



Pension Press

The Newsletter of the Houston Municipal Employees Pension System

Volume 25, Winter 2004



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LETTER FROM THE CHAIRMAN

Dear Plan Participants,

I have recently been asked by several HMEPS retirees, “Fred, I am very concerned about the financial well-being of the pension system – are my benefits *really* secure?” Without skipping a beat I can tell them their benefits are secure and that the system currently has approximately \$1.8 billion in assets. After brief discussions with these retirees, I began to think that perhaps retirees need “reinforcement” about changes brought about by the recent meet and confer agreement with the City. That being said, I want to tell all HMEPS retirees:

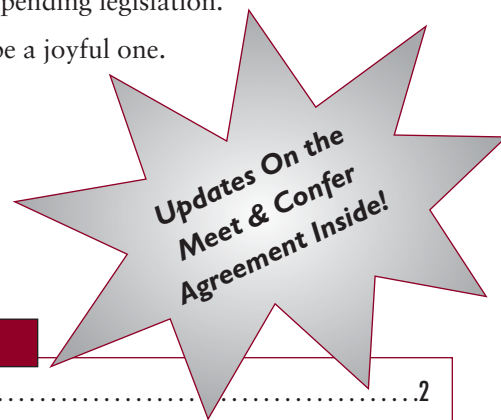
- Your benefits are secure. The only change to retiree benefits was a reduction in the COLA from four percent to three percent. That is the only change to retirees’ benefits.
- HMEPS is continuing to work with the City and to take measures to help ensure the financial soundness of the system. We have received the note relating to the Hilton Convention Center & Hotel, resulting in an addition of approximately \$300 million to HMEPS assets.
- The HMEPS investment team reports that our investments produced an 18.6% rate of return for the fiscal year ending June 30, 2004!

With the year coming to a close, I must thank each and every one of our participants for their support for the system. In the months ahead, we will continue to need your support for legislative matters that will be voted on in Austin. Communication with your Texas Representatives and Senators is crucial for our continued well being – we will be monitoring actions in Austin and keeping you up to date on any pending legislation.

May your holidays be blessed and the year ahead be a joyful one.

Sincerely,

Fred Holmes
Chairman



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Important Updates Regarding the Pension Plan



Deferred Retirement Option Plan (DROP)

Under the 2004 Meet and Confer Agreement (Agreement), beginning January 1, 2005, a member can no longer elect to Back DROP. Back DROP means that a member can select a date in the past to begin DROP participation, provided the member was eligible to retire under the provisions of the applicable pension group in effect on that date. This means that if you are a member and you were eligible to retire prior to December 31, 2004, you have until December 31, 2004 to submit a request to Back DROP with a DROP entry date that is prior to January 1, 2005 (subject to further eligibility verification). See the chart below for an overview of Back DROP eligibility. **IMPORTANT:** Friday, December 31, 2004 is designated as a holiday and the

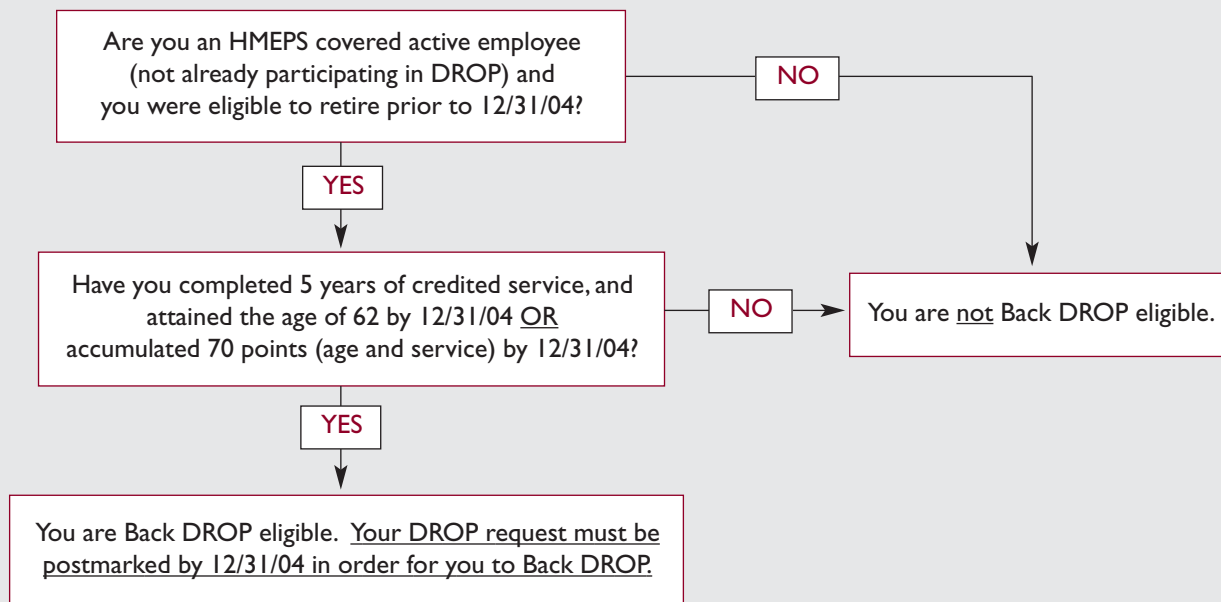
HMEPS offices will be closed all day. To protect your eligibility to Back DROP, you must ensure that your request is postmarked no later than December 31, 2004.

On and after January 1, 2005, an eligible member can only “Front DROP” (elect a DROP entry date that is an eligible date after the date HMEPS receives the member’s request).

Therefore, please be aware of the following:

- If you are a member (i.e. HMEPS-covered active employee) and you have already completed at least five (5) years of credited service and attained either (i) 62 years of age; or (ii) a combination of years of age and

Are You Eligible For Back DROP?



- **How do I apply?** You may download the “DROP Request Form” from the HMEPS website at: www.hmeps.org/forms/drop_request_form.pdf
You may also submit a written request to HMEPS to have the form mailed to you.
- **What if I’ve already received a DROP Application?** As long as you are timely with respect to all required actions and document submissions, you will qualify for Back DROP (subject to eligibility verification) and you are not required to complete a new request. If you are unsure about your DROP application status, you should submit a new request postmarked no later than 12/31/04.
- **What can I do if I’m eligible for Back DROP, but I’m currently in a service purchase?** Submit a request for Back DROP, postmarked by 12/31/04. Your request will be kept on file at HMEPS until your service purchase payment is complete.

years of credited service, including parts of years, equal to or greater than the number 70 (“Rule of 70”) prior to 1/1/05, you may be eligible to Back DROP.

- If eligible, you must submit a request to participate in DROP on the HMEPS “Deferred Retirement Option Plan (DROP) Request Form (Effective September 15, 2004)” to HMEPS that is postmarked no later than December 31, 2004. If you do not submit your request by that date, you will no longer be eligible to Back DROP. The DROP request form is available on the HMEPS website at www.hmeps.org/forms or by making a written request to HMEPS to mail a form to you.
- If you submitted a written DROP request prior to November 1, 2004 that was not on the form described above, but you were sent a DROP Application Packet and you are timely with respect to all required actions and document submissions, you are not required to complete a new request form in order to Back DROP. If you are unsure of your DROP status, you may wish to submit a new request.
- If you are otherwise eligible to Back DROP prior to December 31, 2004, but you are currently in a service purchase obligation to purchase or reinstate service with respect to a refund, lump sum payment, military service or §20 service, you can still request to Back DROP prior to December 31, 2004, but only if you submit a request to HMEPS by December 31, 2004. After you submit your request, HMEPS will take no further action until your service purchase is completed. It is your sole responsibility to contact HMEPS within ninety (90) days of completing payment of your service purchase to finish the DROP election process to enter DROP.



date. Therefore, on and after January 1, 2005, you will know at the time you enter DROP how much your ultimate monthly retirement benefit will be (not including applicable COLAs).

- On and after January 1, 2005, regular employee contributions will not be credited to DROP accounts. However, if you are paying service purchase contributions for service that accrued during the period of your DROP participation that is prior to January 1, 2005, those service purchase contributions will continue to be credited to your DROP account.
- Beginning January 1, 2005, the DROP interest rate on DROP accounts will be 50% of the return on HMEPS's investments for the prior fiscal year, with a minimum rate of 2.5% and a maximum rate of 7.5%. The DROP interest rate for calendar year 2005 will be 7.5%.

The Agreement also authorizes the HMEPS Board to consider allowing participants to elect to receive partial payments from their DROP accounts, and, after January 1, 2005, to consider allowing active DROP participants to voluntarily revoke their DROP elections and to reenter DROP after the revocation (Front DROP only). The HMEPS Board is considering these options and determining their potential financial, legal and administrative effects. If these options are implemented, HMEPS will notify participants by a posting on the HMEPS website or by newsletter.

Retirement Pension Eligibility

A member is eligible to receive a normal retirement pension beginning in the month following the date the member attains the minimum required age and years of credited service. A member who has completed at least five years of credited service and who leaves covered employment before attaining the minimum required age and years of credited service is eligible to receive a future (deferred) benefit if the member/former member applies for the deferred pension benefit.

Under the Agreement, the retirement eligibility requirements for members change beginning January 1, 2005. See the chart on the following page for an overview of retirement eligibility changes.

Other provisions of the Agreement relating to the DROP include the following:

- If you are currently in DROP or if you elect a DROP entry date that is prior to December 31, 2004, your average monthly salary (AMS) for determining your retirement benefit will be calculated as of January 1, 2005. If you elect a DROP entry date that is on or after January 1, 2005, your AMS for determining your retirement benefit will be calculated as of your DROP entry

Overview of Retirement Eligibility Changes

8/1/2000 to 12/31/2004

- Eligible at age 62, with at least 5 years of service; or
- Rule of 70 (age and service), with at least 5 years of service.

On and after 1/1/05

- Eligible at age 62, with at least 5 years of service; or
- Rule of 75 Points (age and service) with at least 5 years of service, subject to a minimum retirement age of 50.
- Rehired members will be covered under the Rule of 75 for the period of service after 1/1/05.
- Important Exception: If a member has at least 68 Points (age and service) with at least 5 years of service as of 12/31/04, that member is subject to the Rule of 70.

If you are a member:

A) Prior to January 1, 2005, you are eligible to retire if you:

- Complete at least five (5) years of credited service and attain 62 years of age; or
- 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 70.

B) On and after January 1, 2005, you are eligible to retire if you:

- Complete at least five (5) years of credited service and attain 62 years of age; or
- 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 age 50 (“Rule of 75”), except as provided in (iii) below; or
- 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 70 (“Rule of 70”), provided that, prior to January 1, 2005, you have at least five 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 68.

Therefore, you should be aware of the following:

- If you have at least 68 points as described above prior to January 1, 2005, you are eligible to retire (or enter DROP) when you have attained the Rule of 70. If you

do not attain 68 points until on or after January 1, 2005, you are eligible to retire when you have attained the Rule of 75.

If you are a former member who terminates or terminated employment prior to January 1, 2005 and you are eligible to and have elected to receive a deferred retirement pension in a manner and form 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 you terminated employment. If you are rehired on or after January 1, 2005, your retirement eligibility is governed by the retirement eligibility provisions then in effect for the period of credited service earned after January 1, 2005.

Therefore, if you terminated employment prior to January 1, 2005, and have not attained normal retirement eligibility, but you have at least 5 years of credited service (depending on the retirement eligibility rules in effect at the time of your termination), you are eligible for a deferred retirement if you elect to receive a deferred retirement pension. Contact your former department as soon as possible to initiate the deferred retirement election process.

Deferred Retirement

Deferred Retirement Eligibility

As explained above under “Retirement Pension Eligibility,” if you leave covered employment prior to January 1, 2005 after completing at least five years of credited service, but before attaining retirement eligibility, you are eligible for a deferred retirement under the applicable retirement eligibility schedule at the time your terminate employment, but only

if you apply for a deferred retirement pension. For example, if you have been continuously employed for at least five years and you terminate employment on December 15, 2004, the Rule of 70 retirement eligibility schedule will apply to the deferred retirement pension that is attributable to the credited service you earned prior to January 1, 2005. That amount will be scheduled to begin at a specific future date, provided you are not an active employee in an HMEPS-covered position on that future date.

If you elect deferred retirement prior to January 1, 2005 and you are reemployed in an HMEPS-covered position on or after January 1, 2005, your subsequent retirement eligibility will be based upon your completion of at least five (5) years of credited service and your attaining either 62 years of age or the Rule of 75. Your previous credited service will count towards the years of credited service earned after January 1, 2005, but any credited service earned after January 1, 2005 will not change the scheduled start date or amount of your original deferred retirement benefit. This may result in your receiving the original deferred retirement benefit for a period of time, and then the additional retirement benefit from your subsequent period of service at a later time. However, depending on your circumstances the result may vary.

The decision to leave employment is a personal one that each individual should make based on his or her own situation. This information does not constitute advice or a recommendation nor does it in any way contemplate that a participant can expect to be reemployed.

Survivor Benefits

It is extremely important that former members elect a deferred retirement as soon as possible in order to safeguard their eligible survivors' ability to obtain survivor benefits in the event of their death. If you leave covered employment with at least five years of credited service but before attaining retirement eligibility, and you die without electing deferred retirement, your survivors will not be eligible to receive survivor benefits. Therefore, you should elect a deferred retirement upon terminating employment so that benefits for your eligible survivors are protected.

In addition, 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 or official attestation of the document.

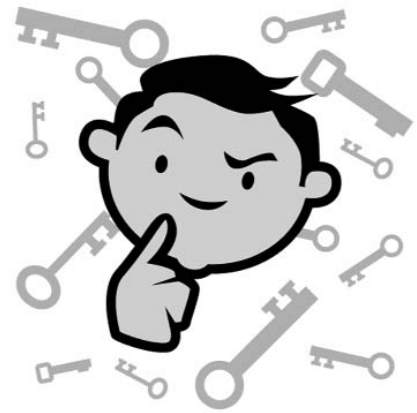
For an informal marriage (common-law marriage), HMEPS requires a valid marriage declaration executed by the couple and recorded in the records of the county clerk's office in the county in which the couple resides. For participants who separate from service after June 29, 2002, if the declaration of 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 and notarized.

For example, suppose a deferred participant and his common law spouse sign a marriage declaration in the presence of a notary public on October 14, 2004. The declaration states that they met the requirements for common law marriage beginning May 4, 2000. If all other requirements are met, HMEPS will recognize the marriage as having begun October 14, 2004. If the deferred participant terminated employment prior to October 14, 2004, 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 at the time of death and prior to separation from service.

To document your dependent child(ren), HMEPS requires the birth certificate (with your name as the parent) of each dependent child, or the official adoption papers. A "dependent child" is 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 age 21 or totally and permanently disabled from performing any full-time employment because of injury or illness, including serious mental illness, retardation, or pervasive developmental disorder, that began before the child became 18 years of age and before the death of the member, deferred participant or retiree.

This overview is intended only as an informational aid to HMEPS participants. Nothing contained herein can be construed to convey any right or privilege not otherwise provided by the pension law. In the event of any conflict between this overview and the pension law, the pension law shall take precedence.

Frequently Asked Questions Regarding Service Conversions



1. I am currently making payments under a service purchase obligation. Will my payments change based on the new rules in effect under the Meet and Confer Agreement?

If you are currently making payments under a service purchase obligation, your scheduled payments will not change and you will continue to be covered by the terms and conditions of your obligation. The Agreement between the City of Houston and HMEPS, effective September 15, 2004 (“2004 Meet and Confer Agreement”) will not change the payment terms of your current obligation.

2. On October 14, 2004, I submitted a written request (Form SP35) to HMEPS to convert service from Group B to Group A. I have not received my cost calculation. How will the cost be calculated and when will I receive my calculation? Do I need to submit a new request?

Do not submit a new request at this time. The 2004 Meet and Confer Agreement changed the cost calculation for converting service from Group B to Group A. Effective September 15, 2004, the cost calculation for a service conversion is the actuarially determined cost of the converted service, as determined by the HMEPS actuary and approved by the HMEPS Board, plus interest at 8.5% annually, not compounded. The HMEPS actuary has provided HMEPS with a program for calculating the actuarially determined cost, and the program requires HMEPS staff to input several numbers for each calculation. The HMEPS staff has been working hard to prepare the calculations and you should soon be receiving a service purchase obligation showing your cost calculation.

3. I received my service conversion cost calculation and service purchase obligation in the mail yesterday. When I initially submitted my request to purchase service (Form SP35), I had requested the salary deduction method for paying the obligation, with biweekly payments over

5 years. Based on the cost calculation I received, that biweekly amount is too high, and I would like to pay it in a lump sum instead by transferring money from my deferred compensation plan. Can I do this?

HMEPS prepared the cost calculation for your service conversion based on the payment selection you provided in the Form SP35. If you did not select a payment method, the default method is the salary deduction method with biweekly payments over 5 years. If you do not wish to enter into a service purchase obligation for the payment method you specified on your Form SP35, you may be eligible to make another request for a different payment method. You can submit no more than two requests in a six month period, measured from the date of the first request. Also, no service conversion elections are allowed after December 31, 2005. For example, if you submitted a request on November 1, 2004, you may submit only one additional request through the six-month period ending May 1, 2005. Accordingly, if you have submitted only one request so far, you can submit another request (provided you are still actively employed) for a lump sum payment calculation on a new Form SP35 (but no later than December 31, 2005). Make sure you indicate that you wish to pay the lump sum by a trustee-to-trustee transfer from your deferred compensation plan.

4. I am currently in a service purchase obligation to convert service from Group B to Group A and I want to revoke my obligation so that all of my service will be in Group B. Can I do this?

The 2004 Meet and Confer Agreement states that the HMEPS Board shall authorize, at a time and in a manner determined by the Board, the voluntary revocation of a

service conversion from Group B to Group A by a member prior to March 1, 2005. Upon revocation, HMEPS will repay the member the contributions the member made for the service conversion, plus interest at 6% annually, not compounded. Any revocation and repayment must comply with the Internal Revenue Code of 1986, as amended or any other superior government law. HMEPS is in the process of obtaining a ruling from the Internal Revenue Service on the permissibility of the voluntary revocation and repayment. A ruling may take longer than March 1, 2005. To address this situation, HMEPS is working with outside tax counsel to determine whether members who are otherwise eligible to make a voluntary revocation may make a revocation election that will become effective if and when HMEPS receives a favorable IRS ruling. Based on previous determinations, no repayment of contributions can occur until after the member separates from service, even if the member has already completed payment on a service purchase obligation.

You also ask whether all of your service can be in Group B. The voluntary revocation, if permissible, will only apply to your service conversion, not to your election to change group participation for future service. Therefore, your service will be in Group A from the date of your election until the date you separate from service.

This section is intended only as an informational aid to HMEPS participants. Nothing contained herein can be construed to convey any right or privilege not otherwise provided by the pension law. In the event of any conflict between this section and the pension law, the pension law shall take precedence.

Pension Check Schedules December 2004 – March 2005

The following are the dates pension benefit checks will be **mailed** in the months ahead. The schedule will be strictly adhered to. Keep this schedule handy so you will know when your benefit check will be mailed.

- December 28, 2004
- January 27, 2005
- February 24, 2005
- March 29, 2005

Direct deposits (ACH) will be deposited on the last business day of each month, as follows:

- December 30, 2004
- January 31, 2005
- February 28, 2005
- March 31, 2005

If you are interested in direct deposit of your pension benefit checks, please call our office at (713) 759-9275.

HMEPS Investments

Market Values as of 06/30/04

Domestic Equity	\$ 451,987,321
International Equity	\$ 297,333,905
Fixed Income	\$ 229,042,800
Real Assets	\$ 234,263,248
Alternative Investments	\$ 196,188,066
Cash Equivalents	\$ 9,737,273
Total Fund	\$ 1,418,552,613

- For fiscal year 2004, the Fund's investment return was 18.63%.
- For the first six months of calendar year 2004, the Fund's investment return was 3.80%.

Retirements and In Remembrance

The "Retirements" and "In Remembrance" sections of the newsletter were not included in this issue due to a lack of space. They will be included in the Spring issue of the *Pension Press*.

Pension Press

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PENSION PRESS

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

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.



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