



HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

*All
Together...*

I am
HMEPS



A Component Unit
of the City of Houston, Texas

2015 REPORT TO PARTICIPANTS

WE ARE
WHO YOU ARE

I am
HMEPS



HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



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Note to Participants

We prepared this report for our participants to serve as a summary of the primary investment, benefit and financial information you care about. All the information in this report is derived from our Comprehensive Annual Financial Report (CAFR) and is consistent with Generally Accepted Accounting Principles (GAAP). All financial information is as of June 30, 2014. (The full CAFR is available on our website at www.hmeps.org/publications.html.)

A photograph of a bald man with a warm smile, wearing a purple t-shirt. He is holding a small, shaggy brown dog against his chest. The dog has its tongue slightly out and is wearing a silver collar. The background is a dark, out-of-focus interior.

I take
care
of them,
they
take
care of
me!

*I feel
secure.*

I am
HMEPS



LETTER FROM THE CHAIRMAN

JANUARY 16, 2016

Dear Participants,

I am pleased to present the 2015 Report to Participants, which summarizes the HMEPS 2015 Comprehensive Annual Financial Report (CAFR) and provides an overview of our operations for the past year. Our HMEPS Board of Trustees and staff, as always, delivered outstanding service to our participants while strengthening the System for the long term.

HMEPS had an eventful 2015 as we successfully navigated the legislative session in Austin and a mayoral election in Houston, weathered volatile investment markets, continued to improve our internal operations and responded to ongoing attacks against HMEPS specifically, and public employee pension systems in general.

When the Texas Legislature convened for its 84th regular session in Austin in January 2015, public employee pension systems became a target of legislation. A number of pension-related bills were filed, including three bills that would have had serious negative effects on HMEPS. I am pleased to report that none of these bills passed thanks in part to the diligent efforts of our Board, staff and government relations team.

This past year was also an election year for the City of Houston, and on December 12, Sylvester Turner was elected as the new Mayor, along with new City Council Members and a new Controller. HMEPS looks forward to working collaboratively with our elected officials on matters important to the System and our participants.

During the year, particularly in the context of the City election, local pension systems including HMEPS continued to face unfair attacks. We submitted several

published op-eds, letters to the editor and articles pushing back against these attacks. We will remain vigilant in responding to misleading or inaccurate comments and reports about the System, and continue to be proactive in telling HMEPS' positive story to policymakers, our participants and the public at large.

We also will continue to enhance and expand our overall communications efforts. We have increased email messaging and grew our social media presence on Facebook and Twitter. In addition, our two Financial Retirement Employees Educational (F.R.E.E.) Summits held in the spring and fall were very popular and successful. This was the 11th consecutive year HMEPS has offered this program to our participants.

We look forward to a successful 2016, in which we will continue to protect and grow the System for our participants, communicate effectively about pension issues to all stakeholders, and vigorously engage with policymakers on any issues regarding pensions. We will work diligently to protect your benefits today and for decades to come.

As always, it is an honor to serve as your Chairman.

Sincerely,

Sherry Mose
Chairman

BOARD OF TRUSTEES

ORGANIZATIONAL OVERVIEW

At the heart of HMEPS is the hard work and dedication of everyone who serves it, beginning with the Board of Trustees. A significant responsibility of the Board is to ensure that HMEPS has in place an adequate system of internal controls. The majority of the Board's work is conducted at the Board level and within six committees, each of which addresses a specific aspect of the System's operations.

- The **Audit Committee** reviews and monitors the System's audit process and oversees the reporting of financial information for HMEPS.
- The **Budget and Oversight Committee** reviews and monitors HMEPS' operational and administrative expenditures, as well as its actuarial process.
- The **Disability Committee** reviews the submitted medical reports and other relevant information for each disability claim and makes recommendations to the Board as to the appropriate course of action.
- The **External Affairs Committee** deals with matters concerning state and federal legislative issues that affect HMEPS and any agreement or proposed agreement with the City regarding pension issues and benefits.
- The **Investment Committee** reviews investment strategies and has authority over HMEPS' asset allocation, tactical asset allocation, managers and other aspects of HMEPS' operations relating to investments. The Investment Committee is a committee of the entire Board.
- The **Personnel and Procedures Committee** deals with matters concerning HMEPS' employees, changes in policies in the workings of HMEPS, and constructing the procedures for HMEPS' adherence to applicable laws.

STEP WITH CONFIDENCE

I AM HMEPS

Board of Trustees | Elected and Appointed Trustees



Sherry Mose
Chairman



Roy W. Sanchez
Vice Chairman



Lonnie Vara
Secretary



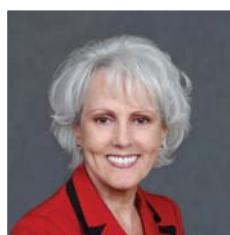
David L. Long
Elected Trustee



Asha Patnaik
Elected Trustee



Lenard Polk
Elected Trustee



Barbara Chelette
Appointed Trustee



Richard Badger
Council Appointee



Edward J. Hamb II
Controller Appointee



Craig T. Mason
Mayoral Appointee



Adrian Patterson
Council Appointee



Rhonda Smith
Executive Director

Administrative Organization

Board

- Audit Committee
- Budget and Oversight Committee
- Disability Committee
- External Affairs Committee
- Investment Committee
- Personnel and Procedures Committee

Executive Director

- General Counsel**
- Chief Investment Officer**
- Investment Managers Services
- Market Research
- Performance Measurement

Member Services

- Benefit Administration Services
- Communications
- Financial Counseling
- Member Services

Operations

- Accounting
- Financial Reporting
- Records
- Technology Support

THE STAFF

HMEPS' experienced staff members provide expert advice to the Board and make informed decisions every day on a wide range of issues important to the fund and its participants. These individuals are talented professionals who bring their very best to the pension system each day.

Member Services

The Member Services division is responsible for serving the needs of our participants on a daily basis. The division's benefits section oversees members' needs from the time they enter the system through retirement, providing them the support needed to understand and access their benefit options.

Member Services provides information relating to pension benefits by holding seminars in the field and individual benefit meetings at HMEPS. In FY 2015, HMEPS:

- Responded to continued demand for the Outreach Program, which reaches hundreds of members with individual and group sessions provided by our benefits counselors and our Certified Financial Planner. This past year, these staff members conducted 306 individual counseling sessions and hosted 160 joint presentations for various City departments as well as new employee orientations for the benefit of 3,500 attendees. A growing number of participants requested financial counseling based on other participants' recommendations.
- Processed 2,013 benefit applications, including retirements, the Deferred Retirement Option Plan, survivor benefits, refunds, and lump-sum payments.
- Continued social media efforts to provide information relating to pension benefits to participants through Facebook and Twitter, two platforms that provide methods of communicating and interacting with participants.
- Participated in the Spring and Fall Financial Retirement Employees Educational Summits, annual events that help City of Houston employees better plan their financial futures.
- Conducted 300 one-on-one counseling sessions between the HMEPS financial counselor and participants in addition to numerous group presentations. The financial counselor also monitored pension related issues nationally and locally, a critical part of fulfilling HMEPS' obligation to keep participants fully informed.

Investments

The Investment division develops and implements investment strategies to maximize returns while minimizing risks. This division is responsible for portfolio management and is charged with effectively and prudently investing and monitoring HMEPS' assets while adhering to laws, regulations and policy guidelines.

The System's investment portfolio closed its 2015 fiscal year at \$2.46 billion. The total investment return for the fiscal year was 3.4%. The best performing asset classes for fiscal year 2015 were Real Estate (up 10.9%) and Private Equity (up 10.4%). The System's investment performance was 11.0%, 10.8% and 8.3% for the past three-, five- and ten-year periods. The System underperformed the policy benchmark for FY 2015, but outperformed for the longer ten-year period. Compared to similar investment portfolios (TUCS Public Fund Universe), the fund posts attractive investment returns over the long term. The fund ranks in the top 1% over the trailing ten-year period ending June 30, 2015.

HMEPS was certified for the second consecutive year by the Center for Fiduciary Excellence (CEFEX), an independent organization that provides comprehensive assessment programs to improve risk management for institutional and retail investors.

Operations

Financial Reporting and Accounting

These areas encompass the accounting, budgeting, retiree payments, internal audit and financial reporting functions at HMEPS.

In FY 2015, HMEPS engaged the actuarial firm of Segal Consulting to perform an independent full-scope actuarial audit of the July 1, 2013 actuarial valuation performed for HMEPS by GRS. The Operations Division provided data and assistance for the independent actuarial audit. The Segal Consulting audit report validated the findings

of the July 1, 2013 actuarial valuation, and concluded that GRS followed and adhered to reasonable quality control procedures and that the valuations were performed in accordance with the actuarial standards promulgated by the Actuarial Standards Board (ASB).

HMEPS strives to attain the highest standards of accountability, integrity and openness by applying rigorous controls within the System. HMEPS' efforts were once again recognized by the Government Finance Officers Association (GFOA) of the United States and Canada, which for the 21st year in a row awarded HMEPS a Certificate of Achievement for Excellence in Financial Reporting.

Technology Support and Records

Technology Support provides and maintains the technology that helps ensure HMEPS' benefits

processing is sufficient, secure and reliable. The desktop environment was upgraded to increase security, reliability and user productivity. Business continuity planning and implementation are moving forward as planned.

Records staff receives, inputs and maintains the information and records for over 27,000 participants. They apply quality control standards for the maintenance of these records and develop workflow processes that help ensure timely and accurate benefit processing.

Legal

The Legal division works with all HMEPS divisions as well as the Board to help ensure that the System is providing the best service possible to our participants in compliance with federal, state and local laws.



PARTICIPANT OVERVIEW

AS OF JULY 1, 2014 THERE WERE 27,166 PARTICIPANTS IN HMEPS

Our members come from all City departments and serve their communities' diverse and special needs night and day, in good weather and bad – each contributing their unique skills to make Houston a great place to live. HMEPS is honored to serve each and every one of our hardworking members.

HMEPS is a defined benefit pension plan covering all municipal employees, except police officers and firefighters (other than certain police officers as authorized by state law), employed full time by the City of Houston, elected City Officials, and the full time employees of HMEPS. HMEPS includes a contributory group (Group A) and two noncontributory groups (Group B and Group D), and provides service, disability and death benefits for eligible participants.

As of July 1, 2014, there were 27,166 participants in HMEPS. Included in this figure are active members, inactive participants, service retirees, disabled retirees and beneficiaries and surviving spouses. Of the 11,949 active employees, 6,446 are male and 5,503 are female. HMEPS also serves 7,498 service retirees, 371 disabled retirees, 1,816 beneficiaries, and 5,532 inactive participants.



**It makes
the future
me feel
good
about us.**

*We are
pleased
to say...*

**I am
HMEPS**

PARTICIPANT DATA AS OF JUNE 30, 2014

PARTICIPANT DATA

	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Service
Active Members	11,949	8,818	\$47,618	46.9	11.1
Inactive Participants	5,532	3,313	6,957	—	—
Service Retirees	7,498	—	23,754	68.5	—
Disabled Retirees	371	—	10,108	64.8	—
Beneficiaries & Spouses	1,816	—	14,220	69.7	—

SCHEDULE OF ANNUITANTS BY TYPE

SCHEDULE OF ANNUITANTS BY TYPE	June 30, 2014			June 30, 2013		
	Number	Benefits (\$000)	Average Benefit (\$)	Number	Benefits (\$000)	Average Benefit (\$)
Retirees Receiving Benefits	7,498	178,109	23,754	7,258	170,255	23,458
Retired on Disability	371	3,749	10,108	387	3,803	9,827
Survivors and Beneficiaries	1,816	25,823	14,220	1,782	23,972	13,452
Total Retirees, Survivors and Beneficiaries	9,685	207,681	21,444	9,427	198,030	21,007
Former Participants Eligible But Not Yet Receiving Benefits	3,313	23,048	6,957	3,298	22,776	6,906
Total Eligible for Benefits	12,998	230,729	55,039	12,725	220,806	53,643

HISTORICAL ACTIVE PARTICIPANT DATA

Valuation Date	Active Vested/Nonvested			Number of Participants	Annual Payroll (\$000)	Average Salary (\$)	% Salary Increase
	Group A	Group B	Group D				
July 1, 2005	8,811	3,163		11,974	404,565	33,787	9.4
July 1, 2006	9,544	2,601		12,145	422,496	34,788	3.0
July 1, 2007	9,947	2,429		12,376	448,925	36,274	4.3
July 1, 2008	9,587	2,195	871	12,653	483,815	38,237	5.4
July 1, 2009	8,906	2,153	2,274	13,333	539,023	40,428	5.7
July 1, 2010	8,323	1,999	2,591	12,913	550,709	42,648	5.5
July 1, 2011	7,857	1,932	2,556	12,345	544,665	44,120	3.5
July 1, 2012	7,167	1,759	2,744	11,670	534,394	45,792	3.8
July 1, 2013	6,777	1,666	3,338	11,781	549,971	46,683	1.9
July 1, 2014	6,366	1,590	3,993	11,949	568,992	47,618	2.0

Beginning with 2005, a change in methodology annualizes payroll for new entrants. If the methodology had not been changed, the covered payroll for 2005 would have been \$376,208,345 and the average payroll would have been \$31,422.

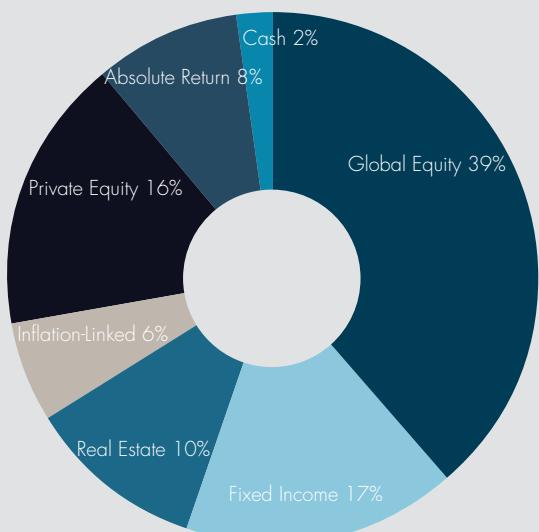
All information was derived from the July 1, 2014 Actuarial Valuation.

INVESTMENTS

HMEPS' investment portfolio has performed very well over the long term and ended FY 2015 with \$2.46 billion in assets. Although HMEPS' portfolio grew modestly in FY 2015 with a total return of 3.4%, the fund ranks in the top 1% over the trailing ten-year period ending June 30, 2015, with an annualized return of 8.3%. The System generated double digit positive returns in six of the past ten fiscal years, and outperformed similarly situated pension plans in a majority of those ten years. The System's well diversified portfolio has provided a five-year annualized return of 10.8%, in excess of the actuarial assumed rate of return of 8.5%.

An integral part of HMEPS' overall investment policy is its strategic asset allocation policy. HMEPS' investment allocation provides an efficient diversification of assets designed to achieve portfolio risk and return objectives.

SYSTEM ASSET ALLOCATION



The best performing asset classes for FY 2015 were Real Estate, up 10.9%, and Private Equity, up 10.4%. For FY 2014, Inflation Linked, up 22.3%, and Global Equity, up 21.9%, were the top two performing asset classes. The benefits of a well-diversified asset allocation are evidenced by HMEPS' ability to perform very competitively over multi-year periods where different asset classes drive overall returns. For the past three-year and five-year periods, Domestic Equity was the System's best performing asset class, providing a 17.2% and 17.4% return respectively. HMEPS' allocation to Private Equity helped enable the System to perform well over the long term, returning 8.3%, while a more traditional asset allocation (60%/40% mix of S&P 500 Index/Barclays Aggregate Bond Index) would have returned 7.2% over the ten-year period.

The consistent long-term above-benchmark performance is best illustrated by the growth of \$1,000 invested in

HMEPS' total fund, the policy portfolio, and the median public fund during the past 10 years. The ending points indicate that \$1,000 invested in HMEPS' total fund would have grown to \$2,212, while the same \$1,000 would have grown to \$2,106 and \$1,872 in the policy portfolio and the median public fund, respectively.

GROWTH OF \$1,000



Financial Markets

For the fiscal year ending June 30, 2015, capital markets experienced significant volatility. In the fourth quarter of 2014, the collapse in oil and gas prices impacted energy related investments and in June 2015, Greece considered a possible Euro exit. Domestic GDP was flat in the first two quarters of 2015 after strong growth in the last two quarters of 2014. However, consumer spending, which accounts for 70% of GDP, showed signs of renewed activity, and home prices continued with strong

COMPARISON OF INVESTMENT RETURNS – YEARS ENDED JUNE 30

(Calculated based on a time-weighted rate of return based on the market rate of return)

	2015	3 Yrs.	5 Yrs.	10 Yrs.	2014	2013	2012	2011
Total Fund	3.38	9.70	12.60	9.31	16.39	13.58	-0.14	22.17
Actuarial Rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Policy Portfolio	4.96	10.74	13.52	8.35	15.61	14.00	3.23	22.89
Median of Wilshire Public Fund Universe/TUCS	3.38	10.01	12.76	7.33	16.83	12.27	1.25	21.19
Global Equity	2.22	n/a	n/a	n/a	21.92	n/a	n/a	n/a
MSCI ACWI IMI	.81	n/a	n/a	n/a	20.92	n/a	n/a	n/a
Fixed Income	1.13	7.16	9.50	7.05	9.22	5.99	6.31	9.33
Barclays Capital Aggregate Bond Index	1.86	3.67	4.85	4.93	4.37	-0.69	7.48	3.90
Merrill Lynch High Yield Master II Index	-0.55	9.27	13.94	8.90	11.80	9.57	6.51	15.40
HMEPS Private Equity	10.36	11.02	14.39	12.31	14.31	7.85	11.00	22.54
S&P 500 Index +3%	7.42	19.58	21.83	10.78	27.61	23.60	8.44	33.68
Real Estate	10.88	8.50	5.09	6.76	9.11	12.80	3.78	10.92
NCREIF Property Index	12.96	11.32	9.67	8.63	11.21	10.73	12.00	16.73
Inflation-Linked	-9.14	3.02	13.17	n/a	22.33	14.52	-21.96	39.72
Consumer Price Index +4%	.12	5.83	6.02	6.31	6.07	5.75	5.66	7.70
HMEPS Absolute Return	2.65	5.65	10.64	n/a	7.28	10.87	-0.86	13.94
LIBOR +4%	.25	4.34	4.33	n/a	4.24	4.31	4.46	5.10



- HMEPS Assets



- Benchmark

performance, ending the fiscal year up 4.9%. The pace of job growth slowed near the end of the fiscal year, but remained encouraging.

During fiscal year 2015, United States equity markets showed a small gain in each quarter. Health care and telecom were the best performing sectors, up 3.4% and 2.6% respectively. Overall, the US Equity markets, as represented by the Wilshire 5000 index, finished the fiscal year with gains of 7.1%, posting the sixth consecutive positive fiscal year since the credit crisis of 2008-2009.

International markets faced a number of challenges. Europe was the worst performing region, with concerns over the breakdown in negotiations between the European Central Bank and Greece, ending a brief rally in the stock market. Concerns over a slowdown in the Chinese economy grew, leading to a sharp decline in Chinese stocks near the end of the fiscal year. The MSCI All World ex-U.S. Index returned -5.3% for the fiscal

year. The improvement in the Japanese economy was a lone bright spot; despite a pullback in June, the MSCI Pacific index ended the year up 2.7%.

Fixed income markets remained flat during the fiscal year. U.S. Treasuries continued to be an attractive safe haven for investors concerned about political instability elsewhere; but investors concerned about rate increases sold out of bonds. Overall, investment grade fixed income bonds as represented by the Barclays U.S. Aggregate bond index returned 1.9% for the fiscal year.

Among the alternative asset classes, Real Estate and Private Equity returned 10.9% and 10.4% respectively. Falling unemployment, contributed to a strong real estate market. Increasing interest in Merger and Acquisition activity supported the valuations of small, private firms and allowed several funds to make favorable exits.

FINANCIALS

Each year, an independent external audit is performed to review the HMEPS' financial statements to provide assurance that the statements are free of material misstatement. This outside opinion considers internal controls over financial reporting. All HMEPS divisions collaborate to produce the HMEPS Comprehensive Annual Financial Report (CAFR). The HMEPS CAFR is submitted annually to the Government Finance Officers Association (GFOA), which oversees governmental entity CAFR certification. For the 21st consecutive year, HMEPS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the 2014 CAFR.

Revenues (Additions) and Expenditures (Deductions)

The Summary Comparative Statement of Changes in Fiduciary Net Position table (next page) shows HMEPS' funding is derived from income appreciation on investments, and member and employer contributions. For 2015, net investment income was \$73.8 million and total contributions were \$161.2 million.

On the expenditure side, the majority of the fund's expenses were associated with participants' periodic and one-time (refund or DROP) payments of \$234.9 million, or 96% of total expenses. As shown in the table on page 18, the remainder of the fund's expenses is comprised of administrative expenses of \$6.2 million (2.5%) of total expenses, and professional fees of \$822,310 (0.3%) of total expenses.

SUMMARY COMPARATIVE STATEMENT OF FIDUCIARY NET POSITION (\$000)

ASSETS	FY 2015	FY 2014
Cash and equivalents	\$ 622	\$ 401
Receivables on asset sales	19,724	12,066
Receivables on foreign exchanges	228	378
Other receivables	4,928	6,430
Investments	2,467,340	2,464,628
Collateral on securities lending	101,533	139,504
Furniture, fixtures and equipment, net	395	444
Total Assets	2,594,770	2,623,851
LIABILITIES		
Payable on asset purchases and foreign exchange	30,781	14,525
Accrued liabilities	5,912	5,383
Collateral on securities lending	101,533	139,504
Total Liabilities	138,226	159,412
FIDUCIARY NET POSITION	\$ 2,456,544	\$ 2,464,439

SUMMARY COMPARATIVE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (\$000)

ADDITIONS	FY 2015	FY 2014
Contributions	\$ 161,205	\$ 144,854
Investment and interest (loss) income, net	73,854	351,793
Other income	557	730
Total Additions	235,616	497,377
DEDUCTIONS		
Benefits paid	234,955	221,925
Contribution refunds	1,549	1,213
Administration and professional fees	7,007	6,415
Total Deductions	243,511	229,553
Net increase (decrease)in plan net position	<7,895>	267,824
Plan net position, beginning of year	2,464,439	2,196,615
FIDUCIARY NET POSITION	\$ 2,456,544	\$ 2,464,439

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION (\$000)										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Additions										
Employer contributions	66,968	70,265	73,272	76,837	82,052	87,285	97,161	111,859	128,274	145,007
Member contributions	21,888	20,966	21,176	20,449	19,736	19,326	18,473	17,041	16,580	16,198
Investment Income	272,766	337,259	(29,133)	(440,298)	195,433	391,095	(11,963)	263,891	351,793	73,854
Other income	26,950	29,031	29,839	489	557	1,185	654	1,246	730	557
Total additions	388,572	457,521	95,154	(342,523)	297,778	498,891	104,325	394,037	497,377	235,616
Deductions										
Benefit payments	154,311	157,716	169,483	180,361	191,048	189,199	200,014	213,178	221,925	234,955
Refund of contributions	1,037	1,398	1,760	1,795	1,285	1,620	2,206	1,266	1,213	1,549
Professional services fees	708	883	638	792	805	1,103	1,048	871	597	822
Cost of administration	5,072	5,223	5,837	6,420	6,290	6,020	6,264	6,341	5,818	6,185
Total deduction	161,128	165,220	177,718	189,368	199,428	197,942	209,532	221,656	229,553	243,511
Changes in net position	227,444	292,301	(82,564)	(531,891)	98,350	300,949	(105,207)	172,381	267,824	<7,895>
Net position as of June 30	2,052,296	2,344,597	2,262,033	1,730,142	1,828,492	2,129,441	2,024,234	2,196,615	2,464,439	2,456,544

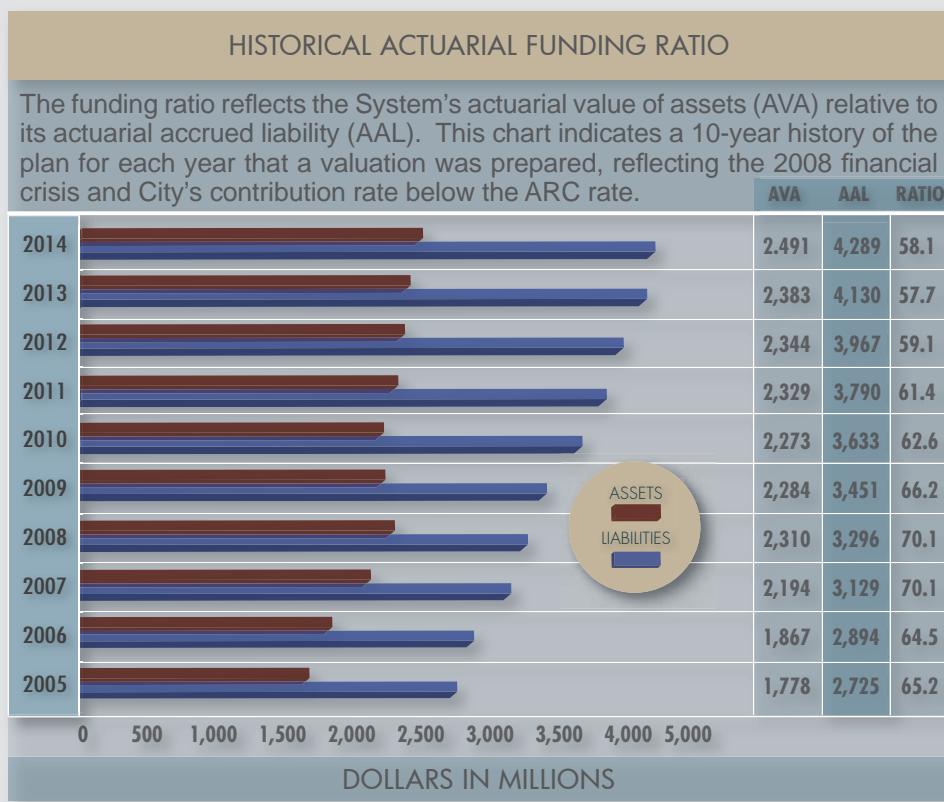
WHEREVER THE ROAD
AHEAD MAY TAKE YOU
WE WILL BE BY YOUR SIDE.

Funding Status

The HMEPS' funding objective is to establish contributions which, when combined with present assets and future investment returns, will be sufficient to meet the financial obligations to present and future retirees and beneficiaries. Annual actuarial valuations measure the progress toward these goals, as well as test the adequacy of the contribution rate. HMEPS' retained actuary assumes that the System's investments will return 8.5 percent over the long-term. The funded ratio, the ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL), is a standard measure of a plan's funded status. As of July 1, 2014, HMEPS had a funded ratio of 58.1%, which is higher than the 57.7% funded ratio as of July 1, 2013.

Based on actuarial estimates, HMEPS' projected funded ratio as of July 1, 2014 would be 65.3%, or approximately 7 percentage points higher, if the City had contributed the annual required contribution rate (ARC) in each of the preceding 10 years.

The current Meet and Confer Agreement provides a program for steadily improving the funded status of HMEPS, as future City contributions will increase annually by the greater of 2% of payroll or \$10 million over the previous year's contribution amount until the actuarially determined contribution rate is met, at which time the actuarially determined contribution rate will be the required rate.





All
Together...

I am
HMEPS



MEET AND CONFER

HISTORY IN THE MAKING

Defined benefit pension plans such as HMEPS are highly efficient systems for providing secure, lifelong retirement benefits to a large and diverse workforce.

As conditions change over time, pension systems need to evolve. The “Meet & Confer” process is the method used by HMEPS and the City of Houston to make needed adjustments. The advantage of this process is that no one party has unilateral control over any changes. The HMEPS Board and City officials agree on changes in a fair and balanced negotiation process.

Since this process was initiated in 2004, the City and HMEPS have come together several times to implement important changes, as can be seen in the illustration on the opposite page.

Because of this process, HMEPS was able to deal proactively with funding challenges a decade ago – long before the current outcry over problems with some public pension systems. After a series of important changes, the Center for State & Local Government Excellence identified HMEPS as one of five pension systems in the U.S. that had made reforms making them “more fiscally sustainable while continuing to provide retirement security to their members.”

Since pensions are very long term institutions, the results of improvements and changes are not always instantaneous. But in the case of HMEPS, they have been significant. For example, in FY 2016 approximately 2.8% of the General Fund Budget for the City will be contributed to HMEPS. However, as prior Meet & Confer adjustments increasingly take hold, this will be less than 1% in approximately 30 years.

Also, in previous years the City contributed less than the “Actuarially Required Contribution” (ARC) amount to HMEPS. This is the amount determined by actuaries to be sufficient to eliminate all unfunded liabilities in a reasonable period of time. In 2004 the City of Houston paid barely half of its ARC to HMEPS. But, as a result of reforms made through the Meet & Confer process, the City of Houston has almost caught up with paying the full annual amount. It was 94% of the way there in 2015, and soon it will be making the full actuarially required payment.

The importance of this was highlighted by the 2014 Texas Pension Review Board “Study of the Financial Health of Texas Public Retirement Systems.” One of the conclusions of the report was that the main factor in determining a system’s ability to meet its long-term obligations was simple: “consistent and adequate contributions.” Thanks to the Meet & Confer process, the City of Houston is now required to steadily move its payments up toward the full required minimum payment.

HMEPS is proud of the reforms it has made over the last decade, and remains dedicated to maintaining the long term sustainability of the system.

1st JULY 2011

1st DECEMBER 2010

27th JUNE 2007

1st NOVEMBER 2005

17th MARCH 2005

21st DECEMBER

15th SEPTEMBER

AMENDED AND RESTATED Meet and Confer Agreement

- > The 2011 agreement provides a mechanism whereby the City contributions will rise to the actuarially determined rate. Each year, the City contributes the greater of the previous fiscal year's rate plus 2 percent of payroll or \$10 million more than the previous fiscal year's dollar amount.
- > Authorizes reinstatement of Group D service under the work-a-year, gain-a-year rules.
- > Provides a cost neutral 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 annuity option in lieu of a normal benefit.

5th AMENDMENT Credited Service For Additional Furlough Days

- > Due to budget constraints, the City of Houston implemented furlough days. The 5th Amendment increased the number of furlough days that are eligible for credited service from 5 to 10 days per fiscal year.

4th AMENDMENT Increased Funding and Group D

- > The City had a four-year period of fixed contribution amounts:

FY 08	FY 09	FY 10	FY 11
\$75 Million	\$78.5 Million	\$83.5 Million	\$88.5 Million

- > Created a new group, Group D, for all employees newly hired on or after January 1, 2008:
 - Retirement eligibility at age 62 with 5 years of credited service
 - Benefit accrual rate of 1.8% per year for the first 25 years of credited service, and 1% per year thereafter
 - Allows for purchase of an additional annuity amount using the member's 457 plan funds
 - Does not provide for COLAs or DROP, but allows for election of a joint and survivor annuity in lieu of a normal benefit.

3rd AMENDMENT Police Officer Phase Down

- > Addressed phase down issues for eligible police officers in the HMEPS plan.

2nd AMENDMENT Administrative Changes

- > Changed the Board composition
- > Required ongoing Trustee training and education in pension and pension-related matters
- > Strengthened Trustee conflict prohibitions

1st AMENDMENT Group C Changes

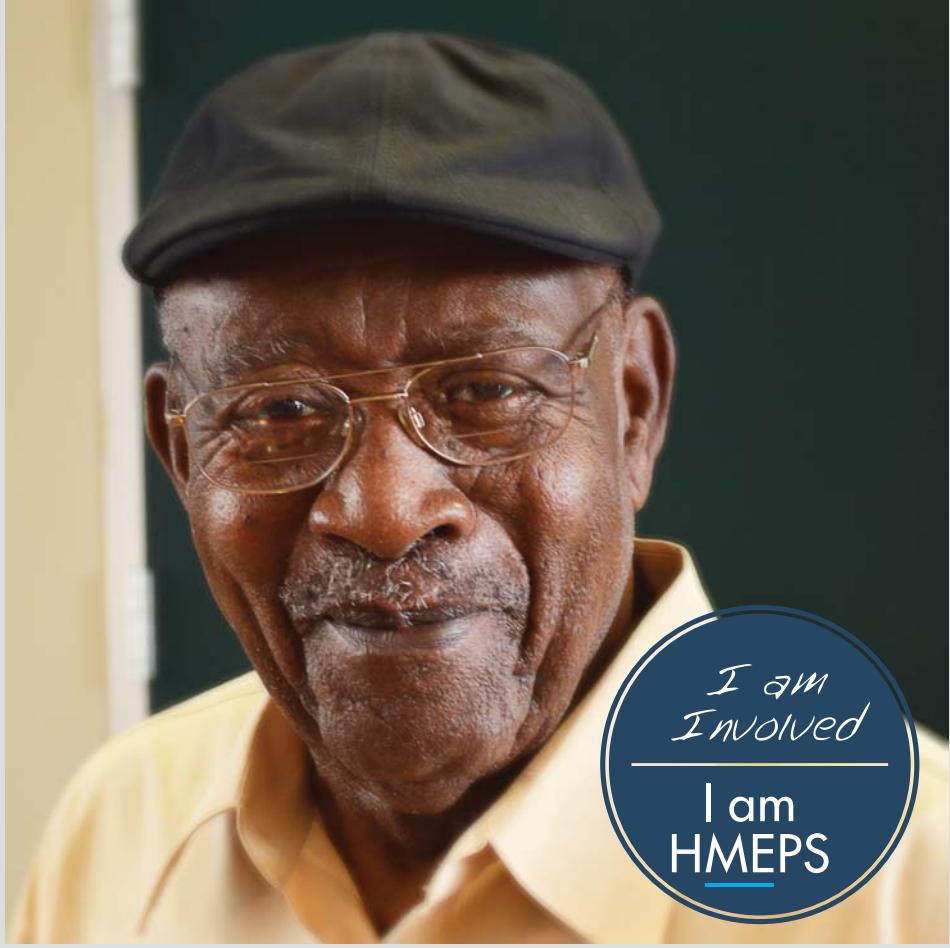
- > Ended Group C and converted future Group C participation to Group A participation, effective January 1, 2005.

MEET AND CONFER AGREEMENT Initial Plan Design Changes and Funding

- > The City had a three-year period of fixed contribution amounts, increasing each year:

FY 05	FY 06	FY 07
\$66 Million	\$69 Million	\$72 Million

- > The City issued HMEPS a \$300 million pension obligation note.
- > Raised the retirement age
- > Delayed retirement eligibility
- > Reduced the COLA
- > Increased required employee contributions



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