



PENSION PRESS

The Newsletter of the Houston Municipal Employees Pension System



Update From the Chairman

Sherry Mose
Chairman

Dear Participants,

In Houston, we have grown accustomed to preparing for the annual hurricane season. In fact, most Houstonians are experienced not only at preparing for these events, but actually living through them as well. The year 2020 has given us a completely new and even more devastating challenge: the COVID-19 pandemic. I know that all of us are struggling and adjusting in different ways to this terrible event.

At the Houston Municipal Employees Pension System (HMEPS), we have made many adjustments to continue providing our core services to our participants. During the shelter-in-place protocols, HMEPS staff have continued working – largely from home – in order to ensure that the essential operations of the system proceed as smoothly as possible. Until it is safe and feasible to again have in-person meetings, we will continue to provide the best service possible by phone and email. I am happy to report that pension payments, getting new retirees on payroll and other critical functions are continuing to be carried out timely and efficiently.

It is no surprise that the investment markets have experienced a great deal of volatility, reflecting the enormous impact the pandemic has had on the world economy. Once again it is important to note that HMEPS is a long-term investor with a professionally managed and highly diversified investment portfolio that is designed to provide appropriate risk-adjusted returns over the long term. As of the end of fiscal year 2019, HMEPS's 10-year return stands at 9.7%. HMEPS generated double digit positive returns in five of the previous ten fiscal years, and outperformed its peer group in seven of those ten years.

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HMEPS is here for YOU

During these times of social distancing and limitations on in-person meetings, you can still timely and efficiently obtain benefit information and complete pension transactions. Visit the HMEPS website at www.hmeeps.org for news, updates and contact information.



HMEPS NEEDS YOUR E-MAIL ADDRESS TO KEEP YOU UPDATED ON PENSION MATTERS

VISIT WWW.HMEEPS.ORG
TO SIGN UP

Update From the Chairman cont.

(Cont. from Page 1)

While the market value of the HMEPS fund may fluctuate, as do the markets in general, retirees and active members of HMEPS should feel secure that their pension is safe and their benefits will be paid.

On page 4 you will find an article explaining some of the changes in the law which pertain to “Required Minimum Distributions” from DROP accounts. Even before the pandemic struck, there were important changes in the law that affect some of our retirees. Then, the Coronavirus Aid, Relief and Economic Security (CARES) Act made more changes to the law. If you are retired, or plan to be soon, you should take a look at this article.

Elections will soon be held for HMEPS Board Trustee positions 3, 4 and 7. Once you receive your ballot in the mail in early August 2020, you may cast your vote by mail, internet or phone. The results will be announced at the August Board meeting. See page 3 for more information.

Our thoughts and prayers are with you and your family as you continue to deal with the unprecedented challenges we currently face. After Hurricane Harvey, I expressed that I had faith in our fellow citizens, and that I was convinced we would emerge from the experience stronger than ever. My outlook for our community remains positive, and I continue to believe that our best days are yet to come.

Your Chairman,

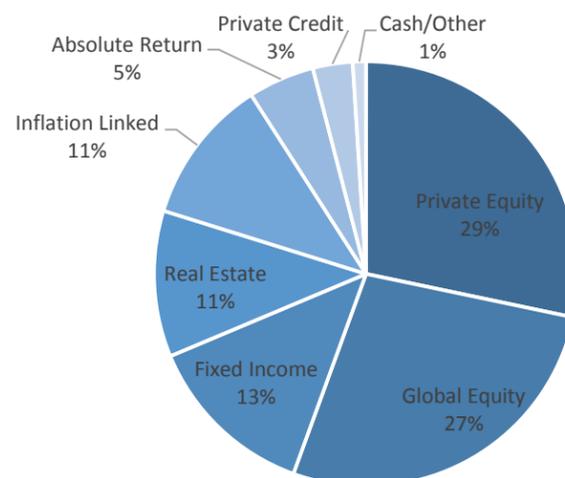
Sherry Mose

HMEPS Investment Update

Market Value by Asset Class

	December 31, 2019	March 30, 2020
Global Equity	\$ 1,041,181,616	\$ 765,817,953
Fixed Income	397,920,889	369,073,606
Private Credit	56,420,826	85,511,127
Real Estate	331,902,730	307,466,193
Inflation Linked	427,547,206	323,254,710
Private Equity	764,469,924	800,80,122
Absolute Return	136,238,177	139,458,892
Cash	30,907,962	27,621,039
Total	\$ 3,186,589,330	\$ 2,819,010,642

Asset Allocation as of March 30, 2020



NOTICE

ELECTION OF TRUSTEES FOR THE HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM (HMEPS) BOARD OF TRUSTEES

Candidate applications are being accepted for two (2) employee trustee positions and one (1) retiree trustee position on the HMEPS Board. The election is for the following positions:

- Employee Position #3 (Incumbent is Lenard Polk)
- Employee Position #4 (Incumbent is Asha Patnaik)
- Retiree Position #7 (Incumbent is Lonnie Vara)

QUALIFICATIONS

An employee trustee candidate must be a full-time employee and a member of the Houston Municipal Employees Pension System with at least five years of credited service at the time of application.

A retiree trustee candidate must be a retired member of the Houston Municipal Employees Pension System, and must be receiving retirement benefits at the time of application.

All qualifying candidates must be willing to: 1) serve a four-year trustee term without compensation; 2) take an oath of office; 3) attend Board meetings, which occur at least once a month; 4) serve on committees as appointed; 5) attend required committee meetings; and 6) obtain ongoing training and education in pension and pension-related matters.

APPLICATIONS

An active employee interested in running for an employee trustee position, or a **retiree** interested in running for the retiree trustee position, may obtain an application and a copy of election guidelines in person* from the HMEPS Office at 1201 Louisiana, Suite 900 (Total Plaza Building), from 9:00 am to 12:00 noon, Monday - Thursday.

Candidates must file applications in person* at the HMEPS Office, from 9:00 am to 12:00 noon, Monday - Thursday. The deadline for filing applications is 12:00 noon (Houston time), Thursday, June 18, 2020. No application will be accepted after that time.

**In the event that a shelter-in-place or similar order is in effect for the City of Houston or Harris County during the application period, instructions for an alternative method for obtaining and filing an application will be posted on the HMEPS website at www.hmeps.org.*

Age 72 is the New 70 ½!

As you may know, when you reach a certain age the IRS requires that you take some money out of many types of “tax deferred” accounts including DROP, IRAs, 401(k)s, and 457(b)s. These are called Required Minimum Distributions (RMD). Until this year, that “certain age” for RMDs was 70 ½.

But in December of 2019 the “Setting Every Community Up for Retirement Enhancement” Act became law. Better known as the SECURE Act, the new law affects retirement plans in a wide variety of ways. For HMEPS participants who have DROP accounts, however, one potentially important item has to do with RMDs.

RMDs still exist, but instead of being triggered in the year you turn 70 ½, the new law changes that age to 72 --- **for most people.**

Here are some key questions you may have, and their answers:

What are RMDs, and why do they exist?

Fortunately, you don’t have to pay any taxes on your DROP account as it accrues interest day-to-day. But as soon as you take a distribution from the account, that distribution amount becomes taxable income. This is what is meant by the term “tax-deferred”: ultimately you will pay tax on it, but you can put off paying those taxes until such time that you actually need to use the money.

This is generally a pretty good deal for the account holder, but the IRS won’t let you continue to defer paying taxes for an unlimited time period. So RMDs were created to make sure that the IRS finally gets to collect some taxes on these accounts.

Once you turn a certain age, you must take a portion out of the account, and pay taxes on it. This process is repeated each year for the rest of your life. Failure to do so can result in substantial tax penalties.

The amount you must take depends on your age (see below on “How much is the RMD”). Note that you are allowed to take more than the RMD amount – that’s why it is called a “Required Minimum Distribution.”

If I am a retiree and turn 70 1/2 in 2020, do I have to take a DROP RMD?

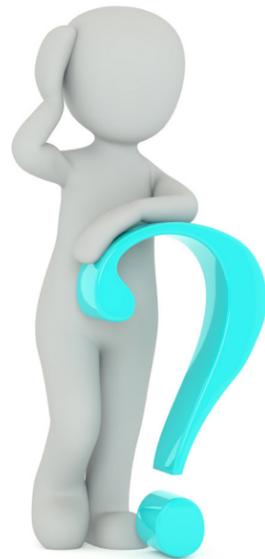
No! Thanks to the change in the law, your first required distribution will not be until the year you turn 72.

If I took my first RMD last year in 2019, but I am only 71 years old this year – do I get to skip the 2020 RMD?

Unfortunately, you will still have to take a 2020 RMD. The new law says that if you have already started RMDs under the old rule, you continue with RMDs under that rule.

What about active employees?

Active DROP participants do not have to take RMDs regardless of their age. Once they separate from the City, RMDs begin upon reaching RMD age (now age 72).



How much is the RMD?

The amount you must take from DROP is based on your age on your birthday in the year of the distribution. The factors shown on the adjacent table apply to almost all retirees with DROP accounts. It can also be found in IRS Publication 590-B and is known as the “Uniform Lifetime Table.”

Here is an example of how it works. Suppose that you turn 74 in 2020, and on December 31, 2019 the balance in your DROP account was \$35,000. Looking at the table, we see that the “distribution period” at age 74 is 23.8. This means that to calculate the RMD for the year we take \$35,000 and divide it by 23.8, which is \$1,470.59. So for 2020, your RMD from this account is \$1,470.59.

Can I roll my RMD over to another retirement account to avoid taxes?

This is a common question, but the RMD rules require a taxable distribution. So, an RMD cannot be “rolled over.”

RMD and DROP

Each September, HMEPS reviews the status of each retiree’s DROP account to determine if enough has been taken by the retiree to cover his or her RMD for the year. If not, HMEPS distributes the required amount to the retiree. However, keep in mind that as the taxpayer, you are responsible for making sure that you receive your RMD during the year.

After the COVID outbreak, didn’t Congress suspend all RMDs for the year 2020?

No, not all RMDs were suspended. The suspension applies to IRA, 401(k), 457(b), and similar accounts but not defined benefit pension plans. Because the DROP account is part of your defined benefit pension plan, RMD rules still apply.

RMDs have always been a bit confusing. Now, with these new laws, it might be even more confusing for a while. If you have questions, you should contact your tax or financial advisor.

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.

REQUIRED MINIMUM DISTRIBUTION TABLE

Age on Birthday of the Year of Distribution	RMD = Account Balance Divided by...	RMD Expressed as Approximate %
71	26.5	3.8%
72	25.6	3.9%
73	24.7	4.0%
74	23.8	4.2%
75	22.9	4.4%
76	22	4.5%
77	21.2	4.7%
78	20.3	4.9%
79	19.5	5.1%
80	18.7	5.3%
81	17.9	5.6%
82	17.1	5.8%
83	16.3	6.1%
84	15.5	6.5%
85	14.8	6.8%
86	14.1	7.1%
87	13.4	7.5%
88	12.7	7.9%
89	12	8.3%
90	11.4	8.8%
91	10.8	9.3%
92	10.2	9.8%
93	9.6	10.4%
94	9.1	11.0%
95	8.6	11.6%
96	8.1	12.3%
97	7.6	13.2%
98	7.1	14.1%
99	6.7	14.9%
100	6.3	15.9%
101	5.9	16.9%
102	5.5	18.2%
103	5.2	19.2%
104	4.9	20.4%
105	4.5	22.2%
106	4.2	23.8%
107	3.9	25.6%
108	3.7	27.0%
109	3.4	29.4%
110	3.1	32.3%
111	2.9	34.5%
112	2.6	38.5%
113	2.4	41.7%
114	2.1	47.6%
115 and over	1.9	52.6%

Why Retirees Choose **Direct Deposit**

During this time of disruption with the COVID-19 pandemic, we are reminded of the importance of Direct Deposit as a significant resource for individuals to use to receive their benefit payments. Direct Deposit is a simple, safe, and smart way to receive money because HMEPS benefit payments are electronically transferred to your checking or savings account, without the need for paper checks. As long as an individual has a bank account, Direct Deposit can be an excellent financial planning tool as well as a safe, private, convenient way to receive payments.

If you don't have an account, consider opening one and sign up for Direct Deposit at that time. Most banks, savings and loans and credit unions offer a variety of accounts, some with little or no fees. Some financial institutions offer low-cost Electronic Transfer Accounts (ETA) that feature a minimal cost per month. Look for one that meets your needs.

In addition, benefit payments made by Direct Deposit should be available to you on the date of the deposit. If a pay date falls on a holiday or other dates when HMEPS is closed, your benefit payment will be available the day before.

In short, Direct Deposit has many advantages, including:

- 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.
 - visit your bank to deposit or cash your check--no waiting in teller lines.
 - make special check mailing arrangements when you are away from home or ill.

Contact HMEPS for a Direct Deposit form to start receiving the benefits of Direct Deposit.



Retirements: **Third & Fourth Quarters 2019**

<u>Admin & Regulatory Affairs</u> Betty Turner Tonia Brown Raymond Bradford Julian Estrada Naymond Roach	<u>Finance</u> Joseph Dumas	<u>Library</u> Robert Harrison	Jackie Caldwell-Hypolite Veronica Farr Billy Coble Gloria Chenault Floyd Jackson Melvin Hughes Esque Strambler Roland Mosley Porfirio Lising Johnny Black Mary Wells Michael Hernandez Alice Walter Paul Pady Joe Fuentez Herbet Payne Jocelyn Smith
<u>Aviation</u> Mark Bull Becky Moores Ray Griggs Robert Watkins Cesar Ganda Kristy Dowdell Maria Ponce Ramirez James Matujec	<u>Fleet</u> Daryl Evans	<u>Mayor</u> Joel Alba	
<u>Controller</u> Irma Rodriguez Barry Copeland	<u>General Services</u> Sandra Miles	<u>Parks & Recreation</u> Jocelyn Roberts	
<u>Dept. of Neighborhoods</u> Lydia Williams	<u>Health & Human Services</u> David McCoy Ardyth Guyer Anna Bob Tony Nweke Nathaniel Beverly Jo Ann Moore Orlando Sorto Karen Ard Linda Simmons Pamela Ross Xi Pan	<u>Police</u> Donna Williams Michael Lachapelle Latarjah Dean Anna Rubio Pamela Jackson Lovous Carter Christopher Burleson	
	<u>Information Technology</u> Sandra Harris	<u>Public Works</u> Richard Koctar Shirley James Alfonso Silva Darrin Ward Herbert Jessie Hollis Weeks George Johnson	<u>Solid Waste</u> Frances Deary Lawrence Stockham Robert Powe Wanda Jackson Jonnie Vinalbe

The Retirements section lists names and departments of those retiring participants who have indicated on their retirement applications that they wished to have an announcement of their retirement included.

2020 Pension Payment Schedule: June - September

Direct Deposits (ACH) will be deposited on the last business day of each month. If you receive a pension check by mail, it is typically mailed 3-4 days before the last business day of the month. However, postal delays may lengthen the period of time before check delivery. Call HMEPS for information on signing up for direct deposit of your benefit. The complete 2020 calendar may be downloaded by visiting our website: www.hmeps.org/retirees.

June							July							August							September						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6			1	2	3	4							1			1	2	3	4	5	
7	8	9	10	11	12	13	5	6	7	8	9	10	11	2	3	4	5	6	7	8	6	7	8	9	10	11	12
14	15	16	17	18	19	20	12	13	14	15	16	17	18	9	10	11	12	13	14	15	13	14	15	16	17	18	19
21	22	23	24	25	26	27	19	20	21	22	23	24	25	16	17	18	19	20	21	22	20	21	22	23	24	25	26
28	29	30					26	27	28	29	30	31		23	24	25	26	27	28	29	27	28	29	30			
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Thanks to the HMEPS staff for their
contributions to the ongoing success
of the *Pension Press*.



HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

NEWSLETTER CONTENT

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