving spouse is ineligible to receive a service-related survivor benefit unless your DROP election is revoked. See page 31, “DROP Termination” for more information.
- (ii) If you were a former Group A or Group B member and you die after terminating employment but before retirement with at least five years of credited service leaving a surviving spouse, your surviving spouse is eligible for a spousal survivor benefit equal to 50% of your normal accrued pension at the time of your last day of credited service. The spousal survivor benefit first becomes payable on the date you would have become eligible to begin receiving a pension, except that your surviving spouse may elect for earlier payment, in a time and manner determined by the Board, to receive the actuarial equivalent of such amount payable at such earlier date.
- (iii) If you are a former Group D member and you die after terminating employment but before retirement with at least five years of credited service leaving a surviving spouse, and you did not make the election to receive your benefit as a normal benefit or under an optional annuity, you shall be deemed to have made an election for a 50% Joint & Survivor Annuity and designated your surviving spouse as the joint annuitant. Such amount will be payable at that earliest retirement date, except that your surviving spouse may elect for earlier payment, in a time and manner determined by the Board, to receive the actuarial equivalent of such amount payable at such earlier date. If you have no surviving spouse, no survivor benefit or J&S Annuity is payable. If a J&S Annuity is paid, no other survivor benefit is payable.
- (iv) If you were a retired Group A or Group B member at the time of your death, your surviving spouse will receive a spousal survivor benefit equal to the applicable percentage of the retirement pension you were receiving at the time of your death, with any cost-of-living adjustment in the survivor benefit computed based on your unadjusted normal retirement pension:
  - a. 80% if your death occurs on or after July 1, 2017 and you separated from service prior to July 1, 2017;

- b. 80% if both your separation from service and your death occur on or after July 1, 2017, provided you were married to your surviving spouse at the time of your death and for at least one continuous year as of the date of your separation from service; or
- c. 50% if both your separation from service and death occur on or after July 1, 2017 and you were married to your surviving spouse at the time of your death and for less than one continuous year as of the date of your separation from service.

NOTE: If you are a Group D retiree, you must have selected either a normal retirement benefit, for which there is no survivor benefit, or an optional annuity, under which only a joint annuitant may be eligible to receive benefits after your death. Also, the information provided under “Surviving spouse and dependent child(ren)” and “Dependent child(ren) only” below are not applicable in the case of a Group D retiree or a former member of Group D who was eligible to elect a normal retirement benefit or optional annuity.

### **Surviving spouse and dependent child(ren):**

If you are survived by a surviving spouse and dependent child(ren), each dependent child is eligible for a survivor benefit in the amount of 10% of the disability pension, final average salary or retirement pension, as applicable from (i), (ii) or (iii) above, subject to maximum benefits of 20% in the aggregate for all children, divided equally among all the dependent children. The spousal survivor benefit payable to the surviving spouse will be reduced so that the total amount of survivor benefits paid is not greater than 80% of the applicable disability pension, final average salary or retirement pension. The reduction will continue until the total amount payable to the surviving spouse and dependent child(ren), if any, is not greater than 80% of the applicable disability pension, final average salary or retirement pension.

### **Dependent Child(ren) only:**

If you are survived by dependent child(ren) but are not survived by a surviving spouse, each dependent child is eligible for a survivor benefit in the amount of 50% of an 80% spousal survivor benefit, subject to maximum benefits of 100% of the spousal survivor benefit in the aggregate for all dependent children, divided equally among all the dependent children.

When a dependent child marries or attains age 21, if his or her survivor benefit was calculated as an equal share of a percentage of a disability pension, final average salary, or retirement pension, his or her share will be divided equally among the remaining dependent children unless all remaining dependent children are already receiving a full 10% or 50%, as described above, depending upon whether you were also survived by a surviving spouse.

No survivor benefit or J&S Annuity is payable if:

- A. an Option-eligible Participant does not elect a joint & survivor annuity, except as provided in subsection (iii) of the “Surviving spouse only” section above.
- B. an Option-eligible Participant elects a normal retirement pension or early retirement pension and dies before retirement has commenced.
- C. an Option-eligible Participant dies after retirement has commenced and such Option-eligible Participant:

- (i) elected a normal retirement pension or early retirement pension;
- (ii) did not make a valid election for a joint & survivor annuity; or
- (iii) made an election that was void.

If a former Group A or Group B member was an Option-eligible Participant but did not elect an optional annuity and subsequently died, any Dependent Child of the deceased Option-eligible Participant is eligible to receive survivor benefits as provided in Section 14 of the Statute; provided, however, that HMEPS will not pay both a J&S Annuity and a survivor benefit under Section 14 with respect to any Option-eligible Participant.

If you die and leave no eligible survivor, then your spouse, if any, or if you left no spouse, then your estate, will be eligible to receive payment in a lump sum, without interest, of the excess, if any, of your accumulated member contributions to the date of your retirement (other than contributions attributable to your period of DROP participation, if any), over the aggregate monthly retirement benefit payments you received. Payment will be made within a reasonable time after the Board determines that the individual or estate claiming the payment is eligible to receive the payment.

A survivor benefit payable to an eligible survivor of a deceased retiree is effective on the first day of the month following the retiree's death and ceases on the earlier of the last day of the month of the eligible survivor's death or on the last day of the month in which the survivor, if he or she is a dependent child, ceases to be eligible to receive a survivor's benefit.

NOTE: You should take every effort to obtain and organize official documents that establish your marriage to your spouse and the identity of your natural or adopted children. For marriages, HMEPS requires a marriage certificate that is recorded in the records of the county clerk's office in the county in which the marriage ceremony was performed. If the marriage was performed outside the United States, HMEPS requires an official document establishing the marriage and may require additional information, including a translation by a reputable third-party, as determined by HMEPS, or official attestation of the document.

For an informal marriage (common-law marriage), HMEPS requires a valid marriage declaration executed by the couple and recorded in the records of the county clerk's office in the county in which the couple resides. For participants who separate from service after June 29, 2002, if the declaration of common-law marriage is signed and notarized after that date, the declaration will not be valid for the period prior to the date it was signed, notarized and recorded.

For example, suppose a deferred participant and his spouse in common law sign a marriage declaration in the presence of a notary public on October 19, 2013. The declaration states that they met the requirements for common law marriage beginning May 4, 2000. If all other requirements are met, as determined by the Board, HMEPS will recognize the marriage as having begun October 19, 2013. If the deferred participant terminated employment prior to October 19, 2013, the spouse is not eligible for survivor benefits in the event of the deferred participant's death, because survivor benefits are only available to a surviving spouse who was married to an eligible participant continuously prior to separation from service and at the time of death.

To document the status of your dependent child(ren), HMEPS requires the birth certificate (with your name as the parent) of each dependent child, or the official adoption papers.

## AFTER SEPARATION OR RETIREMENT

### **Cost-of-Living Increase**

The “cost-of-living adjustment” (COLA) is the HMEPS five-year investment return, based on a rolling five-year basis and net of investment expenses, minus 5%, and then multiplied by 50%, but the COLA will not be less than 0% or greater than 2%.

For example:

- If the five-year average investment return of the pension fund is 7%, then for the year starting the following February, your monthly benefit would increase by 1% of your original benefit amount;
- If the five-year average investment return of the pension fund is 10%, then for the year starting the following February, your monthly benefit would increase by 2% of your original benefit amount;
- If the five-year average investment return of the pension fund is 4%, then for the year starting the following February, your monthly benefit would not increase.

Pension and survivor benefits for all eligible participants are increased annually by the COLA (unless the COLA is 0%), not compounded, for all persons receiving a pension or survivor benefit as of January 1 of the year in which the increase is made. For purposes of the COLA, an “eligible participant” is:

- a Group A retiree or an eligible survivor of a Group A former member or retiree;
- a Group B retiree or an eligible survivor of a Group B former member or retiree;
- a Group D retiree who had at least five years of credited service and made employee contributions and terminated employment after July 1, 2017, or an eligible survivor of a Group D former member or retiree who had at least five years of credited service and who made employee contributions and terminated employment after July 1, 2017.

For DROP participants, effective January 1, 2018, a COLA (other than a 0% COLA), not compounded, will be credited to a DROP participant’s DROP account each year provided the DROP participant was at least 62 years of age as of January 1 of that year.

### **Re-employment**

If you are considering returning to work after retirement, it is important that you know how your return to work may affect your retirement benefit. The following applies if you have retired with a normal (or deferred) retirement benefit. Additional rules apply if you have retired with a disability retirement benefit; contact HMEPS if you were retired for a disability and have questions about working.

#### **Employment by Another Employer:**

If you retire with a normal (or deferred) retirement benefit, your benefit is not affected if you work for an employer other than the City or HMEPS.

#### **Employment by the City of Houston or HMEPS:**

If you retire with a normal (or deferred) or early retirement benefit and you are subsequently reemployed in a covered position by the City or HMEPS, your retirement pension ceases the day

preceding the date you are reemployed. **It is your responsibility to contact HMEPS prior to your reemployment in a covered position.** Reemployment in a covered position means you are eligible to be a member of HMEPS.

If you are reemployed in a covered position, you will accrue credited service during your period of reemployment, subject to the maximum benefit limit (currently 90% of your average monthly salary).

### ***Suspension of Pension upon Reemployment***

Notwithstanding anything to the contrary, if you are receiving a retirement or disability pension and are subsequently reemployed by the City or HMEPS, your retirement or disability pension shall cease the day preceding the date you are reemployed. Payment of your pension shall be suspended during the period of reemployment, and shall not recommence until the month following the month in which you subsequently terminate service, subject to your eligibility and timely application. If you receive any retirement or disability pension that was required to be suspended (disallowed pension), you are required to return all of the disallowed pension payments you receive to HMEPS within thirty (30) calendar days of receipt or such amount shall be subject to claims of HMEPS, and/or the Board will offset the disallowed pension not returned, plus interest on the disallowed pension at the assumed rate of return per year, not compounded, from the date you received the disallowed pension to the date of the offset on the disallowed pension. The offset may be against the payment of any future pension or benefit payment(s), and/or against any DROP balance. If you are a deferred participant, these same provisions also shall apply to any deferred pension that would otherwise become payable to you during your period of reemployment with the City or HMEPS.

### ***Calculation of Benefit upon Subsequent Retirement***

If you are a deferred participant and you are subsequently reemployed by the City or HMEPS before reaching the age that you would be eligible to receive your deferred pension, or if you are receiving a retirement pension and you are subsequently reemployed by the City or HMEPS, your pension will be calculated as follows upon your subsequent retirement:

- (i) The portion of your pension attributable to your period of credited service accrued prior to reemployment will be calculated on the basis of the schedule of benefits for retiring members that was in effect at the time of your previous termination of employment.

NOTE: If you have had more than one period of credited service, the benefit for any period in which you attained sufficient credited service for retirement eligibility under the requirements in effect at the time of separation from service for such period will be calculated based on the schedule of benefits for retiring members that was in effect at each such termination of employment.

- (ii) The portion of your pension attributable to your period of credited service accrued after your reemployment will be calculated on the basis of the schedule of benefits for retiring members that is in effect at the time of your subsequent retirement.

Notwithstanding anything to the contrary, there shall be no retroactive payment of any benefits or other amounts to any member, retiree, deferred participant, beneficiary, eligible survivor, estate, or other person or entity.

## CLAIMS PROCEDURES



### A. Claims Procedure for Retirement Benefits (for Disability Benefits, see (B) below)

#### (i) Applying for Retirement Benefits

To apply for benefits, you must obtain the proper application form. Upon HMEPS's receipt of the completed application form, along with any other supportive information required, HMEPS has 90 days in which to decide if any benefits are due. If special circumstances require an extension, HMEPS will notify you before the end of the initial 90-day period, and in no event will the period of such extension exceed an additional 90 days beyond the first 90-day period (or a total of 180 days from the date you filed the application). HMEPS reserves the right to require you to produce evidence substantiating your date of birth and your spouse's or beneficiary's date of birth, depending upon the form of benefit payable, and any other information required for the administration of HMEPS.

#### (ii) Denial of Claim for Retirement Benefits

If your claim is fully or partially denied, you will be notified of this in writing within 90 days (or 180 days, if special circumstances exist).

If you receive no response on your claim within the 90-day (or 180-day) time limit, you should consider the claim denied, and proceed to the appeal and review procedure, if you wish.

#### (iii) Appeal and Review Procedure for Retirement Benefits

If you wish to appeal a denial and have it reviewed, you must make such appeal, in writing, within 60 calendar days of the date you receive notice of denial.

This appeal should be directed to the Board. The Board has sole discretion and decision-making authority with respect to retirement benefits. You may also request a hearing before the Executive Director as a part of your appeal. The Executive Director has 60 days in which to give you a written decision on your appeal unless additional time is needed. A decision will be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If you receive no response to your appeal within the 60 days (or 120 days, if a special case), you should consider the appeal denied on review.

### B. Claims Procedures for Disability Benefits

#### (i) Applying for Disability Benefits

To apply for a disability pension, you must obtain a "Request to Apply for Disability Retirement" form from HMEPS or your departmental payroll representative, complete the employee's portion of the Request and submit the Request directly to HMEPS.

HMEPS will make an initial determination of your eligibility to apply for a disability pension. In order to be eligible, you must meet the following requirements:

- a. you must be an HMEPS member or former member who separated from service not more than 30 calendar days prior to the date HMEPS receives your Request (and your



- disability must have arisen during your employment), except that you may not apply for a disability pension after six months following your last day of credited service; and,
- b. if you are applying for an ordinary disability pension, you must have at least five (5) years of credited service.

Your eligibility will be determined as of the date HMEPS receives your Request. If you are eligible, HMEPS will provide you with the necessary forms and documents to complete, and the information that must be provided by your medical provider(s) in order for you to apply for a disability pension.

Your completed application and medical information will be submitted to the Board for its consideration. The Board, in its sole discretion, will render a decision with regard to your application within ninety (90) days after receipt of the completed application and medical information (or 180 days, if special circumstances exist). Such decision-making may include, but is not limited to, approving or denying an ordinary or service disability pension, tabling the application for further discussion, review, receipt of additional information, rejecting the application for failure to meet required criteria, or any other action deemed appropriate by the Board in its sole discretion. If the Board approves your application, you are deemed to have retired or terminated service for reason of disability no later than the last day of the month in which the Board approved your disability pension.

If your claim is fully or partially denied, you will be notified of this in writing within 90 days (or 180 days, if special circumstances exist). This notification will tell you: (a) that the Board has denied the claim in whole or in part; and (b) provide an explanation of the claims review procedure set forth below.

If you receive no response on your claim within the 90-day (or 180-day) time limit, you should consider the claim denied, and proceed to the appeal and review procedure, if you wish.

#### **(ii) Denial of Application for Disability Benefits, Appeal and Review**

If you wish to appeal a denial and have it reviewed, you must make such appeal in writing within 60 calendar days of the date you receive notice of denial. This appeal must be directed to the Board and must contain new and updated medical information not previously submitted and any additional information reasonably requested by HMEPS. The Board has sole discretion and decision-making authority with respect to disability benefits. The Executive Director has 60 days in which to give you a written decision on your appeal unless additional time is needed. A decision will be rendered as soon as possible, but not later than 120 days after receipt of a request for review. If you receive no response to your appeal within the 60 days (or 120 days, if a special case), you should consider the appeal denied on review. The Board's decision on appeal is final and binding. If an appeal is not timely filed or is withdrawn, the Board's original decision is final and binding.

## BOARD ACTIONS



The Board is responsible for the administration of HMEPS. The determination of any fact by the Board, and the Board's interpretation of the Statute, are final and binding on any interested party, including members, deferred participants, retirees, eligible survivors, beneficiaries, and the City.

The Board may obtain from any member, deferred participant, retiree, eligible survivor, alternate payee, or beneficiary any information the Board considers necessary for the proper administration of HMEPS. The Board may require any member, survivor, or other person or entity to furnish information the Board requires for the determination of benefits under the Statute. If a person or entity does not cooperate in the furnishing or obtaining of information, the Board may withhold payment of the pension or other benefits until the Board receives the information. Any pension or benefit withheld during the delay in providing information shall be lost unless the Board determines, in its sole discretion, that all or a portion of the withheld pension or benefit shall be paid to the person or entity.

The Board may offset amounts received wrongly or in error by a member, deferred participant, retiree, eligible survivor, alternate payee, or beneficiary from future pension or benefit payments payable to the person or the person's beneficiaries.

If a retiree or eligible survivor has a benefit check from HMEPS that has not been presented for payment by the retiree or eligible survivor, the Board may authorize HMEPS, upon written request of the retiree or eligible survivor, to reissue the check to the retiree or eligible survivor, provided that the check was issued within two (2) years prior to the date of the written request. All checks issued more than two years prior to the date of the written request are void and any and all amounts represented by the checks are not payable by HMEPS to any person or entity.

In the event a retiree has a benefit check from HMEPS that has not been presented for payment by the retiree and the retiree dies, the Board may authorize HMEPS to reissue the check payable to the surviving spouse, or if there is no surviving spouse, to the estate of the retiree, provided that the check was issued within the 90 calendar day period prior to the retiree's death. All checks issued more than 90 calendar days prior to the death of the retiree are void and any and all amounts represented by the checks are not payable by HMEPS to any person or entity.

You are required to keep HMEPS informed of your address. If HMEPS receives returned mail from your address of record, HMEPS may take action, including suspension of payments to you, until you provide HMEPS with your correct address and any other relevant information HMEPS requires.

## TAX INFORMATION

HMEPS is designed to operate as a qualified pension plan and also to comply with the rules under the Internal Revenue Code (the “Code”) for employer pick-up contributions. Qualification of the pension plan means that participants will not have to pay income tax on the City’s contributions to HMEPS, including “pick-up” contributions, or on the investment income on such contributions, until distribution, and that some distributions from HMEPS may qualify as roll-over distributions under the Code.

The Board may by resolution make the implementation of a provision of the Statute contingent on receipt of a favorable private letter ruling or favorable determination letter from the Internal Revenue Service if the Board determines that the action is in the best interest of HMEPS.

**The following paragraphs contain reference to tax and/or tax rates for operational purposes only. This summary is not intended to cover aspects of HMEPS participation from a tax perspective. Participants are urged to consult with a tax advisor concerning specific tax consequences regarding participation in HMEPS.**

### A. Contributions

Amounts picked up by the City and contributed to HMEPS are deferred from federal income tax until you receive the contributions in the form of a refund or pension benefit. Federal income tax is currently paid on after-tax contributions, if any, contributed to HMEPS. Both after-tax and pick-up contributions will be subject to Social Security and Medicare (FICA) tax when made.

### B. Lump Sum Distributions

If you receive a refund of your contributions to HMEPS upon termination or if you receive your pension in a lump sum, generally all or part of the distribution (except a distribution of after-tax contributions) is subject to federal income tax at ordinary income tax rates and, if received prior to your reaching age 59½, may be subject to a 10% penalty tax on early distributions. However, if you transfer all or a portion of the taxable amount distributed from HMEPS to an IRA or a qualified pension plan, such transfer (rollover) may postpone the payment of federal income tax on the distribution. The transfer must comply with the rollover rules described below.

You may have all or any portion of the payment either paid as a “rollover” or paid to you. If the distribution is delivered directly to you, then that part of the distribution eligible for rollover treatment will be subject to mandatory federal income tax withholding at a 20% rate (a different rate may apply for out-of-country distributions) even if you ultimately decide to roll over the entire distribution. To avoid the withholding of this 20% tax, you can elect to have your distribution transferred directly to an IRA or qualified pension plan that accepts rollovers. Such direct transfer will postpone the payment of federal income tax on the distribution. If you want to elect a direct transfer of your distribution, obtain the appropriate forms from the HMEPS Office.

If you do **not** elect the direct transfer option, the 20% tax will be withheld (a different rate may apply for out-of-country distributions). To avoid a federal tax liability in the year of the

distribution, within 60 days you may roll over the distribution received plus an additional amount equal to the 20% tax that was withheld. Then you would apply the withheld amount to your tax bill or claim a tax refund on your federal tax return. If you do not roll over the 20% federal tax payment, that amount will become taxable income to you in the year of distribution.

The above rules also apply to distributions made to the surviving spouse of a participant. A surviving spouse, however, may make a direct rollover only to an IRA. If the total of the distribution is less than \$200.00, it is not eligible for rollover; therefore, the 20% withholding rules do not apply. If a participant elects to have a portion of the distribution paid directly to him or her, and a portion of the distribution is rolled over, the rollover portion cannot be less than \$500.00.

## REDUCTION OF BENEFITS/INCREASED CONTRIBUTION REQUIREMENTS

### The Corridor

Effective July 1, 2017, funding for the HMEPS plan from City contributions is subject to a control. This control, called a “Corridor,” limits how high and how low the city contribution rate can go. For each subsequent year, the Corridor has a Corridor Midpoint, a Maximum Rate and a Minimum Rate, as described below.

- Based on initial studies performed by the HMEPS actuary and the City actuary, there is a projected city contribution rate for each fiscal year of a 31-year period beginning with FY 2018 (fiscal year beginning July 1, 2017). The projected city contribution rate for each fiscal year will be that year’s Corridor Midpoint, and the Maximum Rate is set 5 percentage points higher than the Corridor Midpoint and the Minimum Rate is set 5 percentage points lower than the Corridor Midpoint.
- Each subsequent year, the HMEPS actuary and the City actuary will perform studies to project the city contribution rate for the next fiscal year. If the final calculated city contribution rate for the next fiscal year is above the applicable Corridor Midpoint but less than or equal to the Maximum Rate, the City pays the calculated city contribution rate. If the calculated city contribution rate for the next fiscal year is less than the applicable Corridor Midpoint, then depending on the funded status of the plan, the City pays the Corridor Midpoint or a rate between the Minimum Rate and the Corridor Midpoint.
- If the calculated rate is more than the Maximum Rate, then benefit reductions and/or increased employee contributions are implemented until the city contribution rate is halfway between the Corridor Midpoint and the Maximum Rate. The halfway rate will remain for 3 fiscal years to provide an opportunity for investment experience to lower the rate to the Corridor Midpoint. If the rate has not reached the Corridor Midpoint after 3 fiscal years, then benefit reductions and/or increased employee contributions are implemented until the rate equals the Corridor Midpoint for the following fiscal year.

In the event the **pension fund** becomes seriously depleted in the opinion of the Board, the Board reserves the right to proportionately and temporarily reduce the benefits of all retirees, eligible survivors, alternate payees and beneficiaries. However, such reductions will be removed as and when the pension fund is, in the opinion of the Board, sufficiently reestablished to do so.

A retiree or eligible survivor who is receiving a retirement pension or survivor benefit may, at his or her option, receive a smaller retirement pension or survivor benefit by making a written request to HMEPS in a manner determined by the Board. If you choose this option, you are not eligible for payment of any amount of the reduction at any time.

## **CONFIDENTIALITY**

Information contained in records that are in the custody of HMEPS concerning an individual member, deferred participant, retiree, eligible survivor, beneficiary, or alternate payee is confidential and may not be disclosed in a form identifiable with a specific individual except under limited circumstances. However, the confidentiality of records does not prevent the disclosure of the status or identity of an individual as a member, former member, deferred participant, retiree, deceased participant, eligible survivor, beneficiary, or alternate payee of the pension system. Further, if information is subject to disclosure, such disclosure may be made without notice to the individual member, deferred participant, retiree, eligible survivor, beneficiary, or alternate payee.

Please contact HMEPS if you have questions about information requests.

## **POWERS OF ATTORNEY**

HMEPS will recognize an agent or attorney-in-fact (“agent”) under a power of attorney only if HMEPS determines that the power of attorney is a valid Statutory Durable Power of Attorney as set forth in Section 490, Texas Probate Code, Chapters 751 and 752, Texas Estates Code, as applicable, or any successor statute or re-designation thereto. A durable power of attorney contains a “durability clause,” which is a provision that permits your designated agent to act on your behalf in the event you are unable to handle your affairs.

Because of the broad power granted by a durable power of attorney, we recommend that you consult an attorney before signing the power of attorney.

The individual appointed under a durable power of attorney assumes the fiduciary and other legal responsibility of an agent by accepting or acting under the appointment. Therefore, you should inform your designated agent of the high standards of accountability and fair dealings associated with the fiduciary relationship and the severe penalties associated with any breach of duty arising from acts of self dealing or acts which exceed the scope of the agent’s authority.

If you change your mind about your power of attorney, you must properly revoke the power of attorney or complete a new power of attorney that contains the changes you desire and that properly revokes the old power of attorney. Keep in mind that revocation does not terminate the agency as to the agent or other person who, without actual knowledge of the termination of the power by revocation, continues to act in good faith or reliance under the power. Therefore, you must inform those who are acting under the power that the power has been revoked. If HMEPS recognizes a power of attorney that is later revoked, HMEPS is not liable for any payments made or actions taken at the request of the agent that occur prior to the date HMEPS receives written notice that the power of attorney has been revoked.

Chapter 752 of the Texas Estates Code contains a durable power of attorney form. You may also obtain a sample form from HMEPS. When requesting a form, please notify HMEPS if the power of attorney will be signed with a mark (“x”) so that the appropriate sample form can be sent. HMEPS will recognize a power of attorney signed with a mark only if it is properly witnessed and notarized.

If you have further questions about a power of attorney, you should consult an attorney

## **COMPUTATION OF TIME**

For purposes of time periods set forth in this handbook:

- (i) If the last day of any period is a Saturday, Sunday, or HMEPS-observed holiday (other than a floating holiday), the period is extended to include the next HMEPS business day that is not a Saturday, Sunday, or HMEPS-observed holiday (other than a floating holiday).
- (ii) If a number of months is to be computed by counting the months from a particular day, the period ends on the same numerical day in the concluding month as the day of the month from which the computation is begun, unless there are not that many days in the concluding month, in which case the period ends on the last day of that month.

## **PROPORTIONATE RETIREMENT**

The Board previously established a program of proportionate retirement benefits to allow members or former members the ability to combine their credited service in the Houston Police Officers’ Pension System (HPOPS) and/or the Houston Firefighters’ Relief and Retirement Fund (HFRRF) with HMEPS credited service solely for the purpose of determining eligibility for a normal retirement pension, as provided in the Statute. The Board terminated the proportionate retirement program effective May 1, 2018, but continues the program for eligible participants actively employed on May 1, 2018 for the period they remain actively employed. Contact HMEPS for more information about the proportionate retirement program.

## OTHER IMPORTANT INFORMATION

**Administration.** HMEPS is governed by the Statute and is maintained by the HMEPS Board. The Executive Director assists the Board in the administration of HMEPS. Any questions regarding HMEPS should be directed to the Houston Municipal Employees Pension System, 1201 Louisiana, Suite 900, Houston, Texas 77002.

**Mandatory Commencement.** The payment of pension benefits to a participant must commence no later than the first day of April of the year following the calendar year in which the participant has either (a) attained age 70½, or (b) terminated service, whichever occurs later.

**No Duplication of Plans.** The Statute provides that there will be no duplication of pensions payable under HMEPS and pensions or other retirement benefits payable under any other defined benefit pension plan to which the City contributes.

**Plan Year.** HMEPS is operated on a plan-year basis that begins on July 1 and ends on June 30.

**Plan Identification.** The employer identification number assigned to HMEPS is 74-6036550.

**Legal Process.** HMEPS's agent for service of legal process is the Executive Director.

**Custodian.** HMEPS's assets are held by a custodian as required under Chapter 802 of the Texas Government Code. The custodian's address is State Street Corporation, 801 Pennsylvania, Kansas City, MO 64105.

**Assignment of Benefits.** HMEPS is intended to pay benefits only to you and your eligible survivors and beneficiaries. You cannot assign your benefit in any way, except as provided in the Statute, or use your benefit as collateral for loans. However, your benefit may be divided by a "qualified domestic relations order."

**Qualified Domestic Relations Order.** A "qualified domestic relations order" is a legal judgment or decree which recognizes the rights of another person under HMEPS, with respect to alimony, marital property rights or support for a child or other dependent. A domestic relations order must satisfy the requirements of Chapter 804 of the Texas Government Code to be "qualified," and it must be recognized by HMEPS's plan administrator. For an order issued after May 1, 2014, such order must comply with the "Model Order for Domestic Relations Order" adopted by HMEPS as authorized under Chapter 804 of the Texas Government Code. A fillable form of the HMEPS Model QDRO is available on the HMEPS website at [www.hmeps.org/resources.html](http://www.hmeps.org/resources.html). In addition, there are specific procedures regarding the amount and timing of any payments made under an order. You may receive more information from the HMEPS Office.

**Maximum Benefits.** The Internal Revenue Service ("IRS") imposes certain limitations concerning the maximum benefit employees may receive from HMEPS. You may receive more information on limits from the HMEPS Office.

**Payments to Guardians.** If any person who is entitled to receive a benefit from this plan is a minor or legally incompetent, the Board may choose to have payments made to the person's guardian or as provided by an order from an appropriate court. The Board is not required to ensure that proper application of such benefit payments is made.

**Information Requests.** The Board may obtain from any member, deferred participant, retiree, eligible survivor, alternate payee, or beneficiary any information the Board considers necessary for the proper administration of HMEPS. The Board may require any member, survivor, or other person or entity to furnish information the Board requires for the determination of benefits. If a person or entity does not cooperate in the furnishing or obtaining of information, the Board may withhold payment of the pension or other benefits until the Board receives the information.

**Unclaimed Benefits.** If you should become eligible for a benefit from HMEPS, the Executive Director may mail by registered or certified mail to you at your last known address a written demand for your then address or for satisfactory evidence that you are living, or both. If you fail to provide such information to the Executive Director within two months from the mailing of the demand, and if other reasonable efforts of HMEPS to locate you have been unsuccessful as determined by the Board, your benefit will be suspended, and the Board may, in its sole discretion, determine that you have forfeited your right to such benefit and may declare such benefit (or any unpaid portion thereof) terminated; provided, however, that any forfeited benefit shall be reinstated if you make a claim for such benefit at any time within two years from the date of the mailing of the initial demand.

**Controlling Law.** HMEPS is governed by the laws of the State of Texas.

**Official Text.** This summary describes the highlights of HMEPS. It does not change or take the place of the Statute and the rules adopted by the Board, which govern all rights and benefits.



## GLOSSARY OF TERMS

1. “Article 6243g” means Chapter 358, Acts of the 48th Legislature, Regular Session, 1943 (former Article 6243g, Vernon’s Texas Civil Statutes), as amended.
2. “Authorized absence” means (a) each day an employee is absent due to an approved holiday, vacation, accident or sickness, as long as the employee is continued on the employment rolls of the City or HMEPS, receives his or her regular salary from the City or HMEPS for each day of absence and remains eligible to work upon recovery or return, or (b) any period that a person is on military leave of absence covered by USERRA, provided the person complies with the requirements of USERRA and the Statute.
3. “Average monthly salary” means the amount calculated by dividing the sum of the 78 highest bi-weekly salaries paid to an employee during years of credited service by 36, or, if there are less than 78 bi-weekly salaries paid to an employee during the employee’s period of credited service, the amount calculated by multiplying the average of all bi-weekly salaries paid to the employee during his or her period of credited service by 26 and dividing such product by 12.
4. “Benefit accrual rate(s)” means the percentage(s) for each year of a member’s credited service for purposes of calculating a pension or other benefit.
5. “City” means the City of Houston, Texas.
6. “Code” means the United States Internal Revenue Code of 1986, as amended.
7. “Credited Service” means each day of service and prior service of a member for which:
  - a. the City and the member have made required contributions to HMEPS that were not subsequently withdrawn;
  - b. the member has purchased service credit or converted service credit from Group B to Group A by paying to HMEPS the required amounts and such amounts were not subsequently withdrawn;
  - c. the member has reinstated service under the service purchase provisions of Section 7 of the Statute; and
  - d. the member has previously made payments to HMEPS that, under then existing provisions of law, entitled the member to credit for such service, and such amounts were not subsequently withdrawn.
8. “Deferred Participant” means a person who has separated from service and has at least five (5) years of credited service in HMEPS but has not met the eligibility requirements for a normal retirement pension under the Statute, and who has made a written election to receive a deferred retirement benefit that has been approved by the Board.
9. “Dependent Child” means the unmarried natural or legally adopted son or daughter of a member, deferred participant, or retiree, who was supported by the member, deferred participant or retiree, and who is either under 21 years of age or is totally and permanently disabled from performing any full-time employment because of an injury or illness, serious mental illness, intellectual disability, or pervasive developmental disorder, that began before the child became 18 years of age and before the termination of employment of the member, deferred participant, or retiree.
10. “Disability” or “Disabled” means the complete and permanent inability of a member to perform the usual and customary duties that the member has been performing as an employee, or any other full-time duties for which the member is reasonably suited by training or experience, as determined by the Board in its sole discretion on the basis of medical examination and any other evidence the Board determines is necessary.

11. “Effective Retirement Date” means the first day of the month retirement begins for a member or deferred participant who is eligible for retirement. If HMEPS receives a member’s application for normal retirement before the member’s separation from service or not later than the 90th calendar day after the date of the member’s separation from service, the effective retirement date is the later of the first day of the month following the month of separation or the date specified on the application. If HMEPS does not receive the application within 90 calendar days after the date of the member’s separation from service, the effective retirement date is the later of the first day of the month after HMEPS receives the application, or the date specified on the application. The effective retirement date for a member who qualifies for a service or ordinary disability retirement is the later of the day following the member’s last day of credited service or the date HMEPS receives his or her authorized request to apply for disability retirement.
12. “Eligible Survivor” means a “surviving spouse” or “dependent child” as defined herein.
13. “Employee” means and includes any person eligible under the Statute in a municipal position whose name appears on a regular full time payroll of the City and who is paid a regular salary for his services; provided, that any elected official who becomes a member of HMEPS as permitted by the Statute shall be considered to be and to have been an employee during the period of any service as an elected official. The term also includes any person eligible under the Statute whose name appears on a regular full time payroll of HMEPS and who is paid a regular salary for his services, or, unless the External Affairs Committee expressly determines otherwise, who is an employee of any entity controlled, directly or indirectly, by the City.
14. “Marriage” or “married” means a marriage in which:
  - a. a marriage certificate is recorded in the records of the county clerk’s office in the county in which the marriage ceremony was performed; or
  - b. in the case of a common-law marriage, a marriage declaration is executed by the couple and recorded in the records of the county clerk’s office in the county in which the couple resides. For separations from service after June 29, 2002, a marriage that is evidenced by a declaration of common-law marriage signed before a notary public after June 30, 2002, may not be treated as effective before the date it was signed before the notary public.
15. “Member” means each active employee included in HMEPS provided for herein and becoming a member thereof, except an employee who is ineligible under the Statute.
16. “Military Service” of any member means honorable active service in the armed forces of the United States or wartime service in the armed forces of the United States or in the Allied Forces, if credit for military service has not been granted under any other federal or state system or used in any other retirement system, except as expressly required under federal law.
17. “Option-Eligible Participant” means, as determined by the Board in its sole discretion:
  - a. A former Group A Member or Group B Member who terminates employment with the City or the Pension System on or after June 30, 2011, and who is eligible to receive a Normal Retirement Pension, but only if the former Group A Member or Group B Member was not married as of the date of his termination of employment;
  - b. A former Group B member who terminated employment with the City or the Predecessor System before September 1, 1997 and who is eligible to receive a Normal Retirement Pension; or
  - c. A former Group D Member who terminated employment with the City or the Pension System and who is eligible to receive a Normal Retirement Pension or an Early Retirement Pension.

18. “Participant” means a former Member, including a Deferred Vested Participant, a Retiree, or a former DROP Member.
19. “Pension” means a benefit payable to a retired member by HMEPS based on a disability or service retirement.
20. “Pension Fund” or “fund” means assets consisting of the contributions made by the City, contributions made by any member, and any income, profits or other increments derived from investments made from those contributions, which are held in trust for the sole benefit of the members and retirees of HMEPS and their eligible survivors.
21. “Previous Service” means all services and work as an employee, other than “prior service” as herein defined, which preceded a member’s current period of employment.
22. “Prior Service” means all services and work performed as an employee prior to September 1, 1943.
23. “Retiree” means a former member of HMEPS who has separated from service, has met the eligibility requirements for a deferred or normal retirement or disability pension under the Statute, and is receiving a deferred or normal retirement or disability pension under the Statute based on service that was credited to the person.
24. “Salary” means base pay, plus longevity pay, plus shift-differential pay, if any, paid to an employee and attributable to services rendered by the employee regardless of how actually paid.
25. “Separate from Service” or “separation from service” means cessation of work for the City or HMEPS in an eligible position covered by the Statute, whether caused by death, discharge, resignation, retirement or any reason involving the person’s removal from the employment rolls of the City or HMEPS, the effective date of which shall be certified by the City or HMEPS. The term includes termination of employment.
26. “Service” means each day of services and work performed by an “employee” as that term is defined herein, including an “authorized absence” as that term is defined herein. The term does not include any period in which a person is a DROP participant, suspended from duty without pay, on leave of absence without pay, ineligible for membership, or separated from service. Service does not include time spent in the fire or police academy.
27. “Surviving spouse” means a spouse by marriage of a member, deferred participant or retiree both at the time of death of the member, deferred participant or retiree, and as of the date of separation from service of the member, deferred participant or retiree.
28. “USERRA” means the Uniformed Services Employment and Reemployment Rights Act, 38 U.S.C. §4301 et seq.

Houston Municipal Employees Pension System  
1201 Louisiana, Ste. 900  
Houston, TX 77002

713.595.0100  
[www.hmeps.org](http://www.hmeps.org)

