

Overview of HMEPS Plan Changes under Meet and Confer

(Changes take effect January 1, 2005, unless otherwise noted)

HMEPS and the City of Houston entered into an agreement effective September 15, 2004 ("2004 Meet and Confer Agreement") to make certain changes to the pension plan. This overview describes the highlights of the plan changes. It does not change or take the place of the provisions of Article 6243h, Tex. Rev. Civ. Stat. (the statute), as amended pursuant to section 3(n) of the statute. The information contained in this overview is subject to change upon amendment to the statute and/or the rules and regulations adopted by the Board of Trustees (Board). In the event of any conflict between this overview and the statute, including the rules and regulations promulgated thereunder, the statute will prevail.

	Group A	Group B
Employee Contributions	5% of salary (base pay + longevity + shift differential) deducted from biweekly pay check	None
Retirement Eligibility Age and Service Requirement (YCS: Years of Credited Service)	5 YCS and age 62 or 5 YCS <u>and</u> at least age 50 <u>and</u> YCS <u>and</u> age equal to 75. NOTE: For members who have at least 5 YCS <u>and</u> YCS and age equal to 68 or greater as of 12/31/04, retirement eligibility is 5 YCS <u>and</u> YCS and age equal to 70 or 5 YCS and age 62. A former member who terminated employment prior to 1/1/05 and who has elected to receive a deferred retirement pension is subject to the retirement eligibility rules at the time of the termination of employment for the deferred retirement pension that is based on the employment prior to 1/1/05.	Same as Group A
Average Monthly Salary (AMS)	Highest 78 pay periods divided by 36 at termination of employment unless the member is a DROP participant at termination of employment. If the member is a DROP participant at termination of employment, the AMS for calculating the retirement benefit is: • AMS at DROP entry date for DROP entry dates on or after 1/1/05. • AMS on 1/1/05 for DROP entry dates prior to 1/1/05.	Same as Group A
Maximum Benefit (No change)	90% of AMS	Same as Group A
Normal Benefit	AMS x percentage accrued as of 12/31/04 PLUS AMS x percentage accrued after 12/31/04 based on the following accrual rates: 0-20 YCS - 2.5% over 20 YCS - 3.25% A member with combined Group A/B service will receive a benefit based on the applicable formula using the applicable accrual rates from Group A and Group B.	AMS x percentage accrued as of 12/31/04 PLUS AMS x percentage accrued after 12/31/04 based on the following accrual rates: 0-10 YCS - 1.75% 10 ⁺ -20 YCS - 2.0% over 20 YCS - 2.5% A member with combined Group A/B service will receive a benefit based on the applicable formula using the applicable accrual rates from Group A and Group B.

	Group A	Group B
Cost of Living Adjustment (COLA)	3.0% of original amount of pension benefit, not compounded, for those persons who were members on or before 12/31/04. 2.0% of original amount of pension benefit, not compounded, for those persons who were hired or rehired on or after 1/1/05.	Same as Group A
Rehired retiree offset (Effective Sept. 15, 2004)	Retirees who are reemployed in an HMEPS-covered position must notify HMEPS to cease their benefit payments or return the payment to HMEPS within 30 days. Any benefit payment received is a "disallowed pension." If not timely returned, HMEPS may offset the amount of the disallowed pension plus interest of 8.5% a year, not compounded, against the payment of any future pension or benefit payments, and/or against any DROP balance.	Same as Group A
Reemployment: Benefit Recalculation	The subsequent retirement benefit of a deferred retiree or retiree who is reemployed in an HMEPS-covered position shall be the pension amount accrued prior to reemployment (based upon the schedule of benefits, including retirement eligibility, in effect at the time of the member's previous termination of employment), plus the pension amount accrued after reemployment (based upon the schedule of benefits, including retirement eligibility, in effect at the time of the member's subsequent retirement).	Same as Group A
Deferred Retirement Option Plan (DROP) – eligibility	Same as retirement eligibility. However, a member who has 5 YCS <u>and</u> 62 years of age or a combination of age and YCS equal to 70 prior to 1/1/05 may BackDROP only if such member submits a DROP request to HMEPS prior to 1/1/05. All other DROP elections will be for prospective DROP participation only (i.e., no BackDROP for members who are eligible on or after 1/1/05 or for those eligible prior to 1/1/05 who do not timely submit a BackDROP request).	Same as Group A
DROP account – member contributions	Member contributions will not be credited to a DROP participant's DROP account unless the contribution is directly attributable to an eligible DROP period preceding 1/1/05 (e.g., service purchase contributions for DROP participation periods prior to 1/1/05).	No member contribution
DROP account – interest rate paid on DROP accounts	Half the return on HMEPS's investments for the prior fiscal year, but not less than 2.5% nor more than 7.5%.	Same as Group A
DROP COLA	3%, not compounded, for a DROP participant who was an employee on or before 12/31/04. For a DROP participant hired or rehired on or after 1/1/05, the COLA will be 2%, not compounded.	Same as Group A

	Group A	Group B
Service Purchase – conversion from Group B to Group A (Effective September 15, 2004)	<p>The cost to convert service from Group B to Group A will be the actuarial cost, as determined by HMEPS actuary, plus interest of 8.5% a year, not compounded. This change does not apply to members who are currently paying on a service conversion and are timely with respect to all required actions.</p> <p>NOTE: After 12/31/05, no conversion elections are allowed.</p>	<p>Same as Group A</p>
Service Purchase – interest rate (Effective September 15, 2004)	<p>The service purchase (including service conversion) interest rate is 8.5% a year, not compounded, for each service purchase on or after September 15, 2004. However, if HMEPS received an authorized written request prior to September 15, 2004, the interest rate on the service purchase associated with that request will remain six percent (6%) a year, not compounded.</p>	<p>Same as Group A</p>