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The Newsletter of the Houston Municipal Employees Pension System

www.hmeps.org

HMEPS and City of Houston Finalize Funding Agreement

On June 29, 2011 HMEPS and the City of Houston finalized the Amended and Restated Meet and Confer Agreement, which is effective July 1, 2011. The Agreement provides for structured contributions from the City to give the City budgetary flexibility while strengthening the System, makes enhancements to Board operations to promote best practices, and increases options for eligible participants that are cost neutral to the System. The HMEPS External Affairs Committee had approved the Agreement prior to Houston City Council doing so at its June 29, 2011 meeting.

“HMEPS worked diligently with the Mayor’s office to secure future funding for the pension plan that is reasonable and actuarially sound,” said Executive Director Rhonda Smith.

“Protecting the retirement security of the hard-working Houston

(Continued on Page 3)

The HMEPS Office Is *Moving!*

In October 2011 the HMEPS office is relocating downtown to the 9th floor of the Total Plaza building at 1201 Louisiana St. Houston, Texas 77002



See page 3 for a map and more information!



HMEPS’ New Investment Chief Brings Experience to Role

Gregory Brunt believes in hard work and tested experience. He brings both strengths to his new role as Chief Investment Officer for the Houston Municipal Employees Pension System.

Brunt leads HMEPS’ investment team, which is responsible for protecting and growing the \$2.1 billion fund and ensuring its long-term financial health for the benefit of all HMEPS’ participants.

It’s a tremendous responsibility that Brunt and his team take on each day with dedication and expertise. The investment team works with outside consultants and investment managers to implement a

diversified portfolio that provides attractive, long-term and risk-adjusted returns that keep HMEPS a top performer among its peers.



The HMEPS Investment Team, from left, Senior Financial Analyst Brad Bangen, Chief Investment Officer Greg Brunt and Financial Analyst Jumana Aumir.

The balance between attractive returns and risk control is a delicate one, which is why the investment team’s trusted experience is so important to the System’s success. Each team member understands that HMEPS plays a vital role in each participant’s financial life.

“As our members work hard to support the people of Houston, they can be confident that the Investment Division is working hard to ensure their contributions will be invested

(Continued on Page 7)

The Chairman's Letter

Dear HMEPS Participants,

Since I last wrote to you, the Board of Trustees and staff at HMEPS have been busy working on a number of important projects. As a result, I want to update you on several issues.

First, I'm pleased to announce that HMEPS has finalized a meet and confer agreement with the City of Houston that further strengthens the System while also providing the City with the flexibility it needs during these tough economic times. This agreement maintains benefits for our hard-working members and also increases options for eligible participants that are cost-neutral to the System. HMEPS Board members worked diligently to reach an agreement with the City that safeguards your retirement security. You can read more about the agreement in this newsletter as well as on our website at www.hmeps.org.

I'm happy to announce that veteran HMEPS employee Greg Brunt is our new Chief Investment Officer. Before he was promoted, Greg served as HMEPS' Financial Analyst for the past 13 years. You can read more about Greg and the strong work ethic he brings to the job, beginning on page 1.

HMEPS has received many calls in the last few months about health care insurance, including questions about premiums and the process for selecting health benefit options. Although we at

HMEPS understand the challenges that our participants are encountering with respect to the process and decisions you are being asked to make, we are unable to answer questions related to the health, dental and life insurance programs sponsored and administered by the City of Houston. If you have questions, please call the City of Houston Benefits Division at 713-837-9300 or 713-837-9400. If you live outside the Houston area, call 1-888-205-9266.

If you have been affected directly or indirectly by the City layoffs, I want to assure you that we are here to help. If you have questions about how your pension benefits are affected or if you need financial counseling from the HMEPS financial counselor, I encourage you

to call the HMEPS office at 713-595-0100.

Finally, HMEPS is moving its office in October. After over 24 years in the Heritage Plaza, we are relocating to the 9th floor of the Total Plaza Building downtown with easy access by tunnel and ample parking nearby. News about the move is on page 3.

Your Chairman,



Sherry Mose



Sherry Mose
Chairman

HMEPS Facts At a Glance

The following is a quick overview of the System's membership and investments.

| | As of July 1, 2010 |
|----------------------------|--------------------|
| Total Participants | 27,074 |
| Active Members | 12,913 |
| Retirees and beneficiaries | 8,526 |
| Inactive Participants | 5,635 |
| Average Retirement Annuity | \$22,300 |

HMEPS INVESTMENTS

Market Value by Asset Class

| | March 31, 2011 | Dec. 31, 2010 |
|-------------------|------------------------|------------------------|
| US Equity | \$541,564,955 | \$520,501,484 |
| Non-US Equity | 512,709,145 | 498,504,671 |
| Fixed Income | 467,454,182 | 465,356,713 |
| Real Estate | 184,398,819 | 171,477,853 |
| Inflation Linked | 100,852,248 | 87,140,670 |
| Private Equity | 273,746,400 | 263,418,828 |
| Absolute Return | 54,416,688 | 23,067,878 |
| Cash | 5,361,066 | 30,020,163 |
| Total Fund | \$2,140,503,503 | \$2,059,488,259 |

HMEPS and City Finalize Funding Agreement (Continued from Page 1)

municipal employees has been and will continue to be our foremost concern.”

Under the Agreement, the City will contribute \$98.5 million to HMEPS in Fiscal Year 2012. For each of the succeeding fiscal years, the City will contribute either the previous fiscal year’s rate plus 2 percent of payroll or the previous fiscal year’s contribution amount plus \$10 million, whichever is greater. This provision will stay in place until the actuarially determined contribution rate is met, at which time that rate becomes the effective contribution rate.

The Agreement also strengthens the Board’s conflict of interest rules by enacting best-practice requirements, and also contains the following:

- Provisions to simplify last payment rules with respect to deceased benefit recipients.
- Authorizes reinstatement of Group D service under the work-a-year, gain-a-year rules that are applicable to Group B members.

- Implements an option for eligible unmarried Group A and Group B members who terminate service on or after June 30, 2011 to select a joint and survivor (J&S) annuity option in lieu of a normal benefit.

The optional annuity election, which was already available to vested Group D members and vested Group B members who separated from service prior to September 1997, allows eligible participants to elect to take a reduced pension and provide an annuity (50% J&S, 100% J&S, or 10-year Guarantee) to a designated annuitant. The optional annuity provision does not affect Group A and Group B members who are married at the time of their termination from employment or do not otherwise fall into the categories of eligible participants described above.

HMEPS has posted the Agreement on the HMEPS website (www.hmeps.org) and will provide further information on the benefit options. Please refer to the HMEPS website for further updates and information.

HMEPS Is Moving! (Continued from Page 1)

In October 2011 the HMEPS office will be moving from its current location to new office space located on the 9th floor of the Total Plaza building at 1201 Louisiana Street. The new office is two blocks away from the current office location (see map to right), and is accessible by tunnel. Parking is available across the street in the Hyatt Regency hotel garage.

The HMEPS staff will send out a postcard announcement to participants later this summer with details about the office relocation. Additionally, beginning in September, HMEPS participants can get updates on our website at www.hmeps.org.

Effective October 2011:

The HMEPS office will be at 1201 Louisiana, Total Plaza Building, 9th floor. The map to the right shows the location of the new office.



Is Social Security Secure? *by Steve Waas*

If you are like most people, you've noticed a deduction from your pay check your entire career for FICA – payroll taxes. Most of this is for Social Security. When you retire, things turn around. Instead of paying into Social Security, you start collecting a retirement benefit from it.

However, many people fear there will be nothing there when the time comes for them to collect.

Even though the future is impossible to predict, let me try to address some of the most frequently discussed fears about this issue:

1. The money deducted out of my paycheck all these years is not being saved for me, but instead is being spent by the federal government.

This is true. In 2010 Social Security took in about \$807 billion.

It paid out about \$686 billion. So, for each dollar an active employee paid into Social Security, about 85 cents was paid out to current recipients. The remaining 15 cents was “saved” in a Trust Fund. The total amount of savings that the Social Security system holds in U.S. Treasury securities is now about \$2.5 trillion. Why so much? Because in recent years most baby-boomers have been in their peak earning years. Far more money has poured into the Social Security system via payroll taxes than has been paid out.

But what has happened to this \$2.5 trillion? It's simple. The Social Security Trust Fund invested it in U.S. Treasury bonds. In other words, the money has been lent to the federal government, which has indeed spent it.

(It's interesting to contrast this to the way pension funds are financed. Many City employees make contributions from their paychecks into a pension system. The City also makes contributions. These dollars do not go back to the City government to be spent on current programs. All of it is invested to provide for current and future benefits.)

2. The Social Security Trust Fund is actually filled with “worthless IOUs.”

This is technically false - but that's not as important as it seems. The assets held by the Social Security Trust Fund are very real U.S. Government Bonds, and they must be used for Social Security beneficiaries. But there's a catch. Payments out of the fund are made only when the rules of the Social Security system dictate it. But who sets the rules? Congress does. Since Congress makes the rules, it also can change them.

3. I can't count on being able to collect any of my Social Security benefits.

This is false. But clearly something has to change. Now that baby boomers are retiring, Social Security will be a net drain on government finances, not a net inflow. The \$2.5 trillion held by the Trust Fund does nothing to alter this.

So, what impact should all of this have on your planning? In my opinion, you should count on one of two things happening – if not both: tax increases and selected Social Security benefit reductions.

(Note: other “solutions” are not really solutions at all. Economic growth would help, but nobody suggests that growth alone can bring costs and revenues back in line. Also, the government can borrow, but this generally means taxes will rise later on. And

creating inflation doesn't help either – largely because both tax brackets and social security benefits are adjusted annually for inflation.)

What can you do?

Higher taxes can affect just about anyone. But young people have more years of taxes and salary growth ahead of them - so they might be hit hardest. Take a close look at Roth IRAs as well as the new Roth

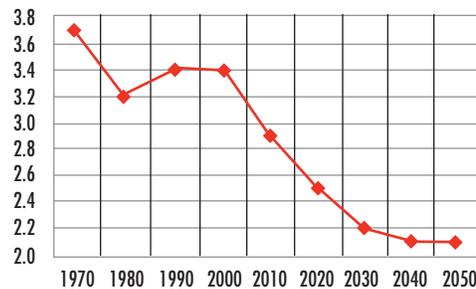
457 available to City employees. In effect, they allow you to pay taxes on some of your retirement savings now, while tax rates are lower. Then you can use the money tax free in the distant future. Younger workers should look at this option. For older workers, it's a more complex decision.

While Social Security benefit reductions are a definite possibility, some people go to ridiculous extremes and conclude that no benefits will be available to them. It is far more likely that there will be some changes, but these changes will have little or no impact on current retirees, and a more significant impact on younger workers.

If you would like help in evaluating your retirement plan, including the role of Social Security, keep in mind that free financial counseling is available at the HMEPS office. Call 713-595-0140 for details.

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

Number of People Paying Into Social Security For Each Recipient



HMEPS Investment Update

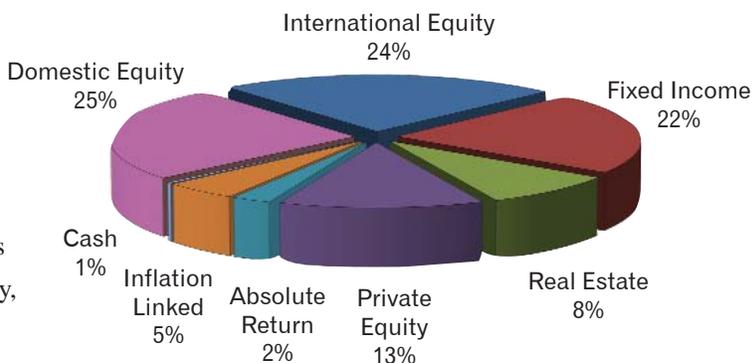
The HMEPS investment division continues to produce exemplary performance results. As of March 31, 2011 HMEPS' investment rate of return was 20.93%

– more than double the 8.5% assumed rate of return. It is also an increase of more than 3% compared to the same period last year.

An integral part of HMEPS' overall investment policy is its strategic asset allocation policy,

which provides diversification designed to achieve the System's portfolio risk and return objectives. The chart to the left displays the System's current asset allocation.

HMEPS Asset Allocation as of March 31, 2011



The table "HMEPS Investments – Market Value by Asset Class" on page 2 also provides more information on HMEPS' investments.

It's Hurricane Season – Is Your Pension Benefit on Direct Deposit?

Using direct deposit is an easy and convenient way to deposit your benefit payments electronically to a checking or savings account at a participating bank, savings and loan association or credit union. During a hurricane or severe storm like those we have experienced in the past decade, the last thing you want to do is worry about whether or not your check will make it to your mailbox. Utilizing direct deposit ensures your check is deposited no matter what the weather conditions may be.

If you are still depositing your benefit check in person at your bank, HMEPS asks that you consider the following advantages that direct deposit offers:

- **Direct Deposit Eliminates Postal Delays and Lost or Stolen Checks**
- **With Direct Deposit Your Money is Immediately Available**
- **Direct Deposit Eliminates the Need for You to Personally Endorse Your Check or Wait In Lines At Your Bank**

If you don't have an account, consider opening one and sign up for direct deposit at that time. Direct deposit is extremely reliable.

If you have any questions about direct deposit of your pension benefit, please call the HMEPS office at 713-595-0100.

Rules to Remember If You Are Considering Working After Retirement

Many employees consider returning to work after they have retired. If you are considering working with the City of Houston after retirement you need to be aware of the rules.

If you are rehired on a full-time basis, you must contact the pension office and make sure we suspend your pension payments while you are a full-time employee. If your payments are not suspended, you will owe HMEPS the amount of the disallowed

pension, plus interest at 8.5% a year, not compounded.

After you leave full-time employment with the City, you need to complete a new retirement application. Your payments will not start automatically.

Please call and speak with an HMEPS benefits counselor if you are considering returning to work.

UPDATE ON RETIREMENT AND REMEMBRANCE NOTICES

Two newsletter sections, “Retirements” and “In Remembrance,” are being reworked to take into account recent changes in Texas law. In the future, the Retirement section will return to the newsletter with the names and departments of those retiring participants who indicate on their retirement application that they wish to have an announcement of their retirement included.

Plan Now to Attend the...



Do you want to learn more about your pension, deferred compensation and other topics related to financial planning? If so, make plans to attend the 2011 FREE Summit.

Wednesday, Oct. 19, 2011

4501 Leeland, E.B. Cape Center

HMEPS will provide an updated agenda and times on our website at www.hmeps.org and through the eventbrite registration site.

Cost: FREE for ALL City of Houston Employees

Pre-Register at: www.2011freesummit.eventbrite.com

Presented by: The Houston Municipal Employees Pension System and the City of Houston Deferred Compensation Plan

HMEPS' New CIO (Continued from Page 1)

in a manner that will help provide them with a secure retirement benefit," Brunt said.

Brunt's roots at HMEPS run deep, joining the System as a financial analyst in 1998 when the fund was about \$1 billion. His do-what-it-takes work ethic has exposed him to all aspects of the investment division, from making investment decisions to negotiating contracts to evaluating performance to monitoring costs.

Brunt earned a bachelor's of science degree in economics from Texas A&M University and a master's degree in business administration from Vanderbilt University. Prior to joining HMEPS, he worked at American General Corp. in Houston and in Hermann Hospital's corporate accounting department. He is a Chartered Financial Analyst and a member of the Chartered Financial Analyst Society of Houston.

Rounding out the investment team are Senior Financial Analyst Brad Bangen, Financial Analyst Jumana Aumir, and Administrative Assistant Patricia Gordon. Bangen received his bachelor's of science degree in energy management from Moorehead State University. He is a Chartered Alternative Investment Analyst, and is a Level 3 candidate for the Chartered Financial Analyst designation. Bangen is a member of the Chartered Alternative Investment Analyst Society and a member of the Chartered Financial Analyst Society of Houston.

HMEPS recently promoted Jumana Aumir as a financial analyst in Brunt's division. Aumir graduated from Rice University with a bachelor's of science degree and a master's of science degree in accounting. She is a certified public accountant.

Brunt looks forward to building on the successes his predecessors have had in creating a balanced, high-performing portfolio.

HMEPS's assets are continuing a strong recovery from the 2009 economic downturn in public markets. As of April 2011, HMEPS' investment portfolio achieved a fiscal year-to-date return of 24.0 percent, which is considerably higher than the 18.9 percent return posted in the first ten months of fiscal year 2010 through April 2010.

"This is an important promotion at HMEPS. Greg brings considerable experience and expertise to this essential role," said HMEPS Executive Director Rhonda Smith. "HMEPS' investment portfolio has achieved significant gains in the past year, and Greg and his team will build on those successes for the benefit of our participants."

HMEPS Pension Payment Schedule

The schedule below indicates the State Street Bank and Trust (State Street) "Mail by" dates for checks and direct deposit benefit payments. If you would like to enroll in direct deposit, please visit the MyPenPay link from the HMEPS website at www.hmeps.org, or call the HMEPS office at 713-595-0100.

 = Mail by date for pension benefit checks

 = Direct deposit (ACH), the last business day of each month

July 2011

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December 2011

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Pension Press

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Peter Koops, Communications Specialist

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

NEWSLETTER CONTENT

The material contained in this newsletter is intended to provide you with important information about your pension participation. The content cannot be taken as the basis of any contractual rights between HMEPS and its participants. If there is a question of interpretation, retirement laws are the final authority.

HMEPS CONTACT INFORMATION

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