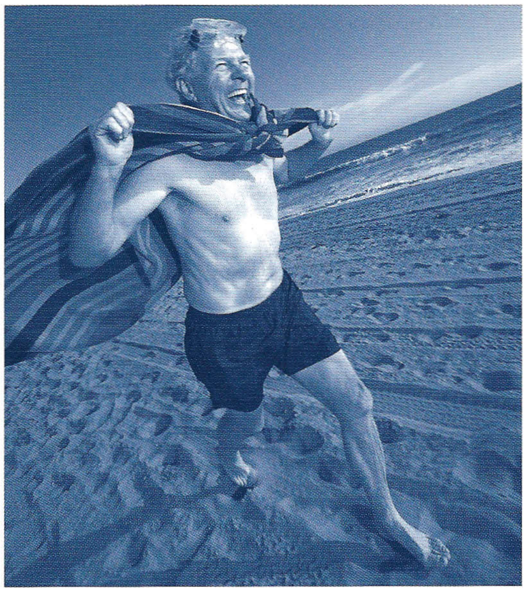
Benefits pulse
Published for city of Houston employees and retirees

Working today can ea$e your tomorrow

With planning, city employees can enjoy a worry-free retirement

By Dave Schafer



At 58, Veronica La Chappelle plans to live a long time, maybe another 40 years. Years of freedom, unencumbered by demands of work-a-day duties. Years for travel, for gardening, and for enjoying the slow pace of the day.

That's because La Chappelle, a former Human Resources administrative specialist, retired Jan. 31 after almost 28 years with the city. As a reward for her years of service, the city's pension benefit will pay her enough each month to cover her regular bills for the rest of her life.

"I have always loved traveling," she said. "It's nice to be able to leave when I want and return without having to worry about work.

"I'm so thankful for the city's pension plan. It makes retirement planning so much easier."

Some employees don't think about the importance of setting aside money for retirement. But the city does, so much so that it long ago made the pension plan a key part of employees' compensation, right up there with biweekly paychecks and affordable health insurance.

In Fiscal Year 07, the city contributed $72 million to the municipal pension, $58 million to the

See **RETIRE** on page 2.

RETIRE continued from page 1.

police pension and $45 million to the fire pension.

"You probably can't get as much money in a retirement plan in the corporate world, or get it as early," said Craig Mason, the city's chief pension executive. "Generous is relative, but the city's pension plan is much more generous than employees can get most anywhere else."

'During my time here, my children grew up, got married, started their own families, and the city provided me with a job and with all these benefits – vacation, sick pay, medical insurance. And now, it's paying my bills in retirement.'

Rosalie Davis
COH retiree

Along with your voluntary investment from your paycheck into the 457 deferred compensation plan and your social security benefits, the pension plan is one leg on the stool of retirement financial stability.

Work past your earliest retirement date and participate in the Deferred Retirement Option Plan, and you can gain another leg to stand on in what could be a retirement flush with cash.

"I'm very grateful for my tenure with the city," said Rosalie Davis, a retiree who came back to work part-time. "During my time here, my children grew up, got married, started their own families, and the city provided me with a job and with all these benefits – vacation, sick pay, medical insurance. And now, it's paying my bills in retirement."

About the pensions

Unlike a 401(k) plan, a pension is a true retirement plan that provides income replacement for life, Mason said. A 401(k) is a capital accumulation plan generating an unknown sum of money that a retiree can outlive. The city's pension plan is a defined benefit plan, meaning the city bears the investment and longevity risks. The benefits are based on an employee's salary and length of service and are not dependent on employee and city contributions and investment performance.

For providing retirement benefits to career employees, a pension plan is more cost-effective for the city than a 401(k) but more risky, Mason said.

It's more cost-effective because the city doesn't pay out as much to employees who leave early as it might if it were contributing to a defined contribution plan. It's more risky because the city tells employees they'll make a certain amount of money for the rest of their lives and must deliver on that amount, regardless of the stock market or economy.

But the benefit doesn't just last for the rest of the retiree's life. If a retiree dies before her spouse, the spouse will get 100 percent of her pension payments for the rest of his life. Other employers reduce survivor's benefits to 66 percent or less.

"That is a very rare feature," Mason said. "Usually in the corporate world, the full pension is only paid to the participant. In most cases, he is able to choose to have a reduced benefit with a portion continued on to his spouse.

"Here, it's automatic with no reduction. So that's a great feature."

Specifics of the city's three pension plans (See accrual box, pg. 3)

For municipal employees:

There are three pension groups for municipal employees. Full-time municipal employees hired before Sept. 1, 1981, and between Sept. 1, 1999, and Dec. 31, 2007, are automatically enrolled in Group A and contribute 5 percent of their pretax pay.

For the first five years, employees are not vested, and if they leave during that time, they may request a full reimbursement of their contribution from the Houston Municipal Employees Pension System.

After five years, employees become vested, meaning they have earned the pension benefit even if they leave before becoming eligible to retire. The amount paid to a municipal retiree each month is a percentage of the average amount of the gross pay on the employee's highest 78 paychecks. The longer an employee works for the city, the higher the percentage, up to 90 percent.

Vested municipal employees can receive a pension when they turn 62 or are at least 50 and their age plus years of service equal 75 or more.

What you earn though your years of service isn't just what you'll get in benefits, though. Retirees who were hired as city employees before Jan. 1, 2005, will get a 3 percent cost-of-living increase in their benefit each year. Those hired on or after that date will get a 2 percent increase each year.

Group B is the noncontributory group that receives smaller benefits. Only employees hired before Sept. 1, 1999, could have elected to join that group.

Group D is also a noncontributory group that receives smaller benefits. All municipal employees hired on or after Jan. 1, 2008, are in this group. (See Changing pensions, below.)

For a more secure retirement, municipal employees can participate in DROP. (See DROP in some extra cash, below.)

For classified firefighters:

Classified firefighters automatically are enrolled in the Houston Firefighters Relief and Retirement Fund and contribute 9 percent of their pretax pay toward their pension. They are eligible for the pension after 20 years on the job with no age requirement, at which time they've earned 50 percent of their eligible income. After 30 years, firefighters earn the maximum 80 percent. Eligible income is the average amount of the gross pay, including overtime, on the highest 78 paychecks.

Classified firefighters who leave in less than 10 years can get a refund of their contribution from HFRRF. Those who leave after 10 to 20 years can get a refund or deferred pension benefits starting at age 50.

All classified firefighter retirees re-

Published by the city of Houston Human Resources Department, 611 Walker, 4-A
Houston, TX 77002 • 713-837-9455 • hrenewsletter@cityofhouston.net • www.benefitspulse.org
Mayor Bill White • ***Acting Director*** Candy Clarke Aldridge • ***Assistant Directors*** Ramiro Cano, Tom Morley
Benefits Manager Gerri Walker • ***Publications Manager*** Leslie Denton-Roach • ***Managing Editor*** John Perry
Reporters John Perry, Dave Schafer • ***Designer*** Nichole Robinson

ceive an extra monthly benefit of $150 and a yearly 3 percent cost-of-living increase.

Firefighters can also build a bigger retirement egg by participating in DROP. (See DROP in some extra cash, below.)

For classified police employees:

Classified police employees are automatically members of the Houston Police Officers Pension System. Those sworn in before Oct. 9, 2004, contribute 9 percent of their pretax pay toward the pension and are eligible for pension benefits after 20 years on the job. They also receive a $5,000 lump sum upon retirement.

Those sworn in before Oct. 9, 2004, who work for the city for less than 10 years can get a refund of their contribution from HPOPS. Those who work 10 to 20 years can take a delayed retirement and start receiving benefits at 60.

Those sworn in on or after Oct. 9, 2004, must be 55 with at least 10 years of service to be eligible for pension benefits. They contribute 10.25 percent of each paycheck to the pension, and can earn up to 80 percent of their regular pay.

The monthly pension benefit for classified police employees is a percentage of the average gross amount of the employee's last 78 paychecks, excluding exempt time, overtime and strategic officer staffing pay. The longer an employee works for the city, the higher the percentage, up to 80 percent.

All classified police retirees receive an extra monthly benefit of $150 and a yearly cost-of-living adjustment of between 2.4 percent and 8 percent, depending on the Consumer Price Index for All Urban Consumers.

Classified police employees hired before Oct. 9, 2004, can join DROP to increase their retirement security.

DROP in some extra cash

In October 2000, after 22 years with the city, Davis became eligible for retirement. But at 55, she wasn't ready to retire, so she continued working and rolled the monthly pension payment she would have received into a Deferred Retirement Option Plan account. There, it was invested by HMEPS, earning Davis more retirement security.

Each month, Davis' pension benefit

See **RETIRE** on page 4.

Pension benefit accrual rates

Municipal Group A pension benefit accrual rates*

	Credited service prior to Jan. 1, 2005**	Credited service on or after Jan. 1, 2005
First 10 years	3.25% each year	2.5% each year
Next 10 years	3.5% each year	2.5% each year
21 years plus	4.25% each year	3.25% each year

Police pension benefit accrual rates

	If sworn in before Oct. 9, 2004***	If sworn in on or after Oct. 9, 2004
20 years	55% for 20 years of service	2.5% each year
21 years plus	2% each year, up to 80 percent	2% each year, up to 80 percent

Fire pension benefit accrual rates

20 years	50% for 20 years of service
21 years plus	3% each year, up to 80 percent

* Group A employees include full-time employees hired on or after Sept. 1, 1999, or who elected to become a group member previous to that date.

**All years of service time accrued before this date is calculated at this rate, meaning if your employment period begins before Jan. 1, 2005, and ends after that date, both rates will be used to calculate your appropriate benefit level. (See example.)

*** If you were sworn in before Oct. 9, 2004, this is your rate of benefit accrual no matter when you retire.

What does it all mean to you, Mr. or Ms. Employee?

Bob Employee started working for the city at age 33. After 22 years, Employee retired in 2007. As an administrative specialist, Employee grossed an average of $3,500 per month during his 78 highest paychecks.

- For his first 10 years of employment, Employee earned 3.25 percent of that average pay per year of service, equaling 32.5 percent **(3.25 X 10)**.
- The next 9 years, he earned 3.5 percent per year, equaling 31.5 percent **(3.5 X 9)**.
- On Jan. 1, 2005, accrual rates changed, so for one year, his 20th with the city, he accrued 2.5 percent **(2.5 X 1)**.
- Then, at 21 years of service, he stepped up to a 3.25 percent accrual rate for two years, equaling 6.5 percent of that average pay per month **(3.25 X 2)**.

So, in total, Employee earned 73 percent of his 78-month average pay in pension benefits for the rest of his life. That means, simply by waking up in the morning, Employee is making **$2,555 per month** in pension alone. And he's only 55.

RETIRE continued from page 3.

and interest were credited to the DROP account, earning an annual return of between 2.5 percent and 7.5 percent. For the last several years, it's been close to the maximum amount, Mason said.

To be eligible, a municipal employee must have been hired before Jan. 1, 2008, meet retirement requirements, and not be receiving their pension.

To apply for DROP, an employee should request an application from HMEPS no earlier than 60 days prior to eligibility date. For more information, contact HMEPS at 713-595-0100.

Enrollment in DROP freezes employees' credited service time for purposes of calculating pension benefits. For instance, Davis worked full-time for the city for 24 years. The last two years she was in DROP, so when her pension benefits were calculated, she was credited with 22 years of service.

When employees leave city employment, they leave the DROP program. They can select to receive payments in a lump sum, in payments, or a combination. If an employee dies before the payout is complete, the surviving spouse or designated beneficiary receives the rest of the payout in a lump sum.

Classified firefighters can also enter DROP, as can classified police employees sworn in before Oct. 9, 2004. Each of those have their own rules, so check with your pension board for details.

Davis retired after just two years in the program. Nevertheless, she's seen the benefits. It helped her bridge the financial gap until social security payments kicked in this October.

"It's a wonderful program," said Davis, who was administrative supervisor over payroll for Health & Human Services when she retired. Since, she's worked in the same division part-time, helping employees file their retirement papers. "I recommend it. I wish I had been in it longer, because it's a great benefit."

Changing pension

Changes to the municipal pension plan Jan. 1, 2005, raised the magical retirement eligibility number from 70 to 75 and required employees to contribute 1 percent more of their paycheck to the plan while slowing the accrual rate.

Those changes helped secure the pension's future and corrected a 2001 plan change by partially shoring up the amount in the pension fund and decreasing how much the fund would have to pay out.

The municipal pension plan is changing again under a deal reached between Mayor Bill White and HMEPS in June. Municipal employees who start after Dec. 31, 2007, will not contribute to the pension and will receive smaller benefits provided entirely by city contributions. (See box.)

"What we have now is very good, and it's secure," Mason said. The city's and the pension system's projections show HMEPS will be able to pay out what it

Group D: New hirees

Municipal employees hired after Dec. 31, 2007, will not contribute to the pension. However, they will still receive benefits, but at levels less than those hired before that date. Below are examples of what new employees will accrue during various lengths of service. The numbers in the graph are percentages of eligible pay. Eligible pay is the average gross pay from your 78 highest paychecks.

Municipal pension benefits for employees hired after Dec. 31, 2007

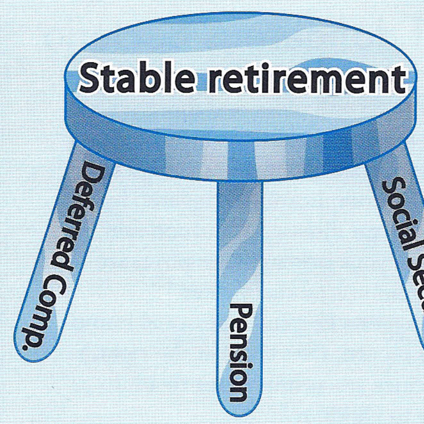
	Age at retirement					
Age at hire	50	53	55	58	60	62
25	29%	35%	40%	47%	52%	57%
30	Not eligible	30%	36%	42%	47%	52%
35	Not eligible	Not eligible	28%	36%	42%	47%
40	Not eligible	Not eligible	21%	29%	34%	40%
45	Not eligible	Not eligible	14%	21%	25%	31%

Three-prong approach to a worry-free retirement

Municipal employees hired before Jan. 1, 2008, can earn up to 90 percent of the average pay from their 78 highest paychecks after they retire. Then, each year, they get a 2 or 3 percent cost-of-living adjustment.

Upon retiree eligibility, social security will add 15 to 30 percent to post-retirement income. That's more than your paycheck while you were working.

And that's before you include your 457 plan savings.



will owe employees.

HMEPS' spokeswoman declined to comment for this story.

Group D employees will still have the option of contributing to the 457 plan.

Sherry Mose, a member of HMEPS' board of directors and the city's deferred compensation plan administrator, said the new plan gives future employees more control over their retirement planning by allowing them to decide how much, if any, they want to contribute to a retirement savings account, such as the 457 plan. It also offers them the chance to invest aggressively and possibly make more money than they would through the pension.

"We're hoping those employees will say, 'Yea, I don't have to contribute to the pension, so I can put that money into the deferred compensation plan!'" she said.

457 plan

Joel Casas knows what it's like to be financially strapped. Determined that that won't happen when he retires, he puts $60 per paycheck into the 457 deferred compensation plan.

"When I'm ready to retire, I want to live for a while more and not have to reside under the Pierce Elevated somewhere," said the 53-year-old geographical information systems analyst with the Houston Emergency Center.

Casas started saving in the 457 when he joined the city March 1, 2000.

"Sometimes I wish I'd started saving a little earlier so that I could retire sooner," he said. "But hindsight is 20/20."

About 70 percent of city employees contribute to the 457 plan, according to Gary Wilkins, regional director for Great-West Retirement Services, which administers the plan for municipal employees. Four Great-West employee account representatives work full-time serving city employees.

The 457 plan, a defined contribution plan, allows employees to invest a pretax portion of their paycheck in a retirement savings account that has 26 investment options with varying levels of risk and reward. They can invest $15 per paycheck up to the IRS-imposed limit, currently $15,500, Wilkins said.

The Great-West plan gives employees three options for managing their accounts:

- They can manage their investments with free access to fund fact sheets, online calculators and marketing information.
- They can get free online guidance from Advised Asset Group Inc. Or, for a $25 yearly fee, they can get online advice and fund-specific choices from AAG.
- For a yearly fee of no more than .6 percent of their account balance, they can let AAG manage the account.

Tuesday mornings and Thursday afternoons, Great-West reps can be found on the 11th floor of 611 Walker. Other days, they're at 1818 N. Memorial Way, suite 100. During business hours, they can be reached at 713-426-5588.

Planning for the future

Before saving for retirement, employees should establish a monthly budget to pay their bills and build a savings account to pay any unexpected bills, Wilkins said.

"Then, if you have any left over, invest that in your future," he said. "Each time you get a pay raise, put a portion of that toward your retirement savings."

The earlier you start, and the more you put in, the more you'll get back, he said. If you want to add more to your 457 account, you can roll over your termination pay – unused vacation value and unused qualifying sick pay – when you leave city employment. That amount is also limited by the IRS' annual contribution limits.

When you're contemplating retiring, figure out how much money you'll need each month, advises Davis. Then calculate as near as you can what you'll earn from the pension, social security and any other retirement plans you've invested in, such as a 457 or DROP. (See Web site box.) That will help you determine if you need to work longer.

"The city puts employees in a unique and real good position with its retirement benefits and options," Mose said. "You have that security net of the pension. Then you have the deferred compensation that will let you do what else you want to do when you're no longer working nine to five."

Calculate your retirement online

Visit www.hmeps.org to calculate your estimated municipal pension benefit.

Visit www.hfrrf.org, then "Member's Services," to calculate your firefighter pension benefit.

Visit www.hpops.org/index.asp to calculate your classified police employee benefit.

Great-West provides a calculator to help members determine how much they need to invest to reach their retirement goals at www.houstondcp.com.

You should get a Social Security update yearly. But if you're curious about the Social Security benefits you've earned, use the Social Security Online Calculator at www.socialsecurity.gov/retire2/AnypiaApplet.html.