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 below 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 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 after July 1, 2017
    - Group A member contributions will increase to 8% in a 2-year phase
    - Group B members will contribute 4% as member contributions in a 2-year phase
    - 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 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 (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 (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, 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 below under "*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 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 after July 1, 2017, your contribution will increase to 7%. Effective with the first full pay period 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 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 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, then please 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 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 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 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 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 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 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 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.

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 former 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 participant 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 (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 (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 and the participant was married as of the date of separation from service, 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 participant 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.