



# PENSION PRESS

The Newsletter of the Houston Municipal Employees Pension System



## Update From the Chairman

Sherry Mose  
Chairman

Dear Participants,

As you may know, the 85th biennial session of the Texas Legislature recently concluded in Austin, and several changes to Houston public employee pension systems, including HMEPS, were enacted.

Senate Bill 2190, which was approved by the Texas House and Senate and signed by Governor Abbott, is the product of more than a year of difficult negotiations between the City of Houston, the three employee pension systems, including HMEPS, and numerous other stakeholders. Our goal was to achieve meaningful and balanced reforms to the benefit structure, and to address the City's prior underfunding of the pension system. I believe SB 2190 will strengthen HMEPS' funding and our long-term ability to deliver a secure retirement to our participants. I want to be sure these changes are clear to our participants, and I urge you to read them in detail on pages 3-6.

Throughout the negotiations and the legislative session, HMEPS has kept you informed regarding the benefit and employee contribution changes, with updates on our website, in the Pension Press Newsletter, and in email blasts. Over the past several weeks, HMEPS has been conducting meetings with active employees and retirees to explain the changes in detail and to answer any questions.

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## HMEPS Chairman and Staff Communicating Benefit Changes



# Update From the Chairman (Con't from Page 1)

The Board and staff of HMEPS are preparing to implement the legislative changes that will go into effect beginning July 2017, and are dedicated to the great deal of work that still remains so that these reforms can be successfully managed in the years to come.

I want to thank members of our Board of Trustees and HMEPS staff for their hard work and dedication leading up to and during the legislative session. I am also grateful to HOPE, the union for municipal employees, and the Association of Retired Houston Municipal Employees (ARHME) for their significant contributions to this process. And I want to thank you, our participants, many of whom answered the call to contact your legislators and make your voices heard regarding this important legislation.

At our April meeting of the Board of Trustees, we welcomed our newest Trustee, Denise Castillo-Rhodes, who is a City Council appointee to the Board. Ms. Castillo-Rhodes is executive vice president and chief financial officer of the Texas Medical Center, where she oversees accounting, finance, billing and tax compliance. Please read more about her on page 7. Welcome, Denise!

Finally, I want to thank you for the trust you have placed in me to serve as Chairman. As I said previously, I know this has been a challenging time for our participants. I will continue to work each and every day to protect your hard-earned retirement benefits.

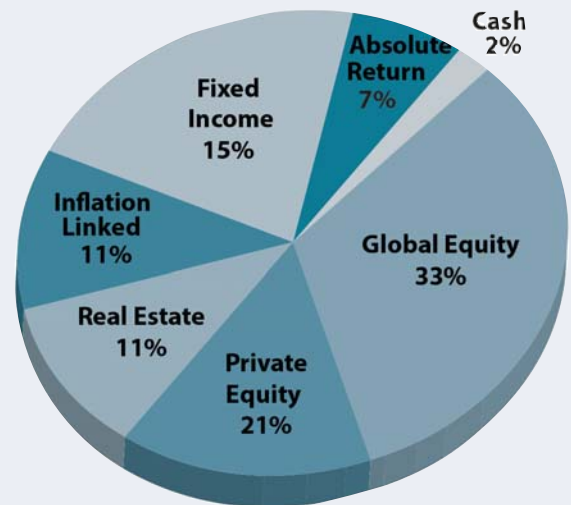
Your Chairman,  
Sherry Mose

## HMEPS Investment Update

### Market Value by Asset Class

	March 31, 2017	Dec. 31, 2016
Global Equity	\$ 873,531,583	\$ 818,919,304
Fixed Income	390,979,098	381,571,307
Real Estate	283,189,935	280,927,648
Inflation Linked	273,762,909	260,154,768
Private Equity	517,749,272	509,013,644
Absolute Return	182,433,174	181,235,992
Cash	32,952,763	48,441,829
<b>Total</b>	<b>\$2,554,598,734</b>	<b>\$ 2,480,264,492</b>

## Asset Allocation as of March 31, 2017





## Overview of HMEPS Benefit Changes

The Houston Municipal Employees Pension System (HMEPS) and the City of Houston (City) negotiated pension reforms that strengthen the pension system for the long term. The Texas Legislature passed legislation containing the changes (SB 2190), and the legislation was signed into law by the Governor on May 31, 2017. The changes will be effective beginning July 1, 2017.

### Summary of changes to current HMEPS benefits

Effective July 1, 2017, the changes to HMEPS benefits include the following (see the FAQs for more information on each of these changes):

- Revised COLA for all Group A and B retirees, eligible survivors and DROP participants, and for all Group D retirees who terminate employment after July 1, 2017, and their eligible survivors. The non-compounded annual COLA will be HMEPS' five-year average net investment return minus 5%, and then multiplied by 50%, but not less than 0% or greater than 2%.
- Increases to member contributions starting with the first full pay period on or after July 1, 2017.
  - o Group A member contributions will increase to 8% in a 2-year phase
  - o Group B members will contribute 4% as member contributions in a 2-year phase
  - o Group D members will contribute 2% as member contributions
- Establish a cash balance account for each Group D member beginning the later of the first full pay period after January 1, 2018 or the Group D member's hire date. Each Group D member will make required bi-weekly contributions of 1% of salary to the account, and interest will credit to the account after one year of participation.
- For Group A and B members, COLAs will no longer be credited to DROP accounts until age 62.
- For Group A and B members, the DROP interest credit will be half of the five-year net investment return, and guaranteed to not be less than 2.5%, or greater than 7.5%.
- For active participants and retirees who die on or after July 1, 2017, the spousal survivor benefit percentage will change from the current 100% to 80%, if the surviving spouse was married to the participant at the time of death and for at least one continuous year as of the date of separation from service (the marriage requirement applies for separations from service on or after July 1, 2017), and from 100% to 50% if the surviving spouse was married less than one continuous year as of the date of separation from service (the marriage requirement applies for separations from service on or after July 1, 2017).
- For deferred participants (not yet receiving a pension benefit) who die on or after July 1, 2017,

# Overview of Benefit Changes (Con't from Page 3)

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the spousal survivor benefit percentage will change from the current 100%, payable immediately, to 50%, payable at the participant's eligibility date; however, the surviving spouse can elect an earlier actuarially equivalent benefit.

## **Frequently Asked Questions**

### **When will the changes be effective?**

The benefit changes will take effect beginning July 1, 2017. The Group A and Group B contribution increase will be phased in over a two year period. The Group D cash balance account will be established the later of the first full pay period after January 1, 2018 or the Group D member's hire date.

### **Do the benefit reforms affect when I am eligible to retire?**

The changes do not affect retirement eligibility for any members.

### **Do the benefit reforms affect when I am eligible to enter DROP?**

Just as the changes do not affect retirement eligibility, the changes do not affect DROP eligibility either. If you are a Group A or Group B member, you are eligible to enter DROP when you become eligible to retire. This will not change.

If you are a Group D member, you are not eligible to participate in DROP. However, as a Group D member, under the changes beginning with the first full pay period after January 1, 2018, a notional Cash Balance Account will be established to which you will contribute 1% of your pensionable pay while you are a Group D member, and you can receive a distribution of your Cash Balance Account balance when you leave employment. For more information, see "What is the Cash Balance Account?"

### **While I am in DROP, how much gets credited to my DROP account?**

Currently you receive the following credits to your DROP account:

- Monthly DROP credit
- An annual COLA that increases the amount of the monthly retirement benefit
- Interest equal to half of HMEPS' investment return earned during the prior year, and guaranteed to not be less than 2.5%, or greater than 7.5%

### **The balance in your DROP account will not be reduced by the changes.**

After the effective date, you will receive the following credits to your DROP account:

- Monthly DROP credit
- Beginning February 2018, an annual COLA that increases the amount of the monthly retirement benefit in February of the year in which you are at least age 62 as of January 1 of that year
- Beginning January 1, 2018, interest equal to half of HMEPS' five-year average net investment return, and guaranteed to not be less than 2.5%, or greater than 7.5%.

When you retire, you will receive both your monthly retirement benefit and the balance of your DROP account based on the DROP distribution election you select. This has not changed.

### **How much do I currently contribute to HMEPS and how much will I contribute under the changes?**

- If you are in Group A, then currently you contribute 5% of your pensionable pay (base salary, longevity and shift differential, if any) to HMEPS. Effective with the first full pay period on or after July 1, 2017,

*(Con't on Page 5)*

# Overview of Benefit Changes (Con't from Page 4)

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your contribution will increase to 7%. Effective with the first full pay period on or after July 1, 2018, your contribution will increase to 8%.

- If you are in Group B, then you do not currently contribute to HMEPS. Effective with the first full pay period on or after July 1, 2017 you will begin contributing 2% of your pensionable pay (base salary, longevity and shift differential, if any) to HMEPS. Effective with the first full pay period on or after July 1, 2018, your contribution will increase to 4%.
- If you were hired prior to January 1, 2008 and are not sure which group you are in, you should contact HMEPS for group participation information.
- If you were newly hired on or after January 1, 2008, then you are a Group D member and you do not currently contribute to HMEPS. Effective with the first full pay period on or after July 1, 2017, you will begin contributing 2% of your pensionable pay (base salary, longevity and shift differential, if any) to HMEPS. Beginning with the first full pay period on or after January 1, 2018, you will begin contributing an additional 1% of your pensionable pay (base salary, longevity and shift differential, if any), which will be credited to a notional cash balance account in your name.

## **What is the Cash Balance Account?**

The cash balance account for Group D participants is a notional, or bookkeeping, account. If you are a Group D member, beginning with the first full pay period on or after January 1, 2018, your cash balance account will be credited with your required contribution of 1% of your pensionable pay. If you contribute to the cash balance account for at least one full year, your account will be credited with interest equal to half of the

five-year average net investment return earned by the pension fund, and guaranteed to not be less than 2.5%, or greater than 7.5%. The balance in this account can be distributed to you when you leave employment with the City.

## **When I retire will I receive a COLA on my monthly benefit?**

Currently:

- If you were hired before 2005, the monthly benefit received at the time of retirement would increase annually by 3%, not compounded. Also, if you were retired prior to 2005 and receiving a 3% COLA and then subsequently were rehired after 2004, your monthly benefit for your subsequent period of service would increase annually by 3%, not compounded.
- If you were hired or rehired between 2005 and 2008, and had not previously received a retirement benefit, the monthly benefit received at the time of retirement would increase annually by 2%, not compounded.
- If you were newly hired after January 1, 2008, your monthly benefit would not receive a COLA adjustment.

After the effective date:

For all Group A and B retirees, eligible survivors and DROP participants, and for all Group D retirees who terminate employment on or after July 1, 2017 and for their eligible survivors, the non-compounded annual COLA is linked to HMEPS' investment rate of return; specifically, the five-year average net investment return minus 5%, and then multiplied by 50%, but not less than 0% or greater than 2%. For example:

- If the five-year average net investment return of the pension fund is 7%, then for the year starting the

*(Con't on Page 6)*

# Overview of Proposed Changes (Con't from Page 5)

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following February, your monthly benefit would increase by 1% of your original benefit amount;

- If the five-year average net 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 net investment return of the pension fund is 4%, then for the year starting the following February, your monthly benefit would not increase.

A former Group D member who terminated employment prior to July 1, 2017 was not a contributing member and is not eligible for a COLA, nor is the eligible survivor of a former Group D member who terminated employment prior to July 1, 2017.

## **What are the changes to the survivor benefit?**

The determination of whether a survivor benefit or optional annuity will be paid to an eligible survivor or joint annuitant depends on your group participation, date of termination or death, status at time of death, and your marital status at separation from service.

The changes will not affect the survivor benefit currently being paid or payable to eligible survivors of participants who die prior to July 1, 2017. The changes also will not affect the ability of a Group D member or a member of Group A or Group B who is unmarried at separation from service to select a joint and survivor annuity and name a joint annuitant.

- Effective July 1, 2017, if an active Group A, Group B or Group D member with at least 5 years of credited service dies while still in service with the City (off-duty death), the spousal survivor benefit will be 80% of the normal accrued pension, payable immediately, provided that the spouse was married to the participant for at least one continuous year as of the date of death. If such spouse was married less than one continuous year as of the date of death,

the survivor benefit is 50% of the normal accrued pension.

- Effective July 1, 2017, if a Group A or Group B retiree dies, the spousal survivor benefit will be 80% of the retirement benefit being received by the retiree at the time of death, payable immediately, provided that the spouse was married to the retiree at the time of death and for at least one continuous year as of the date of separation from service (the marriage requirement applies for separations from service on or after July 1, 2017). If such spouse was married less than one continuous year as of the date of separation from service (the marriage requirement applies for separations from service on or after July 1, 2017), the spousal survivor benefit is 50% of the retirement benefit being received by the retiree at the time of death.
- Effective July 1, 2017, if a Group A or Group B deferred participant (not yet receiving a pension benefit) dies, the spousal survivor benefit is 50% of the normal accrued pension, payable at the participant's eligibility date. However, the surviving spouse can elect an earlier actuarially equivalent benefit.
- Effective July 1, 2017, if an active Group A, Group B or Group D member dies from a service-related (on-duty) death, the spousal survivor benefit is 80% of the participant's final average salary, payable immediately.

*This overview is intended only as a brief description of certain changes in the state law effective beginning July 1, 2017. Nothing contained herein may be construed to convey any right or privilege not otherwise provided by the pension law. In the event of conflict, the pension law takes precedence.*

## RETIREMENTS 4TH QUARTER 2016

### Administration & Regulatory Affairs

Davis, Angela

### Aviation

Dees, Jr., Andrew  
Ismaily, Feroz  
Marroquin, Jose  
Mitchell, Clarence  
Moore, Brenda  
Oliva, Ernesto  
Whittaker, Kenneth

### Controller

Abbott, Michael  
Vineski, Debra

### Fleet

Gonzales, Richard  
Rodriguez, Manuel

### General Services

Bogney, John

### Health & Human Services

Murphy, Martha  
Wilson, Mary

### Legal

Heilman, Harlan

### Library

Washington, Rita

### Neighborhoods

Buenrostro, Ernesto

### Police

Fuentez, Laura  
Hammond, Karl  
Hoskin, Carolyn  
Morgan, David  
Runnels, Roger  
Walker, Joyce

### Public Works & Engineering

Alexander, Sandra  
Chang, Jun  
Igbokwe, Ebere  
Kaminsky, Rebecca  
Langlois, Mark  
Morris, Adam  
Proctor, Arthur  
Sen, Ratan  
Williams, David

### Solid Waste

Garza, Jose  
Mouton, Dwight



The Retirements section lists names and departments of those retiring participants who have indicated on their retirement applications that they wished to have an announcement of their retirement included.

## NEW APPOINTEE TO HMEPS BOARD OF TRUSTEES

HMEPS has a new City Council appointed Trustee, Denise Castillo-Rhodes. Denise was sworn in at the April Board meeting.

Denise is Executive Vice President and Chief Financial Officer of Texas Medical Center, with oversight and leadership of accounting, finance, budgeting, risk management, investments, debt financing and tax compliance. Additionally, as a member of the executive leadership team, she's involved in the formation of the long-term strategic initiatives and planning, which includes the development of the collaborative bio-life science ecosystem.



Denise serves in leadership roles with numerous non-profit organizations such as University of St. Thomas, Medical Bridges, Greater Houston Women's Chamber of Commerce and American Red Cross.

Denise holds a Bachelor of Business Administration from the University of Texas at El Paso and a Master of Business Administration from the University of St. Thomas. She is a certified public accountant and is a member of the Texas Society of Certified Public Accountants and American Institute of Certified Public Accountants.

Please join us in welcoming Denise to the Board.

## PENSION PAYMENT SCHEDULE, JULY – OCTOBER 2017

This schedule indicates the dates set for payment of benefits. Direct Deposits (ACH) will be deposited on the last business day of each month. If you receive a pension check by mail, it is typically mailed 3-4 days before the last business day of the month. However, postal delays may lengthen the period of time before check delivery. Call HMEPS for information on signing up for direct deposit of your benefit.

- Monday, July 31, 2017
- Thursday, August 31, 2017
- Friday, September 29, 2017
- Tuesday, October 31, 2017

# PENSION PRESS

Houston Municipal Employees Pension System



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## BOARD OF TRUSTEES

### ELECTED AND APPOINTED TRUSTEES

Sherry Mose, *Chairman*  
Roy W. Sanchez, *Vice Chairman*  
Lonnie Vara, *Secretary*  
Roderick J. Newman  
Asha Patnaik  
Lenard Polk  
Barbara Chelette, *Appointed*

### CITY APPOINTED TRUSTEES

Denise Castillo-Rhodes  
David Donnelly  
Edward J. Hamb II  
Adrian Patterson

## PENSION PRESS

David L. Long,  
*Executive Director*  
Peter Koops,  
*Communications Specialist*

Thanks to the HMEPS staff for their contributions to the ongoing success of the *Pension Press*.



# HMEEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

## NEWSLETTER CONTENT

The material contained in this newsletter is intended to provide you with important information about your pension participation. The content cannot be taken as the basis of any contractual rights between HMEPS and its participants. If there is a question of interpretation, retirement laws are the final authority.

## HMEPS CONTACT INFORMATION

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HMEPS Website:  
[www.hmeeps.org](http://www.hmeeps.org)