



PENSION PRESS

The Newsletter of the Houston Municipal Employees Pension System



Update From the Chairman

Sherry Mose
Chairman

Dear Participants,

I am very pleased to report that the 84th biennial session of the Texas Legislature recently concluded without any legislation being passed that was detrimental to public employee pension systems, including HMEPS.

While pension systems were once again the target of several disadvantageous legislative proposals, none of them passed, thanks in large part to the dedicated efforts of HMEPS trustees, staff members and others who worked hard throughout the session to educate and inform legislators and key stakeholders. You can read more about these proposals on page 3.

Unfortunately, we believe that attacks on public employee pension systems may continue on several fronts, including during the ongoing Houston mayoral campaign and in the time working up to the 2017 legislative session. Houstonians will again be subjected to hyperbolic, shop-worn claims that public employee pensions are placing the City of Houston's solvency at risk. But the truth is, the City of Houston's most recent Comprehensive Annual Financial Report shows that payments to HMEPS accounted for just over two percent of the City's general fund budget.

At HMEPS, we have greatly increased our efforts to proactively communicate our positive message and to counter attacks from pension opponents. We will continue our outreach efforts and we will strongly defend the System.

I want to point out that during the session, several state lawmakers filed proposals they said would give municipalities "local control" over their pension systems. The notion of local control of pensions is understandably appealing to Texans, who are often wary of centralized

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HMEPS' Communications Team Receives IABC Bronze Quill Award

HMEPS is proud to announce that our Communications team was awarded the Bronze Quill Award for print communications from the Houston Chapter of the International Association of Business Communicators (IABC/Houston). The IABC award honors

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Benefits Counselor Nicole Riney, Communications Specialist Peter Koops and IABC President Suzy Hartgrove with the IABC Bronze Quill Award.

Stay connected with us by visiting www.hmeps.org or finding us on social media!



Update From the **Chairman** (Continued from Page 1)

government authority. However, the type of control proposed in the bills was to give the City *absolute* power over pension matters. This would have made a mockery of the idea of negotiations and consensus that are so important to true local control.

The good news, however, is that in Houston, we already have true local control. HMEPS is governed by the Meet & Confer process, which was created by the Legislature in 2003. Meet & Confer requires both the City and HMEPS to negotiate and mutually agree to any changes to the pension plan. This process has worked extremely well over the years and resulted in numerous

plan changes, locally negotiated and agreed to, which have strengthened HMEPS for the long term.

City employees – our participants – work hard serving the people of Houston, and a secure retirement benefit is a vital part of your employment contract. We know that contract must be honored, and we will continue to work diligently to see that it is.

Your Chairman,



Sherry Mose

Attendees at ARHME Meeting Informed About Future Pension Discussions

Attendees at the recent Association of Retired Houston Municipal Employees (ARHME) general membership meeting were told the discussions on pension issues will continue during the City of Houston's mayoral race.

Guest speaker Robert Miller, attorney at Locke Lord, told attendees they



Robert Miller, attorney at Locke Lord, addresses attendees at the recent ARHME meeting.

can expect pensions to be a topic of interest in the next legislative session in 2017. Miller also gave the attendees a review of the events of this past legislative session.

For more information or to learn how to join ARHME call (832) 291-2450 or visit www.ahrme.org.

HMEPS Investment Update

Market Value by Asset Class

	March 31, 2015	Dec. 31, 2014
Global Equity	967,277,245	\$ 941,195,637
Fixed Income	416,466,365	408,410,617
Real Estate	274,354,940	272,722,680
Inflation Linked	163,660,895	174,962,128
Private Equity	414,980,784	392,678,155
Absolute Return	220,489,052	214,294,692
Cash	10,986,714	34,166,266
Total	2,468,215,996	\$ 2,438,430,175

HMEPS Receives IABC

Bronze Quill Award (Continued from Page 1)

excellence in organizational communication and is open to all local Houston professionals. The HMEPS Communications team, consisting of Executive Director Rhonda Smith, Communications Specialist Peter Koops, Benefits Counselor Nicole Riney and consultants Keir Murray and Laura Tolley, received the award at the IABC's Bronze Quill Awards and Showcase Gala on June 11, 2015 at the Junior League of Houston.

The IABC is part of a global network of 16,000 communications professionals committed to improving organizational effectiveness through strategic communications.





Review of the 84th Texas Legislative Session

Texas lawmakers considered a wide range of issues during the 84th legislative session, including a number of pension-related bills, before the session concluded on June 1. Several pension-related bills (HB 2608, HB 2955 and SB 1994) that did not pass would have given the City absolute control over pensions. Although dubbed by some as “local control” bills, these bills would have given cities *full*

and unilateral control – making a mockery of any “negotiation” and opening up Texas pension plans to draconian measures pushed by anti-pension factions that have been failures elsewhere. True “local control” already exists through the Meet & Confer process established by the Legislature

for plans like HMEPS. For other plans, local control is achieved through legislation that is driven by productive consensus at the local level. None of these bills passed.

One pension-related piece of legislation – House Bill 3310 by Rep. Dennis Paul – did pass this session. It implements several proposals from the Texas Pension Review Board’s (PRB) 2014 study of public pension systems in Texas. HMEPS was active in providing relevant information to the PRB and to legislators to assist with the 2014 study and subsequent legislation.



HB 3310 is a good example of how to encourage prudent improvements to public pensions in Texas.

HMEPS trustees and executives are pleased with the outcome of the legislative session as it relates to the system. Throughout the session, HMEPS officials visited with lawmakers frequently to provide them with information about the pension system and to correct

widespread misinformation.

Executive Director Rhonda Smith testified in opposition to HB 2608, the only one of the three failed bills discussed above to receive a hearing. (NOTE: You can view Ms. Smith’s testimony on the HMEPS website at: www.hmeps.org/assets/HB2608_testimony.pdf).

We also kept close track of any activity on each of these bills. We

are happy to report that our efforts helped contribute to protecting your hard-earned benefits.

Unfortunately, we expect the attacks on pension systems to continue at the local, state and national levels. As we move forward, we want to assure all of our participants that we will remain vigilant in working to safeguard the system and our members, just as we did during the recent legislative session.



Steve Waas, CFP®, EA
Manager of Policy and
Financial Planning

Tax Penalties on DROP Distributions: When Do They Apply?

Can you be “too young” to take money out of the DROP account? According to the IRS, the answer is “yes.” So the natural follow up question is: “Okay, how young is too young?” The answer to that question, like many tax questions, is “It’s complicated.”

The key thing is to recognize that two dates are important in determining whether tax penalties apply. Most people know about one of those dates – the date the money is distributed out of the account. But many people are not aware of the other critical date – the date you separate from service with the City.

Here’s how it works. Below are two questions. If you answer “no” to **both** of them – then you have a tax penalty on your DROP distribution. Otherwise, you don’t.

1. **Are you at least 59 ½ on the date of your DROP distribution?**
2. Think about the calendar year of your separation from employment with the City. Now think about your birthday in that year. **Are you, or will you be, at least 55 years old on that birthday?**

Remember, “no” to both questions means a penalty. Otherwise, no penalty.

Examples:

- Walt is 60 years old and receives a distribution from his DROP: Walt answers question 1 with a “yes.” So his distribution has no tax penalty. (It doesn’t matter how Walt answers question 2.)
- Jesse is 58 and receives a distribution from DROP. So Jesse’s answer to question 1 is “no.” He must go on to question 2. Jesse turned 53 in the calendar

year he left the City. So his answer to number 2 is also “no.” Two strikes and you’re out! Jesse has a penalty.

- Lydia is 56 and receives a distribution from DROP. So Lydia answers “no” to number 1. But the year she left the City she had her 55th birthday. So her answer to number 2 is “yes.” No penalty for Lydia.

Here are some additional points you might need to be aware of:

- All money distributed from DROP accounts is “taxable income.” Any penalties *are over and above* whatever you might owe in normal income taxes.

- Different types of tax deferred accounts can have very different rules when it comes to penalties. The above description works for DROP accounts, but may not apply to other accounts you might have.

- For example, 457(b) plans have no age related penalties at all.

However, you cannot avoid penalties in one type of account (such as a DROP) by transferring

the funds into your 457(b) account. The funds will be separately tracked, and you still might be subject to penalties.

- Another example: IRA accounts do *not* have an age 55 exception.

- The age 55 exception is actually age 50 for qualifying public safety officers (generally police officers and firefighters).
- Note that you don’t have to be 55 when you separate from the City for this exception to apply. Your separation just must be *in the year in which you turn*



Tax Penalties on DROP Distributions... *(Continued from Page 4)*

55, or later. For example, if you turn 55 in October of 2015, and retire in June of 2015 (before your 55th birthday) you are exempted from the penalty.

- Also note that if you don't reach your 55th year before separating from City, you are stuck with the penalty up until age 59 ½. This is a common source of confusion. If you are 53, don't retire with the expectation that your penalties will go away at 55. They won't.
- If you are subject to a 10% penalty on a DROP distribution, HMEPS will not automatically withhold it. Generally HMEPS is required to withhold 20% for taxes from DROP distributions to the participant—regardless of whether or not you are subject to a penalty. What you ultimately

owe the IRS depends on factors such as your other income, your deductions and any penalties.

If you are in this general age area and contemplating retirement, counseling is strongly suggested to make sure you understand the penalties and exceptions to the penalties, as well as other issues related to retirement.

Steve Waas is a Certified Financial Planner and is available for individual meetings with participants. Steve also discusses financial topics in our newsletters to help participants better understand these important issues.

The information contained herein is general in nature and is not intended as legal, tax, or investment advice, and should not be used in any actual transaction without the advice and guidance of a professional tax advisor who is familiar with all the relevant facts. HMEPS assumes no obligation to inform any person of any changes in the tax law or other factors that could affect the information contained herein.

Manage Your Pension Benefit Payments on MyPenPay

HMEPS has provided a portal via State Street Bank to give retirees and other benefit recipients an online resource to help manage payments. Sign up, or sign in at: www.hmeps.org/member-login.html.

You will automatically receive two letters in the mail:

1st Letter - This letter contains helpful information to introduce you to MyPenPay, including your assigned username, and should arrive within 5 days of when you receive your first pension check. **DO NOT THROW THIS LETTER AWAY!**

2nd Letter - A few days later you will receive a second letter in the mail containing a password, which you can use to securely log in to MyPenPay and access your personal benefits information.

What Can I Do With MyPenPay?

• Change Your Address

You can update your address online to receive important mailings, including quarterly newsletters and election information.

• Direct Deposit

Initiate or choose a Direct Deposit here. If you are receiving your benefit through direct deposit you will *not* receive a notice of deposit in the mail every month, so MyPenPay is where you can obtain your deposit information.

• View and Print Payment Details

Check current pay stubs or view the details of the past 18 months. You can print any statement from your payment history.

• Change Your Tax Withholding

Change your federal income tax withholding on MyPenPay. You no longer need to print or mail a W-4P.

• View and Print 1099-R Forms

You can view and print past years' 1099-Rs for income tax filing. While the current form will be mailed to your address of record each year, there will be a copy online for reference or if you misplace your form.

HMEPS does not manage or administer MyPenPay. Should you lose your password or need assistance when trying to access MyPenPay, contact State Street Bank at (866) 471-0368.



Group D Section 457(b) Transfer to Purchase an Enhanced Benefit

Here is an opportunity for retiring Group D members to enhance their monthly benefit amount. As authorized by the Meet and Confer Agreement, a Group D member who has at least five years of credited service and who is within 60 days of normal (immediate) retirement is eligible to make a one-time election to purchase up to five years of credited service by a direct trustee-to-trustee transfer from a qualifying Section 457(b) plan, such as the City of Houston Deferred Compensation Plan.

The following is a brief overview of the purchase process:

- The member contacts his or her HMEPS benefit counselor to obtain the purchase amount for the desired years of credited service. The member can:
 - specify a dollar amount that is available for transfer from a qualifying 457(b) plan (“How much service can I purchase with \$18,000?”)
 - specify a monthly dollar amount that the member wants to purchase (“How much will it cost to purchase an additional \$150 monthly benefit amount?”)
 - specify a certain number of years of credited service that the member wants to purchase (“How much will it cost to purchase 3 years of credited service?”)
- HMEPS will calculate the purchase amount as the actuarially determined present value of the purchased service, based on a formula and calculation provided by HMEPS’ retained actuary.
- The purchase provides a fixed monthly enhanced benefit amount. This amount is not subject to

change other than if the member chooses an optional joint and survivor annuity, in which case the fixed monthly enhanced benefit amount will be reduced as provided for the selected option. At retirement, the fixed amount is added to the normal pension benefit amount.

- The Group D member must complete the service purchase documents prior to termination with payment due in a lump sum no later than 60 calendar days after HMEPS receives the transfer election.
- Payment must be made as a direct trustee-to-trustee transfer from a 457(b) plan, as approved by HMEPS.
- The service purchase for benefit enhancement is only for a normal (immediate) retirement benefit, not deferred, early or disability retirement.
- The service purchase is a one-time election, so if a member does not timely complete an election or timely complete payment, the member may not be eligible to make another election.

If you are eligible to retire and are interested in purchasing additional credited service in order to receive an enhanced Group D benefit, please contact your HMEPS benefit counselor.

Nothing contained herein may be construed to convey any right or privilege not otherwise provided by the pension law. In the event of any conflict, the pension law takes precedence.



Hypothetical Example:

- This man is 62 years old.
- He has 20 years of service.
- He now earns \$40,000/year.
- His Group D pension is about \$1,200/month for life. (1.8% per year for 20 years = 36% of AMS.)

With Careful Planning...

He can use up to about \$25,000 of the funds in his 457(b) plan to enhance his Group D benefit.





HMEPS Honors Retiring Staff Member Lynnnette Bartula

HMEPS recently honored Senior Benefits Counselor Lynnnette Bartula upon her retirement after 25 years of dedicated service. The entire staff said their goodbyes to Lynnnette and wished her and her family the best in her new role.

Lynnnette Bartula, who recently retired after serving HMEPS for over 25 years, and Benefits Manager Carole Snyder.

Pension Payment Schedule, July – October 2015

The schedule below indicates the dates set for payment of benefits. Direct Deposits (ACH) will be deposited on the last business day of each month (dates are circled below). If you receive a pension check by mail, it is typically mailed 3-4 days before the last business day of the month.

July 2015							August 2015							September 2015							October 2015						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
			1	2	3	4						1			1	2	3	4	5					1	2	3	
5	6	7	8	9	10	11	2	3	4	5	6	7	8	6	7	8	9	10	11	12	4	5	6	7	8	9	10
12	13	14	15	16	17	18	9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14	15	16	17
19	20	21	22	23	24	25	16	17	18	19	20	21	22	20	21	22	23	24	25	26	18	19	20	21	22	23	24
26	27	28	29	30	31		23	24	25	26	27	28	29	27	28	29	30				25	26	27	28	29	30	31
							30	31																			

Retirements 1st Quarter 2015

Administration & Regulatory Affairs

Chen, Annabelle
Wilmington, Doris

Aviation

Castro, Martha
Cavazos, Edward
Montrose, Wanda
Underhill, Ross

Controller

Thomas, Pamela

Convention & Entertainment

Evans, Albert
Leshner, Lannie

Finance

Diequez, Miriam

Fleet

Vetrano, Anthony

General Services

Edwards, Thomas
Vargas, Reynaldo

Health & Human Services

Adedoyin-Tuyo, Harriet
Ekpenyong, Regina
Gamble, Roderick
Parker, Carolyn
Tran, Ted

Houston Emergency Center

Knight, Cheryl

Houston Municipal Employees Pension System

Rowley, Naomi

Human Resources

Bryan, Joe

Information Technology

Goosby-Harris, Gina
Tatum, Erma
Thomas, Netty

Legal

Wallace, Drenda

Library

Nguyen, Adam
Cardenas, Laura

Municipal Courts #5

Blaylock, Bridgett

Parks & Recreation

Bibbs, Karen
Wormley, Shirlynn

Planning & Development

Vacanti, Samuel

Police

Atkins, Douglas
Darrett, Veronica
Ferguson, Linda
Haller, Joann
Jones, Susan
Mullins, Joanne
Wilhelm, Carol

Public Works & Engineering

Boulet, Roger
Gonzalez-Arreola, Horatio
Hyare, Gurdir
Johnson, Mellonea
Lewis, Linda
Nguyen, Thin
North, Terry
Flores, Gina
Soundy, Miguel
Valmain, Sidney
Vrana, Richard
Walters, John
Wilson, Brenda



The Retirement 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.

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Houston Municipal Employees Pension System



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



HMEPS

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.

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