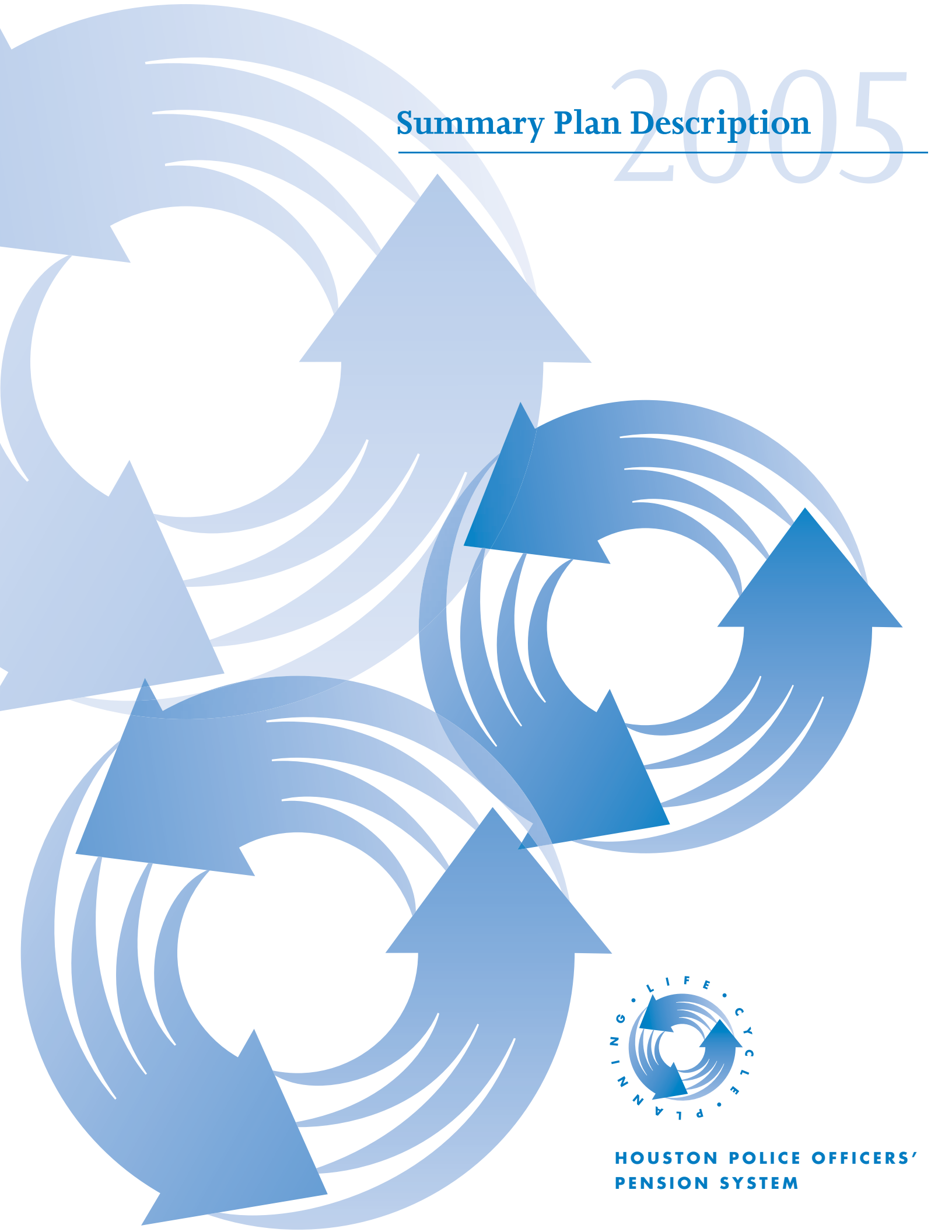


Summary Plan Description

2005



**HOUSTON POLICE OFFICERS'
PENSION SYSTEM**

This booklet is designed to guide you through the benefits you are entitled to as a member of HPOPS. Its purpose is to furnish you a “plain language” explanation of your rights under HPOPS. It is only a summary of your retirement, disability and survivor benefits and should be used only as a guide to the benefits provided by HPOPS.

Article 6243g-4, Tex. Rev. Civ. Stats.; the Meet and Confer Agreement by and between HPOPS and the City of Houston, dated October 9, 2004; and any additional act or acts of the Regular and/or Special Session(s), if any, of the Texas Legislature which have an effect upon HPOPS plus all Board adopted policies govern the operation of HPOPS. If any conflict exists or arises between this summary and the actual law or policies (Article 6243g-4, Tex. Rev. Civ. Stats.; the Meet and Confer Agreement by and Between HPOPS and the City of Houston, dated October 9, 2004; and, any additional act or acts of the Regular and/or Special Session(s), if any, of the Texas Legislature), the actual law or policies will prevail.

Summary Plan Description 2005

Houston Police Officers'
Pension System

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Philip Scheps, Ph.D.
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Message from the Board of Trustees

JUNE 23, 2005

Dear HPOPS Members:

The Board of Trustees is pleased to bring you the newest Summary Plan Description (SPD) that is available to all members of the Houston Police Officers' Pension System (HPOPS or the System). The Summary Plan Description Booklet is designed as a guide to the benefits that you are offered through your retirement plan.

This SPD includes the changes to the plan that became effective on October 9, 2004 as a result of the new agreement negotiated through Meet and Confer between HPOPS and the City of Houston.

This booklet will assist you in understanding the benefits provided by your plan; when you become entitled to apply for benefits under the plan; and, how to apply for benefits once you have met the eligibility requirements. Please share this booklet with your family as it contains valuable information regarding how your survivors are protected.

In addition to this booklet, you will find many of the forms that you may need from HPOPS on our Web site at www.hpops.org. Should you have any questions about your plan or how it works, please feel free to contact HPOPS at 713-869-8734 or 1-800-874-0454.

Sincerely,

Board of Trustees
Houston Police Officers' Pension System

History from Date of Inception

DATE DESCRIPTION OF CHANGE

9/4/47 ENACTMENT of Pension Act, Article 6243g-1, V.A.C.S.

ORIGINAL RATES OF CONTRIBUTION:

- City \$5.00
- Member \$5.00

ORIGINAL PENSION FORMULA:

- \$75 After 25 Years of Service
- \$2 Per Month for Each Year Over 25 Years

8/1/49 INCREASE in rates of contribution:

- City \$7.00
- Member \$7.00

11/1/55 INCREASE in rates of contribution based on 1.5 to 1 ratio, as follows:

- City 7.5%
- Member 5.0%

4/25/64 INCREASE in rates of contribution:

- City 9.0% (effective 1/1/66)
- Member 6.0%

1/13/68 INCREASE in rates of contribution:

- City 11.25%
- Member 7.50%

CHANGE in Pension Formula:

- 1.5 % of base pay for each year through 20 years of service
- 2% for each year after 20 years

REDUCED pension coverage to third highest job class in police pay structure

7/21/73 INCREASE in rates of contribution:

- City 13.5%
- Member 9%

9/1/75 CHANGE normal retirement date to attainment of age 50, with 20 years of service, for all police officers employed after 9/1/75 (inception of Plan II).

INCREASE in rates of contribution based on 2 to 1 ratio as follows:
(effective 1/1/76)

- City 18%
- Member 9%

9/1/79 REFUND of contributions if terminating member has 5 years of service.

INCREASE pension coverage to second highest job classification in police pay structure.

1/10/81 INCREASE in rates of contributions:

- City 20%
- Member 10%

9/1/81 ENACTMENT of Pension Act, Article 6243g-3, V.A.C.S., for all police officers employed after 9/1/81 (Plan III) and all members in 6243g-1 who elect into new plan prior to 1/1/82.

REDUCED cost of living adjustment (COLA) in 6243g-1 to 2/3% of CPI to be paid April 1 of each year.

REDUCTION in rates of contribution for 6243g-1:

- City Funded 20%
- Member 8.75%

SET rates of contribution for 6243g-3:

- City Funded 20%
- Member 7%

REQUIRED City of Houston to fund plans (6243g-1 and 6243g-3).

1/1/83 INCREASE in rates of contribution, 6243g-1 & 3:

- City Funded 23.6%
- Member No Changes

10/1/85 REDUCTION in rates of contribution 6243g-1 & 3:

- City Funded 22.4%
- Member No Changes

7/1/86 REDUCTION in rates of contribution, 6243g-1 & 3:

- City Funded 20%
- Member No Changes

CHANGE in Pension Formula for 6243g-1 members:

- 40% of base pay for first 20 years of service
- 2% for each year after 20 years

7/1/88 CHANGE in Pension Formula for 6243g-1 & 3: (increased benefits payable effective 7/1/91):

- 45% of base pay for first 20 years of service
- 2% for each year after 20 years

4/15/89 REDUCTION in rates of contribution for 6243g-3:

- City Funded 14.3% (change retroactive to 7/1/86)
- Member No Change

- 5/5/89 REDUCTION in City contribution rates:
- Plans 1 & 2 20.0%
 - Plan 3 14.3%
- 7/1/89 REDUCTION in city contribution rate for 6243g-1 and INCREASE in City contribution rate for 6243g-3:
- Plans 1 & 2 15.9%
 - Plan 3 15.1%
- CHANGE in COLA formula for 6243g-1 and 6243g-3:
- Plans 1 & 2 2/3 of CPI or minimum
2.5% compounded, maximum 8.0%
 - Plan 3 2/3 of CPI or minimum 2.5%
not compounded, maximum 8.0%
- INSURANCE Defrayal Benefit for Retirees, Articles 6243g-1 & g-3:
- Each retired officer will receive an amount of \$88.05 each month
- 6 1/18/90 REDUCTION in City contribution rates for 6243g-1 and 6243g-3:
- All Plans 14.3%
- 7/1/93 CHANGE in retirement requirements for Plan I and Plan II members:
- Plans 2 & 3 No age requirement
- INCREASE in contribution rates:
- City - All Plans 19.0%
 - Members - Plan 3 8.75%
 - Members - Plans 1 & 2 No Change
- 7/1/94 DECREASE City contribution rate for 6243g-1 & 3:
- City 18.0%
- 6/8/95 ENACTMENT of Deferred Retirement Option Plan (DROP):
- Articles 6243g-1 and 6243g-3
- 8/28/95 CHANGE in COLA increases 6243g-3:
- Plan 3 members (Article 6243g-3) begin receiving compounded COLA increases after retirement
- 7/1/96 DECREASE in City Contribution rate, 6243g-1 & 6243g-3:
- City - All Plans 17.4%
- 7/1/97 CHANGE in pension formula 6243g-1 and 6243g-3:
- 50% of base pay for active members
 - 50% of base pay for retired members, beneficiaries, and DROP participants (not to exceed benefit active member with same rank and service would be eligible to receive)
 - Increase in minimum COLA to 3.0%, both plans
 - \$88.05 insurance benefit for widows
 - Increase in pension coverage to highest job class in police pay structure

11/23/98 CHANGES resulting from Meet-and-Confer Session:

- Change in pension formula - 50% of total direct pay for first 20 years of service, 2% for each year thereafter
- Change in contribution basis - Employee and City contributions to be made on total direct pay
- \$5,000 lump sum benefit payment to current retirees and beneficiaries; lump sum payment to active participants upon retirement
- Elimination of 80% benefit cap
- 13th retirement check when certain conditions are met

9/1/99 ENACTMENT of Article 6243g-4 as governing statute, and REPEAL of Articles 6243g-1 and 6243g-3:

- Meet-and-Confer benefits codified
- Change in benefit calculation formula to 50% of average total direct pay for the first 20 years of service and 2% for each year thereafter
- Retired Trustees to be elected rather than appointed
- 5 Year Certain Benefit
- Repayment of Contribution Refunds without interest
- Enabling language to offset non-duty disability benefits

5/16/00 CHANGES resulting from Meet-and-Confer Session:

- Catastrophic injury benefit, 100% of member's average total direct pay

6/18/01 CHANGES resulting from Meet-and-Confer Session:

- Change in pension formula for active members - 55% of average total direct pay for first 20 years of service, 2% for each year thereafter (effective 5/1/2001)
- Change in pension formula for active DROP participants - 55% of average total direct pay for the first 20 years of service, 2% for each year thereafter, effective on the member's DROP entry date
- Change in pension formula for retirees/survivors who retired after 11/23/98 - 55% of average total direct pay for first 20 years of service, 2% for each year thereafter (effective 5/1/2001)
- Change in pension formula for retirees/survivors who retired before 11/23/98 - 55% of base pay for first 20 years of service, 2% for each year thereafter (effective 5/1/2001)
- Increase in insurance benefit for retirees and widows - \$150.00 per month, effective (7/1/2001)
- Recalculation of retirement benefit for DROP participants to be equal to the greater of current monthly DROP benefit or the recalculated monthly benefit based on service at the member's DROP entrance date (effective 5/1/2001)
- Back DROP option for current and future DROP members or survivors of current or future DROP members
- Change to allow classified officers involuntarily transferred from another City department into HPD to receive service credit for previous Houston Municipal Employee Pension System service
- Change to allow for proportionate retirement
- Change to allow for proportionate disability pension
- Change to allow the eligible survivor of a deceased DROP participant the option to annuitize the DROP account over the life expectancy of the person(s) entitled to receive the benefit
- Change in PROP interest rate - same rate that is credited to DROP accounts

- Change in DROP and PROP interest - never less than 0.00%
- Change in definition of average total direct pay to highest pay period in last 26 bi-weekly pay periods
- Change in amount of delayed retirement benefit payable at age 60 - 2.75% for each year of service
- Additional monthly benefit for disabled members who are engaged in an approved education or training program - difference between monthly disability benefit and 100% of member's average total direct pay at commencement of disability

9/01/03 Meet-and-Confer benefits codified:

- Change definition of dependent child - has not attained age 18 or has attained age 18 but not age 24 and attending school on a full-time basis
- Change in definition of common-law marriage - must be filed in county clerk's office in the county in which couple resides
- Change in beneficiary designation - with spouse's consent, DROP member may designate a beneficiary other than spouse to receive DROP account
- Change to allow surviving spouses of DROP and PROP participants to leave DROP or PROP account at HPOPS or take DROP account in the form of an annuity
- Change to allow disabled DROP members same distribution options as other members

10/9/04 Changes as a Result of New Meet-and-Confer Agreement

Active members as of October 9, 2004:

- Monthly DROP and retirement benefits are based on a three-year average of pensionable pay (as re-defined in the New Agreement) subject to certain "grandfather" provisions.
- Increased Employee contribution rate to 9.0%.
- Changed annual cost of living adjustments to equal 80% of CPI with a minimum of 2.4% and a maximum of 8.0%.
- The DROP and PROP interest credit will have a floor of 3.0% and a maximum of 7.0%. If the System has a 100% funded ratio then the maximum rate will be 10%.
- Supplemental monthly benefit (13th benefit payment) will not be paid unless the System's funded ratio equals or exceeds 120%.

Members hired or rehired subsequent to October 9, 2004:

- Monthly retirement benefits are based on a three-year average of pensionable pay (as defined in the New Agreement).
- Benefit accrual rate of 2.25% per year of service for the first 20 years of service and 2.0% per year thereafter with a maximum rate of 80%.
- Employee contribution rate of 10.25%.
- Minimum retirement eligibility requirement of age 55 and 10 years of service.
- No DROP benefit.
- No Supplemental monthly benefit (13th benefit payment).
- No \$5,000 lump sum retirement benefit.
- No additional disability benefit (education benefit).
- Partial Lump Sum Option Plan (PLOP).

Financial History

Year	Active Members	Employee Contribution	City Contribution	Retired Members	Benefits Paid	Contribution Refunds	DROP Distributions	PROP Distributions	Assets
YEARS ENDING DECEMBER 31,									
1947	424	8,294	8,294	2	479	-	-	-	\$18,984
1948	475	27,134	27,133	43	39,267	-	-	-	135,546
1949	452	33,763	32,819	49	39,553	-	-	-	162,786
1950	529	39,942	43,106	62	50,193	-	-	-	200,503
1951	605	49,112	45,851	63	53,350	-	-	-	250,047
1952	614	52,058	57,079	70	58,298	-	-	-	315,692
1953	641	52,938	53,435	80	66,047	-	-	-	368,803
1954	691	56,765	57,104	88	74,393	-	-	-	424,547
1955	685	64,401	71,887	100	86,088	-	-	-	497,244
1956	760	164,847	234,498	107	173,124	-	-	-	744,164
1957	856	176,850	301,883	115	178,386	-	-	-	1,107,643
1958	1,004	213,713	335,041	121	189,570	-	-	-	1,486,852
1959	1,074	249,951	393,959	133	211,299	-	-	-	1,976,409
1960	1,162	285,757	449,290	140	225,311	-	-	-	2,561,106
1961	1,143	304,877	479,497	147	237,887	-	-	-	3,216,236
1962	1,150	329,017	499,574	154	253,881	-	-	-	3,942,979
1963	1,248	343,899	516,536	162	285,095	-	-	-	4,761,795
1964	1,305	418,453	579,332	173	370,723	-	-	-	5,621,676
1965	1,337	515,846	831,953	196	478,418	-	-	-	7,747,324
1966	1,436	562,358	902,736	208	540,752	-	-	-	9,023,597
1967	1,317	468,689	611,332	183	407,304	-	-	-	6,553,877
1968	1,576	902,866	1,392,809	228	696,177	-	-	-	11,056,216
1969	1,607	1,006,266	1,567,498	248	808,964	-	-	-	13,370,760
1970	1,797	1,154,221	1,856,836	268	974,546	-	-	-	15,813,817
1971	1,957	1,335,696	2,140,848	291	1,153,608	-	-	-	16,034,603
1972	2,114	1,535,704	2,461,800	316	1,340,544	-	-	-	22,862,666
1973	2,202	1,890,345	2,988,999	343	1,587,716	-	-	-	27,376,150
1974	2,414	2,580,666	4,093,302	356	1,869,042	-	-	-	33,380,111
1975	2,596	3,119,913	4,626,878	371	2,184,164	-	-	-	40,561,730
1976	2,731	3,803,545	7,428,062	395	1,587,769	-	-	-	51,632,551
1977	2,884	4,080,701	7,796,602	439	2,978,862	-	-	-	61,276,020
1978	2,952	4,661,668	9,607,122	492	3,653,253	-	-	-	73,993,489
1979	3,028	5,142,914	10,667,551	548	4,369,837	-	-	-	90,225,568
1980	3,148	5,947,462	11,868,187	602	5,388,666	684,890	-	-	110,710,842
1981	3,169	7,169,182	14,965,011	666	6,499,464	1,244,574	-	-	140,657,286
1982	3,243	7,234,554	17,223,365	746	7,242,412	1,036,471	-	-	168,754,917
1983	3,611	7,723,826	21,953,159	793	8,931,028	497,391	-	-	218,990,548
SIX MONTHS ENDING JUNE 30									
1984	3,997	4,046,732	11,712,871	855	4,759,641	419,628	-	-	236,498,739
YEARS ENDING JUNE 30,									
1985	4,223	8,923,000	26,017,000	896	10,166,000	781,000	-	-	307,338,000
1986	4,526	10,041,000	28,606,000	903	10,938,000	750,000	-	-	371,265,000
1987	4,494	9,680,000	25,591,000	909	11,321,000	1,124,000	-	-	456,482,000
1988	4,239	9,446,000	25,194,000	1,022	12,952,000	1,016,000	-	-	526,849,000
1989	4,105	9,600,000	20,983,000	1,065	14,330,000	1,365,000	-	-	553,310,000
1990	4,073	9,522,000	18,480,000	1,141	16,841,000	1,420,000	-	-	626,957,000
1991	4,041	9,830,000	17,857,000	1,206	18,948,000	882,000	-	-	669,384,000
1992	4,120	10,652,000	19,623,000	1,288	21,851,000	879,000	-	-	740,867,000
1993	4,498	11,404,000	21,156,000	1,377	23,608,000	410,000	-	-	805,201,000
1994	4,705	13,895,000	29,980,000	1,415	25,961,000	629,000	-	-	890,446,000
1995	4,932	14,498,000	29,929,000	1,479	28,061,000	744,000	-	-	1,055,010,000
1996	5,126	15,533,000	31,562,000	1,548	30,552,000	829,000	137,000	-	1,255,949,000
1997	5,197	16,012,000	29,503,000	1,582	32,676,000	946,000	634,000	-	1,483,137,000
1998	5,247	16,832,000	30,564,000	1,614	39,440,000	986,000	1,801,000	-	1,703,389,000
1999	5,399	19,347,000	30,645,000	1,657	48,677,000	1,127,000	4,949,000	-	1,948,000,000
2000	5,305	21,761,000	30,645,000	1,723	55,421,000	1,545,000	8,020,000	-	2,234,189,000
2001	5,290	22,043,000	30,645,000	1,786	60,328,000	884,000	8,366,000	97,000	2,142,779,000
2002	5,361	22,484,000	32,645,000	1,869	59,783,000	1,194,000	4,263,000	1,348,000	1,948,248,000
2003	5,373	24,008,000	34,645,000	1,893	65,649,000	992,000	5,441,000	2,815,000	2,018,299,000
2004	5,242	26,393,000	36,645,000	2,110	92,697,000	852,000	22,603,000	8,352,000	2,422,768,000
TOTALS		\$369,658,921	\$691,798,239		\$740,845,111	\$23,237,954	\$56,214,000	\$12,612,000	

Mission Statement and Values

MISSION STATEMENT

The mission of the Houston Police Officers' Pension System is to responsibly manage the System in the best interests of the members and beneficiaries so that they may have peace of mind knowing their pension benefits are secure.

VALUE STATEMENTS

- All persons associated with HPOPS will comply with all laws, rules and policies governing the management of the fund and related fiduciary duties.
- The Board and Staff will always place a high priority on membership input. They will actively seek out and be responsive to membership input.
- The Board and Staff will strive to be good stewards over the resources provided to the System by the members, the City of Houston and its taxpayers so that the System is managed in an efficient and cost effective manner and its assets are prudently invested.
- The Board and Staff will maintain the actuarial soundness of the fund while seeking the highest attainable level of benefits and services for its members and beneficiaries.
- The Board will actively participate in the oversight of the fund. HPOPS recognizes the professional Staff as one of the System's most valuable assets; they will be treated with dignity and respect, and afforded every opportunity to exercise autonomy in their duties.
- The Pension System Board and Staff will be open, responsive, professional, courteous and ethical in the conduct of business with each other, members, beneficiaries, service providers, and the public.
- The Board and Staff will be forward looking, be innovative and consider new ideas.

Financial Planning

Since mid-2000 HPOPS has offered all members the service of a Financial Planner at no charge. The HPOPS Financial Planning Service is here to provide the kind of information necessary for you to maintain control of your finances. All pension members are encouraged to attend educational seminars conducted by the Financial Planning Service. Members also have access to one-on-one assistance from a certified financial planner at HPOPS. Personal appointments are free of charge, confidential, and involve absolutely no sales pressure. HPOPS' planner has no products or services to sell you. This allows for an open and objective discussion of the financial issues important to you.

Financial success leads to a new set of challenges. Consider the following. How would you rate your money management skills? Can you describe risk assessment? Can you explain how IRS tax regulations will affect your DROP, deferred comp and other savings? How will your benefits be distributed in the event something happens to you or your spouse (do you have a will)?

Do you have questions relating to insurance needs, investing, employee benefits, estate planning or personal taxation? Regardless of your age, rank or proximity to retirement, consider taking advantage of this comprehensive service. Don't wait until late in your career to grasp the importance of these issues. Basic financial planning skills are no longer optional.

The HPOPS Financial Planner can be reached at 713-869-8734. You may be surprised at the amount of practical information available to you through this free service.

MEMBERS HIRED BEFORE OCTOBER 9, 2004

A Description of Your Plan

WHAT IS HPOPS?

The Houston Police Officers' Pension System (HPOPS or the System) was created in 1947 by an act of the fiftieth Legislature of the State of Texas, and is governed by Article 6243g-4, Vernon's Texas Civil Statutes (the Governing Statute). The System is a single employer defined benefit pension plan covering police officers employed full time by the City of Houston (the City) that provides service, disability and death benefits for eligible members. The System is a local governmental plan and, therefore, is not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The Board of Trustees (The Board) of the System is composed of seven members including three active and two retired police officers who are members of the System and are elected by the active and retired members of the System and two additional members representing the City. The Board is responsible for the general administration, management, and operation of the System, including the direction of investment and oversight of the System's assets.

HOW DO YOU BECOME A MEMBER OF THE PLAN?

Your membership in HPOPS begins upon your graduation from the Police Academy. Once you have been sworn in as a classified officer you cease to contribute to Social Security and begin contributing to the System.

HOW MUCH ARE YOUR CONTRIBUTIONS?

You are a member of a contributory defined benefit pension plan which means that the cost of your retirement plan is shared by you and the City of Houston. The City's contribution rate is established through actuarial valuations performed at least once every three years or by agreement between the Board and the City of Houston. Your contribution rate is set by statute. Currently you contribute 9.00% of your Pay and your contributions are made on a pre-tax basis. Pay means wages as defined by Section 3401(a) of the Code, plus any amounts that are not included in gross income by reason of Sections 104(a)(1), 125, 132(f), 402(g)(2), or 457 of the Code, any member contributions picked up pursuant to Section 414(h)(2) of the Code, and any portion of a clothing allowance or motorcycle allowance that is not considered wages, and less any pay received for overtime work (OT), Exempt Time Pay (ETP) or Strategic Officer Staffing Program (SOSP) pay. The term Pay does not include nontaxable payments not expressly described above.

HOW DOES YOUR WORKING TIME COUNT?

Your working time determines when you are eligible to receive a service pension or begin accumulating a monthly DROP benefit and how much that pension or monthly DROP benefit will be. You receive a day of service credit for each day you work as a classified employee of the Police Department.

If you have been employed in another department of the City of Houston, you may use your service credit in that department for pension qualifying time; however, it may not be used to determine the amount of the benefit you will receive.

CAN YOU LOSE YOUR SERVICE CREDIT?

Yes. If you leave full-time employment with the Houston Police Department before you complete 10 years of service your service credit is automatically cancelled and your employee contributions will be refunded without interest. If you leave your full-time employment with more than 10 but less than 20 years of service and choose a refund of your pension contributions instead of a Delayed Retirement benefit payable at age 60, your service credit is cancelled upon the refund of contributions.

CAN YOUR SERVICE CREDIT BE RESTORED?

If you left full-time employment with the Police Department and you had less than 10 years of service, or you had between 10 and 20 years of service and chose a refund of contributions, your service can be restored if:

- you are reemployed as a full-time classified employee, and
- you repay any contributions (without interest) that were refunded to you

Additionally, a former member of the System who becomes employed in a full-time position with the City of Houston and is a participant in another pension plan maintained by the City, may repay the contributions previously withdrawn from HPOPS and receive HPOPS service credit for the previously earned service. Service time is bought back at the rate of a new employee which is currently 2.25% per year for the first 20 years of service, not the 2.75% at which it was originally accrued. Amounts repaid must be paid to HPOPS no later than 90 days after your retirement date.

Example: Steve had been employed as a classified police officer for 10 years when he terminated his employment with the Police Department. During this ten year period he contributed \$20,000 to the System. Upon his termination he received a refund of his \$20,000. Five years later he was reemployed as a full-time classified officer with the Department. Steve can regain credit for his previous ten years of classified service by repaying the \$20,000, which was refunded to him upon his termination. He will regain this service at 2.25% per year, not the 2.75% as originally accrued. Amounts repaid must be paid to HPOPS no later than 90 days after his retirement date.

Another Example: Sue was employed as a classified police officer for seven years. During this period she contributed \$15,000 to the System. Sue terminated her employment with the Police Department and received a refund of her \$15,000. Subsequently she accepted a civilian job with the City of Houston and has been an active member of the Municipal Employees Pension System for 15 years. Since Sue has more than twenty years of combined service with the City of Houston, she may repay to HPOPS the refunded contributions and begin receiving a prorated benefit based on her seven years of service with the Houston Police Department. Sue's prorated benefit will be calculated at 15.75% (2.25% per year times 7 years.)

WHEN ARE YOU ELIGIBLE FOR A PENSION?

Service Retirement or Entry into DROP

You become eligible for a service retirement benefit or for entry into DROP once you have attained 20 years of credited pension service. For purposes of determining whether a member has a sufficient number of years of service to be eligible to receive a service retirement benefit or to enter DROP and not for purposes of determining the amount of the pension or the DROP credit, a person may obtain service credit for any period of full-time employment in another City of Houston department.

For Example: George graduated from the Police Academy on March 1, 1983, and began contributing to the System on that date. On March 1, 2003, if he has had no breaks in service, no periods of suspension or an unpaid leave of absence (other than military leave), he will be eligible for DROP entrance or a service retirement since he has 20 years of credited pension service.

Another Example: Prior to being accepted into the Police Academy, Kathy was employed as a manager in the City's Personnel Department. At the time of her entry into the Police Academy, she had 5 years of service with the City of Houston. She graduated from the Police Academy on May 31, 1985. On May 31, 2000, Kathy could combine her five years of City service as a civilian employee with her 15 years of service as a classified police officer to meet the eligibility requirements for DROP entrance or a service retirement. However, Kathy's retirement benefit would be calculated on her years of credited service as an HPOPS member (15 years times 2.75%= 41.25%).

Delayed Retirement

A member who has at least 10 but less than 20 years of credited pension service and who terminates employment with the HPD has the option of a refund of member contributions (no City contributions or interest included) or a Delayed Retirement benefit payable at age 60 which is calculated at 2.75% of final average pay for each year of credited pension service.

Duty-Connected Disability Benefit

An active member who becomes totally and permanently disabled, as determined by criteria established by the Houston Police Department, for the performance of his/her duties as a police officer as the result of a bodily injury received in, or illness caused by, the performance of those duties, shall on proof of total and permanent inability to perform the duties of a police officer be eligible for a Duty-Connected disability benefit or a Catastrophic Disability benefit.

Non Duty-Connected Disability Benefit

An active member who becomes totally and permanently incapacitated, as determined by criteria established by the Houston Police Department, for the performance of his or her duties and is not eligible for either an immediate service pension or a Duty-Connected Disability benefit is nevertheless eligible to apply for a Non Duty-Connected Disability benefit.

HOW MUCH WILL YOUR PENSION BE?

Service Retirement or DROP Entrance

The benefit calculation has 2 components that make up the monthly benefit.

1. Average Monthly Salary (AMS) – based on member’s pay prior to the effective date of the benefit
2. Benefit percentage - based on member’s years of service prior to the effective date of the benefit. The benefit percentage is accrued at a rate of 2.75% for each year up to 20 and then 2% every year after 20.

Until October 7, 2007, members will have the option of the Locked-In Benefit or Sliding Average for calculating their AMS.

- **Locked-In benefit** – Average Total Direct pay for the 26 pay periods preceding October 9, 2004, divided by 12 months. Defined in Article 6243g-4 Sec. 2 (2).
- **Sliding Average benefit** – Select the highest pay period of the 26 pay periods immediately prior to October 9, 2004 as the basis. Multiply that figure by 26. Add the recurring regular biweekly pays for each subsequent pay period. Then add all Averagable pays for the entire period. Divide this total by the number of pay periods, then multiply by 26 and divide by twelve (months). This figure is the Average Monthly Salary (AMS). Multiply the AMS by the member’s benefit percentage (2.75% for first 20 years, plus 2% for each year over 20). For this calculation, SOSPP, CMEPP, and Overtime pays are not included.

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For Example: On November 20, 2004, Mary has 22 years of credited pension service and decides to enter DROP. During the 26 pay periods immediately preceding October 9, 2004, Mary’s highest pay period was \$1,800. Mary is entitled to enter DROP with her choice of the following benefit calculations:

Locked-in benefit:

1. Highest pay period = \$1,800
2. Multiply by 26
 $\$1,800 \times 26 = \$46,800$
3. Sum of averagable pays for the 26 pay periods: \$5,000
4. $\$46,800 + \$5,000 = \$51,800$
5. Divided by 12 months = \$4,316.67 (AMS)
6. Multiplied by 59% = \$2,546.84

Or

Sliding Average

1. Highest Pay Period = \$1,800
2. Multiply by 26
 $\$1,800 \times 26 = \$46,800$

3. Add the Pay for any subsequent pay period, considering only items of Pay that are included in each pay check.

$$\begin{array}{r}
 \$46,800 \\
 \text{Pay period 27: } +\$1,800 \\
 \text{Pay period 28: } +\$2,000 \\
 \text{Pay period 29: } +\$2,000 \\
 \hline
 =\$52,600
 \end{array}$$

4. Add all Pay, excluding all items of the type included above received during the same included biweekly pay periods.

$$\begin{array}{r}
 \text{Sum of averagable* pays for first 26 pay periods: } \$5,000 \\
 \text{Averagable pays for Pay period 27: } \$44 \\
 \text{Averagable pays for Pay period 28: } \$400 \\
 \text{Averagable pays for Pay period 29: } \$120
 \end{array}$$

$$\$5,000 + \$44 + \$400 + \$120 = \$5,564$$

(Sum of averagable pays for all applicable pay periods)

Sum of categories of Pay occurring in each paycheck and other averagable pays over the 29 pay periods.

$$\$52,600 + \$5,564 = \$58,164$$

5. Divide by the total number of pay periods included which gives the average pay per pay period

$$\$58,164 \div 29 = \$2,005.66 \text{ (Average bi-weekly pay)}$$

6. Multiply this number by 26

$$\$2,005.66 \times 26 = \$52,147.16$$

7. Divide by 12 to get the AMS (average monthly salary)

$$\$52,147.16 \div 12 = \$4,345.60 \text{ (Average Monthly Salary, AMS)}$$

8. Multiply the AMS by the member's benefit percentage

$$\$4,345.60 \times 59\% = \$2,563.90 \text{ (Member's monthly benefit)}$$

* As explained in Article 6243g-4 Section 2 (2) "Average Total Direct Pay" excluding Exempt Time Pay (ETP) and Strategic Officer's Staffing Pay (SOSP)

Back DROP

Members have the option to Back DROP at retirement with their Back DROP Entrance benefit being calculated on a 78 pay period (3 year) average of Pay or Final Average Pay

Members have until 5:00 p.m. on June 30, 2005 to Back DROP and still use Average Total Direct Pay (ATDP) to calculate their Back DROP entrance benefit without having to retire.

Recalculation of Benefit at Retirement

This recalculated monthly benefit amount is derived by multiplying the member's service percentage as of his or her DROP or Back DROP entrance date times the member's Average Monthly Salary (AMS) calculation available at the time of the member's retirement. Through October 6, 2007 this would include the Locked-In and Sliding Average calculations. After October 6, 2007 the AMS will be calculated using only a 3 year average of Pay or Final Average Pay. The member will then begin receiving distributions of the greater of the DROP/Back DROP benefit or the Recalculated Benefit.

Delayed Retirement

If you terminate your employment with the Police Department before attaining 20 years of service but after completing at least 10 years of service, you are eligible for either:

1. A refund of your contributions to the System, or
2. A Delayed Retirement benefit payable at age 60. The Delayed Retirement benefit is calculated using the same calculations mentioned above based on the years of service the member has acquired prior to separation

Example: Bill became a member of HPOPS upon his graduation from the Police Academy on January 20, 1989. On January 20, 2005, he terminated his employment with the Police Department. At the time of his termination Bill has 16 years, 0 months, and 0 days of credited pension service. Bill is 54 years old at the time of his termination and has chosen a Delayed retirement benefit instead of a refund of contributions. His monthly benefit will be the higher of the Locked-In benefit or the Sliding Average benefit. Bill's Delayed Retirement benefit is calculated as follows:

Locked-in benefit – highest pay period (which is \$1,800)
 $\$1,800 \times 26 \text{ pay periods divided by } 12 \text{ months} = \$3,900$
 $\$3,900 \times 2.75\% \text{ times } 16 \text{ years} = \$1,716$

Sliding Average – $\$1,800 \text{ times } 26 \text{ pay periods} = \$46,800$ plus $(\$2,000 \times 5 \text{ pay periods}) = \$56,800$. Divide $\$56,800$ by 31 total pay periods to get $\$1,832.26$. Multiply by 26 pay periods and divide by 12 months to get $\$3,969.90$ (AMS). Multiply by 2.75% times 16 years to get $\$1,746.76$.

Bill has the option of the higher of the two benefits, which in this example is the Sliding Average at $\$1,746.76$

Bill will begin receiving a Delayed Retirement benefit of $\$1,746.76$ per month in six years when he turns 60 years of age. He will not receive a COLA until benefit payments commence. At that same time, he will also begin receiving the $\$150$ insurance stipend.

Phase Down

This is a City of Houston and HPOU program and HPOPS does not administer this program. This explanation is offered to HPOPS members because the program does impact a member's participation in the System.

The City of Houston has indicated that it will allow certain HPOPS members to receive a disbursement of their accumulated sick and vacation time, commonly referred to as "Drag-up" pay, through bi-weekly payments rather than in a lump sum. During the time period that members receive this payment, the member remains an employee of HPD. This concept is referred to as the Phase Down Program. There are currently 4 Phase Down choices described below:

A & B The recalculated monthly retirement benefit for members who have elected to participate in either of these Phase Down options and whose application has been approved by HPD will be based on the calculation available at the start of their Phase Down period. Distributions of a member's DROP lump sum, Back DROP lump sum, $\$5,000$ lump sum and/or the monthly retirement benefit will not commence until the member's Phase Down

period has been completed, and the member is no longer an employee of HPD. During the Phase Down period, DROP accounts will continue to be credited with the monthly DROP benefit, employee contributions and interest.

C & D (Deferred Cash Out) In the other two Phase Down Options (Plans C and D) members are no longer considered active employees of HPD, but retired. These two options offer a payout schedule of up to five years, depending on the Plan and the amount of time that a member has. Both of the Plans allow for the 'Retired' member to continue city insurance coverage at the active employee rate. These premiums are deducted by the city from the Phase Down checks each member receives. Members under these two plans will receive the \$150 insurance stipend added to their Monthly Pension check. Members under this plan must notify City Benefits 6 weeks prior to the end of their Phase Down payout schedule to ensure all appropriate forms are completed to transfer insurance deductions to their Pension check in a timely manner to avoid any loss of coverage. Under option D or the Deferred Cash Out members may elect to roll their accumulated sick and vacation pay to their DROP/PROP accounts.

The above Phase Down options were contracted by and between the Houston Police Officers' Union as the sole and exclusive Majority Bargaining Agent for and on behalf of all Police Officers and the City of Houston. The above is only offered as an attempt to describe the effect of each of the Phase Down options on your pension benefits. Any further information on the Phase Down program and its current implementation should be directed to the Houston Police Officers Union (HPOU).

Duty-Connected Disability

If you have sustained a line of duty injury and have met the duty-connected disability criteria, as established by the Houston Police Department, your monthly benefit is the greater of your accrued service retirement or a minimum of 55% of the average monthly salary calculation (Locked-In or Sliding Average) or Final Average Pay available at the time of your separation from service.

For Example: Tim was involved in an automobile accident while performing the duties of a police officer. The accident left him totally and permanently disabled from performing his duties as a police officer. At the time of the accident Tim had only 5 years and 6 months of credited pension service. The determination of Tim's benefit amount would be made as follows:

Accrued benefit: 2.75% for 5 years and 6 months = 15.125%

Since the member's service percentage accrual is less than the minimum duty-connected disability service percentage, 55% will be used in the benefit calculation.

Locked-in benefit: 55% of Average Total Direct Pay Benefit as of October 9, 2004:

\$1,300 (highest pay period) x 26 plus;

\$1,100 in averageable pay for the 26 pay periods = \$34,900 (AMS)

Divided by 12 months = 2,908.33 (AMS) x 55% = \$1,599.58.

Sliding Average benefit: 55% of (AMS)
 $\$1,300$ (highest pay period) x 26 plus;
 $\$1,500$ times 2 (for the 27th & 28th pay periods) plus;
 $\$1,250$ in averageable pay for all 28 pay periods = $\$38,050$;
 Divided by 28 pay periods = $\$1,358.93$;
 Multiplied by 26 pay periods and divided by 12 months = $\$2,944.35$ (AMS)
 x 55% = $\$1,619.39$.

Tim is entitled to receive the greater of the two calculations; therefore, he will receive a Duty-Connected Disability benefit of $\$1,619.39$ per month. He will receive this benefit tax-free for the remainder of his life or for as long as he remains incapacitated. Tim's eligible surviving spouse would continue to receive this monthly payment after Tim's death.

If Tim's injuries meet the definition for a Catastrophic Disability benefit, then he would be eligible for a benefit of 100% of final average pay or $\$2,944.35$ per month.

Non Duty-Connected Disability

If you become totally and permanently disabled from performing your duties as a police officer as the result of an injury or illness not sustained in the line of duty, as determined by criteria established by the Houston Police Department, and you are not eligible for an immediate service pension, you are entitled to a Non Duty-Connected Disability benefit calculated as follows:

2.75% of your average total direct pay for the Locked-in benefit, and Final average pay for the Sliding average benefit, for each year of credited service with a minimum of 27.5%.

An Example: Chris graduated from the Police Academy on May 1, 1993. On April 30, 2005, she became disabled from performing her duties as a police officer as the result of a debilitating illness. At the time of her disability, Chris was credited with 12 years of pension service credit and her AMS using average total direct pay was $\$3,200$ per month. Her AMS using final average pay was $\$3,225$. Chris' Non Duty-Connected Disability benefit would be calculated as follows with a choice of the higher benefit:

Locked-in benefit: $2.75\% \times \$3,200 \times 12 \text{ years} = \$1,056$ per month

Sliding Average benefit: $2.75\% \times \$3,225 \times 12 \text{ years} = \$1,064.25$ per month.

Chris will receive a monthly disability benefit of $\$1,064.28$ per month effective April 30, 2003. She is eligible to receive this benefit for the remainder of her life or for as long as she is disabled.

WHAT OTHER RETIREMENT BENEFITS AM I ENTITLED TO RECEIVE?

Lump Sum Benefit

A member, employed before October 9, 2004, who retires from the Police Department with a service retirement benefit, or a disability benefit, or is a DROP member who is separating from service, is entitled to receive a one-time lump sum benefit payment of $\$5,000$. The benefit is payable at the time the first monthly benefit payment is made and distributed with any DROP distributions.

Example: Ben attained 20 years of pension service credit on January 1, 2005. He decided to retire and begin receiving his monthly service retirement benefit. When Ben receives his first retirement check on January 31, 2005, he is entitled to also receive a one-time lump sum benefit payment. Ben may choose to have the entire \$5,000 distributed to him or he may choose to rollover the \$5,000 to defer the payment of income taxes and to also avoid the payment of an early withdrawal penalty if he is under the age of 55 at the time of his separation from the Department. See the section on Taxation of Benefits for a full explanation of tax issues.

COLA Increases

Once you begin receiving a service retirement, disability benefit or a monthly DROP credit, you become eligible to receive annual cost of living adjustments (COLA). Eligible members receive a COLA each year on April 1 in the amount of 80% of any percentage increase in the Consumer Price Index (C.P.I.) for the preceding year. This COLA can never be less than 2.4% nor greater than 8%. COLA increases are effective April 1 and are paid with the April 30 benefit payment or DROP credit.

For Example: John retired from the Police Department on March 31, 2005 and began receiving a monthly retirement benefit in the amount of \$2,000. For the year ending December 31, 2004, the change in the C.P.I. was 2.5%. For the year ending December 31, 2005, the change was 3.7%. John's monthly retirement benefit of \$2,000 had increased as follows by the annual 2005 & 2006 COLA increases:

2005 $\$2,000 \times 2.4\%$ (minimum COLA was greater than calculated COLA ($2.5\% \times 80\% = 2\%$)) = \$48.00 per month.
John's new benefit is \$2,048 per month

2006 $\$2,048 \times 2.96\%$ (calculated COLA ($3.7\% \times 80\% = 2.96\%$) was greater than minimum COLA of 2.4%) = \$60.62 per month.
John's new benefit is \$2,108.62 per month

In the two years John has been retired, his monthly retirement benefit has increased \$108.62 as a result of cost of living adjustments.

Another Example: Bill entered DROP on February 21, 2005, with a monthly DROP benefit of \$2,000. His DROP account was credited with the same COLA increases that John received. On April 1, 2005, Bill's monthly DROP benefit had also increased to \$2,048.

Insurance Benefit

Each retired member of the System and each surviving spouse receiving a monthly survivor's benefit is entitled to receive an additional benefit of \$150 per month. This benefit is intended to help defray the cost of medical insurance premiums. The member or surviving spouse receives this benefit regardless of whether he or she actually has insurance coverage. This benefit is in addition to the monthly retirement/survivor's benefit and is not subject to the annual COLA increases nor is it ever prorated.

Example: Catherine is a DROP participant and decides to exit DROP and retire on December 15, 2005. Catherine's service retirement benefit for the month of December 2005 will include the full \$150 insurance stipend.

Supplemental Benefit

In years when the System meets certain conditions, a 13th benefit payment will be made to all retirees, beneficiaries and DROP participant accounts. A payment equal to the benefit the retiree/survivor/DROP participant account received the month prior to the 13th payment will be issued to those members who have been receiving benefits for at least a year. Payments for those participants who have been receiving benefits for less than a year will be prorated according to the number of months benefit payments have been made. The 13th check does not include the \$150 additional benefit mentioned above.

Criteria for Payment of a 13th Benefit Check

- The assets of the System will equal or exceed 120% of its liabilities after the 13th payment is made
- The rate of return on the System's assets exceeded 9.25% for the fiscal year ending before the payment
- The payment will not cause an increase in the City's contribution rate

No 13th benefit payment will be paid to any person who first becomes a member of HPOPS after October 9, 2004.

Survivor Benefits

HOW ARE YOUR SURVIVORS PROTECTED AFTER YOU DIE?

Your eligible surviving spouse or your other eligible dependents will receive a monthly survivor's benefit if:

- You die while you are in service from any cause that is the result of the performance of your duty regardless of your length of service;
- You die while you are in service from any cause regardless of your years of service credit; or,
- You die after you retire.

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Duty-Connected Death

If you die as the result of an injury or illness sustained in the line of duty, your surviving spouse or eligible dependents are entitled to a survivor's benefit equal to 100% of your Final Average Pay.

Non Duty-Connected Death

If you have at least 10 years of pension service and you die from an injury or illness not related to your duties as a police officer, your surviving spouse or eligible dependents are entitled to your accrued pension benefit based on 2.75% of your average monthly salary for each of your first 20 years of service and 2% for each year after 20.

If you die from a non duty-connected injury or illness and have less than 10 years of service, your surviving spouse or eligible dependents are entitled to receive a benefit equal to 27.5% of your average monthly salary at the time of your death.

Death After Retirement

If you die after you have already retired, your eligible surviving spouse or your eligible dependents are entitled to a survivor's benefit equal to the benefit amount you were receiving at the time of your death.

Five-Year Certain Benefit

If you, or the individual receiving your survivor's pension, die before monthly payments have been made for at least five years and there is no other person eligible to receive a survivor's benefit, your designated beneficiary or your estate will receive payments in the amount of the last monthly payment made to you until such payments have been made for five (5) years from the date of your retirement. A designated beneficiary or your estate that receives the five-year certain benefit payments hereunder does not receive cost of living adjustment (COLA) increases.

COLA Increases

A surviving spouse or eligible dependent is entitled to receive the same cost of living adjustment (COLA) increases retirees receive. A COLA increase is granted each year on April 1 and applied to the April 30th monthly benefit. The COLA shall be adjusted upward at a rate equal to 80 percent of any percentage increase in the Consumer Price Index (C.P.I.) for All Urban Consumers for the preceding year. However, the COLA may not be less than 2.4% nor greater than 8%.

Insurance Benefit

Your eligible surviving spouse is entitled to receive an additional stipend of \$150 per month to help offset the cost of medical insurance premiums. This benefit is payable to your eligible spouse regardless of whether he/she actually has insurance coverage. This benefit is not payable to a non-spouse eligible survivor.

Lump Sum Benefit

If you were employed before October 9, 2004, and you die while you are still an active member and your spouse or other eligible dependents are entitled to a survivor's benefit, your eligible survivor will receive a one-time lump sum benefit of \$5,000 at the same time the first monthly benefit payment is made. If more than one dependent is eligible to receive a payment, the \$5,000 shall be divided equally among the eligible dependents.

Inactive Member

If you terminate your HPD employment with more than 10 but less than 20 years of service, and choose a Delayed Retirement pension payable at age 60, and you die before reaching age 60, your surviving spouse or eligible dependents are entitled to receive your Delayed Retirement benefit beginning in the month you would have attained age 60.

WHO ARE YOUR SURVIVORS?

Article 6243g-4, Texas Revised Civil Statutes defines your *survivors who are eligible to receive your monthly retirement or disability benefit* as follows, and in the order stated:

1. A surviving spouse to whom an active, inactive, or retired member is married at the time of the member's death, and in the case of an inactive or retired member, before the member's separation from service or for a continuous period of at least five years before the retired or inactive member's death. A ceremonial marriage is considered to exist only if the marriage is recorded in the records of the recorder's office in the county in which the marriage ceremony was performed.

For a common-law marriage to be recognized, a declaration of common-law marriage signed by the member and the member's common-law spouse before a notary public must be filed in the records of the county clerk's office in the county in which the common-law married couple resided at the commencement of the common-law marriage. If a declaration of common-law marriage is signed before a notary public after December 31, 1999, it may not be treated as effective on a date earlier than the date it was actually signed before the notary public.

2. To a dependent child or the guardian of any dependent child or children – if a member dies and has no surviving spouse but has dependent children under the age of 18 or 24 if full time students, or a child who is permanently disabled as the result of a disability that began before the child attained age 18, such dependent child/children is/are considered an eligible dependent(s).
3. If a member dies and has no surviving spouse or eligible dependent children, but leaves a dependent parent(s) who received 50% or more of their support from the member during the one-year period prior to the member's death, such dependent parent(s) is/are considered an eligible dependent(s).
4. If a member dies and has no surviving spouse or no eligible dependent children or no dependent parent, the member's estate will receive any remaining monthly benefit. In lieu of the member's estate being the beneficiary of a member's remaining monthly benefit, if any, the member may name a beneficiary to receive any such monthly benefit, on a form furnished by HPOPS.

Article 6243g-4, Texas Revised Civil Statutes, the pension statute, provides that the individuals *who are eligible to receive your DROP or PROP lump sum benefit are* as follows:

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A member who is married is considered to have designated the member's spouse as the member's beneficiary unless the spouse consents, in a notarized writing delivered to the Board, to the designation of another person as beneficiary of all or a part of the member's DROP or PROP account.

If no designated beneficiary survives the member, the Board may pay the balance of the member's DROP or PROP account to the member's beneficiaries in the following order:

1. to the member's surviving spouse (no requirement of 5 year post-retirement marriage);
2. if the member does not have a surviving spouse, to each eligible child of the member in equal shares;
3. if the member does not have a spouse or any children, to each surviving parent of the member in equal shares; or
4. if the member has no beneficiaries described in (1), (2) or (3) above, then to the estate of the member.

If a member names a spouse as a beneficiary and is subsequently divorced from that spouse, the divorce voids the designation of the divorced spouse as the member's beneficiary. A designation of a divorced spouse will cause the Board to pay any balance remaining in the member's DROP or PROP account in the order set out above.

Deferred Retirement Option Plan (DROP)

THE DROP CONCEPT

During the 74th Texas State Legislative Session (1995), the Houston Police Officers' Pension System (HPOPS or the System) was successful in obtaining enactment of a Deferred Retirement Option Plan (DROP). The DROP is an optional method of accruing pension benefits. Up until the passage of the DROP, Houston Police Officers on retirement received their retirement benefit only in the form of a monthly annuity (monthly pension checks). Now members have an additional payment option in the form of a combined monthly annuity and single lump sum benefit payment.

DISCLAIMER

DROP is an alternative method of accumulating and accruing a pension benefit from the Houston Police Officers' Pension System. The voluntary decision to participate in DROP is a personal one that each member must make after careful consideration of the member's individual situation. The member should carefully consider all aspects of DROP before choosing this option because there are both advantages and disadvantages within the program.

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GENERAL CHARACTERISTICS OF THE DROP

- The Deferred Retirement Option Plan (DROP) is an optional method of accruing a benefit and is available to members, actively employed before October 9, 2004 with no breaks in service subsequent to that date, with 20 or more years of credited pension service with the City of Houston. Participation in DROP is completely voluntary on the part of the member.
- The DROP decision can only be revoked at the time of the member's death, retirement or separation due to disability. Once this decision is made, the member must remain in DROP as long as he or she is employed as a classified police officer with the City of Houston Police Department.
- The DROP program enables a member to accumulate a DROP lump sum in a notional account that can be distributed to the member upon termination from HPD. The monthly annuity that is credited to each DROP account is calculated the same as that of a service retirement benefit except that it is calculated at the date of entry into DROP.

Following the DROP election, the member does not accrue additional years of service for purposes of determining the monthly DROP benefit to his/her notional account. Increases in pay that occur on or after the effective date of the DROP election may not be used in computing the member's monthly DROP benefit. For example, a member with 25 years of service who enters DROP is entitled to a monthly annuity equal to 65% (55% for the first 20 years of service and 2% for each year thereafter) of his/her Final Average Pay. The member's monthly DROP benefit is frozen as of his/her DROP entrance date, regardless of how long

he/she continues to be employed as a classified police officer of the City of Houston Police Department. However, a member's monthly DROP benefit does not receive the annual cost of living adjustment (COLA) that occurs on or after the DROP date that would be applicable to pension payments.

At the time the member terminates employment as a classified police officer with the City of Houston Police Department, the member is eligible to receive a single payment equal to the amount of monies recorded in the member's DROP bookkeeping account (adjusted after applicable taxes as discussed below).

Once elected, a member's DROP account is derived from three sources: the monthly DROP benefit computed as of the date the DROP benefit is elected; 8.75% of the member's total pay (9.0% of the member's total pay each pay period is the member's full contribution); and interest calculated at the DROP interest rate. The additional one quarter of one percent (.25%) of the member's total pay will be credited to HPOPS general fund and not the member's DROP account. Each member receives a \$5,000 lump sum benefit upon retirement. This amount is credited to the DROP account on the member's retirement date. The member's DROP monies are recorded in a bookkeeping account at the System Office. This is paperwork only; there are no separate bank or investment accounts that actually hold the monies.

BACK DROP

Pursuant to the 2004 Meet and Confer Agreement between the HPOPS and the City of Houston, active DROP members are entitled to use average total direct pay rather than final average pay in determining their Back DROP benefit if the election is made before 5:00 p.m., June 30, 2005. Once the member has made the election and completed the appropriate paper work, the Back DROP account is established.

Once a member has made the decision to retire, HPOPS' staff will produce a Back DROP calculation for the member if the member so desires. If the termination date is subsequent to June 30, 2005, the Back DROP calculation will be made using final average pay in determining the Back DROP benefit.

The Back DROP calculation will produce a Back DROP statement that will be provided to the member detailing the accumulation of "credits" in the Back DROP account from the "Back DROP entrance date" through the member's date of retirement. Similar to the DROP account, the Back DROP account is a notional account maintained by HPOPS. The Back DROP "credits" consist of the monthly Back DROP benefit, 8.75% of the member's bi-weekly payroll contributions and an interest component.

1. The monthly Back DROP benefit will increase each year by the COLA percentage as approved annually by the board during the member's hypothetical Back DROP term. This Back DROP monthly benefit amount will be credited to the member's Back DROP account on each month-end during the member's hypothetical Back DROP term.
2. The Back DROP account will increase bi-weekly by the member's bi-weekly pension payroll deduction during the member's hypothetical Back DROP term.

3. The Back DROP account will increase monthly by an interest component that is calculated using the DROP interest rates as approved annually by the board during the member's hypothetical Back DROP term.
4. The Back DROP account will also increase by the amount of any supplemental benefit in years when and if applicable.

The hypothetical Back DROP term ends on the member's termination date. The Back DROP term commences on the date, on or subsequent to the member's first DROP eligibility date, but not prior to the inception of DROP on October 21, 1995, that will result in the highest possible lump sum accumulation and the highest possible monthly benefit amount that the member could have attained pursuant to the provisions of Back DROP.

Post Retirement Option Plan (PROP)

If an eligible member or surviving spouse elects to participate in PROP, then a notional PROP account will be set up in his or her name upon completion of the application process. Surviving spouses have been able to participate in PROP since September 1, 2003. PROP participant's monies are recorded in a bookkeeping account at HPOPS. This is paperwork only; there are no separate bank or investment accounts that actually hold the monies.

DISCLAIMER

The voluntary decision to participate in PROP is a personal one that each member must make after careful consideration. Due to the complicated tax implications of PROP, members electing to participate in PROP should seek competent advice concerning participation in PROP from his or her attorney, tax advisor or financial advisor or another professional knowledgeable about the rules for taxing distributions from tax qualified plans. Failure to obtain competent legal and tax advice prior to the PROP election or during the period of PROP participation can lead to severe and adverse financial consequences.

CONTRIBUTIONS TO PROP

A PROP participant's account is derived from up to three different sources as described below.

The first source consists of the portion or all of the member's DROP or Back DROP account or \$5,000 lump sum that the member elects to contribute to the PROP account, if any (a surviving spouse of a member who dies while active in DROP has these same options). A DROP participant has a one-time option to contribute these amounts to his or her PROP account and these amounts can only be allocated to the PROP account on the member's retirement date. A PROP participant has the option to allocate part of their monthly annuity to their PROP account; to elect not to contribute any portion of his or her annuity to the PROP account; or, to defer the decision to allocate part of his or her monthly annuity to their PROP account to a later date.

The other two sources of funds in the PROP account are the portion of the monthly annuity benefit payment (pension annuity) that the participant elects to allocate to PROP (the PROP Credit), if any, and the assumed interest on amounts allocated in the PROP account. The HPOPS' 13th check, if any, is not eligible to be contributed to PROP.

The PROP Credit reduces a participant's monthly annuity payment dollar for dollar and the maximum amount of the monthly PROP Credit is determined as follows:

The maximum monthly PROP credit is limited to the participant's gross monthly annuity plus the \$150 insurance stipend, minus \$1,500. For example, assume the retiring or retired member has a monthly annuity of \$2,500 and wishes to contribute

the maximum dollar amount each month to the PROP account. The maximum amount is determined as follows:

Monthly Annuity		\$2,500.00
Insurance Stipend	+	\$150.00
<hr/>		
Gross Monthly Annuity		\$2,650.00
Ineligible Amount	-	\$1,500.00
<hr/>		
Maximum Monthly Deposit	=	\$1,150.00

Current PROP deposits that are greater than the maximum PROP deposit will remain at that amount until the member requests a change to the monthly PROP deposit. Effective January 1, 2005, members actively contributing to the PROP on a percentage basis will be converted to a fixed dollar amount equal to the December 31, 2004 PROP monthly deposit.

A PROP participant may change the amount of his/her PROP credit up to four (4) times per year with effective dates of March 31, June 30, September 30 or December 31. An application to change the PROP Credit must be filed with HPOPS by the fifth day of the month in which the change is to be effective.

Monthly contributions to a PROP account must be at least \$50. If a participant elects to discontinue contributions to his or her PROP account (PROP Credits), he or she may leave his or her PROP account at HPOPS and the account will continue to accrue interest at the designated PROP interest rate. PROP credits to a participant's PROP account will never be prorated for a partial month whether upon entrance to PROP, exit from PROP or to effect any change in the monthly PROP Credit. Once the monthly PROP credit is discontinued, the participant is not allowed to start contributing to his or her PROP account again.

After September 1, 2003 eligible surviving spouses may participate in PROP. An eligible surviving spouse is defined as follows:

A surviving spouse to whom an active, inactive or retired member was married at the time of the member's death, and in the case of an inactive or retired member, before the member's separation from service or for a period of at least five years before the retired or inactive member's death (if a member gets married after his or her retirement date then the spouse will not be entitled to a survivor's benefit until they have been married to each other for five consecutive years).

The basic rules for a Surviving Spouse's participation in PROP are as follows:

1. If a member dies while active in DROP the surviving spouse has the option to rollover all or a portion of the member's DROP or Back DROP account and the \$5,000 lump sum to PROP.
2. If a PROP participant (a retired police officer) dies his or her surviving spouse has the option to take a lump sum distribution from the PROP account and/or continue participation in PROP.

Under no circumstances is a surviving spouse eligible to allocate all or a part of his or her survivor's monthly benefit to PROP.

PROP DISTRIBUTIONS

A PROP participant may elect to take a distribution from his/her PROP account in one of the two following methods: (Due to the complicated tax implications of PROP, any member electing to take distributions from PROP should seek advice concerning participation in PROP from his/her attorney, tax advisor, or financial advisor, as is applicable.)

- 1. Non-Scheduled Payments:** A PROP participant may apply for a distribution from his/her PROP account up to four (4) times per year. Distributions will only be made as of March 31, June 30, September 30 or December 31. A non-scheduled payment may be paid directly to the participant or directly rolled over to an IRA or other tax qualified plan on behalf of the participant (see Taxation of PROP Distributions below). Distributions from a PROP account must equal at least \$5,000, including distributions to those members taking a Minimum Required Distribution. If after the requested distribution is made, less than \$5,000 would be left in the PROP account, any remainder will be distributed with the requested distribution. Requests for distributions will only be accepted during the quarter for which the distribution is to be made, for example: September 30th distribution requests will only be accepted from July 1 through September 5th. If the 5th day of the month falls on a Saturday or Sunday the request must bear a postmark no later than the 5th day of the month the distribution is to be made. Distributions will only be made by electronic funds transfer.
- 2. Total Distribution:** A PROP participant may apply for a total distribution of his/her PROP. Distributions will only be made as of March 31, June 30, September 30 or December 31. A lump-sum distribution may be paid directly to the participant or rolled over directly to an IRA or other tax qualified plan. An application for a disbursement from a participant's PROP account must be filed with the System Office by the fifth day of the month in which the disbursement is to be made. Requests for distributions will only be accepted during the quarter for which the distribution is to be made, for example: September 30th distribution requests will only be accepted from July 1 through September 5th. If the 5th day of the month falls on a Saturday or Sunday the request must bear a postmark no later than the 5th day of the month the distribution is to be made. Distributions from PROP accounts are made by electronic funds transfer only.

If a PROP participant elects a total distribution of his/her PROP account, then contributions to the PROP account will discontinue as of the date of the total distribution. However, a PROP participant may elect to discontinue PROP contributions effective on March 31, June 30, September 30 or December 31 and then delay the total distribution of his/her PROP account to some future date. Amounts in the PROP account will continue to accrue interest at the specified PROP interest rate during this period. Once a total distribution of a PROP account has been made to a PROP participant, the participant is then no longer eligible to participate in PROP.

HPOPS will allow a distribution to no more than two (2) destinations each quarter, one to an IRA and the other directly to the member. HPOPS is required to withhold 20% on all distributions made directly to the member. The member may request a larger withholding amount.

TAX ISSUES

The tax implications of PROP can severely limit the financial flexibility of members who elect to enter PROP and retire before age 55 (or in the case of a surviving spouse of a participant, a participant who enters PROP before age 55) because any change to the member's initial PROP election before age 59½ and before the member has participated in PROP for five years can result in severe and adverse financial consequences.

PROP INTEREST RATE

PROP accounts also earn the same interest rate that is earned by DROP accounts. Each year, after June 30 and before January 1 of the following year, the HPOPS Board of Trustees will cause the historical five-year average return of the System to be calculated. This calculated rate is used as the interest rate for all active member DROP and PROP accounts beginning on January 1 of the following year and ending on December 31 of the same year. However, this rate shall not be less than three percent (3%) nor greater than seven percent (7%) except that for any year for which HPOPS' actuary certifies that HPOPS' past service costs are fully funded. In this case, the rate may be as high as ten percent (10%).

Taxation of Benefits

Prior to June 1, 1996, all employee contributions into HPOPS were made on an after-tax basis. Beginning on June 1, 1996, all employee contributions into HPOPS are made on a “before-tax” basis. That portion of employee contributions made on an “after-tax” basis has already been taxed so when a member subsequently receives a refund of contributions or a retirement benefit, either in the form of a monthly annuity or a lump sum, such member is, in effect, receiving a return of contributions (or “basis” in his/her pension benefit) that have already been taxed.

As described above, a portion of a member’s basis in his/her retirement benefit consists of after-tax contributions. When a member retires, in order to avoid double taxation of these amounts HPOPS is required to “allocate” these after-tax contributions between his/her monthly benefit and his/her DROP lump sum.

The portion of after-tax contributions that is “allocated” to a member’s monthly annuity may be “recovered” (i.e. you get a tax deduction) over a member’s life expectancy for the reason that a portion of each monthly annuity payment is tax-free. The recovery of after-tax contributions over a member’s life expectancy is referred to as the IRS Simplified Rule. The portion of after-tax contributions that is “allocated” to a member’s DROP lump sum distribution may be paid to him/her as a tax-free lump sum upon retirement. If a member elects not to receive this tax-free lump sum as of his/her retirement date he/she has the option to leave this amount in a “PROP account” at HPOPS or to roll it over to an IRA. If a member does not take a distribution of this after-tax lump sum at retirement he/she permanently forfeits the right to take a lump sum distribution from HPOPS on a tax-free basis. Instead, he/she will recover his/her after-tax contributions over his/her life expectancy through a reduction in the taxability of his/her monthly annuity.

AGE 55 RULE

For tax purposes, a member is considered to be age 55 for the entire year in which the member attains age 55. For example, if a member retires in January and turns age 55 in December of the same year, then the member is considered to have attained age 55 upon retirement for tax purposes.

TAXATION OF A REFUND OF CONTRIBUTIONS

If you elect to receive a refund of your contributions you have the following options:

1. Receive a distribution of 100% of your contributions. If you made after-tax contributions during your career then a portion of this distribution will be non-taxable and a portion will be taxable. The taxable portion will be subject to 20% withholding so you will only receive a net distribution of 80% of the taxable amount. When you file your federal tax return at the end of the year you will be liable for federal taxes on the taxable amount and possibly a 10% penalty if you were not at least age 59½ during the year in which you received your refund.

2. Rollover 100% of your contributions to an IRA or to an eligible employer plan through a trustee-to-trustee transfer or a rollover by the member. A portion of your contributions may be non-taxable and only certain types of IRAs and employer plans accept these rollovers. If you roll over 100% of your contributions there will be no taxes due in the year that you roll over such amounts.
3. Receive a partial distribution of your contributions and roll over the remaining portion. In this case a portion of your refunded contributions may be taxable and you could be subject to the 10% tax penalty described above.
4. If you choose to take a distribution of taxable contributions and subsequently decide to rollover these amounts into an IRA or to an eligible employer plan you must do so within 60 days after receiving your distribution or you will be liable for federal taxes and possibly the 10% penalty described above. (See below “If you choose to have an HPOPS payment that is eligible for rollover PAID TO YOU.”)

TAXATION OF DROP DISTRIBUTIONS

Generally, DROP monies, including earned interest, are subject to federal income tax upon withdrawal. Additionally, if the money is distributed directly to a member who separates from service before the year he or she is 55 years of age, an extra 10% early distribution tax will be due to the IRS. However, the taxable portion of a DROP lump sum distribution generally is eligible to be rolled over into an IRA and is referred to as an “eligible rollover distribution.”

A rollover is a payment by you or by HPOPS, on your behalf, of all or part of your benefit to another qualified plan or IRA that allows you to continue to defer taxation of that benefit until it is paid to you. A distribution to you cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).

There are two ways you may be able to receive a payment from HPOPS that is eligible for rollover:

1. Certain payments can be made directly by HPOPS, on your behalf, to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit (“DIRECT ROLLOVER”); or
2. The payment can be PAID TO YOU by HPOPS.

If you choose a DIRECT ROLLOVER:

- Your payment from HPOPS will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment from HPOPS will be made directly to your traditional IRA or to a new eligible employer plan that accepts your rollover. Your payment from HPOPS cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The taxable portion of your payment from HPOPS will be taxed later when you take it out of the traditional IRA or the new eligible employer plan. Depending on the type of plan offered by your new employer, the later distribution might be subject to different tax treatment than it would be if you had received a taxable distribution from HPOPS.

If you choose to have an HPOPS payment that is eligible for rollover PAID TO YOU:

- You will receive only 80% of the taxable amount of the payment, because HPOPS is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- The taxable amount of your payment will be taxed in the current year unless you roll it over. Under limited circumstances, you may be able to use special tax rules that could reduce the tax you owe. However, if you receive the payment before age 59 1/2, you may have to pay an additional 10% penalty tax.
- You can roll over all or part of your payment from HPOPS by paying it to your traditional IRA or to a new eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the new eligible employer plan.

If you choose to have the monies distributed directly to you and you subsequently decide that you want to roll over 100% of the payment to a traditional IRA or a new eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

TAXATION OF PROP CREDITS AND PROP DISTRIBUTIONS

PROP Credits

Amounts credited to a PROP account are not included in the participant's gross income until paid to the participant by HPOPS. For most PROP participants the contribution to the PROP account reduces the participant's taxable income by the amount of the PROP credit. This is one of the primary advantages of PROP. Unfortunately, any change to the initial PROP election made before age 59 1/2 by a **retired member** who terminated active service with the Houston Police Department before the year he/she attained age 55 **can subject the taxable pension benefits including those already received by the member to a ten percent (10%) premature distribution tax plus interest thereon.**

Similarly, for a member who elects to participate in PROP subsequent to his/her retirement date, a change before age 59 1/2 in the method, amount or percentage of the member's pension that is allocated to PROP can subject previous distributions to the ten percent (10%) premature distribution tax if the member retired before the year he/she attained age 55. This means a member who retired before age 55, who did not commence allocating part of the monthly benefit payment to PROP on the member's termination (retirement) date, cannot, before age 59 1/2, commence allocating part of the monthly retirement benefit to PROP without the risk of subjecting the taxable pension benefits already received by the member to a ten percent (10%) premature distribution tax plus interest thereon.

Taxation of PROP Distributions

Taxation of PROP distributions is dependent on the member's age when service with the Houston Police Department is discontinued.

For members who retire before the calendar year in which he or she turns age 55 the rules are as follows:

1. When money is withdrawn from the notional PROP account (either DROP or Back DROP money or funds from the member's PROP credits or interest on PROP amounts) the member must be over age 59 1/2 **and** have been in PROP for five years. Otherwise, the amounts withdrawn could be subject to a 10% early distribution tax penalty in addition to regular income taxes. The taxes will apply to all withdrawals, whether from contributions or any accumulated earnings. Also, once a member elects to participate in PROP, he/she must continue contributing to PROP in the same amount or percentage for five years and until age 59 1/2. Otherwise, the amounts already received by the member in the form of monthly annuity payments, DROP distributions or the \$5,000 lump sum could be subject to a ten percent early distribution penalty plus interest.
2. Withdrawals from a PROP account generally can be rolled over to an IRA, however, if the withdrawal is not paid directly to an IRA or another qualified plan it will be subject to the mandatory 20% income tax withholding by the System. If the member is less than 59 1/2, then the taxable portion of PROP monies may be rolled to an IRA and not taxed until distribution from the IRA; however, if 100% of the PROP account is not rolled over to an IRA on the same date, then all previously received PROP distributions, DROP distributions and pension annuity payments could be subject to a 10% premature distribution penalty. If the member is older than 59 1/2, then PROP monies may be rolled to an IRA without taxes or penalties on the amount rolled over. Any annuity payments, DROP distributions or the \$5,000.00 lump sum previously received would not be subject to the 10% premature distribution penalty.

For members who retire after the calendar year in which he or she turns age 55 the rules are as follows:

1. When money is subsequently withdrawn from the PROP notional account (either DROP money or funds from the member's PROP credits or interest on PROP amounts), the member will be subject to regular income taxes on the amounts withdrawn, but no additional 10% early distribution tax penalty will apply.
2. Withdrawals generally can be rolled over to an IRA, and therefore will be subject to the mandatory 20% withholding unless transferred directly to an IRA or another qualified plan. If rolled to an IRA, any subsequent withdrawal from the IRA before age 59 1/2 will result in a 10% early distribution penalty.

Under no circumstances may PROP monies be rolled into a Roth IRA, a simple IRA or a Coverdell Education Savings Account.

A surviving spouse, who elects to begin participating in PROP, should seek tax advice before making the election.

Minimum Required Distributions

It is the intent of federal tax laws that qualified retirement plan payments are intended primarily for the benefit of the participating member, and not for such member's heirs. The Internal Revenue Code requires, therefore, that beginning at age 70 1/2, at least 51% of a participating member's retirement plan account or interest must be paid to such member over the member's life expectancy, or the joint life expectancy of the member and the member's spouse or other beneficiary. There are specialized rules set out in section 401(a)(9) of the Internal Revenue Code to determine the measurement of life expectancy and minimum

required distributions (MRD). Before the development of DROP, HPOPS was not affected by the MRD. Minimum required distributions must begin no later than April 1, of the year following the year in which a member attains age 70½.

Once a member reaches age 70½, he/she may continue to contribute to PROP but he/she must also comply with the annual minimum distribution requirements. The PROP account will continue to accrue interest at the designated PROP interest rate. The PROP participant is responsible for withdrawing required minimum distributions, and HPOPS is responsible for seeing that required distributions are made in compliance with Section 401(a)(9) of the Code. An excise tax of 50% of the amount that should have been distributed, under the rules of Section 401(a)(9), but was not so distributed, is imposed on the participant.

Members who continue to work for HPD past the age of 70½ are not subject to any minimum distribution requirements until they actually terminate service with HPD.

TAXATION OF DISABILITY BENEFITS

Members (and their survivors) receiving a Duty-Connected Disability benefit are entitled to exclude the first 55% of the disability benefit from gross income. The \$150 insurance stipend is fully taxable for all members.

The amount received under the catastrophic injury provision is excludable from gross income in its entirety. Members receiving the catastrophic injury benefit must still include the \$150 insurance stipend as taxable income.

Members receiving a Non Duty-Connected Disability pension are not entitled to exclude any of their disability benefit from gross income except to the extent that they are recovering any after-tax contributions.

Applying for Benefits

SERVICE RETIREMENT/DROP EXIT PROCEDURES

As a member of the Houston Police Officers' Pension System, you gain pension service credit for each day of service you have as a classified officer of the Houston Police Department. Service includes paid leave time from the Department such as sick or vacation time as well as any time you are suspended with pay. Pension contributions are deducted from your bi-weekly HPD pay during these periods of time. Time that you are on a leave of absence without pay or on a suspension without pay is not counted towards pension service credit.

If you terminate your employment with the Police Department and are subsequently rehired, in order to regain credit for your previous service, you must repay any contribution monies that were refunded to you. Additionally, for purposes of determining service time credit and not for purposes of benefit payment calculations, if you have service credit in any other department of the City, you may combine that service with your HPOPS service to meet the DROP and retirement eligibility requirements.

You are eligible for a service retirement benefit once you have attained 20 years of credited pension service with the City of Houston. The following procedures have been established for service retirement/DROP exit applications.

1. At your request, HPOPS will provide Police Human Resources Division with a letter of the member's intent to retire. Upon Police Human Resources Division's receipt of this letter, the Human Resources Division will initiate the appropriate paperwork you need to begin the check out process.
2. You must set up an appointment with a HPOPS Benefits Assistant.
3. Once the City has provided HPOPS with the appropriate payroll figures to determine your retirement benefit and the final contributions to be posted to your DROP account, if you are a member of DROP, the Benefits Assistant will initiate your retirement paperwork and calculate the amount of the retirement benefit you can expect to receive. The Benefits Assistant will also calculate a Back DROP estimate if you are eligible and choose to Back DROP to a date other than your original DROP entrance date.
4. You will need to furnish wire transfer instructions for the distribution of any lump sum benefit that you have chosen to either take directly or rollover. ACH instructions (automatic deposit) must be furnished for your monthly benefit.
5. Once you have signed the application it is placed on the agenda of the next regular meeting of the Board of Trustees for their approval.
6. You are then set up in the retiree payroll system and benefit payments will begin.

A retiring member's benefits will begin the first day after the member's last day on the City of Houston payroll. Monthly retirement benefits are paid at the end of each month. Retiree checks are produced by the System's custodian bank, and a member may elect to have the funds electronically deposited to his or her bank account.

At the time you retire, you will be allowed to continue any group insurance coverage that is in effect on the date of your retirement as payroll deductions from your monthly retirement check. Insurance premiums payable to the City of Houston, or any major Police organization, will be deducted from your monthly benefit payment and transferred by HPOPS to the appropriate authority on your behalf.

Due to occasional inconsistencies in the historical pay data received by HPOPS from the City of Houston, HPOPS may request a member to approve certain adjustments to his or her historical pay data in order to correct these inconsistencies. For example, if a member changes assignments and becomes eligible for Assignment Pay and the City does not adjust the member's pay in a timely manner then the City will ordinarily include a lump sum adjustment in such member's subsequent pay. These lump sum payments may result in inaccuracies in benefit calculations. HPOPS will request that members with such lump sum payments approve appropriate adjustments to their Pay in order to properly account for these pay data inconsistencies. These adjustments may be required when HPOPS calculates your monthly benefit as of a member's DROP entrance date and again as of a member's retirement date.

PROCEDURES FOR CONTRIBUTION REFUNDS

If you terminate your employment with the Police Department and you have less than 10 years of credited pension service, you are entitled to a refund of your pension contributions. If you terminate your employment with the Department and have at least 10 years but less than 20 years of credited service, you are eligible to choose a refund of your contributions or a Delayed Retirement benefit payable when you turn 60. If you are only entitled to a refund of your contributions, or if you are entitled to a Delayed Retirement benefit and choose the refund of contributions, only the monies you have actually contributed to the System will be refunded to you. The statute, which governs HPOPS, does not provide for the refund of any monies contributed by the City and also does not provide for any interest to be paid on the amount refunded.

If you made contributions to the System prior to June 1, 1996, taxes have already been withheld on those contributions. Any monies that you contributed to the System after June 1, 1996 are pre-tax contributions and are considered taxable income at the time you receive a refund of your contributions. Additionally, if you resign from the Department and receive a refund of your contributions and you are less than 55 years of age, the IRS will assess an early withdrawal penalty on the pre-tax contribution monies. You can however, choose to have the pre-tax monies rolled over to an IRA account or to another qualified retirement plan to continue to defer the taxation of the monies.

HPOPS has established the following procedures for refunding pension contributions.

1. Submit a letter of resignation to the Police Department. Retain a copy of the letter for your personal files in addition to a copy to be given to the Houston Police Officers' Pension System.
2. Go to the Houston Police Department Human Resources Division and obtain a checkout sheet to commence the termination process.

3. Go to the System office to get the signature of a System representative on the check-out sheet and to make an appointment to meet with a Benefits Assistant. The System office is located at 602 Sawyer, Suite 300, Houston, Texas 77007.
4. At your appointment with the benefits assistant you must bring a copy of the Resignation Letter described above. You are encouraged to personally bring the Resignation Letter to the HPOPS office. However, if you cannot, you must mail a copy of the letter to the HPOPS office.
5. You will be required to sign a Tax Treatment Form and a Contribution Distribution Request Form while at the System Office. The Tax Treatment Form explains how your distribution is treated and taxed by the Internal Revenue Service (IRS). The Contribution Distribution Form is also retained by the System and used by the System staff as instructions for distributing your money. If you want to contribute all or a part of your distribution to an Individual retirement Account (IRA), you should also supply information about your IRA Account (i.e. Financial Institution Name, Address of Financial Institution, your Account Number, the name and telephone number of a Contact Person and FED WIRE transfer instructions). In order to expedite payment of your contribution refund you need to have this IRA set up prior to your appointment with HPOPS.
6. If you did not make an appointment with a Benefits Assistant, but instead mailed your Resignation Letter to the System office, you may be mailed the above described forms along with a letter explaining your options regarding the Post-Tax and Pre-Tax contribution amounts. You should complete the Tax Treatment Form and the Contribution Distribution Form and return them to the System office either personally or by mail. Your refund will not be processed until the forms are received by the System office and completed correctly.
7. Once all information has been supplied to the System office and the City of Houston has removed you from its payroll, your distribution will be processed.

DISABILITY RETIREMENT PROCEDURES

If you sustain an injury in the line of duty that renders you totally and permanently unable to perform your duties as a police officer, as determined by criteria established by the Houston Police Department, for the City of Houston, you may be entitled to a Duty-Connected Disability benefit. If you become totally disabled as a result of a non-duty connected injury or illness, you might be entitled to a Non Duty-Connected Disability benefit. All disability applicants must be examined by the System's physician who will report his/her findings to the Disability Committee. The Disability Committee will make a recommendation to the Board of Trustees based on the physician's report and the HPOPS Disability Policy. The following guidelines and procedures have been established to apply for a disability benefit:

1. You must contact HPOPS to set up an appointment with a Benefits Assistant.
2. If you are applying for a Duty-Connected Disability benefit, you must furnish a copy of your supervisor's initial letter indicating the date, time and events surrounding the accident or injury. You must also furnish copies of any medical reports, x-rays, etc., for review by the System's physician.
3. If you are applying for a Non Duty-Connected Disability benefit you must furnish copies of all medical records pertaining to the disability.

4. Copies of the records you provide will be sent to the System's physician for review.
5. After review of the records you submitted, the System's physician will notify HPOPS if the records are sufficient for your condition to be evaluated.
6. An appointment will then be scheduled for you with the System's physician. We will try to schedule the appointment on a date and time convenient for you.
7. The System's physician will furnish a written evaluation of the examination to the System's Disability Committee.
8. The Disability Committee will review the physician's report. You will be notified of the date and time of the Committee meeting and you are welcome to attend the meeting. The Committee will formulate a recommendation for approval or rejection by the Board of Trustees.
9. The Committee's recommendation will be placed on the agenda of the next regular meeting of the Board of Trustees. You will be notified of the date and time of the meeting and you are welcome to attend the meeting.
10. You will receive written notification regarding the board's decision.
11. If the disability benefit is granted, you will need to schedule another appointment with a Benefits Assistant to complete the required paperwork. You must terminate/retire within 90 days of the Board's approval or the application for disability benefits will be automatically revoked.
12. HPOPS will provide Police Human Resources Division with a letter of the member's intent to retire. Upon Police Human Resources Division's receipt of this letter, the Human Resources Division will initiate the appropriate paperwork you need to begin the check out process.
13. Once the City provides the appropriate pay data for the calculation of your disability benefit, the Benefits Assistant will process your disability benefit and you will begin to receive your monthly annuity payment.

Disability retirees are subject to reexamination by the System's physician at any time. If it is determined that a disabled member has recovered and can perform the duties of a police officer, the Disability benefit may cease. If a disabled member refuses to be reexamined by the System's physician, Disability benefits may be discontinued. If a reevaluation determines that the member has recovered to the extent that he/she can perform the duties of a police officer, the determination regarding reinstatement with the Houston Police Department is at the discretion of the Department. Neither the board nor its physician has any influence on the determination of reemployment with the Department.

DROP APPLICATION PROCEDURES

Members choosing to enter the DROP are advised to seek advice from their tax attorney, tax consultant or financial consultant regarding their DROP entry.

1. Members approaching DROP eligibility will be contacted by the HPOPS staff and notified of the next DROP class to be held at the System Office. Members will be provided a copy of the DROP booklet, the DROP Policy, and the Special Notice Regarding Plan Payments. Interested members should return the DROP Entry Information Form indicating their choice to attend or not to attend one of the DROP

classes. Entry into DROP is entirely optional.

2. Provisions of DROP will be discussed at the DROP presentation classes and members will have an opportunity to ask questions and review all applicable DROP forms.
3. Once HPOPS has received notification that a member intends to enter DROP the System staff will review the member's personnel record to detect any suspensions or leaves of absence without pay.
4. If a member has notified HPOPS of his/her intent to enter DROP, a Benefits Assistant will contact the member to schedule an appointment for the member to sign the DROP application after the appropriate pay data has been received from the City of Houston.
5. Once the DROP application is signed by the member, it will be placed on the agenda of the next meeting of the Board of Trustees for approval.
6. The member will receive written notification of the DROP application approval.

PROP APPLICATION PROCEDURES

A member choosing to enter PROP is advised to seek advice from his/her tax attorney, tax consultant or financial consultant regarding their PROP entry.

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Entering PROP from DROP

The following procedures have been established for members entering the PROP at the time of their DROP Exit/Retirement.

1. The member will complete a PROP Entrance Application and a PROP Acknowledgement form when completing the DROP Exit/Retirement application.
2. If a portion of the DROP lump sum is to be transferred to PROP, the member will indicate the dollar amount of the lump sum on the appropriate form provided by HPOPS.
3. A Benefits Assistant will calculate the amount of a member's monthly annuity benefit eligible to be deposited into the PROP account.
4. If a portion of the monthly annuity benefit is to be deposited into PROP, the member will indicate the fixed dollar amount of the total benefit on a form provided by HPOPS.
5. If the member chooses to have a portion of the monthly annuity benefit deposited in the PROP account, the PROP deposit will begin with the first full month the member is retired. Prorated amounts will not be deposited for the first month of retirement if the member retires on any day other than the first day of a month.
6. Any portion of the DROP account that is transferred to PROP will be deposited into the PROP account the day after the member's retirement/DROP exit date.

Entering PROP from Retirement

The following procedures have been established for retired members who want to have a portion of their eligible annuity benefit deposited in a PROP account:

1. The member must contact HPOPS to obtain the appropriate PROP forms to be com-

pleted.

2. System staff will calculate the maximum eligible portion of the retiree's annuity that can be deposited in a PROP account.
3. The PROP Entry Application form, a PROP Acknowledgement form, and a PROP booklet will be mailed to the member for completion (if the member chooses to meet with a Benefits Assistant for assistance in completing the forms, an appointment must be scheduled with the Benefits Assistant).
4. The member will indicate on the PROP Entry Application the fixed dollar amount of benefit to be deposited into the PROP.
5. Retired members may enter PROP on the last day of any calendar year quarter end, i.e. March 31, June 30, September 30, or December 31.
6. Applications for PROP entry must be received by HPOPS no later than the 5th day of the month the member wishes to enter the PROP, for example, if the member wants to enter PROP on March 31, the application must be received by HPOPS no later than March 5.

PROP Distribution Request Procedures

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The following procedures have been established for requesting a distribution from the PROP account:

1. A PROP member may request a distribution from the PROP account or change the amount of the monthly deposit to the PROP account once a quarter. A distribution request cannot be for an amount greater than the balance of the PROP account.
2. Distributions are made on the last day of each calendar year quarter, i.e. March 31, June 30, September 30, or December 31. The minimum distribution is \$5,000 per quarter.
3. Requests for distributions must be received by the System office no later than the 5th day of the month in which the member requests the distribution, i.e., if the distribution is requested for March 31, the request must be received by the System no later than March 5.
4. A member may obtain a PROP Distribution Request form by either calling the HPOPS office or downloading a copy from the System's Web site at www.hpops.org. The completed, signed form must be returned to HPOPS.
5. Funds must be wired or electronically deposited. The money will be in the account on the last working day of the quarter.

MEMBERS HIRED AFTER OCTOBER 9, 2004

A Description of Your Plan

WHAT IS HPOPS?

The Houston Police Officers' Pension System (HPOPS or the System) was created in 1947 by an act of the fiftieth Legislature of the State of Texas, and is governed by Article 6243g-4, Vernon's Texas Civil Statutes (the Governing Statutes). The System is a single employer defined benefit pension plan covering police officers employed full time by the City of Houston (the City) that provides for service, disability and death benefits for eligible members. The System is a governmental plan and, therefore, not subject to the Employee Retirement Income Security Act of 1974 (ERISA).

The Board of Trustees of the System is composed of seven members including three active and two retired police officers who are members of the System and are elected by the active and retired members of the System and two additional members representing the City. The Board is responsible for the general administration, management, and operation of the System, including the direction of investment and oversight of the System's assets.

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HOW DO YOU BECOME A MEMBER OF THE PLAN?

Membership in the Houston Police Officers' Pension System (HPOPS or the System) begins upon graduation from the Police Academy. After being sworn in as a classified officer you cease contributing to Social Security and instead begin contributing to the System.

HOW MUCH ARE YOUR CONTRIBUTIONS?

As a member of a contributory defined benefit pension plan, the cost of your retirement plan is shared by you and the City of Houston. The City's contribution rate is established through actuarial valuations performed at least once every three years. Your contribution rate is set by statute. Currently you contribute 10.25% of your "Total pay" and your contributions are made on a pre-tax basis. Total pay means wages as defined by Section 3401(a) of the code, plus any amounts that are not included in gross income by reason of Section 104(a)(1), 125, 132(f), 402(g)(2), or 457 of the code, member contributions picked up pursuant to Section 414(h)(2) of the code, and any portion of a clothing allowance or motorcycle allowance that is not considered wages, and less any pay received for overtime work (OT), exempt time pay (ETP) or strategic officer staffing program pay (SOSP).

HOW DOES YOUR WORKING TIME COUNT?

Your working time determines when you are eligible to receive a service pension and how much that pension benefit will be. You receive a day of service credit for each day you work as a classified employee of the Police Department.

If you have been employed in another department of the City of Houston, you may use your service credit in that department for pension qualifying time; however, it may not be used to determine the amount of the benefit you will receive.

CAN YOU LOSE YOUR SERVICE CREDIT?

Yes. If you leave full-time employment with the Houston Police Department before the age of 55 your service credit is automatically cancelled and your employee contributions will be refunded without interest.

CAN YOUR SERVICE CREDIT BE RESTORED?

If you left full-time employment with the Police Department and chose a refund of contributions, your service can be restored if:

- you are reemployed as a full-time classified employee, and
- you repay any contributions (without interest) which were refunded to you

If you were a member of HPOPS under the old provisions at the time of your termination, even if you repay your previously refunded contributions you will become subject to the new provisions if you were rehired on or after October 9, 2004

Additionally, a former member of the System who becomes employed in a full time position with the City of Houston and is a participant in another pension plan maintained by the City, may repay the contributions previously withdrawn from HPOPS and receive HPOPS service credit for the previously earned service.

Example: Steve had been employed as a full-time police officer for five years when he terminated his employment with the Police Department in September 1999. During this five year period he contributed \$20,000 to the System. Upon his termination he received a refund of his \$20,000. Five years later on October 5, 2005 he was reemployed as a full-time classified officer with the Department. Steve can regain credit for his previous five years of classified service by repaying the \$20,000 which was refunded to him upon his termination. However, since Steve was rehired after October 9, 2004, he is subject to the benefit provisions for those members hired or rehired on or after October 9, 2004. Although he may regain credit for the previous 5 years of service, he still must have a combination of at least 10 years of credited service and be age 55 before he is eligible for a service retirement benefit from HPOPS.

Another Example: Sue was employed as a classified police officer for seven years. During this period she contributed \$15,000 to the System. Sue terminated her employment with the Police Department and received a refund of her \$15,000. Subsequently she accepted a civilian job with the City of Houston and has been an active member of the Municipal Employees Pension System for 3 years. Sue has just recently turned 55 years of age. Since Sue has more than ten years of combined service with the City of Houston and she is at least age 55, she may repay to HPOPS the refunded contributions and begin receiving a prorated benefit based on her seven years of service with the Houston Police Department. The prorated benefit is calculated at 2.25% for each year of credited HPOPS service.

WHEN ARE YOU ELIGIBLE FOR A PENSION?

Service Retirement

You become eligible for a service retirement pension once you have attained 10 years of credited pension service and age 55. For purposes of determining whether a member has a sufficient number of years of service to be eligible to receive a service retirement pension but not for purposes of determining the amount of the pension credit, a person may obtain service credit for any period of full-time employment in another City of Houston department.

Duty-Connected Disability Benefit

An active member who becomes totally and permanently disabled, as determined by criteria established by the Houston Police Department, for the performance of his/her duties as a police officer as the result of a bodily injury received in, or illness caused by, the performance of those duties, shall on proof of total and permanent inability to perform the duties of a police officer be eligible for a Duty-Connected Disability benefit or a Catastrophic Disability benefit.

Non Duty-Connected Disability Benefit

An active member who becomes totally and permanently incapacitated, as determined by criteria established by the Houston Police Department, for the performance of his or her duties and is not eligible for either an immediate service pension or a Duty-Connected Disability benefit is nevertheless eligible for a Non Duty-Connected Disability benefit.

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HOW MUCH WILL YOUR PENSION BE?

Service Retirement

Once you have attained age 55 and 10 years of credited pension service, you may choose to retire. Your benefit will be calculated as follows:

- 45% (2.25% for first 20 years of service) of your Final Average Pay (defined as an average of the 78 pay periods preceding your retirement date minus any Senior Officer Staffing Pay [SOSP], any Exempt Overtime Pay [ETP, CMEPP], or any overtime [OT] pay), plus
- 2% of your Final Average Pay for each year in excess of 20 years.

For example: On January 22, 2015, Mary has 18 years of credited pension service, is age 56, and decides to retire. During the 78 pay periods preceding January 22, 2015, Mary's Final Average Pay was \$5,000. Mary is entitled to retire with a benefit calculated as follows:

Final Average Pay of \$5,000

Multiplied by

40.5% (2.25% for 18 years) = \$2,025

Duty Connected Disability

If you have sustained an injury in the line of duty and have met the duty connected disability criteria, as established by the Houston Police Department, your monthly benefit is the greater of your accrued service retirement or 45% of your Final Average Pay.

For Example: Tim was involved in an automobile accident while performing his duties as a police officer. The accident left him totally and permanently disabled from performing his duties as a police officer. At the time of the accident Tim had only 5 years and 6 months of credited pension service. His Final Average Pay at the time of the accident was \$3,000 a month. The determination of Tim's benefit amount would be made as follows:

Accrued benefit: 2.25% of Final Average Pay for 5 years and 6 months =
12.375% of \$3,000 = \$371.25 per month or;

45% of Final Average Pay:

45% of \$3,000 = \$1,350 per month

Tim is entitled to receive the greater of the two calculations; therefore, he will receive a Duty-Connected Disability benefit of \$1,350 per month. He will receive this benefit for the remainder of his life or for as long as he remains incapacitated. Tim's eligible surviving spouse would continue to receive this monthly payment after Tim's death.

If Tim's injuries met the definition for a Catastrophic Disability benefit then he would be eligible for a benefit of 100% of Final Average Pay or \$3,000 per month.

Non Duty-Connected Disability

If you become totally and permanently disabled, as determined by criteria established by the Houston Police Department, from performing your duties as a police officer as the result of an injury or illness not sustained in the line of duty, and you are not eligible for an immediate service pension, you are entitled to a Non Duty-Connected Disability benefit calculated as follows:

2.25% of your Final Average Pay for each year of credited service with a minimum percentage of 22.5%.

An Example: Katie graduated from the Police Academy on January 1, 2005. On January 1, 2009, she became disabled from performing her duties as a police officer as the result of a debilitating illness. At the time of her disability, Katie was credited with 4 years of pension service credit and her Final Average Pay was \$3,200 per month. Since Katie had less than 10 years of credited pension service at the time of her disability, she is entitled to the minimum benefit of 22.5% of her Final Average Pay.

Katie will receive a monthly disability benefit of \$720 ($\$3,200 \times 22.5\%$) per month effective January 2, 2009. She is eligible to receive this benefit for the remainder of her life or for as long as she is disabled.

WHAT OTHER RETIREMENT BENEFITS AM I ENTITLED TO RECEIVE?

COLA Increases

Once you begin receiving a service retirement or disability benefit, you become eligible to receive annual cost of living adjustments (COLA). Retired members receive a COLA each year on April 1 in the amount of 80% of any percentage increase in the Consumer Price Index (C.P.I.) for All Urban Consumers for the preceding year. This COLA can never be less than 2.4% or greater than 8%. COLA increases are effective April 1 and are paid on the April 30 benefit payment.

For Example: John retired from the Police Department on March 31, 2020 and began receiving a monthly retirement benefit in the amount of \$2,000. For the year ending December 31, 2019, the change in the C.P.I. was 2.5%. For the year ending December 31, 2020, the change was 1.7%. The percentage change for the year ending December 31, 2021 was 6.0%. On April 1, 2022, John's monthly retirement benefit of \$2,000 had increased as follows by the annual COLA increases:

April 1, 2020 $\$2,000 \times 2.4\%$ (minimum COLA was greater than calculated COLA (80% x 2.5% = 2%)) = \$48.00 per month.
On April 1, 2020, John's new benefit is \$2,048 per month

April 1, 2021 $\$2,048 \times 2.4\%$ (minimum COLA was greater than calculated COLA (80% x 1.7% = 1.36%)) = \$49.15 per month.
On April 1, 2021 John's new benefit is \$ 2,097.15 per month

April 1, 2022 $\$2,097.15 \times 4.8\%$ (80% x 6.0% = 4.8% greater than minimum 2.4%) = \$ 100.66 per month
On April 1, 2022 John's new monthly benefit is \$2,197.81

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Insurance Benefit

Each retired member of the System and each surviving spouse receiving a monthly survivor's benefit is entitled to receive an additional benefit of \$150 per month. This benefit is intended to help defray the cost of medical insurance premiums. The member or surviving spouse receives this benefit regardless of whether he or she actually has insurance coverage. This benefit is in addition to the monthly retirement or survivor's benefit and is not subject to the annual COLA increases.

PLOP

Members who retire with a normal service retirement are eligible for PLOP (Partial Lump Sum Option Plan). PLOP allows a member to receive a reduced monthly pension benefit in exchange for a lump sum at retirement. This benefit is actuarially neutral to the plan meaning that HPOPS liabilities do not increase whether or not a member chooses to elect PLOP.

The maximum lump sum available is 20% of the member's annuity. HPOPS' actuary will calculate these numbers.

Survivor Benefits

HOW ARE YOUR SURVIVORS PROTECTED AFTER YOU DIE?

Your eligible surviving spouse or your other eligible dependents will receive a monthly survivor's benefit if:

- You die while you are in service from any cause that is the result of the performance of your duty regardless of your length of service;
- You die while you are in service from any cause regardless of your years of service credit; or,
- You die after you retire.

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Duty-Connected Death

If you die as the direct result of an injury or illness sustained in the line of duty, your surviving spouse or eligible dependents are entitled to a survivor's benefit equal to 100% of your average total direct pay.

Non Duty-Connected Death

If you have at least 10 years of pension service and you die from an injury or illness not related to your duties as a police officer, your surviving spouse or eligible dependents are entitled to your accrued pension benefit based on 2.25% of your Final Average Pay for each of your first 20 years of service and 2% for each year after 20.

If you die from a non duty-connected injury or illness and have less than 10 years of service, your surviving spouse or eligible dependents are entitled to receive a benefit equal to 22.5% of your Final Average Pay at the time of your death.

Death After Retirement

If you die after you have already retired, your surviving spouse or your dependents are entitled to a survivor's benefit equal to the benefit amount you were receiving at the time of your death.

Five-Year Certain Benefit

If you or the individual receiving your survivor's benefit dies before monthly payments have been made for at least five years and there is no other person eligible to receive a survivor's benefit, your designated beneficiary or your estate will receive payments in the amount of the last monthly payment made until payments have been made for five (5) years from the date of your retirement. A designated beneficiary or your estate that receives the five-year certain benefit payments hereunder does not receive cost of living adjustment (COLA) increases.

COLA Increases

A surviving spouse or eligible dependent is entitled to receive the same cost of living adjustment (COLA) increases retirees receive. A COLA increase is granted each year on April 1 and applied on the April 30th monthly benefit. The COLA shall be adjusted upward at a rate equal to 80 percent of any percentage increase in the Consumer Price Index (C.P.I.) for All Urban Consumers for the preceding year. However, the COLA may not be less than 2.4% nor greater than 8%.

Insurance Benefit

Your eligible surviving spouse is entitled to receive an additional stipend of \$150 per month to help offset the cost of medical insurance premiums. This benefit is payable to your eligible spouse regardless of whether he or she actually has insurance coverage. This benefit is not payable to a non-spouse eligible survivor.

WHO ARE YOUR SURVIVORS?

Article 6243g-4, Texas Revised Civil Statutes defines your **survivors who are eligible to receive your monthly retirement or disability benefit** as follows, and in the order stated:

1. A surviving spouse to whom an active, inactive, or retired member is married at the time of the member's death, and in the case of an inactive or retired member, before the member's separation from service or for a continuous period of at least five years before the retired or inactive member's death. *A ceremonial marriage is considered to exist only if the marriage is recorded in the records of the recorder's office in the county in which the marriage ceremony was performed.*

For a common-law marriage to be recognized, a declaration of common-law marriage signed by the member and the member's common-law spouse before a notary public must be filed in the records of the county clerk's office in the county in which the common-law married couple resided at the commencement of the common-law marriage. *If a declaration of common-law marriage is signed before a notary public after December 31, 1999, it may not be treated as effective on a date earlier than the date it was actually signed before the notary public.*

2. To the guardian of any dependent children – if a member dies and has no surviving spouse but has dependent children under the age of 18 or 24 if a full time student, or a child who is permanently disabled as the result of a disability that began before the child attained age 18, such dependent children are considered eligible dependent(s).
3. If a member dies and has no surviving spouse or eligible dependent children, but leaves a dependent parent or parents who received at least 50% of their support from the member during the one-year period prior to the member's death, such parents are considered eligible dependent(s).
4. If a member dies and has no surviving spouse or no eligible dependent children or no dependent parent, the member's estate will receive any remaining monthly benefit. In lieu of the member's estate being the beneficiary of a member's remaining monthly benefit, if any, the member may name a beneficiary to receive any such monthly benefit, on a form furnished by HPOPS.

Taxation of Benefits

TAXATION OF A REFUND OF CONTRIBUTIONS

If you elect to receive a refund of your contributions you have the following options.

1. Receive a distribution of 100% of your contributions. This distribution will be subject to 20% withholding so you will only receive a distribution of 80 % of the amount of the total distribution. When you file your federal tax return at the end of the year you will be liable for federal taxes on the total distribution, and possibly a 10% penalty if you did not attain age 55 during the year in which you received your refund.
2. Rollover 100% of your contributions to an IRA or to an eligible employer plan through a custodian-to-custodian transfer or a rollover by the member. If you roll over 100% of your contributions there will be no taxes due in the year that you roll over such amounts.
3. Receive a partial distribution of your contributions and roll over the remaining portion. In this case a portion of your refunded contributions may be taxable and you could be subject to the 10% tax penalty described above.
4. If you choose to take a distribution of your pension contributions and subsequently decide to rollover these amounts to an IRA or to an eligible employer plan you must do so within 60 days after receiving your distribution or you will be liable for federal taxes and possibly the 10% penalty described above. In these circumstances since HPOPS withheld 20% from the distribution you will be required to get the 20% from another source in order to rollover the full amount of your distribution.

TAXATION OF PLOP DISTRIBUTIONS

Generally, PLOP monies, are subject to applicable federal income tax laws.

A rollover is a payment by you or HPOPS, on your behalf, of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly known as an education IRA).

There are two ways you may be able to receive a payment from HPOPS that is eligible for rollover:

1. Certain payments can be made directly by HPOPS, on your behalf, to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit (“DIRECT ROLLOVER”); or
2. The payment can be PAID TO YOU by HPOPS.

If you choose a DIRECT ROLLOVER:

- Your payment from HPOPS will not be taxed in the current year and no income tax will be withheld.
- You choose whether your payment from HPOPS will be made directly to your traditional IRA or to a new eligible employer plan that accepts your rollover. Your payment from HPOPS cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account because these are not traditional IRAs.
- The distribution from HPOPS will be taxed when you take it out of the traditional IRA or the new eligible employer plan. Depending on the type of plan offered by your new employer, the distribution may be subject to different tax treatment than it would be if you received the payment directly from HPOPS.

If you choose to have an HPOPS payment that is eligible for rollover PAID TO YOU:

- You will receive only 80% of the total amount of the payment, because HPOPS is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes. The total amount of your payment will be taxed in the current year unless you roll it over. If you receive the payment before age 59 1/2, you may have to pay an additional 10% penalty tax.
- You can roll over all or part of your payment from HPOPS by paying it to your traditional IRA or to a new eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the new eligible employer plan.

If you have chosen to have the monies distributed directly to you and you subsequently decide that you want to roll over 100% of the payment to a traditional IRA or a new eligible employer plan, you must find other money to replace the 20% that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

TAXATION OF DISABILITY BENEFITS

Members (and their survivors) receiving a Duty-Connected Disability benefit that is equal to 45% of final average pay are entitled to exclude their entire disability benefit from gross income, with the exception of the \$150 insurance stipend. The insurance stipend is fully taxable for all members.

Members (and their survivors) receiving a Duty-Connected Disability benefit that is in excess of 45% of final average pay are not entitled to exclude their entire disability benefit from gross income. The amount that they may exclude from gross income in any year is an amount that is equal to the ratio 45% to their total accrued service percentage multiplied times their total annual disability benefit.

The amount received under the catastrophic injury provision is excludable from gross income in its entirety.

Members receiving a Non Duty-Connected disability pension are not entitled to exclude any of their disability benefit from gross income.

Applying for Benefits

SERVICE RETIREMENT PROCEDURES

As a member of the Houston Police Officers' Pension System, you gain pension service credit for each day of continuous service you have as a classified officer of the Houston Police Department. Continuous service includes time that you are on any type of paid leave from the Department such as sick or vacation time as well as any time you are suspended with pay. Pension contributions are deducted from your bi-weekly HPD pay during these periods of time. Time that you are on a leave of absence without pay or a suspension without pay does not count towards pension service credit.

If you terminate your employment with the Police Department and are subsequently rehired, in order to regain credit for your previous service, you must repay any contribution monies that were refunded to you. Additionally, for purposes of determining service time credit and not for purposes of benefit payment calculations, if you have service credit in any other department of the City, you may combine that service with your HPOPS service to meet the retirement eligibility requirements.

You are eligible for a service retirement benefit once you have attained 10 years of credited pension service with the City of Houston and have reached age 55. The following procedures have been established for service retirement applications.

1. At your request, HPOPS will provide Police Human Resources Division with a letter of the member's intent to retire. Upon Police Human Resources Division's receipt of this letter, the Human Resources Division will initiate the appropriate paperwork you need to begin the check out process.
2. You must set up an appointment with a HPOPS Benefits Assistant.
3. Once the City has provided HPOPS with the appropriate payroll figures to determine your retirement benefit, the Benefits Assistant will initiate your retirement paperwork and calculate the amount of the retirement benefit you can expect to receive. The Benefits Assistant will also calculate a Post Lump Sum Option Plan (PLOP) amount if you so choose.
4. You will need to furnish wire transfer instructions for the distribution of any lump sum benefit that you have chosen to either take directly or rollover. ACH instructions (automatic deposit) must be furnished for your monthly benefit.
5. Once you have signed the application it is placed on the agenda of the next regular meeting of the Board of Trustees for their approval.
6. You are then set up in the retiree payroll system and benefit payments begin.

A retiring member's benefit will begin the first day after the member's last day on the City of Houston payroll. Monthly retirement benefits are paid at the end of each month. Retiree checks are produced by the System's custodian bank, and the member may elect to have the funds electronically deposited to his or her bank account.

At the time you retire, you are allowed to begin payroll deductions from your monthly check for any insurance coverage that is in effect on the date of your retirement. Insurance premiums payable to the City of Houston, or any major Police organization, are deducted from your monthly annuity payment and transferred by HPOPS to the appropriate authority on your behalf.

Due to occasional inconsistencies in the historical pay data received by HPOPS from the City of Houston, HPOPS may request members to approve certain adjustments to his or her historical pay data in order to correct these inconsistencies. For example, if a member changes assignments and becomes eligible for Assignment Pay and the City does not adjust the member's pay in a timely manner then the City will ordinarily include a lump sum adjustment in such member's subsequent pay. These lump sum payments may result in inaccuracies in the final average pay calculation. HPOPS will request that members with such lump sum payments approve appropriate adjustments to their final average pay calculation in order to properly account for these pay data inconsistencies.

PROCEDURES FOR CONTRIBUTION REFUNDS

If you terminate your employment with the Police Department and you have not attained age 55, or if you have attained age 55 and have less than 10 years of credited pension service, you are entitled to a refund of your pension contributions. The statute that governs HPOPS does not provide for the refund of any monies contributed by the City and also does not provide for any interest to be paid on the amount refunded.

Any monies that you contributed to the System are pre-tax contributions and are considered taxable income at the time you receive a refund of your contributions. The only exception to this is if you repaid contributions that were previously refunded to you, those repaid contributions are considered post tax contributions. Additionally, if you resign from the Department and receive a refund of your contributions and you are less than 55 years of age, the IRS will assess an early withdrawal penalty on the pre-tax contribution monies. You can however, choose to have the pre-tax monies rolled over to an IRA account or to another qualified retirement plan to defer the taxation of the monies.

HPOPS has established the following procedures for refunding pension contributions.

1. Submit a letter of resignation to the Police Department. Retain a copy of the letter for your personal files and give a copy to the Houston Police Officers' Pension System.
2. Go to the Houston Police Department Personnel Office and obtain a checkout sheet to commence the termination process.
3. Go to the Pension System office to get the signature of a Pension System representative on the checkout sheet and to make an appointment to meet with a Benefits Assistant. The System office is located at 602 Sawyer, Suite 300, Houston, Texas 77007.
4. At your appointment, you must bring a copy of the Resignation Letter. You are encouraged to personally bring the Resignation Letter to the HPOPS office. However, if you cannot, then mail a copy of the letter to the HPOPS office.
5. You will be required to sign a Tax Treatment Form and a Contribution Distribution Request Form while at the System Office. The Tax Treatment Form explains how your

distribution is treated and taxed by the Internal Revenue Service (IRS). The Contribution Distribution Form is also retained by the System and used by the System staff as instructions for distributing your money. If you want to contribute all or a part of your distribution to an Individual Retirement Account (IRA), you should be prepared to complete the Contribution Distribution Form by supplying information about your IRA Account (i.e. Financial Institution Name, Address of Financial Institution, your Account Number, the name and telephone number of a Contact Person and FED WIRE transfer instructions). You need to have this IRA set up prior to your appointment with HPOPS in order to expedite payment of your contribution refund.

6. If you did not make an appointment with a Benefits Assistant, but instead mailed your Resignation Letter to the System office, you will be mailed the above mentioned forms along with a letter explaining your options regarding the Post-Tax (if any) and Pre-Tax contribution amounts. You should complete the Tax Treatment Form and the Contribution Distribution Form and return them to the System office. Your refund will not be processed until the forms are received by the System office and are completed correctly.
7. Once all information has been supplied to the System office and the City of Houston has removed you from its payroll, your distribution will be processed. If you receive your refund directly, instead of rolling it over to an IRA and your distribution is equal to or greater than \$5,000, you must either provide wire transfer instructions to HPOPS or come to the System office and pick up the check in person. If you come to the System office to pick up your check, you will be required to present a photo ID and sign for the check. A member of the System staff will call you when the check is ready.

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DISABILITY RETIREMENT PROCEDURES

If you sustain an injury in the line of duty that renders you totally and permanently unable to perform your duties as a police officer for the City of Houston as determined by criteria established by the Houston Police Department, you may be entitled to a Duty-Connected Disability benefit. If you become totally disabled, as determined by criteria established by the Houston Police Department, as a result of a non duty-connected injury or illness, you might be entitled to a Non Duty-Connected Disability benefit. All disability applicants must be examined by the System's physician who will report his/her findings to the Disability Committee. The Disability Committee will make a recommendation to the Board of Trustees based on the physician's report and the HPOPS Disability Policy. The following guidelines and procedures have been established to apply for a disability benefit.

1. You must contact HPOPS to set up an appointment with a Benefits Assistant.
2. If you are applying for a Duty-Connected Disability benefit, you must furnish a copy of your supervisor's initial letter indicating the date, time and events surrounding the accident or injury. You must also furnish copies of any medical reports, x-rays, etc., for review by the System's physician. If you are applying for a Non Duty-Connected Disability benefit, you must furnish copies of all medical records pertaining to the disability.
3. The records you provide will be sent to the System's physician for review.
4. After review of the records you submitted, the physician will notify HPOPS if the records are sufficient for your condition to be evaluated.

5. An appointment will then be scheduled for you with the System's physician. We will try to schedule the appointment on a date and time convenient for you.
6. The System's physician will furnish a written evaluation of the examination to the System's Disability Committee.
7. The Disability Committee will review the physician's report. You will be notified of the date and time of the Committee meeting and you are welcome to attend the meeting. The Committee will formulate a recommendation for approval/rejection by the Board of Trustees.
8. The Committee recommendation will be placed on the agenda of the next regular meeting of the Board of Trustees. You will be notified of the date and time of the meeting and you are welcome to attend the meeting.
9. You will receive written notification regarding the board's decision.
10. If the disability benefit is granted, you will need to schedule an appointment with a Benefits Assistant to complete the required paperwork.
11. HPOPS will provide Police Human Resources Division with a letter of the member's intent to retire. Upon Police Human Resources Division's receipt of this letter, the Human Resources Division will initiate the appropriate paperwork you need to begin the check out process.
12. Once the City provides the appropriate pay data for the calculation of your disability benefit, the Benefits Assistant will process your disability benefit and you will begin to receive your monthly annuity payment.

Disability retirees are subject to reexamination by the System's physician at any time. If it is determined that a disabled member has recovered and can perform the duties of a police officer, the Disability benefit could cease. If a disabled member refuses to be reexamined by the System's physician, Disability benefits may be discontinued. If a reevaluation determines that the member has recovered to the extent that he/she can perform the duties of a police officer, the determination regarding reinstatement with the Houston Police Department is at the discretion of the Department. Neither the board nor its physician has any influence on the determination of reemployment with the Department.

Qualified Domestic Relations Orders (QDROs)

A QDRO, or a Qualified Domestic Relations Order, allows the System to pay pension benefits awarded by court order directly to an Alternate Payee, i.e. an ex-spouse, child or other dependent. The Board of Trustees of the Houston Police Officers' Pension System has adopted the provisions of Subchapters A and C of Chapter 804 of the Texas Government Code commonly known as the Texas "QDRO" statute. You should review the Government Code in order to ensure that you obtain a full understanding of the provisions of the Code as they apply to HPOPS.

Prior to the adoption of Subchapters A and C of Chapter 804, if a divorce decree or child support agreement awarded a portion of a member's pension benefits (i.e., a portion of the member's service retirement benefit, lump sum benefit or contribution refund) to a former spouse or guardian (the "Alternate Payee"), the System was only authorized to make payment(s) to the retiree member or terminating member. The member was then obligated as a constructive trustee under the divorce decree or child support agreement to pay the Alternate Payee the amount set forth in the decree or agreement. Adoption of the "QDRO" statute allows HPOPS to pay those awarded amounts directly to the Alternate Payee, thus alleviating the responsibility of the member to make payments to the Alternate Payee. A QDRO allows HPOPS to make payments to the Alternate Payee in lieu of HPOPS becoming a party to a divorce or child support proceeding. Please note that nothing in the law requires a public retirement system to decide how benefits should be divided between the member and a possible alternate payee. All payments made by the System to an Alternate Payee are reported to the IRS annually and the Alternate Payee receives a 1099-R form indicating the same.

The System will only make direct payments to an Alternate Payee if HPOPS has received a Domestic Relations Order (DRO) from the courts and HPOPS subsequently certifies that it is a QDRO. In order to be certified as a QDRO, the DRO must meet all the requirements of Subchapters A and C of Chapter 804 of the Texas Government Code, and of the Houston Police Officers' Pension System's (HPOPS') QDRO Policy. In addition, in order for any payment to be made to an Alternate Payee, the member must actually terminate employment with the Police Department and begin receiving his or her monthly annuity payment or refund of contributions.

If you become involved in a divorce case or child support case, you should submit a written request to HPOPS for information regarding your pension benefits as soon as possible. Please keep in mind that some of the pension records that you request may have been archived or put on microfiche, so the information you need may take a while to research. If you wait until the last minute to request information that will be needed, HPOPS might not be able to provide the information by the time you go to court or mediation.

Distributions payable pursuant to an existing divorce settlement or DRO may not be acceptable under the System's QDRO provisions. For this reason, divorce settlements or DROs that have not been submitted to HPOPS for review and qualification will need to be submitted to HPOPS for review before any distributions can be made by HPOPS directly to an Alternate Payee.

Your Rights and Responsibilities

As a member of the Houston Police Officers' Pension System, you are entitled to certain rights and protections, such as the right to:

- Examine all plan documents such as annual reports and plan descriptions
- Obtain copies of the plan documents and other information
- Obtain a statement indicating your earliest retirement date and an estimate of what your pension benefit would be at that time.

You also have certain responsibilities.

- To read your annual Statement of Benefits, DROP Statements and PROP statements and to inform HPOPS of any incorrect information
- To read handbooks, brochures, newsletters and other informative materials provided by HPOPS
- To ask questions if you do not understand benefits
- To share your benefit information with your family
- To inform HPOPS if your mailing address or phone number changes
- To notify HPOPS of any changes in your marital status and to keep your Designation of Beneficiary form current
- To monitor and to understand the income tax and medical deductions that are withheld from your monthly benefit

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HPOPS also has certain responsibilities.

- To administer retirement and disability benefits for classified police officers of the City of Houston
- To provide you with various publications, which contain detailed information regarding your benefits
- To keep you informed of your benefit rights and options through benefit statements, newsletters, correspondence, seminars and the HPOPS Web site
- To keep you up to date on legislative changes that affect your benefits
- To compile and make available to you a Summary Plan Description booklet

Your Right to Privacy

As a member of HPOPS you have access to your own information during normal office hours and certain information may be obtained online at www.hpops.org. To request a written or verbal statement of your account(s) you may call during normal business hours. The HPOPS staff will verify your identity and provide the information to you. All other requests for your personal information, including having information made available to third parties must be made in writing. Any information that you request that is not your own information is subject to the Public Information Act of Texas and must be submitted in writing to the Executive Director. It will be processed according to the procedures found within the Public Information Act of Texas.

To make use of many of the services and programs offered by HPOPS it is important for you to provide HPOPS with your's and/or your family's personal information. At no time will the personal information you provide us be made available for sale nor will it be released for public consumption unless HPOPS is under direct court ordered subpoena or motion for discovery to do so in regards to a State or Federal criminal or civil trial or investigation.

HPOPS employs many security measures to ensure that your personal information is secure. All personal information that meets the requirements for destruction is destroyed by cross-cut shredding or physical destruction of electronic storage tapes, making it impossible to restore or recreate and meets both State and Federal guidelines for the destruction of confidential, secret and cryptographic information.

Your personal information that is stored electronically is only accessible through internal systems by HPOPS' staff who must login using secure passwords. It is against HPOPS' policy to remove or transmit personal information without proper authorization.

Any personal information submitted online at the HPOPS' Web site is secured using the latest in powerful data encryption, program time outs and password authentication.

Contact Us

The staff of the Houston Police Officers' Pension System is available to assist our members, Monday through Friday, from 8:00 am to 5:00 pm. You may contact HPOPS as follows:

VOICE: 713-869-8734
or toll free 800-874-0454

FACSIMILE: 713-869-7657

WEB SITE: www.hpops.org

OFFICE ADDRESS: 602 Sawyer
Suite 300
Houston, TX 77007

Members may access detailed information regarding their pension benefits as well as read about current events affecting their pension on our Web site. HPOPS also has frequently requested forms and informational booklets on the Web site. Members who do not have Internet access or prefer not to use the HPOPS Web site can obtain certain information and forms by personal request at the HPOPS office.

Please be prepared to show a picture ID when requesting information that is not available to the general public. You may also send a written request for information to HPOPS. All responses will be sent to the most recent address on file with HPOPS.

HPOPS' staff is pleased to meet with members on an appointment basis. HPOPS' staff wants to be properly prepared to assist you and devote an adequate amount of time to your needs. A member may make an appointment over the phone or by visiting the HPOPS office and completing an Appointment Request Form.

Glossary of Terms

Houston Police Officers' Pension System

Referred to herein as either HPOPS or the System.

Accrued Service Retirement

A percentage that is derived by adding together the sum of a percentage resulting from multiplying 2.75% (hired or rehired prior to 10/9/04) or 2.25% (hired or rehired on 10/9/04 or later) times a member's years of service up to 20 years plus the percentage resulting from multiplying 2.0% times a member's years of service in excess of 20. For service in excess of 20 years a member is awarded service credit for the entire month in any month in which he or she works 15 or more days.

Annuity

Monthly benefit distributed to a retired member or survivor. The amount is determined by the member's total length of classified service with the Houston Police Department and the member's average monthly salary.

Average Total Direct Pay

Average total direct pay used in the calculation of the monthly service retirement benefit, disability benefit or DROP benefit is calculated as follows:

Average total direct pay is determined by adding:

1. The highest bi-weekly pay received by a member for any single pay period in the last 26 bi-weekly pay periods in which the member worked full-time (considering only items of total direct pay that are included in each pay check) multiplied by 26, plus
2. the total of total direct pay (excluding all items of the type included in (1) above) received during the same last 26 bi-weekly pay periods, and
3. dividing that sum by 12.

Average total direct pay consists of wages as defined by Section 3401 (a) of the IRS code less pay received for overtime work plus any amounts that are not included in gross income by reason of:

1. Section 125, 402(g)(2) of the code
2. Section 457 of the code
3. Contributions "picked up" by the City pursuant to Section 414(h)(2) of the code
4. Any portion of motorcycle allowance that is not wages
5. Workman's Compensation

Increases in pay that occur on or after the effective date of the DROP election may not be used in computing the member's monthly DROP annuity.

Catastrophic Disability

A sudden, violent, life-threatening, duty-connected injury sustained by an active member that is due to an externally caused motor-vehicle accident, gun shot wound, aggravated assault or other external event or events and results, as supported by evidence, in one of the following conditions:

- a) loss of sight in one or both eyes
- b) loss of one or both feet at or above the ankle
- c) loss of one or both hands at or above the wrist
- d) injury to the spine that results in permanent and complete paralysis of both arms, both legs, or one arm and one leg, or
- e) an externally caused physical traumatic injury to the brain rendering a member physically or mentally unable to perform the member's duties as a police officer.

DROP Interest Rate

DROP accounts are credited with interest during the member's time in DROP. Each year, after June 30 and before January 1 of the following year, the HPOPS Board of Trustees will cause the historical five-year average return of the System to be calculated. This calculated rate is used as the interest rate for all active member DROP accounts beginning on January 1 of the following year and ending on December 31 of the same year. The DROP interest rate is the same as the DROP interest rate.

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Final Average Pay

The total Pay received by a member over the last seventy-eight (78) bi-weekly pay periods ending before the member's termination of employment with the Police Department, divided by thirty-six (36).

Funded Ratio

The ratio or percentage derived by dividing HPOPS's actuarial value of assets by HPOPS's actuarial accrued liability (representing the sum of the actuarial value of assets plus the unfunded actuarial accrued liability).

Locked-in Benefit

The monthly retirement pension a member would have been entitled to receive if the member had retired or entered DROP immediately before October 9, 2004, calculated in accordance with the provisions of Section 12(b) of Article 6243g-4 without regard to the modifications made by this Agreement.

New Benefit Calculation

The monthly retirement pension a member is entitled to receive as of the date of retirement or DROP entry, calculated in accordance with the provisions of Section 12(b) of Article 6243g-4, but using Final Average Pay rather than average total direct pay in the calculations.

Pay

Wages as defined by Section 3401(a) of the Code, plus any amounts that are not included in gross income by reason of Section 104(a)(1), 125, 132(f), 402(g)(2), or 457 of the Code, any member contributions picked up pursuant to Section 414(h)(2) of the Code, and any portion of a clothing allowance or motorcycle allowance that is not considered wages, and less any pay received for overtime work (OT), Exempt Time Pay (ETP) or Strategic Officer Staffing Program (SOSP) pay. The term Pay does not include nontaxable payments not expressly described above.

QDRO, or a Qualified Domestic Relations Order

Allows the System to pay pension benefits awarded by court order directly to an Alternate Payee, i.e. an ex-spouse, child or other dependent. The Board of Trustees of the Houston Police Officers' Pension System has adopted the provisions of Subchapters A and C of Chapter 804 of the Texas Government Code commonly known as the Texas "QDRO" statute.

Prior to the adoption of Subchapters A and C of Chapter 804, if a divorce decree or child support agreement awarded a portion of a member's pension benefits to a former spouse or guardian (the "Alternate Payee"), the System was only authorized to make payment(s) to the retiree member or terminating member. The member was then obligated as a constructive trustee under the divorce decree or child support agreement to pay the Alternate Payee the amount set forth in the decree or agreement. Adoption of the "QDRO" statute allows HPOPS to pay those awarded amounts directly to the Alternate Payee, thus alleviating the responsibility of the member to make payments to the Alternate Payee.

Sliding Average Benefit

A monthly retirement benefit in which Final Average Pay is calculated initially by using twenty-six (26) times the highest Pay, considering only items of Pay that are included in each pay check, received for any pay period in the twenty-six (26) pay periods ending immediately before October 9, 2004 and adding the sum of all other items of Pay excluded above that was received over the twenty-six (26) pay periods, then dividing by twelve (12). The average is adjusted after the end of each pay period by adding the Pay, considering only items of Pay that are included in each pay check, for that pay period to the prior periods plus the sum of all other items of Pay excluded above that was received over all applicable pay periods, dividing by the number of pay periods then included, multiplying by twenty-six (26) then divided by twelve (12) to arrive at a new monthly average. Once seventy-eight (78) pay periods are included in the average, one (1) of the assumed twenty-six (26) original pay periods will be dropped from the average each pay period and replaced by the Pay for the new pay period in calculating the new average, until the effect of the Locked-in Benefit is phased out at the end of the seventy-eight (78) pay periods after October 9, 2004.

Article 6243g-4

Police Officers' Pension System in Certain Municipalities

PURPOSE

Sec. 1. The purpose of this article is to restate and amend the provisions of former law creating and governing a police officers pension system in each city in this state having a population of 1.5 million or more, according to the most recent federal decennial census, and to reflect changes agreed to by the city and the board of trustees of the pension system under Section 27 of this article. The pension system shall continue to operate regardless of whether the city's population falls below 1.5 million.

DEFINITIONS

Sec. 2. In this article:

- (1) "Active member" means a person employed as a classified police officer by the police department of a city subject to this article, except a person who is a part-time, seasonal, or temporary employee or a person who elected to remain a member of a pension system described by Chapter 88, Acts of the 77th Legislature, Regular Session, 2001 (Article 6243h, Vernon's Texas Civil Statutes). The term does not include a person who is a member of another pension system of the same city, except to the extent provided by Section 15(j) or 18 of this article.
- (2) "Average total direct pay" means an amount determined by dividing the following sum by 12:
 - (A) the highest biweekly pay received by a member for any single pay period in the last 26 pay periods in which the member worked full-time, considering only items of total direct pay that are included in each pay check, multiplied by 26; plus
 - (B) the total direct pay, excluding all items of the type included in Paragraph (A) received during the same last 26 biweekly pay periods.
- (3) "Base salary" means the monthly base pay provided for the classified position in the police department held by the member.
- (4) "Board" means the board of trustees of the pension system.
- (4-a) "Catastrophic injury" means a sudden, violent, life-threatening, duty-related injury sustained by an active member that is due to an externally caused motor vehicle accident, gunshot wound, aggravated assault, or other external event or events and results, as sup-

ported by evidence, in one of the following conditions:

- (A) loss of sight in one or both eyes;
 - (B) loss of one or both feet at or above the ankle;
 - (C) loss of one or both hands at or above the wrist;
 - (D) injury to the spine that results in permanent and complete paralysis of both arms, both legs, or one arm and one leg; or
 - (E) an externally caused physical traumatic injury to the brain rendering the member physically or mentally unable to perform the member's duties as a police officer
- (5) "Code" means the federal Internal Revenue Code of 1986, or any successor, as amended.
 - (6) "Dependent" means a dependent child or a dependent parent.
 - (7) "Dependent child" means a deceased member's unmarried natural or adopted child who:
 - (A) has not attained age 18;
 - (B) has attained age 18 but not age 24 and is attending school on a full-time basis; or
 - (C) has attained age 18 and is permanently disabled as the result of a disability that began before the child attained age 18.
 - (8) "Dependent parent" means a natural parent of a deceased member or an adoptive parent who adopted the member before the member attained age 18 and at least 50 percent of whose support was received from the member during the one-year period preceding the date of death of the member.
 - (9) "DROP" means the deferred retirement option plan described by Section 14 of this article.
 - (10) "Employee" means an individual who holds a classified position in the police department of a city subject to this article.
 - (11) "Former member" means a person who was once an active member, vested or not, but who terminated active member status and received a refund of member contributions.
 - (12) "Fund" means the fund originally established by Chapter 76, Acts of the 50th Legislature, Regular Session, 1947 (Article 6243g-1, Vernon's Texas Civil Statutes).
 - (13) "Inactive member" means a person who has separated from service and has a vested right to a service pension from the pension system but is not eligible for an immediate

service pension. The term does not include a former member.

- (14) “Member” means an active member, inactive member, or retired member, as the context may require. The term does not include a former member.
- (14-a) “Normal retirement age” means the earlier of:
- (A) the age at which the member attains 20 years of service; or
 - (B) the age at which the member first attains both the age of at least 60 and at least 10 years of service.
- (15) “Normal retirement date” means the date at which a member is eligible for an immediate service pension under Section 12 of this article.
- (16) “Pension” means a monthly payment for life from the fund to a retired member.
- (17) “Pension system” or “system” means the retirement and disability plan for employees of any police department subject to this article.
- (17-a) “Retired member” means a member who has separated from service and who is eligible to receive an immediate service or disability pension under this article.
- (18) “School” means any public or private school through the 12th grade or any trade school, junior college, college, or university beyond the 12th grade that is accredited by a generally recognized accrediting authority.
- (19) “Separation from service” means cessation of work for the police department of a city subject to this article, whether caused by death, discharge, resignation, or transfer to an unclassified position.
- (20) “Service” means the period of time a person is employed in the police department of a city subject to this article, except for any period of DROP participation, and includes any period that the person is receiving a disability pension under Section 15 of this article or is on a military leave of absence described by Section 23 of this article, but only if the person returns to active service after the period of disability or military leave. The term does not include periods in which a person is suspended from duty without pay, on leave of absence without pay, or separated from service.
- (22) “Surviving spouse” means a person who was married to an active, inactive, or retired member at the time of the member’s death and, in the case of an inactive or retired member, before the member’s separation from service or for a period of at least five years before the retired or inactive member’s death.
- (22-a) “Survivor” means a surviving spouse, a dependent child, or a dependent parent.
- (23) “Total direct pay” means wages as defined by Section 3401(a) of the code, plus any amounts that are not included in gross

income by reason of workers’ compensation claims under Section 104(a)(1), 125, 402(g)(2), or 457 of the code, member contributions picked up pursuant to Section 414(h)(2) of the code, and any portion of a motorcycle allowance that is not considered wages, less any pay received for overtime work. The term does not include nontaxable payments not expressly described by this subdivision. However, the compensation included in applying the limits under Sections 26(c) and (d) of this article shall include overtime pay and exclude any amount that is excluded from gross income under Section 104(a)(1) of the code and the portion of any motorcycle allowance that is excluded from gross income by any other provision of the code not mentioned in this subdivision.

PENSION BOARD

- Sec. 3. (a) The board of trustees of the pension system that was created under Chapter 76, Acts of the 50th Legislature, Regular Session, 1947 (Article 6243g-1, Vernon’s Texas Civil Statutes), and that operates under Section 67, Article XVI, Texas Constitution, continues to be responsible for the general administration, management, and operation of the pension system, including the direction of investment and oversight of the fund’s assets.
- (b) The board is composed of seven members as follows:
- (1) the administrative head of the city or the administrative head’s authorized representative;
 - (2) three employees of the police department having membership in the pension system, elected by the active, inactive, and retired members of the pension system;
 - (3) two retired members who are receiving pensions from the system and are not officers or employees of the city, elected by the active, inactive, and retired members of the pension system; and
 - (4) the treasurer of the city or the person discharging the duties of the city treasurer.
- (c) The terms of office of the board members elected as described by Subsection (b)(2) of this section shall be three years, beginning on January 1 and ending on December 31, with one board member being elected every year at an election called by the board and held in December. If a vacancy occurs among the three elected active board members, the board shall hold an election within 60 days after the date the vacancy occurred. At that election, an active member shall be elected to serve for the remainder of the term of the vacant position or for a full term

- if the term of the board member that caused the vacancy would have ended in that year.
- (d) The terms of office of the board members elected as described by Subsection (b)(3) of this section shall be three years, beginning on January 1 and ending on December 31. Beginning in 1999, and each third succeeding year, one board member shall be elected at an election called by the board and held in December. Beginning in 2000, and each third succeeding year, a second board member shall be elected at an election called by the board and held in December. If a vacancy occurs among the two elected retired members of the board, the board shall hold an election within 60 days after the date the vacancy occurred. At that election, a retired member shall be elected to serve for the remainder of the term of the vacant position or for a full term if the term of the board member that caused the vacancy would have ended in that year. A board member who is a retired member and who was appointed to the board before January 1999 shall serve the remainder of the board member's term. On expiration of the appointed term, the appointed board member is eligible to run for the board position described by Subsection (b)(3) of this section in the same manner as any other retired member.
- (e) A board member vacates the member's seat on the board if the member is removed under Section 7 of this article or ceases to meet the qualifications for the seat.
- (f) An individual who is an officer or employee of any employee organization or retiree organization or an employee of the pension system is prohibited from being elected to the board, appointed to the board, or in any other way serving as a member of the board.
- (g) Each board member shall, within 30 days after taking office, take an oath of office:
- (1) to diligently and honestly administer the affairs of the pension system by:
 - (A) being loyal exclusively to all members;
 - being prudent in protecting and managing the trust's property;
 - (B) defending the trust's assets; and
 - (C) acting under the terms of the plan; and
 - (2) to not knowingly violate, or willingly permit to be violated this article.
- (h) Notwithstanding any other provision in this section, if a candidate for an elected trustee position is unopposed in an election, the election may not be held for that position. The board shall certify the candidate as elected to the board on the executive director's certification that the candidate is eligible to be a trustee under this section and is unopposed for election. The certified candidate shall take the oath of office as soon as

practicable in January, after being declared elected in December.

BOARD MEMBER LEAVE AND COMPENSATION

- Sec. 4. (a) Elected members of the board who are employees of the city's police department are entitled to leave from their employer to attend to the official business of the pension system and are not required to report to the city or any other governmental entity regarding travel or the official business of the pension system, except when on city business.
- (b) If the city employing an elected board member would withhold any portion of the salary of the member who is attending to official business of the pension system, the pension system may elect to adequately compensate the city for the loss of service of the member. If the board, by an affirmative vote of at least four board members, makes this election, the amounts shall be remitted from the fund to the city, and the city shall pay the board member's salary as if no loss of service had occurred.
- (c) The board, by an affirmative vote of at least four board members, may elect to reimburse board members who are not employees of the city for their time while attending to official business of the pension system. The amount of any reimbursement may not exceed \$350 a month for each affected board member.

OFFICERS; MEETINGS; EMPLOYEES

- Sec. 5. (a) The board annually shall elect from its active and retired membership a chairman. The board also annually shall elect from its membership a vice chairman and a secretary.
- (b) The board may hire one or more employees whose positions and salaries shall be set by the board and who, acting under the direction of the board, shall keep all of the records of and perform all of the clerical services for the pension system.
- (b-1) The board may hire an executive director. The executive director, acting under the direction of the board, shall handle the operations of the plan and shall perform other duties as the board may assign. The executive director shall also serve as the plan administrator for purposes of complying with Subchapter A, Chapter 804, Government Code.
- (c) The board may employ professional investment managers and advisors to manage, or advise the board regarding the management and investment of, the fund. These professional services may include investment counseling, evaluation of fund performance, investment research, and other comparable services.
- (d) The board may employ one or more actuar-

ies, legal counsel, accountants, or other professionals and pay the compensation for these services from the fund.

- (e) The board shall hold regular monthly meetings at the time and place it designates by resolution. The chairman, secretary, or any four board members may call a special meeting of the board.
- (f) Each board member is entitled to one vote.
- (g) Notice shall be given to all board members, unless waived in writing, of any proposed meeting, by any method reasonably calculated to provide adequate notice of the meeting. The notice may be delivered by mail, in-hand personal delivery, or facsimile or other electronically transmitted notice with recording of receipt by the receiving board member. If all board members attend a meeting, however, failure to give notice as required by this subsection is excused.
- (h) The board shall keep accurate minutes of its meetings and records of its proceedings.

GENERAL POWERS AND DUTIES

- Sec. 6. (a) The board shall retain control over all money collected or to be collected for the pension system, shall keep separate from all other funds all money for the use and benefit of the system, and shall keep a record of all claims, receipts, and disbursements in one or more books maintained for that purpose.
- (b) The board shall establish the policies and procedures for disbursements from the fund that it considers appropriate.
 - (c) The board may reimburse a board member or an officer or employee of the board for liability imposed as damages because of an alleged act, error, or omission committed in the individual's capacity as a fiduciary or co-fiduciary of assets of the fund or as an officer or employee of the board and for costs and expenses incurred by a fiduciary or co-fiduciary officer or employee in defense of a claim of an alleged act, error, or omission, or may purchase from an insurer licensed to do business in this state one or more policies of insurance that provide for the reimbursement. However, no reimbursement may be provided and no policy of insurance may be purchased under this subsection that would provide for reimbursement of a board member or an officer or employee of the board for liability imposed or expenses incurred because of the individual's personal dishonesty, fraudulent breach of trust, lack of good faith, intentional fraud or deception, or intentional failure to act prudently. The cost of reimbursement or insurance coverage purchased under this subsection shall be paid from money in the fund.
 - (d) The board shall administer the pension system consistent with the applicable provisions of the code.

(e) The board is vested with the power to adopt for the administration of the pension system written rules and guidelines consistent with this article, including rules or guidelines to ensure that the pension system and the fund meet the qualification requirements of the code and regulations and rulings issued under the code and that are applicable to governmental plans.

- (e-1) The board may sue on behalf of the pension system in any court with proper subject matter jurisdiction regardless of location. The board has sole authority to litigate matters on behalf of the pension system.
- (f) The board has full discretion and authority to administer the pension system, to construe and interpret this article, and to do all other acts necessary to carry out the purpose of this article in a manner and to the extent that the board considers expedient to administer this article for the greatest benefit of all members. All decisions of the board are final and binding on all affected parties.

- (g) The board, if reasonably necessary in the course of performing a board function, may subpoena a witness or the production of a book, record, or other document. The presiding officer of the board may issue, in the name of the board, a subpoena only if a majority of the board approves. The presiding officer of the board, or the presiding officer's designee, shall administer an oath to each witness. A peace officer shall serve a subpoena issued by the board. If the person to whom a subpoena is directed fails to comply, the board may bring suit to enforce the subpoena in a district court of the county in which the person resides or in the county in which the book, record, or other document is located. If the district court finds that good cause exists for issuance of the subpoena, the court shall order compliance. The district court may modify the requirements of a subpoena that the court finds are unreasonable. Failure to obey the order of the district court is punishable as contempt.
- (h) The board is not subject to Title 6, Property Code.

REMOVAL OF BOARD MEMBER

- Sec. 7. (a) An elected board member may be removed from the board either by a vote of the membership of the pension system at a removal election initiated and held as provided by this section or by a vote of five board members together with a decision to remove the board member made by a hearing examiner as provided by this section.
- (b) An appointed member of the board may be removed from the board by the administrative head of the city.
 - (c) To initiate an election for removal of an

- elected board member, a petition for removal signed by at least one-third of the members and retired members of the pension system must be filed with the board not later than the 45th day after the date the first signature on the petition is obtained. Each signature must be legible and accompanied by the signer's printed name and employee payroll number, if any. A member's payroll number may not be publicly disclosed. A removal election must be held not later than the 30th day after the date the board certifies that a petition for removal satisfies the requirements for a petition under this subsection. The results of a removal election are binding only if a majority of the active and retired members participate in the election. A board member's service on the board ends on the declaration by the board that a majority of those voting in the removal election voted in favor of removal.
- (d) On the date the board makes a declaration under Subsection (c) of this section, the board shall call a special election to be held not earlier than the 20th or later than the 60th day after that date to fill the vacancy for the unexpired term of the person who was removed. The person who was removed is not eligible to run in the special election but is eligible to run in all subsequent board elections.
- (e) Except as otherwise provided by Subsections (a) and (b) of this section, a board member may be removed only as provided by this subsection and Subsections (f) and (g) of this section. After an affirmative vote of the board to remove a board member under Subsection (a) of this section, the board or its designee and the board member whose removal is proposed shall attempt to agree on the selection of an impartial hearing examiner. If the parties do not agree on the selection of a hearing examiner not later than the 10th day after the date the board votes to remove the board member, on the next workday the parties involved shall request a list of seven qualified neutral arbitrators from the American Arbitration Association of the Federal Mediation and Conciliation Service or another arbitration organization with similarly stringent standards. The board member whose removal is proposed and the board or their designees may agree on one of the seven neutral arbitrators on the list. If the parties fail to agree before the 26th day after the date the board first votes to remove the board member, each party or the party's designee shall alternate striking a name from the list, and the name remaining is the hearing examiner. The board member whose removal is proposed or the board member's designee is entitled to strike the first name. If the 25th day falls on a Saturday, Sunday, or legal holiday, the parties must strike names from the list on the next workday. The parties or their designees must agree on a date for the hearing that is within the period prescribed by Subsection (f) of this section.
- (f) The hearing must begin as soon as the hearing examiner can be scheduled but not later than the 60th day after the date the board votes to remove the board member. In a hearing conducted under this subsection, the hearing examiner may issue subpoenas. The parties may agree to an expedited hearing procedure. Unless otherwise agreed by the parties, in an expedited procedure, the hearing examiner must issue a decision not later than the 10th day after the date the hearing ends. Unless operating under an expedited hearing procedure, the hearing examiner shall make a reasonable effort to issue a decision not later than the 30th day after the date the hearing ends. The hearing examiner's inability to meet the time requirements imposed by this subsection does not affect the hearing examiner's jurisdiction or final decision. The final decision of the hearing examiner may be either to remove the board member or not to remove the board member from the board. The hearing examiner's fees and expenses shall be paid by the pension system. The costs of a witness shall be paid by the party who calls the witness.
- (g) If the hearing examiner's decision is to remove a board member, the person removed is entitled to an opportunity to have the hearing examiner's decision reviewed. To have the decision reviewed, not later than the 30th day after the date of a decision under Subsection (f) of this section, the person removed must obtain signatures of at least one-third of the active and retired members of the pension system requesting an election to overrule the removal decision under Subsection (f). If the 30th day is a Saturday, Sunday, or legal holiday, the following workday is considered the 30th day. Each signature must indicate the signing date beside the signature, be legible, and be accompanied by the signer's printed name and employee payroll number, if any. A member's payroll number may not be publicly disclosed. The board shall verify the list not later than the 10th day after the date the board receives it. Not later than the 30th day after the date the board has verified the signatures, the board shall hold an election among the active and retired members. If a majority of the votes cast at an election in which a majority of the active and retired members of the pension system participate favor overruling the hearing examiner's decision, the board member shall be reinstated. If a majority do not vote to overrule

the decision to remove a board member, a replacement election must be held not later than the 30th day after the date of the preceding election.

- (h) During the period beginning on the date of the board vote to remove a board member and ending on the date the board member is reinstated under this section, the person's privileges as a board member, including voting privileges, are suspended.

CONTRIBUTIONS BY MEMBERS

- Sec. 8. (a) Each active member of the pension system shall pay into the system each month 8-3/4 percent of the member's total direct pay. The payments shall be deducted by the city from the salary of each active member each payroll period and paid to the pension system. Except for the repayment of withdrawn contributions under Section 17(f) or 18(c)(3) of this article and rollovers permitted by Section 17(h) of this article, a person may not be required or permitted to make any payments into the pension system after the person separates from service.
- (b) This article does not increase or decrease the contribution obligation of any member that arose before September 1, 1999, or give rise to any claim for refund for any contributions made before that date.

CONTRIBUTIONS BY THE CITY

- Sec. 9. (a) The city shall make substantially equal contributions to the fund as soon as administratively feasible after each payroll period. For each fiscal year ending after June 30, 2005, the city's minimum contribution shall be the greater of 16 percent of the members' total direct pay or the level percentage of salary payments required to amortize the unfounded actuarial liability over a constant period of 30 years computed on the basis of an acceptable actuarial reserve funding method approved by the board. However, for the fiscal year ending June 30, 2002, the city's contribution shall be \$32,645,000, for the fiscal year ending June 30, 2003, the city's contribution shall be \$34,645,000, for the fiscal year ending June 30, 2004, the city's contribution shall be \$36,645,000, and for the fiscal year ending June 30, 2005, the city's contribution shall be 16 percent of the members' total direct pay.
- (b) Repealed.
 - (c) The governing body of a city to which this article applies by ordinance or resolution may provide that the city pick up active member contributions required by Section 8 of this article so that the contributions of all active members of the pension system qualify as picked-up contributions under Section 414(h)(2) of the code. If the governing body of a city adopts an ordinance or resolution under this section, the city, the board,

and any other necessary party shall implement the action as soon as practicable. Contributions picked up as provided by this subsection shall be included in the determination of an active member's total direct pay, deposited to the individual account of the active member on whose behalf they are made, and treated for all purposes, other than federal tax purposes, in the same manner and with like effect as if they had been deducted from the salary of, and made by, the active member.

INVESTMENT OF SURPLUS

- Sec. 10. (a) If the board determines that a surplus of funds exists in an amount exceeding the current demands upon the pension system, the board shall invest the surplus funds in the manner provided for by Chapter 802, Government Code.
- (b) The board may select an investment manager or investment advisor if the board determines the service is desirable. Selection of managers or advisors must be made from firms that have made presentations in person or in writing to the board.
 - (c) The board may terminate a contract with an investment advisor at any time. The board may terminate a contract with an investment manager on notice the board considers appropriate. A contract may not require the pension system to pay a penalty for early termination. The costs of investment management or advisory services shall be paid from the fund.

SERVICE CREDIT

- Sec. 11. (a) A member who returns to service after an interruption in service is entitled to credit for the previous service to the extent provided by Section 19 of this article.
- (b) Notwithstanding Subsection (a) of this section, if a member has withdrawn the contributions made during any previous period of service, the previous period of service may not be counted in determining years of service unless the contributions are repaid to the pension system in accordance with Section 17 of this article.
 - (c) A member may not have any service credited for unused sick leave, vacation pay, or accumulated overtime until the date the member retires, at which time the member may apply some or all of the service to satisfy the requirements for retirement, although the member otherwise could not meet the service requirement without the credit.
 - (d) The board shall determine the prior service to be credited to each employee of the police department who becomes an active member of the pension system. The board shall rely on the personnel records of the city or the police department in determining prior service credits.

RETIREMENT; AMOUNT OF PENSION; ANNUAL ADJUSTMENTS

Sec. 12. (a) A member who separates from service after earning 20 or more years of service is eligible to receive a monthly service pension, beginning in the month of separation from service. A member who separates from service with the city after November 23, 1998, after earning 10 or more but less than 20 years of service in any of the city's pension systems and who complies with all applicable requirements of Section 19 of this article is eligible to receive a monthly service pension, beginning in the month the individual attains 60 years of age. An individual may not receive a pension under this article while still an active member, except as provided by Subsection (f) of this section. All service pensions end with the month in which the retired member dies. The city shall supply all personnel, financial, and payroll records necessary to establish the member's eligibility for a benefit, the member's credited service, and the amount of the benefit. The city must provide those records in the format specified by the pension system.

(b) Except as otherwise provided by this section, the monthly service pension of a member that becomes due after May 1, 2001, is equal to 2.75 percent of the member's average total direct pay or, if the member retired before November 24, 1998, 2.75 percent of the member's base salary, for each of the member's first 20 years of service, plus an additional two percent of the member's average total direct pay for each of the member's subsequent years of service, computed to the nearest one-twelfth of a year. A member who separates from service after November 23, 1998, including a member who was a DROP participant, and begins to receive a monthly service pension shall also receive a one-time lump-sum payment of \$5,000 at the same time the first monthly pension payment is made. The lump-sum payment under this subsection is not available to a member who has previously received a \$5,000 payment under this section or Section 16 of this article.

(c) The pension payable to each retired member of the pension system shall be adjusted annually, effective April 1 of each year, upward at a rate equal to two-thirds of any percentage increase in the Consumer Price Index for All Urban Consumers for the preceding year. The amount of the annual adjustment may not be less than three percent or more than eight percent of the pension being paid immediately before the adjustment, notwithstanding a greater or lesser increase in the consumer price index.

(d) A retired member who receives a service pension under this article is entitled to receive an additional amount each month equal to \$150, beginning on the later of the

date the retired member's pension begins or the date the first monthly payment becomes due after June 18, 2001, and continuing until the end of the month in which the retired member dies. This amount is intended to defray the retired member's group medical insurance costs and will be paid directly by the fund to the retired member for the retired member's lifetime.

- (e) At the end of each calendar year beginning after 1998, and subject to the conditions provided by this subsection, the pension system shall make a 13th benefit payment to each person who is receiving a service pension. The amount of the 13th payment shall be the same as the last monthly payment received by the retiree or survivor before issuance of the payment, except the payment received by any person who has been in pay status for less than 12 months shall be for a prorated amount determined by dividing the amount of the last payment received by 12 and multiplying this amount by the number of months the person has been in pay status. The 13th payment may be made only for those calendar years in which:
- (1) the assets held by the fund will equal or exceed its liabilities after the 13th payment is made;
 - (2) the rate of return on the fund's assets exceeded 9.25 percent for the last fiscal year ending before the payment; and
 - (3) the payment will not cause an increase in the contribution the city would have been required to make if the 13th payment had not been made.
- (f) Notwithstanding anything to the contrary in this article, an active or inactive member who is eligible to participate in the executive official pension plan established by Chapter 358, Acts of the 48th Legislature, Regular Session, 1943 (Article 6243g, Vernon's Texas Civil Statutes), or a successor statute, may, while continuing employment with the police department, participate in the executive official pension plan and elect:
- (1) if an active member:
 - (A) to begin receiving an immediate pension benefit and be considered a retired member eligible for all rights and privileges afforded any other retired member under this article, if the member has 20 years or more of service and is eligible for retirement under this section except for the continuing employment; or
 - (B) to enter DROP if the member satisfies all requirements of this article for DROP membership; or
 - (2) if an inactive member, to begin receiving an immediate pension benefit equal to 2.75 percent of the member's average total direct pay at the time the member became inactive for the member's first

20 years of service and be entitled to all rights and privileges afforded a retired member under this article.

- (g) Notwithstanding anything to the contrary in this article, service pensions that began before May 1, 2001, shall continue to be paid in accordance with applicable prior law, subject only to the adjustments that are specifically provided by this section.
- (h) Average total direct pay for a member who retires after participating in a phase-down program in which the member receives a periodic payment that is generated from the member's accumulated sick time, vacation time, and overtime balances shall be based on the highest pay period, excluding any pay for overtime work, in the periods during which the member worked full-time before participating in the phase-down program.
- (i) The computation of average total direct pay shall be made in accordance with procedures and policies adopted by the board.

RESUMPTION OF SERVICE AS DEPARTMENT HEAD AFTER RETIREMENT

- Sec. 13. (a) The pension system shall suspend all pension payments to a retired member who has separated from service and is subsequently appointed as the department head of the police department. The suspension of payments begins on the effective date of the person's appointment.
- (b) Pension benefits based on the person's previous period of service do not accrue during the period of pension payment suspension described by Subsection (a) of this section, but the person again becomes an active member during this period, and contributions of the city and the department head for the subsequent service are payable during the period. The department head retains credit for all previous service and acquires credit for the subsequent service unless the department head is or becomes a DROP participant.
 - (c) Once the department head again separates from service, pension benefits under this article shall resume based on both periods of service.

DEFERRED RETIREMENT OPTION PLAN

- Sec. 14. (a) In this section "DROP benefit" means the total amount credited to a member's notional DROP account, payable as described by this section, plus a monthly retirement pension.
- (b) An active member who has at least 20 years of service with the police department may file with the pension system an election to participate in DROP and receive a DROP benefit instead of the standard form of pension provided by this article. The election

may be made, under procedures established by the board, by an active member who has attained the required years of service. A DROP election that is made and accepted by the board may not be revoked before the member's separation from service.

- (c) The monthly service pension and death benefits of an active member who becomes a DROP participant will be determined as if the active member had separated from service and begun receiving a pension on the effective date of the DROP election. The active member does not retire but does not accrue additional service credit beginning on the effective date of the election, and increases in pay that occur on or after that date may not be used in computing the active member's monthly service pension, except as provided by Subsection (1) of this section, but cost-of-living adjustments that occur on or after that date and that otherwise would be applicable to the pension will be made.
- (d) The member's DROP benefit is determined as provided by this subsection and Subsection (e) of this section. Each month an amount equal to the monthly service pension the active member would have been entitled to receive if the active member had separated from service on the effective date of entry into DROP, less any amount that is intended to help defray the active member's group medical insurance costs as described by Section 12(d) of this article, shall be credited to a notional DROP account for the active member, and each month an amount equal to the monthly contributions the active member makes to the fund on and after the effective date of entry into DROP also shall be credited to the same notional DROP account. In any year in which a 13th payment is made to retired members under Section 12(e) of this article, an amount equal to the amount of the 13th payment that would have been made to the DROP participant if the DROP participant had retired on the date of DROP entry will be credited to the DROP account.
- (e) As of the end of each month an amount is credited to each active member's notional DROP account at the rate of one-twelfth of a hypothetical earnings rate on amounts in the account. The hypothetical earnings rate is determined for each calendar year based on the average of the aggregate annual rate of return on investments of the pension system for the five consecutive fiscal years ending June 30 preceding the calendar year to which the earnings rate applies. The rate may not be less than zero.
- (f) At the time of a DROP participant's separation from service, the DROP participant or, if separation from service was due to the DROP participant's death, the person entitled to receive benefits under Sections 16 and

- 16A of this article shall be afforded a one-time election to revoke the DROP election and substitute either the annuity that would have been paid if the member had never elected DROP or an annuity and notional DROP account equal to the annuity and notional DROP account that would have been received if the member had entered DROP on a date elected by the member or survivor. The date elected by the member or survivor may not be earlier than the earliest date the member could have elected to enter DROP or later than the date of the member's death or other separation from service. The computation of the value of the annuity and DROP account of a member or survivor who makes a Back DROP election shall be subject to the policies and procedures adopted by the board. For purposes of this subsection, "Back DROP" means the option to make this one-time election.
- (f-1) If a DROP participant separates from service due to death and the person entitled to receive benefits under Sections 16 and 16A of this article does not revoke the DROP election, the DROP benefit may be received in the form of an additional annuity over the life expectancy of the surviving spouse.
- (g) In lieu of receiving a lump-sum DROP benefit on separation from service, a retired member who has been a DROP participant or, if separation from service was due to the DROP participant's death, the surviving spouse may leave the retired member's DROP account with the pension system, in which case interest will be credited to the DROP account in the manner described by this Subsection (e) of this section.
- (h) Instead of beginning to receive a service pension on separation from service in accordance with Section 12 of this article, a retired member who is a DROP participant may elect to have part or all of the amount that would otherwise be paid as a monthly service pension, less any amount required to pay the retired member's share of group medical insurance costs, credited to a DROP account, in which case the additional amounts will become eligible to be credited with hypothetical earnings in the same manner as the amounts described by Subsection (g) of this section.
- (i) A retired member who has not attained age 70-1/2, whether or not a DROP participant before retirement, may elect to have part or all of an amount equal to the monthly service pension the retired member would otherwise be entitled to receive, less any amount required to pay the retired member's share of group medical insurance costs, credited to a DROP account, in which case the amounts will become eligible to be credited with hypothetical earnings in the same manner as the amounts described by Subsection (g) of this section. A retired member who has elected to have monthly service pension benefits credited to a DROP account under this subsection or Subsection (h) of this section may direct that the credits stop and the monthly service pension resume at any time. However, a retired member who stops the credits at any time after September 1, 1999, may not later resume the credits.
- (j) A retired member who is a DROP participant, or a surviving spouse, may elect to receive distribution of the DROP account in a one-time lump-sum payment or in any other form of distribution that is approved by the board and satisfies the requirements of Section 401(a)(9) of the code.
- (k) If a retired member who is or was a DROP participant is rehired as an employee of the police department, any pension or DROP distribution that was being paid shall be suspended and the monthly amount described by Subsection (d) of this section will again begin to be credited to the DROP account while the member continues to be an employee. If the member's DROP account has been completely distributed, a new notional account will be created to receive the member's monthly credits. If a retired member who was never a DROP participant is rehired as an employee of the police department, that member shall be eligible to elect participation in DROP on the same basis as any other member.
- (l) The DROP account of each DROP participant who was an active member on May 1, 2001, shall be recomputed and adjusted, effective on that date, to reflect the amount that would have been credited to the account if the member's pension had been computed based on 2.75 percent of the member's average total direct pay, or base pay if applicable, for each of the member's first 20 years of service. The DROP account adjustment shall also include the assumed earnings that would have been credited to the account if the 2.75 percent multiplier for the first 20 years of service had been in effect from the time the member became a DROP participant.
- (m) The DROP monthly service pension, as described by Subsection (c) of this section, of each DROP participant who retires after May 1, 2001, shall be recomputed as of the date of retirement, based on the DROP participant's average total direct pay at the time of retirement and changes to the benefit formula in Section 12(b) of this article that have occurred since the member's DROP entry date. If this recomputation would result in a greater monthly service pension, as described by Subsection (c) of this section, the DROP participant's monthly service pension shall be adjusted to the greater amount.

DISABILITY BENEFITS

- Sec. 15. (a) An active member who becomes totally and permanently incapacitated for the performance of the member's duties as a result of a bodily injury received in, or illness caused by, the performance of those duties shall, on presentation to the board of proof of total and permanent incapacity, be retired and shall receive an immediate duty-connected disability pension equal to the greater of 55 percent of the member's average total direct pay at the time of retirement or the member's accrued service pension. If the injury or illness involves a traumatic event that directly causes an immediate cardiovascular condition resulting in a total disability, the member is eligible for a duty-connected disability pension. A disability pension granted by the board shall be paid to the member for the remainder of the member's life or for as long as the incapacity remains. If a member is a DROP participant at the commencement of the member's disability, the member shall have the option of receiving the DROP balance in any manner that is approved by the board and that satisfies the requirements of Section 401(a)(9) of the code and Treasury Regulation Section 1.104-1(b)(26 C.F.R. Section 1.104-1) and is otherwise available to any other member under this article.
- (b) A member with 10 years or more of credited service who becomes totally and permanently incapacitated for the performance of the member's duties and is not eligible for either an immediate service pension or a duty-connected disability pension is eligible for an immediate monthly pension computed in the same manner as a service retirement pension but based on average total direct pay and service accrued to the date of the disability. The pension under this subsection may not be less than 27.5 percent of the member's average total direct pay.
- (c) A member who becomes entitled to receive a disability pension after November 23, 1998, is entitled to receive a one-time lump-sum payment of \$5,000 at the same time the first monthly disability pension payment is made, but only if the member has not previously received a \$5,000 payment under this section or Section 12 of this article. The retired member shall also receive an additional amount each month equal to \$150, beginning on the later of the date the pension begins or the date the first monthly payment becomes due after June 18, 2001, and continuing as long as the disability pension continues, to help defray the cost of group medical insurance. For any year in which a 13th payment is made to retired members under Section 12(e) of this article, a 13th payment, computed in the same manner, shall also be paid to members who have retired under this section.
- (d) A person may not receive a disability pension unless the person files with the board an application for a disability pension not later than 180 days after the date of separation from service, at which time the board shall have the person examined by a physician chosen and compensated by the board. The physician shall make a report and recommendations to the board regarding the extent of any disability and whether any disability that is diagnosed is a duty-connected disability. Except as provided by Subsection (j) of this section, a person may not receive a disability pension for an injury received or illness incurred after separation from service.
- (e) A retired member who has been retired for disability is subject at all times to reexamination by a physician chosen and compensated by the board and shall submit to further examination as the board may require. If a retired member refuses to submit to an examination, the board may order the payments stopped. If a retired member who has been receiving a disability pension under this section recovers so that in the opinion of the board the retired member is able to perform the usual and customary duties formerly performed for the police department, and the retired member is reinstated or offered reinstatement to the position, or to a position reasonably comparable in rank and responsibility to the position, held at the time of separation from service, the board shall order the member's disability pension stopped.
- (f) Repealed.
- (g) For purposes of this section, a member is totally and permanently incapacitated from performing duties if the member is prevented by a physical or mental injury or illness from performing duties in the police department after any reasonable accommodation offered by the police department and this condition is expected to be permanent.
- (h) As soon as administratively feasible after the later of June 18, 2001, or the date of the member's retirement because of disability, an additional monthly disability benefit may be provided to the member. The additional monthly benefit shall be equal to the difference between the monthly benefit the member is receiving under Subsection (a) or (b) of this section, whichever is applicable, and 100 percent of the member's average total direct pay at the time of retirement because of disability. The additional benefit will end on the earlier of the fourth anniversary of the date the benefit is first paid, the end of the last month the member is engaged in an education or training program approved in accordance with procedures adopted by the board, or the date the member is approved to return to active duty. This additional monthly benefit is not reduced by any DROP

- account distributions the member receives unless the member elects to receive the DROP distributions in the form of an annuity. This additional benefit is not available to a member who is receiving a disability benefit under Subsection (j) of this section.
- (i) Effective for payments that become due after April 30, 2000, and instead of the disability benefit provided by Subsection (a), (b), or (h) of this section, a member who suffers a catastrophic injury shall receive a monthly benefit equal to 100 percent of the member's average total direct pay determined as of the date of retirement.
- (j) A member who transfers from the police department of a city subject to this article to another department of the same city, or who separates from service and is rehired in another department, and who subsequently terminates employment with the city due to a duty-connected injury incurred while working as a non-police employee, shall be entitled to receive an immediate proportional nonduty-connected disability benefit computed in the same manner as provided by Subsection (b) of this section, but the benefit shall be based only on service earned as an employee of the police department. For purposes of this proportional disability benefit only, the 180-day application filing requirement in Subsection (d) of this section begins at the time of separation from the department that employed the member at the time the disability was incurred. A person may not receive a disability pension for an injury incurred after termination from service with the city or for a nonduty disability incurred after separation from service with the police department. This proportional nonduty-connected disability benefit is not available to a person who is already receiving a service retirement pension or disability pension under this article.
- (k) A benefit payment that becomes due under this section is effective on the later of the first day the disabled member leaves the payroll of the city or the date the member signs the application for a disability pension.
- not be treated as effective earlier than the date on which it was signed before the notary public.
- (b) If a retired member dies after becoming entitled to a service or disability pension, the board shall pay an immediate monthly benefit as follows:
- (1) to the surviving spouse, if there is a surviving spouse, a sum equal to the pension that was being received by the retired member at the time of death;
 - (2) to the guardian of any dependent children, on behalf of the dependent children, if there is no spouse entitled to an allowance, the sum a surviving spouse would have received, to be divided equally among the dependent children if there is more than one dependent child; or
 - (3) to any dependent parents if no spouse or dependent child is entitled to an allowance, the sum the spouse would have received, to be divided equally between the two parents if there are two dependent parents.
- (c) If a member of the pension system who has not completed 10 years of service in the police department is killed or dies from any cause growing out of or in consequence of any act clearly not in the actual performance of the member's official duty, the member's surviving spouse, dependent child or children, or dependent parent or parents are entitled to receive an immediate benefit. The benefit is computed in the same manner as a service retirement pension but is based on the deceased member's service and average total direct pay at the time of death. The monthly benefit may not be less than 27.5 percent of the member's average total direct pay.
- (d) Repealed.
- (e) If any active member is killed or dies from any cause growing out of or in consequence of the performance of the member's duty, the member's surviving spouse, dependent child or children, or dependent parent or parents are entitled to receive immediate benefits computed in accordance with Subsection (b) of this section, except that the benefit payable to the spouse, or to the guardian of the dependent child or children if there is no surviving spouse, or the dependent parent or parents if there is no surviving spouse or dependent child, is equal to 100 percent of the member's average total direct pay, computed as of the date of death.
- (f) A surviving spouse who receives a survivor's benefit under this article is entitled to receive an additional amount each month equal to \$150, beginning with the later of the date the first payment of the survivor's benefit is due or the date the first monthly payment becomes due after June 18, 2001,

RIGHTS OF SURVIVORS

Sec. 16. (a) For purposes of this article, a marriage is considered to exist only if the marriage is recorded in the records of the recorder's office in the county in which the marriage ceremony was performed. In the case of a common-law marriage, a marriage declaration must be signed by the member and the member's common-law spouse before a notary public and recorded in the records of the county clerk's office in the county in which the couple resides at the commencement of the marriage. In addition, a marriage that is evidenced by a declaration of common-law marriage signed before a notary public after December 31, 1999, may

and continuing until the end of the month in which the surviving spouse dies.

- (g) A surviving spouse or dependent who becomes eligible to receive benefits with respect to an active member who dies in active service after November 23, 1998, is entitled to receive a one-time lump-sum payment of \$5,000 at the time the first monthly pension benefit is paid, if the member has not already received a \$5,000 lump-sum payment under Section 12 or 15(c) of this article. If more than one dependent is eligible to receive a payment under this subsection, the \$5,000 shall be divided equally among the eligible dependents. This payment has no effect on the amount of the surviving spouse's or dependents' monthly pension and may not be paid more than once.
- (h) The monthly benefits of surviving spouses or dependents provided under this section, except the \$150 monthly payments described by Subsection (f) of this section, shall be increased annually at the same time and by the same percentage as the pensions of retired members are increased in accordance with Section 12(c) of this article. Also, for any year in which a 13th payment is made pursuant to Section 12(e) of this article, a 13th payment, computed in the same manner, shall also be made to survivors who are entitled to receive death benefits at that time.
- (i) If a member or individual receiving a survivor's pension dies before monthly payments have been made for at least five years, leaving no person otherwise entitled to receive further monthly payments with respect to the member, the monthly payments shall continue to be made to the designated beneficiary of the member or survivor, or to the estate of the member or survivor if a beneficiary was not designated, in the same amount as the last monthly payment made to the member, survivor, or estate, until payments have been made for five years with respect to the member. If the member dies after becoming vested but before payments begin, leaving no survivors eligible for benefits, the amount of each monthly payment over the five-year period shall be the same as the monthly payment the member would have received if the member had taken disability retirement on the date of death. A member may designate a beneficiary in lieu of the member's estate to receive the remaining payments in the event the member and all survivors die before payments have been received for five years. The member's estate or a beneficiary who is not a survivor or dependent is not entitled to receive the payment described by Subsection (g) of this section.

Sec. 16A. BENEFICIARY DESIGNATION.

- (a) The provisions of Section 16 of this article pertaining to rights of survivors do not apply to an amount held in a member's DROP account. A member who participates in DROP may designate a beneficiary to receive the balance of the member's DROP account in the event of the member's death, as permitted by Section 401(a)(9) of the code and the board's policies. A member who is married is considered to have designated the member's spouse as the member's beneficiary unless the spouse consents, in a notarized writing delivered to the board, to the designation of another person as beneficiary. If no designated beneficiary survives the member, the board may pay the balance of the member's DROP account to the member's beneficiaries in the following order:
- (1) to the member's spouse;
 - (2) if the member does not have a spouse, to each child of the member in equal shares;
 - (3) if the member does not have a spouse or any children, to each surviving parent of the member in equal shares; or
 - (4) if the member has no beneficiaries described by Subdivisions (1), (2), and (3) of this subsection, to the estate of the member.
- (b) If a member names a spouse as a beneficiary and is subsequently divorced from that spouse, the divorce voids the designation of the divorced spouse as the member's beneficiary. A designation of a divorced spouse will cause the board to pay any balance remaining in the member's DROP account in the order prescribed by Subsection (a) of this section.

TERMINATION OF EMPLOYMENT; REFUNDS; REEMPLOYMENT

- Sec. 17. (a) When any active member of the pension system separates from service, either voluntarily or involuntarily, before becoming eligible for an immediate service retirement or disability pension, the member ceases to be an active member of the pension system.
- (b) A member of the pension system who has not completed 20 years of service at the time of separation from service with the police department is entitled to a refund of the total of the contributions the member made to the pension system, plus any amount that was contributed for the member by the city and not applied in accordance with this section to provide the member with 10 years of service. The refund does not include interest, and neither the city nor the member is entitled to a refund of the contributions the city made on the member's behalf, except as expressly provided by this subsection. By receiving the

- refund, the member forfeits any service earned before separation from service, even if it is otherwise nonforfeitable.
- (c) The board shall notify each member of the pension system of the right to a refund as authorized by this section.
- (d) A member must apply to the board for a refund within one year after the date of separation from service. Failure to apply for the refund within the one-year period results in a forfeiture of the right to the refund except for an inactive member whose right to a pension is nonforfeitable. However, the board may reinstate any amount forfeited and allow the refund on application by the former member.
- (e) Heirs, executors, administrators, personal representatives, or assignees are not entitled to apply for and receive the refund authorized by this section except as provided by Section 16(c) of this article.
- (f) If a person who separates from service and receives a refund is subsequently reemployed as an employee of the police department, the person shall be reinstated as an active member of the pension system. Prior service of the active member with the police department may not be counted toward a retirement pension unless the member pays to the pension system, not later than the 90th day after the date of a subsequent separation from service, an amount equal to any contributions previously refunded to the member under this section. Except as provided by Section 18 of this article, a person is not eligible to repay any withdrawn contributions unless the person is reemployed by the police department of the city for which the prior service was performed.
- (g) A member who is contesting an indefinite suspension action may, on application to the board, receive a return of the member's contributions and be separated from service on receipt of the contributions; otherwise, a suspended member is considered to have a separation from service when a final decision of the arbitrator adverse to the member is rendered.
- (h) Subject to procedures adopted by the board, the pension system shall accept a direct cash transfer of funds from another plan that is an eligible rollover distribution within the meaning of Section 402(f)(2)(A) of the code. The transfer shall be accepted only for the purpose of repaying contributions the member has previously withdrawn or for other purposes expressly authorized by the board's procedures.
- city other than the police department; and
- (2) a person's service will be computed from the date of entry into the service of the police department until the date of separation from service with the police department.
- (b) Solely for purposes of determining whether a person has a sufficient number of years of service to receive a retirement pension or to enter the DROP program, and not for purposes of determining the amount of the pension or DROP credit, a person who is employed in any full-time position with the city after June 18, 2001, and has or obtains any credited service with the pension system after that date, shall receive service credit for any period of full-time employment with the same city. However, a person may not receive credit for service with both the police department and any other department of the city for the same period.
- (c) Notwithstanding Section 17 of this article and Subsection (b) of this section, a former member of the pension system shall be permitted to repay withdrawn contributions and restore service credit previously earned with the pension system, even if the former member is not reemployed by the police department, if the former member:
- (1) is employed by the same city in which the service credit for employment with the police department was earned;
- (2) is a participant in another pension plan maintained by the city; and
- (3) repays to the pension system the withdrawn contributions not later than the 90th day after the date of separation from active employment with the city.
- (d) Classified police officers who were formerly employed by a city as park police, airport police, or marshals, who were involuntarily transferred from another city department to the police department of the city, and who are current active members of the pension system shall have the option to receive credit with the pension system for previous service with another pension system of the city, provided that a person may not receive service credit for both pension systems for the same period of service.

EMPLOYMENT BY ANOTHER DEPARTMENT

- Sec. 18. (a) Except as provided by this section:
- (1) credit may not be allowed to any person for service with any department in the

PERSONS REJOINING OR TRANSFERRED BY CITY; SERVICE CREDIT; DOUBLE BENEFITS; RETURN TO SERVICE

- Sec. 19. (a) An employee of the city who has retired under this article or under former law governing the pension system and is or has been transferred by action of the city to a classified position in a police department included in the pension system again becomes an active member of the pension system as of the effective date of the transfer.

- (b) A person who rejoins the pension system under this section is entitled to receive service credit for each day of service and work performed by the person in a classified position in the police department, except for any period during which the person is a DROP participant. The board shall add service earned after the transfer to the prior service the active member accrued in a classified position in the police department. However, the active member may not receive service credit under this article, except to the extent provided by Section 18, for service performed for the city other than in a classified position in the police department.
- (c) After a transfer described by this section, contributions of the city and the active member become payable as for other active members of the pension system.
- (d) When a member who has transferred as described by this section subsequently retires, the retired member is entitled to a pension computed on the basis of the combined service described by Subsection (b) of this section, after deducting any period in which the member was suspended from duty without pay, on leave of absence without pay, separated from service, or employed by the city in a capacity other than in a classified position in the police department.
- (e) If a retired member receives both pension benefits from the pension system and a salary from a classified position in the police department that cover the same period, the retired member shall repay to the pension system the pension benefits received during that period. The board shall withhold payment of pension benefits under this article if it is determined that a retired member is receiving both pension benefits from the fund and a salary from the police department that cover the same period. On request of the board, the city attorney or a private attorney chosen by the board shall file suit in a court of competent jurisdiction to recover pension benefits owed to the pension system under this subsection.
- (f) This article does not authorize the return to service with a police department or the resumption of active membership in the pension system by a retired member except as specifically provided by Section 13 or 14 of this article or this section.

DONATIONS

Sec. 20. The pension system may accept gifts and donations, and the gifts and donations shall be added to the fund for the use of the pension system, including, but not limited to, for use for education programs and the related administrative expenses of the program.

DETERMINATION OF BENEFITS; PROVISION OF INFORMATION

Sec. 21. The board may require any member, survivor, or other person or entity to furnish information the board requires for the determination of benefits under this article. If a person or entity does not cooperate in the furnishing or obtaining of information required as provided by this section, the board may withhold payment of the pension or other benefits dependent on the information.

LEGAL ADVICE

Sec. 22. The city attorney of the city shall handle all legal matters for the pension system that are referred by the board without additional compensation for the service. The board may, however, as it considers necessary, employ outside legal counsel to the exclusion of, or to assist, the city attorney and pay reasonable compensation for the service of the additional legal counsel from the fund.

MEMBERS IN MILITARY SERVICE

- Sec. 23. (a) A member of the pension system engaged in active service in a uniformed service may not be required to make the monthly payments into the fund and may not lose any previous years' service with the city because of the uniformed service. The uniformed service shall count as continuous service in the police department if the member returns to the city police department after discharge from the uniformed service as an employee within the period required by the Uniformed Services Employment and Reemployment Rights Act of 1994 (38 U.S.C. Section 4301 et seq.), as amended, and the uniformed service does not exceed the period for which a person is entitled to have service counted pursuant to that Act. Notwithstanding any other provision of this article, contributions and benefits shall be paid and qualified service for military service shall be determined in compliance with Section 414(u) of the code.
- (b) The city is required to make its payments into the fund on behalf of each member while the member is engaged in a uniformed service. If a member who has less than 10 years of service in the pension system dies directly or indirectly as a result of the uniformed service, and without returning to active service, the spouse, dependent children, dependent parent, or estate of the member is entitled to receive a benefit in the same manner as described by Section 16(c) of this article.

ACTIONS FOR FUNDS MISAPPLIED

Sec. 24. (a) The board may recover by civil action from any offending party or from the party's bondsman, if any, any money paid out or obtained from the fund through fraud, mis-

- representation, theft, embezzlement, or misapplication and may institute, conduct, and maintain the action in the name of the board for the use and benefit of the fund.
- (b) Payments due on behalf of a dependent child shall be paid to the dependent child's guardian, if any, or if none to the person with whom the dependent child is living, except that the board may make payments directly to a dependent child in an appropriate case and withhold payments otherwise due on behalf of any person if the board has reason to believe the payments are not being applied on behalf of the person entitled to receive them. The board may request a court of competent jurisdiction to appoint a person to receive and administer the payments due to any dependent child or person under a disability.

FEDERAL TAX QUALIFICATION OF FUND

- Sec. 25. (a) The fund described by this article is intended to qualify under Section 401(a) of the code and is for the exclusive benefit of the members and their survivors. No part of the corpus or income of the fund may ever be used for, or diverted to, any purpose other than the benefit of members and their survivors as provided by this article.
- (b) A member or survivor of a member of the pension system may not accrue a retirement pension, disability retirement allowance, death benefit allowance, DROP benefit, or any other benefit under this article in excess of the benefit limits applicable to the fund under Section 415 of the code. The board shall reduce the amount of any benefit that exceeds those limits by the amount of the excess. If total benefits under this fund and the benefits and contributions to which any member is entitled under any other qualified plans maintained by the city that employs the member would otherwise exceed the applicable limits under Section 415 of the code, the benefits the member would otherwise receive from the fund shall be reduced to the extent necessary to enable the benefits to comply with Section 415.
- (c) Any member or survivor who receives any distribution that is an eligible rollover distribution as defined by Section 402(c)(4) of the code is entitled to have that distribution transferred directly to another eligible retirement plan of the member's or survivor's choice on providing direction to the pension system regarding that transfer in accordance with procedures established by the board.
- (d) The total salary taken into account for any purpose for any member of the pension system may not exceed \$200,000 for any year for an eligible participant, or for years beginning after 2001 for an ineligible participant, or \$150,000 a year before 2001 for

- an ineligible participant. These dollar limits shall be adjusted from time to time in accordance with guidelines provided by the United States secretary of the treasury. For purposes of this subsection, an eligible participant is a person who first became an active member before 1996, and an ineligible participant is a member who is not an eligible participant.
- (e) Accrued benefits under this article become 100 percent nonforfeitable for a member on the date the member has completed 10 years of service. If the pension system or the fund is terminated or partially terminated, or city contributions to the fund are discontinued completely, there may not be a reversion of funds to the employer. On complete or partial termination or discontinuance of city contributions, the fund held by the pension system shall be used exclusively for benefits for members and their surviving spouses and dependents, and the members' rights to the benefits, to the extent funded, shall be nonforfeitable if not already nonforfeitable under this subsection.
- (f) Amounts representing forfeited nonvested benefits of terminated members may not be used to increase benefits payable from the fund.
- (g) Distribution of benefits must begin not later than April 1 of the year following the calendar year during which the member entitled to the benefits becomes 70-1/2 years of age or terminates employment with the employer, whichever is later, and must otherwise conform to Section 401(a)(9) of the code.
- (h) If the amount of any benefit is to be determined on the basis of actuarial assumptions that are not otherwise specifically set forth for that purpose in this article, the actuarial assumptions to be used are those earnings and mortality assumptions being used on the date of the determination by the pension system's actuary and approved by the board. The actuarial assumptions being used at any particular time shall be attached as an addendum to a copy of this article and treated for all purposes as a part of this article. The actuarial assumptions may be changed by the pension system's actuary at any time if approved by the board, but a change in actuarial assumptions may not result in any decrease in benefits accrued as of the effective date of the change.
- (i) To the extent permitted by law, the board may adjust the benefits of retired members and survivors by increasing any benefit that was reduced because of Section 415 of the code. If Section 415 of the code is amended to permit the payment of amounts previously precluded under that section, the board may adjust the benefits of retired members or their surviving spouses or dependents, including the restoration of benefits previ-

ously denied. Benefits paid under this subsection are not considered as extra base salary earned after retirement but as the delayed payment of benefits earned before retirement.

- (j) The board may make any change in this article to the extent that the change is necessary to assure compliance with the qualification requirements of Section 401 of the code or any other federal law.

EXCESS BENEFIT PLAN

Sec. 26. (a) A separate, nonqualified, unfunded excess benefit plan is created outside the fund.

(b) In this section:

- (1) "Excess benefit plan" or "plan" means the separate, nonqualified, unfunded excess benefit plan created by this section for the benefit of eligible members, as amended or restated from time to time, that is intended to be a "qualified governmental excess benefit arrangement" within the meaning of Section 415(m) of the code.
- (2) "Qualified plan" means the pension system and any other plan maintained by the city for the exclusive benefit of some or all of the members of the pension system that has been found by the Internal Revenue Service to be qualified or has been treated by the city as a qualified plan under Section 401 of the code.
- (3) "Maximum benefit" means the retirement benefit a retired member and the spouse, dependent child, or dependent parent of a retired member or deceased member or retiree are entitled to receive from all qualified plans in any month after giving effect to Section 25(b) of this article and any similar provisions of any other qualified plans designed to conform to Section 415 of the code.
- (4) "Excess benefit participant" means any retired member whose retirement benefits as determined on the basis of all qualified plans without regard to the limitations of Section 25(b) of this article and comparable provisions of other qualified plans would exceed the maximum benefit permitted under Section 415 of the code.
- (5) "Unrestricted benefit" means the monthly retirement benefit a retired member and the spouse, dependent child, or dependent parent of a retired member or deceased member would have received under the terms of all qualified plans except for the restrictions of Section 25(b) of this article and any similar provisions of any other qualified plans designed to conform to Section 415 of the code.

- (c) An excess benefit participant who is receiving benefits from the pension system is entitled to a monthly benefit under this excess benefit plan in an amount equal to the lesser of:
 - (1) the member's unrestricted benefit less the maximum benefit; or
 - (2) the amount by which the member's monthly benefit from the fund has been reduced because of the limitations of Section 415 of the code.
- (d) If a spouse, dependent child, or dependent parent is entitled to preretirement or postretirement death benefits under a qualified plan after the death of an excess benefit participant, the surviving spouse, dependent child, or dependent parent is entitled to a monthly benefit under the excess benefit plan equal to the benefit determined in accordance with this article without regard to the limitations under Section 25(b) of this article or Section 415 of the code, less the maximum benefit.
- (e) Any benefit to which a person is entitled under this section shall be paid at the same time and in the same manner as the benefit would have been paid from the pension system if payment of the benefit from the pension system had not been precluded by Section 25(b) of this article. An excess benefit participant or any beneficiary may not, under any circumstances, elect to defer the receipt of all or any part of a payment due under this section.
- (f) The board shall administer the plan, and the board's designee shall also carry out the business of the board with respect to the plan. Except as otherwise provided by this section, the rights, duties, and responsibilities of the board and the board's designee are the same for the plan as for the funds of the pension system.
- (g) The consultants, independent auditors, attorneys, and actuaries selected to perform services for the fund also shall perform services for the plan, but the fees for their services may not be paid by the fund. The actuary engaged to perform services for the fund shall advise the board of the amount of benefits that may not be provided from the fund solely by reason of the limitations of Section 415 of the code and the amount of employer contributions that will be made to the plan rather than to the fund.
- (h) Contributions may not be accumulated under the plan to pay future retirement benefits. Instead, each payment of city contributions that would otherwise be made to the fund under Section 9 of this article shall be reduced by the amount determined by the board or its designee as necessary to meet the requirements for retirement benefits under the plan, including reasonable administrative expenses, until the next payment of

city contributions is expected to be made to the pension system. The city shall then pay to the plan, from the withheld contributions, not earlier than the 30th day before the date each distribution of monthly retirement benefits is required to be made from the plan, the amount necessary to satisfy the obligation to pay monthly retirement benefits from the plan. The board or its designee shall satisfy the obligation of the plan to pay retirement benefits from the employer contributions so transferred for that month.

- (i) Employer contributions otherwise required to be made to the pension system under Section 9 of this article and any other qualified plan shall be divided into those contributions required to pay retirement benefits under this section and those contributions paid into and accumulated to pay the maximum benefits permitted under the qualified plan. Employer contributions made to provide retirement benefits under this section may not be commingled with the money of the fund forming part of the pension system or any other qualified plan.

AGREEMENT TO CHANGE BENEFITS

Sec. 27. (a) Notwithstanding any law to the contrary, the board or a designee of the board is responsible for representing the interests of the pension system and all pension issues and benefits affecting the pension system or its members and beneficiaries under this article. The board may enter into a written agreement with the city on behalf of the pension system and members and beneficiaries of the pension system if the agreement is approved by the board and signed by the mayor and the board or the board's designee.

- (b) A pension benefit or allowance provided by this article may be increased if the increase:
- (1) is first approved by a qualified actuary selected by the board;
 - (2) is approved by the board and the city in a written agreement as authorized by this section; and
 - (3) does not deprive a member, without the member's written consent, of a right to receive benefits that have become fully vested and matured in the member.

NONREDUCTION, NONALIENATION, AND NONASSIGNMENT OF BENEFITS

Sec. 28. (a) No portion of the funds held by the pension system, either before or after an order for its disbursement by the board, and no amounts due or to become due to any member or survivor under this article may be held, seized, taken, subject to, detained, or levied on by virtue of any execution, attachment, garnishment, injunction, or other writ, and no order or decree, and no

process may issue out of or by any court of this state for the payment or satisfaction, in whole or in part, out of the funds held by or due from the pension system, of any debt, damage, claim, demand, or judgment against any member, survivor, dependent, or any other person.

- (b) No part of the funds or any claim to the funds may be directly or indirectly assigned or transferred. Any attempt to transfer or assign any part of the funds or a claim to the funds is void.
- (c) The funds shall be held, kept, and disbursed for the purposes provided by this article, and for no other purpose, except that a retired member, survivor, or dependent, at the person's discretion, may have deducted from the person's pension the monthly premium cost of any group insurance program in which the retired member is participating.
- (d) A benefit payable under this article may not be reduced or discontinued for any person except under the terms applicable to the benefit at the time the person becomes eligible to receive the benefit.
- (e) This section does not prevent the division of the benefits accrued by a member under any court order determined by the board or its designee to be a qualified domestic relations order and the payment of a share of a retired member's benefits or contributions to an alternate payee in accordance with the order.

Sec. 29. CONFIDENTIALITY OF INFORMATION

ABOUT MEMBERS OR BENEFICIARIES. (a) Information contained in a record that is in the custody of a fund established under this article concerning an individual member, retiree, survivor, or beneficiary is confidential for purposes of Sections 552.101, 552.102, and 552.117, Government Code.

The information may not be disclosed in a form that identifies a specific individual unless the information is disclosed to:

- (1) the individual;
 - (2) the individual's attorney, guardian, executor, administrator, or conservator; or
 - (3) a person has written authorization from the individual to receive the information.
- (b) This section does not prevent the disclosure of the status or identity of an individual as a member, former member, retiree, deceased member, survivor, beneficiary, or alternate payee of the system.

Added by Acts 2003, 78th Leg., eff. Sept. 1, 2003.

2004 Agreement between the Houston Police Officers' Pension System and The City of Houston

PREAMBLE

This Agreement is made and entered into by and between the HOUSTON POLICE OFFICERS' PENSION SYSTEM ("HPOPS"), acting pursuant to statutory authority under the provisions of Article 6243g-4, of the Revised Civil Statutes of Texas (hereinafter "Article 6243g-4"), and the CITY OF HOUSTON ("CITY"), collectively referred to as the "Parties".

WHEREAS, under the provisions of Article 6243g-4, Section 27, and notwithstanding any law to the contrary, the Board of Trustees of HPOPS ("BOARD") or a designee of the BOARD is responsible for representing the interests of the pension system on all pension related issues, including benefits, which affect the pension system or its members and beneficiaries under Article 6243g-4; and

WHEREAS, under the provisions of Article 6243g-4, Section 27, the BOARD also may enter into a written agreement with the CITY on behalf of the pension system and members and beneficiaries of the pension system if the agreement is approved by the BOARD and signed by the mayor and the BOARD or the BOARD's designee; and

WHEREAS, the CITY and HPOPS, the Parties hereto, agree and acknowledge that certain provisions of this Agreement will have the effect of superseding certain provisions of Article 6243g-4 during the term of this Agreement, except that nothing in this Agreement can deprive a member, without the member's written consent, of a right to receive benefits that have become fully vested and matured in the member; and

WHEREAS, the Parties hereto, agree and acknowledge that HPOPS is the sole and exclusive bargaining agent for all classified City of Houston Police Officers, regular and disabled retired City of Houston Police Officers, and their survivors, in all matters involving pensions;

NOW THEREFORE, for and in consideration of the promises and mutual covenants contained herein, the Parties agree as follows:

ARTICLE I - DEFINITIONS

Terms that are used and not defined in this Agreement have the same meanings as when used in Article 6243g-4. The following definitions apply to terms used in this Agreement, unless a different definition is required by the context in which the term is used.

Code means the Federal Internal Revenue Code of 1986, or any successor, as amended.

Final Average Pay means the total Pay received by a member over the last seventy-eight (78) bi-weekly pay periods ending before the member's termination of employment with the Police Department, divided by thirty-six (36).

Funded Ratio means the ratio or percentage derived by dividing HPOPS's actuarial value of assets by HPOPS's actuarial accrued liability (representing the sum of the actuarial value of assets plus the unfunded actuarial accrued liability).

Locked-in Benefit means the monthly retirement pension a member would have been entitled to receive if the member had retired or entered DROP immediately before October 9, 2004, calculated in accordance with the provisions of Section 12(b) of Article 6243g-4 without regard to the modifications made by this Agreement.

New Benefit Calculation means the monthly retirement pension a member is entitled to receive as of the date of retirement or DROP entry, calculated in accordance with the provisions of Section 12(b) of Article 6243g-4, but using Final Average Pay rather than average total direct pay in the calculations.

Pay means wages as defined by Section 3401(a) of the Code, plus any amounts that are not included in gross income by reason of Section 104(a)(1), 125, 132(f), 402(g)(2), or 457 of the Code, any member contributions picked up pursuant to Section 414(h)(2) of the Code, and any portion of a clothing allowance or motor-

cycle allowance that is not considered wages, and less any pay received for overtime work (OT), Exempt Time Pay (ETP) or Strategic Officer Staffing Program (SOSP) pay. The term Pay does not include nontaxable payments not expressly described above.

Sliding Average Benefit means a monthly retirement benefit in which Final Average Pay is calculated initially by using twenty-six (26) times the highest Pay, considering only items of Pay that are included in each pay check, received for any pay period in the twenty-six (26) pay periods ending immediately before October 9, 2004 and adding the sum of all other items of Pay excluded above that was received over the twenty-six (26) pay periods, then dividing by twelve (12). The average is adjusted after the end of each pay period by adding the Pay, considering only items of Pay that are included in each pay check, for that pay period to the prior periods plus the sum of all other items of Pay excluded above that was received over all applicable pay periods, dividing by the number of pay periods then included, multiplying by twenty-six (26) then divided by twelve (12) to arrive at a new monthly average. Once seventy-eight (78) pay periods are included in the average, one (1) of the assumed twenty-six (26) original pay periods will be dropped from the average each pay period and replaced by the Pay for the new pay period in calculating the new average, until the effect of the Locked-in Benefit is phased out at the end of the seventy-eight (78) pay periods after October 9, 2004.

The Sliding Average Benefit computation is illustrated by the attached Exhibit A.

ARTICLE II - CHANGE IN MEMBER CONTRIBUTIONS

The Parties agree that effective for the pay period commencing October 9, 2004, all then active members shall begin to contribute to HPOPS at the rate of nine percent (9%) of Pay. The additional one-quarter of one percent (0.25%) of Pay, over the current eight and three-quarters percent (8.75%), shall be credited to HPOPS' general fund, and not to the members' DROP accounts, if any. The Parties further agree that persons who first become active members of HPOPS after October 9, 2004 shall contribute ten and one-quarter percent (10.25%) of their Pay to HPOPS general fund. Former police officers who are reemployed on or after October 9, 2004, will contribute at the ten and one-quarter percent (10.25%) rate, except that any active member who was involuntarily separated from service before October 9, 2004, and is reinstated due to arbitration, civil service and or court rulings after that date shall be entitled to contribute at the nine percent (9%) rate, and will be able to repurchase any forfeited service for the amount of the contributions that were paid to them. Active members who are entitled to purchase service that was forfeited at the time of a prior separation from service may repurchase the service for the amount of the contributions paid to them at the time of the forfeiture, but all new service credit for these reinstated active members will be calculated under the new rules and regulations for new active members first employed after October 9, 2004.

Either former members reemployed after October 9, 2004 or current members who leave after October 9, 2004 when reemployed may buyback prior service credit at two and one-quarter percent (2.25%) per year under the rules that apply to active members hired after October 9, 2004. Current active members who have not yet bought back prior service credit or those members involuntarily separated may buyback prior service credit at two and three-quarters percent (2.75%) per year under Article 6243g-4, Section 12(b).

ARTICLE III—CITY PAYMENT SCHEDULE TO HPOPS

The CITY agrees to make cash payments to HPOPS from any source (including budgeted amounts and proceeds of pension obligation bonds) in the following amounts in each of the following fiscal years of the CITY during the term of this Agreement:

City Fiscal Year	Amount
2005	\$36,645,000
2006	16% of total member compensation (estimated to be about \$55,900,000), but not less than \$53,000,000
2007	\$5,000,000 over the FY-2006 payment
2008	\$5,000,000 over the FY-2007 payment
2009	\$5,000,000 over the FY-2008 payment
2010	\$5,000,000 over the FY-2009 payment
2011	\$5,000,000 over the FY-2010 payment
2012	\$5,000,000 over the FY-2011 payment

Beginning in fiscal year 2013 and until the Funded Ratio reaches 100%, the CITY payments shall increase each fiscal year by the greater of (a) \$5,000,000 or (b) if the scheduled CITY payment is less than the actuarially required contribution, \$10,000,000.

Once the Funded Ratio has reached 100%, CITY payments each fiscal year shall be in amounts equivalent to the greater of 16% of covered payroll or the actuarially required rate.

In addition, beginning in 2013, once the Funded Ratio reaches 75%, if it should ever be subsequently determined that the Funded Ratio has declined below such 75%, then in the fiscal year next following such determination, the CITY shall pay such additional amounts to HPOPS as shall be necessary to increase the Funded Ratio to 75%. In addition, beginning in 2013, once the Funded Ratio reaches 80%, this becomes the new floor and if it should ever decline below such 80% level, in the fiscal year next following such determination, the CITY shall pay such additional amounts to HPOPS as shall be necessary to increase the Funded Ratio to 80%.

For CITY payments derived from amounts within its annual budget, such payments shall be made as soon as administratively feasible after each payroll period in amounts equal to 1/26 of the total CITY payment amount for such fiscal year until the budgeted funds are exhausted. For CITY payments derived from pension obligation bonds or from other financing transactions for fiscal year 2005, they shall be made not later than April 1, 2005 and for each subsequent fiscal year they shall be made within sixty (60) days following the last scheduled payment of budgeted funds under the prior sentence.

The CITY shall have sole responsibility to obtain approval of the pension obligation bonds from the Texas Attorney General, and for issuance of the bonds. HPOPS shall have no involvement or responsibility in such process other than to provide the agreement attached hereto as Exhibit B, and the addendum referred to therein.

ARTICLE IV - CHANGE IN DEFINITION OF PAY USED FOR NEW BENEFIT CALCULATION

The Parties agree that, subject to Article X below, monthly pension benefits for persons whose retirement commences after October 9, 2004 will be determined utilizing the New Benefit Calculation.

ARTICLE V - CHANGE IN FUTURE COST OF LIVING ALLOWANCES

The Parties agree that annual adjustments for cost of living allowances (COLA's), described in Section 12(c), 14(c), 15, or 16(h) of Article 6243g-4, shall be eighty percent (80%) of the increase in the Consumer Price Index for all Urban Consumers for the preceding year for all years beginning after October 9, 2004. The Parties further agree that this adjustment shall not be less than two and four-tenths percent (2.4%) nor more than eight percent (8%).

ARTICLE VI - FLOOR AND CEILING ON ANNUAL DROP EARNINGS CREDITING RATE

The Parties agree that the rate of hypothetical earnings credited to a member's DROP notional account for each calendar year, as computed under Section 14(e) and (h) of Article 6243g-4, shall not be less than three percent (3%) nor more than seven percent (7%), except that for any year for which HPOPS' actuary certifies that HPOPS' past service costs are fully funded, the credit may be as high as ten percent (10%). The computation of the hypothetical earnings credit is not otherwise changed.

ARTICLE VII - THIRTEENTH BENEFIT PAYMENT

The Parties agree that no thirteenth benefit payment will be paid on behalf of any person who first becomes a member after October 9, 2004. The Parties further agree that current active, disabled, or retired members or survivors of active, disabled, or retired members shall not be entitled to a thirteenth benefit payment for any year in which HPOPS' Funded Ratio is less than one hundred and twenty percent (120%).

ARTICLE VIII - RETIREMENT AGE FOR NEW ACTIVE MEMBERS

The Parties agree that minimum retirement age for any person who becomes an active member or a reemployed member after October 9, 2004, other than those active members referenced in Article II who are reinstated as a result of their discipline being overturned as stated therein, shall be age fifty-five (55), and the person must also have at least ten (10) years of service in order to retire.

ARTICLE IX - CHANGE IN BENEFIT FORMULA FOR NEW ACTIVE MEMBERS

The Parties agree that the formula for determining the monthly benefit of any person who first becomes an active member or a reinstated member after October 9, 2004, other than those active members referenced in Article II who are reinstated as a result of their discipline being overturned as stated therein, shall be two and one-quarter percent (2.25%) of the person's Final Average Pay times years of service for the first twenty (20) years of service, plus two percent (2%) of Final Average Pay times years of service for all years of service in excess of twenty (20) years of service. The Parties also agree that such a member shall not be able to accrue a benefit

in excess of eighty percent (80%) of Final Average Pay. The Parties further agree that there will be no five thousand dollar (\$5,000) lump-sum payment made upon the retirement or death of any person who first becomes an active member after October 9, 2004. There will be no change in the formula for determining the monthly benefit for existing active members, except to the extent provided in Articles II, V and VII.

All new cadets hired on or after October 9, 2004 will sign a document jointly prepared by the City of Houston and HPOPS acknowledging the benefits contained herein for new members.

ARTICLE X - TRANSITIONAL BENEFIT OPTIONS BEFORE OCTOBER 7, 2007

Notwithstanding the other provisions of this Agreement, the Parties agree that, during the transitional period (from the October 9, 2004, until October 7, 2007), the following benefit computations will be available to eligible current active members:

- A. **Retirement and DROP Entrance During Transitional Period.** The Parties agree that current active members or their survivors who commence to receive a service or disability pension or elect to enter DROP during the transitional period may receive a monthly pension or DROP benefit determined under any one of the following options:
 1. The benefit calculated using Final Average Pay in accordance with Article IV above;
 2. The Locked-in Benefit;
 3. The Sliding Average Benefit; or,
 4. The member's DROP account and a monthly pension determined in accordance with 1, 2 or 3, above.
- B. **Backdrop Election.** The Parties agree that active members who make a backdrop election in accordance with Section 14(f) of Article 6243g-4 shall be entitled to use average total direct pay rather than Final Average Pay in determining their DROP account and monthly pension, but only if the election is made before 5:00 p.m. on June 30, 2005.
- C. **Senior Police Officers.** The Parties agree that active members who have at least seventeen (17) years of service on October 9, 2004, and have not then attained Senior Police Officer status shall have their Locked-in Benefit adjusted by adding their Senior Police Officer Pay if they attain Senior Police Officer status no later than October 9, 2005.
- D. **Members in Phase Down Program.** The members currently in the Phase Down Program described in the 2004 Amendments to 2001 Meet & Confer Agreement between the City and the Houston Police Officers' Union are no longer earning pension service, and the Parties agree that benefits for those members will be calculated under Article 6243g-4 without regard to this Agreement. The Parties also agree that active members who enter the Phase Down Program after October 9, 2004, but before October 7, 2007, will have the opportunity to have a monthly retirement benefit that is computed using either the Locked-in Benefit or the Sliding Average Benefit.

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ARTICLE XI - CLOSING OF DROP OPTION TO NEW MEMBERS

The Parties agree that, subject to the change in earnings credits described in Articles V, VI and VII above, the DROP option shall remain available to current active members (or survivors). However, DROP shall not be available to persons who first become active members or a reinstated member after October 9, 2004, other than those active members referenced in Article II who are reinstated as a result of their discipline being overturned as stated therein.

ARTICLE XII - DISABILITY PROVISIONS FOR NEW MEMBERS

The Parties agree that the additional disability benefits described in Section 15(h) of Article 6243h-4 shall not be available to persons who first become active members of HPOPS or a reinstated member after October 9, 2004, other than those active members referenced in Article II who are reinstated as a result of their discipline being overturned as stated therein.

ARTICLE XIII - PLOP OPTION

The Parties agree that a new partial lump sum optional payment (PLOP) of not more than twenty percent (20%) of the actuarial value of the member's accrued pension at retirement shall be made available to persons who become active members of HPOPS after October 9, 2004. The benefit shall be actuarially neutral. Thus, the value of the pension the member would have received, but for the lump sum, shall be reduced actuarially to reflect the lump sum payment.

ARTICLE XIV - MEDICAL INSURANCE

The CITY agrees to make a good faith effort to address the rising costs of medical insurance and other health care costs for retired members and survivors, including, but not limited to, consideration of funding for a Code Section 401(h) account.

ARTICLE XV - DATA

HPOPS shall determine each member's credited service and pension benefit on the basis of the personnel and financial records of the CITY and the records of HPOPS. The CITY agrees that it will supply to HPOPS all personnel and financial records necessary to establish the member's eligibility for a benefit, the member's credited service, and the amount of the benefit (including payroll records). In addition, the CITY agrees to provide any information that may be reasonably necessary to enable HPOPS to obtain any ruling or determination letter from the Internal Revenue Service. The information provided by the CITY shall be transmitted to HPOPS electronically in a format specified by HPOPS, to the extent available to the CITY, or in writing if so requested by HPOPS.

ARTICLE XVI - SOLE AND EXCLUSIVE RIGHT TO DISCUSS PENSION MATTERS WITH HPOPS MEMBERS, INCLUDING CADETS, AT HPD FACILITIES

The CITY and HPOPS agree that HPOPS has the sole and exclusive right to discuss pension matters with HPOPS members and police cadets at all HPD facilities or at HPD sponsored functions that may be held away from HPD facilities. The CITY will, to the fullest extent necessary, make certain that HPOPS is the only entity or person, outside of HPD management, permitted to discuss pension matters with HPOPS members and police cadets at HPD facilities, or at HPD sponsored functions which may be held away from HPD facilities. HPD management retains the right to discuss with its classified employees, including police cadets, all employment matters that may also include matters relating to pensions. HPD management agrees to make every effort to limit its discussion of pension related matters with classified personnel without first seeking the approval of HPOPS. HPD management also agrees to attempt to work with HPOPS in advance of any dissemination of information regarding pension matters in any police cadet orientation, in-service training and/or roll-call training. If HPD does disseminate pension-related information without the prior approval of HPOPS, HPD will insure that all personnel understand that management is in no way acting as an agent of HPOPS and that the information disseminated has not been approved for dissemination by HPOPS.

ARTICLE XVII - CONTRACT CONDITIONED ON AGREED CONTRIBUTIONS

HPOPS has entered into this Agreement in reliance upon the CITY's commitment to make the payments agreed to in Article III. If for any reason the CITY does not make timely payments as agreed to in Article III, and such failure remains uncorrected for sixty (60) days following written notice of such failure from HPOPS, then HPOPS may terminate all provisions of this Agreement except those provisions dealing with new hire and reinstatement benefits and/or pursue any remedy available at law or in equity.

ARTICLE XVIII - LEGISLATURE ISSUES

The Parties agree to cooperatively and separately defend and protect this Agreement against any future legislative changes at the local, state or national level that have not been mutually agreed to by the Parties which relates to benefits of active or retired members. The Parties further agree not to file or support, and to oppose, any legislative effort that, in any way, affects the terms and conditions regarding benefits for active or retired members which have been agreed to in this Agreement or the Statute.

ARTICLE XIX - CITY SECTION 457 ADVISORY COMMITTEE

The Parties agree that the Mayor or the Mayor's designee will continue to appoint an elected active member of the HPOPS Board of Trustees to the City of Houston Deferred Compensation Plan Advisory Committee.

ARTICLE XX - REEMPLOYMENT OF RETIRED POLICE OFFICES BY THE CITY

The Parties agree that, in accordance with Article 6243g-4 and current practice, HPOPS will discontinue a retired member's pension while the member is reemployed as a police officer. The CITY agrees that it will not make a commitment to employ, in a non-police officer position, any active member who is eligible for a disability pension before first informing the active member of the potential consequences of working for the City while receiving a pension. The CITY will assist HPOPS in dealing with any tax problems HPOPS believes may exist by, among other things, providing the use of the CITY's Washington lobbyist (if any) to assist them with any proposed legislation.

ARTICLE XXI - TAX MATTERS

The Parties agree that HPOPS is solely responsible for drafting the necessary language to reflect the substantive changes to the statutory language required by the changes adopted in this Agreement and submitting it to the Internal Revenue Service for a new determination letter. The Parties also agree that any provision in this Agreement will be suspended if the Internal Revenue Service determines that the provision will result in the loss of HPOPS' tax qualified status. It is further agreed and understood that HPOPS may make any change in the terms of this Agreement or the benefit changes effectuated thereby to the extent that the change is necessary to ensure compliance with the qualification requirements of Section 401 of the Code, or any other applicable governmental law.

ARTICLE XXII - EFFECTUATION OF CHANGES

Pursuant to Section 6(f) of Article 6243g-4, the Parties agree that HPOPS shall have full discretion and authority to administer, construe and interpret this Agreement, and to do all other acts necessary to carry out the purpose of HPOPS' governing statute, Article 6243g-4 or successor statute(s). To the extent that any administrative changes must be made to effectuate any of the foregoing changes, HPOPS shall have a reasonable period of time after the execution of this Agreement to put such changes into effect.

ARTICLE XXIII- DURATION

This Agreement shall be effective on October 9, 2004, and shall remain in full force and effect until June 30, 2017, unless earlier terminated, modified or changed by a new agreement between the Parties or by an amendment to Article 6243g-4 or successor statute(s), enacted by the Texas Legislature, or terminated under Article XVIII. If neither party notifies the other party that it desires to end the Agreement at least ninety (90) days before June 30, 2017, this Agreement shall continue in effect for successive one (1) year terms until the earliest of:

- A. June 30, 2034;
- B. One of the Parties gives a termination notice to the other, at least ninety (90) days before the end of an extended one-year term; or
- C. The June 30th following the date on which it is determined HPOPS has reached a one hundred and twenty percent (120%) funded level except those provisions dealing with active members hired or reemployed on or after October 9, 2004 will continue to be in full force and effect.

If HPOPS reaches 120% funding level, HPOPS and the CITY agree to commence negotiations in good faith to consider enhanced benefits for active members hired or reinstated after October 9, 2004.

ARTICLE XXIV - SAVINGS CLAUSE

Subject to Article XVII above, if any provision of this Agreement, or the application of such provision, should be rendered or declared invalid by any court action or by reason of any existing or subsequently enacted legislation, the remaining parts or portions of this Agreement shall remain in full force and effect.

ARTICLE XXV - MERGER CLAUSE

This Agreement contains the entire agreement and understanding by and between HPOPS and the CITY with respect to the agreement herein referred to as the **"Agreement Between the Houston Police Officers' Pension System and the City of Houston"**, and no understandings, promises, agreements or representations, written or oral, not herein contained, shall have any force or effect. To be valid or binding, any change, amendment, or modification of the terms or provisions herein must be in writing and signed by the Parties to be bound.

ARTICLE XXVI - NONSUIT OF HPOPS LAWSUIT WITH RESPECT OF FISCAL YEAR 2005 - CONDITIONS

Upon execution of this Agreement by the Parties, in reliance upon the City's agreement in the following sentence, HPOPS agrees promptly to nonsuit its lawsuit without prejudice against the City and all other named parties. The City agrees if it should default in making any payment to HPOPS in fiscal year 2005 after notice and opportunity to cure as provided in Article XVII, HPOPS may refile its lawsuit and effectuate service on the CITY and other parties named in the lawsuit in their official capacity for the City of Houston, which service shall be effective upon certified delivery to the City Attorney (as the City's designated agent) and the CITY and persons sued in their official capacity will have ten (10) business days to file their answer or other responsive pleading. The preceding sentence shall survive the termination of this Agreement.

Upon the City's issuance of pension obligation bonds and delivery of the net proceeds to HPOPS on or before April 1, 2005 in an amount sufficient to fulfill the City's agreed payment for fiscal year 2005, HPOPS agrees that it shall be deemed to have waived all claims with respect to fiscal year 2005 contributions.

ARTICLE XXVII - ADDITIONAL EMPLOYER CONTRIBUTIONS

To the extent allowed by law, the CITY may make and HPOPS agrees to accept certain additional pretax employer contributions on behalf of members who have separated from service from the CITY, made a retirement election with HPOPS, and still have accrued benefits from the CITY. For each such member identified above, the CITY shall indicate the member's DROP Account that shall receive these employer contributions.

ARTICLE XXVIII - WORKERS COMPENSATION

Members who are receiving workers' compensation payments or have received workers' compensation and subsequently retire or enter DROP will have their retirement or DROP entrance benefit calculated on the salary that the member would have received had the member not been receiving workers' compensation benefits.

ARTICLE XXIX - MEMBERS IN PHASE DOWN PROGRAM

The Parties also agree that the members in the Phase Down Program who have separated from service shall be entitled to receive monthly pension payments if they have attained normal retirement age.

ARTICLE XXX - CERTIFICATION

By the signature of a representative of each of the Parties, the Parties certify that the persons who sign on their behalf have the express authority to bind the Party and that the authorization is in compliance with Article 6243g-4, Section 27. Further, the Parties are agreeing that subject to its approval by the CITY council, this is an enforceable agreement to the extent that it may be enforced subject to the Legislature's final authority with regard to statutory changes.

EXHIBIT A**Example of the Sliding Average Benefit Calculation**

Sliding Average Benefit shall be calculated as follows:

1. Take the highest biweekly Pay received by a member for any single pay period in the last 26 pay periods in which the member worked full-time, considering only items of Pay that are included in each pay check.
Highest Pay Period = \$1800
 2. Multiply by 26
 $\$1800 \times 26 = \$46,800$
 3. Add the Pay for any subsequent pay period, considering only items of Pay that are included in each pay check.

\$46,800
Pay period 27: \$1,800
Pay period 28: \$2,000
Pay period 29: \$2,000
\$52,600
 4. Add all Pay, excluding all items of the type included above received during the same last included biweekly pay periods.
Sum of averagable* pays for first 26 pay periods: \$5,000
Averagable pays for Pay period 27: \$44
Averagable pays for Pay period 28: \$400
Averagable pays for Pay period 29: \$120

 $\$5,000 + \$44 + \$400 + \$120 = \$5,564$ (Sum of averagable pays for all applicable pay periods)

Sum of categories of Pay occurring in each paycheck and other averagable pays over the 29 pay periods.
 $\$52,600 + \$5,564 = \$58,164$
 5. Divide by the total number of pay periods included which gives the average pay per pay period
 $\$58,164 \div 29 = \$2,005.66$ (Average bi-weekly pay)
 6. Multiply this number by 26
 $\$2,006 \times 26 = \$52,147.16$
 7. Divide by 12 to get the AMS (average monthly salary)
 $\$52,156 \div 12 = \$4,345.60$ (Average Monthly Salary, AMS)
 8. Multiply the AMS by the member's benefit percentage
 $\$4,345.60 \times 55\% = \$2,390.08$ (Member's monthly benefit)
- * As explained in Article 6243g-4 Section 2 (2) "Average Total Direct Pay" excluding Exempt Time Pay (ETP) and Strategic Officer's Staffing Pay (SOSP)

If you have any additional questions please do not hesitate to contact the HPOPS Office.

**Houston Police Officers'
Pension System**

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