Dear Plan Participants,

The long, hot days of summer are upon us again and I trust you are doing your best to stay cool. The HMEPS staff has been working on a number of items which I would like to briefly highlight here:

- Elections for the Board of Trustees – The 2006 Trustee elections are currently on schedule with employee positions #5 and #6 and retiree position #8 up for election. Ballots will be mailed to all eligible participants the week of July 31, 2006.

- A quick update on HMEPS investments – For calendar year 2005, the Fund’s investment return was 13.63%. For the first six months of fiscal year 2006 ending December 31, 2005 the Fund’s investment return was 9.52%.

- In this newsletter you will find an article titled, “Considering Returning to Work After Retirement?” This is a subject that is only going to be discussed more as the years go by as many people in retirement ponder going back to work, whether because of need or desire. The article provides an overview of the rules regarding reemployment and the responsibilities of returning employees to inform HMEPS of their reemployment.

Also in this newsletter is an article about HMEPS investments titled “Understanding HMEPS’ Investments – What is Asset Allocation?”. This article is a basic introduction to one of the cornerstones of investing, asset allocation. If you have no idea what asset allocation is or perhaps need a primer, this article is for you. HMEPS will continue to offer articles and information so that you can better understand your pension plan.

Sincerely,

Fred Holmes
Chairman
2006 Board of Trustees Election

The Houston Municipal Employees Pension System 2006 Trustee Election is right around the corner. The Election will be administered by the independent administrator, Mir•Fox & Rodriguez, P.C. HMEPS members (eligible active employees) will have the opportunity to elect two (2) employee trustees and HMEPS retirees will have the opportunity to elect one (1) retiree trustee to the HMEPS Board of Trustees.

• Ballots will be mailed to eligible participants the week of July 31, 2006.
• The voting deadline is Friday, August 22, 2006.

Update on HMEPS’ Field Visits

Since March, the HMEPS Benefits Division and Communications staff have visited several city departments. To date, we have met with more than 320 individuals, answering questions, explaining benefits and getting to know participants.

These visits provide effective communication and an understanding of pension information to our participants. Carole Snyder, HMEPS’ Benefits Manager, says, “The meetings are purposefully informal, which puts participants at ease and allows for greater discussion. Our goal is to have participants leave the meetings with all of their questions answered.”

Need a Form? Download HMEPS’ Forms Online

(No computer? Your local library has them!)

If you are in need of the latest pension forms, visit the Forms Center at www.hmeps.org. The Forms Center contains many of the forms (and several informational overviews) you need as an HMEPS participant. Currently, you can find the following forms online:

• Change of Address Form (for Retirees only) – To be submitted when you are in the process of moving to, or already have moved to, a new address (or one different from the current address HMEPS has on record).

• Declaration of Marital Status – To be submitted to show your marital status.

• Electronic Funds Transfer Direct Deposit Enrollment Application (Direct Deposit) – To be submitted by retirees and other annuitants who wish to have their benefit payments deposited directly into a personal bank account.

• Overview of Rollover or Transfer of Funds to HMEPS – Provides information for HMEPS members regarding HMEPS’ acceptance of rollovers or trustee-to-trustee transfers of funds as payment for HMEPS credited service.

• Election to Change Group Participation – To be submitted by HMEPS members who wish to change participation from Group B to Group A for future service only.

• DROP Request – To be submitted by HMEPS members who wish to participate in the Deferred Retirement Option Plan (DROP).
HMEPS Retirees, You Are Invited to Join the Lunch Bunch for Monthly Luncheons!

Who: All HMEPS retirees and spouses are welcome. HMEPS staff will be there to answer pension-related questions.

What: Lunch with fellow retirees.

Why: For fun, to swap stories, or just a good excuse to get out! Door prizes will be handed out!*

Where: The Luby’s Cafeteria at 1414 Waugh Drive (phone: 713-528-0880, see map below).

When: 11:00 A.M. on the first Saturday of every month (the next scheduled luncheon is July 1).

Come join the fun! All HMEPS retirees are welcome to join the Lunch Bunch — a group of fellow HMEPS retirees who meet for lunch once a month. HMEPS staff also attend to answer questions and keep retirees up to date on pension issues. The group meets at the Luby’s restaurant on Waugh Drive at 11:00 A.M. on the first Saturday of every month. The next scheduled date is July 1, 2006.

Betty Daniel, whom HMEPS would like to thank for organizing the luncheons, can be contacted at (713) 697-3818 for more information on joining in on the fun. Thanks again, Betty!

* Door prizes are donated.
Considering Returning To Work After Retirement?

If you are considering returning to work after retirement, it is important that you know how your return to work may affect your retirement benefit. The following applies if you have retired with a normal (or deferred) retirement benefit. Additional rules apply if you have retired with a disability retirement benefit; contact HMEPS if you were retired for a disability and have questions about working.

Employment by Another Employer

If you retire with a normal (or deferred) retirement benefit, your benefit is not affected if you work for an employer other than the City or HMEPS.

Reemployment by the City of Houston or HMEPS

If you retire with a normal (or deferred) retirement benefit and you are subsequently reemployed in a covered position by the City or HMEPS, your retirement pension ceases the day preceding the date you are reemployed. It is your responsibility to contact HMEPS prior to your reemployment in a covered position. “Reemployment in a covered position” means you are eligible to be a member of HMEPS.

If you are reemployed in a covered position, you will accrue credited service during your period of reemployment, subject to the maximum benefit limit (currently 90% of your average monthly salary).

Suspension of Pension upon Reemployment

Notwithstanding anything to the contrary, if you are receiving a retirement or disability pension and are subsequently reemployed by the City or HMEPS, your retirement or disability pension cease the day preceding the date you are reemployed. Payment of your pension is suspended during the period of reemployment, and will not recommence until the month following the month in which you subsequently terminate service, subject to your eligibility and timely application for retirement for the subsequent period of reemployment. If you receive any retirement or disability pension during the period of reemployment (disallowed pension), beginning with the month in which you are reemployed, you are required to return all of the disallowed pension payments you receive to HMEPS within thirty (30) calendar days of receipt or such amount shall be subject to claims of HMEPS, and/or the Board will offset the disallowed pension not returned, plus interest on the disallowed pension at the rate of eight and a half percent (8.5%) a year, not compounded, from the date you received the disallowed pension to the date of the offset on the disallowed pension. The offset may be against the payment of any future pension or benefit payment(s), and/or against any DROP balance. If you are a deferred participant, these same provisions also shall apply to any deferred pension that would otherwise become payable to you during your period of reemployment with the City or HMEPS.

Calculation of Benefit upon Subsequent Retirement

Effective January 1, 2005, if you are a deferred participant and you are subsequently reemployed by the City or HMEPS before reaching the age that you would be eligible to receive your deferred pension, or if you are receiving a retirement pension and you are subsequently reemployed by the City or HMEPS, the following provisions shall govern the computation of the pension you will receive upon your subsequent retirement:

(i) The portion of your pension attributable to your period of credited service accrued prior to reemployment will be calculated on the basis of the schedule of benefits for retiring members that was in effect at the time of your previous termination of employment.

(ii) The portion of your pension attributable to your period of credited service accrued after your reemployment will be calculated on the basis of the schedule of benefits for retiring members that is in effect at the time of your subsequent retirement.

Notwithstanding anything to the contrary, there shall be no retroactive payment of any benefits or other amounts to any member, retiree, deferred participant, beneficiary, eligible survivor, estate, or other person or entity.

Nothing contained herein shall be construed to convey any right or benefit not otherwise provided by the Statute, as amended.

Please call HMEPS at (713) 595-0100 if you have any questions about returning to work after retirement.
Understanding HMEPS’ Investments – What Is Asset Allocation?

HMEPS, like most large pension funds, has investment objectives which are used in the management of the fund to increase assets that are used to pay benefits. The Board of Trustees directs the investment of the fund’s money in different areas that they believe will provide attractive risk-adjusted returns. The “allocation” of money into these different areas, or assets, is called asset allocation. HMEPS Investment Manager, Doug Wynkoop, describes asset allocation as “a formula of how a portfolio is invested among the various available asset classes.”

Asset allocation is done by everyone from large pension funds to individual investors; the difference is the amount of money that is allocated and where that money is allocated. The various asset classes used by HMEPS include domestic equity, international equity, fixed income, real assets, alternative investments, and cash. Definitions for each are below.

In each issue of the Pension Press, the most recently available market values of each asset class that HMEPS has invested in can be found in the investment table. These asset classes, along with the City of Houston Pension Obligation Note $300 million, make up the total fund value. Note that the market value figures take time to report, and are therefore usually reported several months after the end of the reporting period.

Definitions of Asset Classes

**Domestic Equity** - stock shares that represent ownership in US companies. Examples include Microsoft and AT&T.

**International Equity** - stock issued by companies that are based outside the US. Examples include Toyota and Ikea.

**Fixed Income** - assets that pay a fixed dollar amount, such as bonds.

**Real Assets** - identifiable assets, such as land, buildings, and commodities. HMEPS invests in both domestic and international real estate, as well as commodities such as timber and oil.

**Alternative Investments** - investments that do not trade publicly on an organized exchange. Examples include (but are not limited to) partnership funds that focus on private equity, venture capital, buyout or hedge funds.

**Cash Equivalents** - fixed income securities having a maturity of less than one year from the date of purchase. Examples include: treasury bills, repurchase agreements, certificates of deposit, demand notes, commercial paper and bank-pooled trust funds.

**Total Fund** - the total value of the fund when all asset classes, including the City of Houston Pension Obligation Note, are added together.

### HMEPS Investments

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Market Value, as of 12/31/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>$ 466,416,571</td>
</tr>
<tr>
<td>International Equity</td>
<td>364,823,337</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>267,372,176</td>
</tr>
<tr>
<td>Real Assets</td>
<td>254,241,167</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>254,989,987</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>13,879,742</td>
</tr>
<tr>
<td>City of Houston Pension Obligation Note</td>
<td>323,432,428</td>
</tr>
<tr>
<td><strong>Total Fund</strong></td>
<td>$ 1,945,155,408</td>
</tr>
</tbody>
</table>

- For calendar year 2005, the Fund’s investment return was 13.63%.
- For the first six months of fiscal year 2006 ending December 31, 2005, the Fund’s investment return was 9.52%.
Normal and Deferred Retirements – February to May 2006

Affirmative Action
Edwards, George
Gardner, Linda

Aviation
Aleman, Eugenia
Brooks, Donald
Bucalo, Sam*
Burnett, Bobbie
Burton, Karen
Capuano, Joseph
Carlo, Teleforo
Cepi, Kristina
Dugas, Thomas*
Godkin, Nickie
Gokool, Fitzroy
Jaynes, Robert
Jordan, Stephen*
Kaminski, Ricki
Newton, Richard
Ping, Seang
Robinson, Myrna
Thomas, Temmy
Tran, Lien
Williams, James
Wilks, James

Building Services
Daugherty, M.E.
Kelly, John
Kimble, Walter
Reesby, William

City Council
Clayton, Yvonne
Galloway, Carol

Controller’s Office
Garcia, Roel*
Shelton, Melvin

Convention & Entertainment
Kerr, Dolores*
Martinez, Wilford

Finance & Administration
Broadway, Lucy
Faulkner, Ralph
Petry, Alberta

Information Technology
Washington, Ethel
West, Jo

Legal
Jenkins, Ella
Lord, Clark

Library
Clebourn, Kenneth
Dibble, Darlene
Howard, William
Pillado, Elvia
Thomas, Misa
Whitaker, Debra*

Mayor’s Office
Holley, Bette*

Municipal Courts
Barnett, Jacquelyn*
Mitchell, Barbara
Moore, Tawanna
Morris, Donna
Ogando, Lynda*

Parks & Recreation
Boyd-Baker, Johnette*
Collins, Carolyn
Dooley, Michael
Fisher, Lydia*
Hawkins, Billy*
Martinez, Hipolito*
Mason, Douglas
Mott, Malvin
Olvera, Emilio*
Ortiz, Jose
Steere, Patrick*
Wu, Sonny

Planning
Gladwell, Stephen*
Laube, Eric*
Rhyens, Dorothy
Rising, Phillip
Wong, Huey Ming

Police
Baldwin, Robert
Burns, Kathy*

Public Works
Austin, Clifton*
Boig, Mirza
Bannan, Thomas*
Barnes, Mark*
Beezley, Michael*
Bishop, Raymond*
Branch, Albert*
Braxton, Randolph*
Breedlove, James
Broussard, Anthony
Bryant, Leon*
Buckman, Stephen
Burkhalter, Stanley
Campbell, Benjamin*
Canida, Birdie
Cannon, John
Champ, Eula
Chavez, Andres
Deveron, Jonas
Ehrhardt, Duane*
Garza, Adolph
Gatlin, Gary*
Godfrey, Jerry*
Grochoske, Rick*
Hampton, Harold*
Hilton, Harry
Hotcombe, John*
Huddle, Michael*
Hunt, Darcas*
Jefferson, Rose
Jenkins, Delores
Johnson, Reginald
Jones, Hosea
Jones, Vellie
Kenyon, Frances*
Kilgore, John*
Kosmoski, Mark*
Ledezma, Maria*
Lewis, Harold
Lyons, Loretta
Manuel, Warren
Marks, Glenn*
Martinez, Antonio
Martinez, Felix*
McCain, Carolyn*
McCray, Curley*
Middleton, Tommy*
Milton, Donald
Nelson, Paul
Nguyen, Nho
Ozene, James
Pradia, Douglas
Pruett, Hal
Quarles, Pamela
Reed, Wilbert
Sampay, Shirley
Sanders, Eddie*
Sandoval, Jose
Shepherd, Leroy
Skinner, Van
Smith, Roy
Spates, Douglass
Swan, James*
Sweitzer, John
Tolbert, Chester
Villarreal, Joe
Watson, Samuel*
Williams, Debra*
Woods, Terry*
Young, Joseph
Zarate, Conrado

Solid Waste
Bowie, David
Laird, Robert*
Lopez, Frank
Perez, Luis
Ross, Charles
Sierra, William

*Deferred Retirement
In Remembrance

Active Employee and Retiree Deaths – February 24 - June 13, 2006

HMEPS received notification of the following participants’ deaths. We wish to remember these individuals and their dedication and service to the City of Houston.

Alcorn, Velma
Amato, John
Barnes, Kenneth
Beck, M.A.**
Beecroft, Leonard
Blackmon, Melvin
Braswell, Herman
Brew, W.N.
Brucks, Arthur
Byrd, Louise**
Campbell, John**
Culp, Elizabeth**
Dalo, Mary**
Daniel, Relda
Davis, Willie
Digg, Randolph
Felix, Lonnie
Fleming, Archie
Gardner, Albert
Gips, Alton
Gooden, Elbert
Gust, Otto
Holl, Ernest
Hathaway, Thomas*
Hawkins, Willzerrer**
Hayes, Nancy**
Hines, Beverly**
Hrivantz, Mary
Johnson, Alba
Kennedy, Mary
Khan, Israr
Lagrone, Marjorie**
Leon, Meater**
Lewis, Walter
Malone, Darrell
Mathis, Patricia**
McColister, Robert
McMillan, Marle**
Moshay, Lamerle**
Nash, Nathaniel
North, Edmond
Payton, Arthur*
Peavy, Samuel
Reese, John
Samuel, Freddie
Smith, Smiler
Sterns, William
Sullivan, Florence**
Tabor, K.E.
Thrasher, Ralph**
Tighe, Frank

*Active Employee Death  
**Surviving Spouse

Pension Payment Schedules - June - December 2006

The following are the dates pension benefit checks will be mailed in the months ahead. The schedule will be strictly adhered to. Keep this schedule handy so you will know when your benefit check will be mailed.

- June 28, 2006
- July 27, 2006
- August 29, 2006
- September 27, 2006
- October 27, 2006
- November 28, 2006
- December 27, 2006

Direct deposits (ACH) will be deposited on the last business day of each month, as follows:

- June 30, 2006
- July 31, 2006
- August 31, 2006
- September 29, 2006
- October 31, 2006
- November 30, 2006
- December 29, 2006

If you are interested in direct deposit of your pension benefit checks, please call our office at (713) 595-0100.

A Note About Direct Deposit

To all participants who are currently receiving Direct Deposit of their pension benefit:

The notice you receive in the mail from HMEPS is the time that a deposit will be made to your bank account – it is not a notice informing you that a deposit has already been made. You should always check with your bank to ensure the deposit has successfully been posted to your account because different banking institutions post their deposits at different times during the day.

The staff of HMEPS would like to wish all of its members a safe and happy summer.
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.

**NEWSLETTER CONTENT**

**BOARD OF TRUSTEES**

**ELECTED AND APPOINTED TRUSTEES**
Fred Holmes, *Chairman*
Ray Kennedy, *Vice Chairman*
Roderick J. Newman, *Secretary*
Shiou-Huey “Sophia” Chang
Sherry Mose
Lee Pipes
Barbara Chelette, *Appointed*

**CITY APPOINTED TRUSTEES**
Richard Badger
Gilbert Garcia
Alfred Jackson
Craig T. Mason

**PENSION PRESS**
David L. Long, Executive Director
Peter Koops, Director of Communications
Naomi “Amy” Rowley, Executive Assistant

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

**HMEPS Contact Information**

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Fax: (713) 650-1961

**HMEPS Website:**
www.hmeps.org