



PENSION PRESS

The Newsletter of the Houston Municipal Employees Pension System

www.hmeeps.org

The HMEPS Office Has Moved

The new HMEPS office is open and ready for business. The transition to the new location at 1201 Louisiana, Suite 900 marked the culmination of a plan that began in early 2011. This move will result in significant savings in rent and related expenses.

“The relocation to the new office went very smoothly due to the hard work and extensive planning of the HMEPS staff,” said Executive Director Rhonda Smith. “HMEPS participants can be confident that the new office will serve them well for many years to come.”



Irma Naser, Benefits Counselor, helps pack for the office relocation.

The following provides information on tunnel access, handicapped access and parking.

Tunnel Access: To access the HMEPS office via the downtown tunnel system, follow the tunnel map to the yellow “Louisiana

(Continued on Page 3)

Vara Joins Retiree Association’s Fight to Save Hard-Earned Pensions

Lonnie Vara, who was recently elected to the Association of Retired Houston Municipal Employees (ARHME) board, has



Lonnie Vara
HMEPS Secretary

the knowledge, experience and skills to help educate HMEPS participants and other stakeholders about the important advantages offered through defined benefit plans such as HMEPS.

“I have tremendous respect for City employees, the public services they perform and the fact that they need to be

properly compensated. A big part of that compensation is their pension,” Vara said. “I want to work to continue to keep City employees’ benefits safe and secure.” (Continued on Page 5)

Report Highlights HMEPS’ Successes

A report issued by the Center for State & Local Government Excellence (SLGE), “Strengthening State and Local Government Finances: Lessons for Negotiating Public Pension Plan Reform,” singled out HMEPS as one of five pension systems for reforms which “made the plans more fiscally sustainable while continuing to provide retirement security to their members.” In the “lessons learned” sections, HMEPS was noted for adhering to several key principles:

- Consider offering a range of retirement options that support cost management while continuing to provide stable benefits for public employees.
- Appreciate the importance of a strong board.
- Foster strong communication by sharing information and reaching out to constituents.
- Include pension administrators when crafting new policies.
- Recognize the importance of investment education.
- Ensure that there is significant institutional economic, actuarial, and investment expertise.

The SLGE report can be accessed on the HMEPS website at: <http://www.hmeeps.org/pensionissues.html>.

Keeping the Public, Government Officials Informed About Pensions

At HMEPS, we stay on top of all of the latest news regarding pensions, whether it's a new research study, a legislative proposal or a newspaper article. We know it's important to stay informed and to be able to respond when necessary to any development that could affect the System or its participants.

We also know it's just as important to keep government leaders and the general public informed about the value of pension systems in general and HMEPS in particular.

As part of our educational outreach efforts, we recently invited Diane Oakley, executive director of the National Institute on Retirement Security (NIRS), to Houston to meet with the City of Houston's

(Continued on Page 6)

The Chairman's Letter

Dear HMEPS Participants,

The recent relocation of the HMEPS office to its new address marks the culmination of months of planning and hard work. I commend the HMEPS staff for making the transition to the new office in a professional and efficient manner.

Due to the outstanding performance of the HMEPS investment portfolio, the Deferred Retirement Option Plan (DROP) interest rate for calendar year 2012 will be 7.5%, effective January 1, 2012. The rate was approved by the HMEPS Board of Trustees at the October 2011 Board meeting.

I want to thank everyone who participated in the 2011 Financial Retirement Educational Employees (F.R.E.E.) Summit. This year's event marks the 7th year for this important event and the feedback we received from those who attended have given the seminar high marks for providing insightful and relevant information on retirement and financial preparedness. All members of the HMEPS plan should understand the tremendous advantages you obtain from participating in a defined benefit plan, including the accrual of a benefit that will be paid to you monthly for your lifetime upon your attaining five years of credited service and the eligible age, the payment of benefits to eligible survivors, and the payment of benefits to you if you become disabled as provided in the pension law. You have worked hard and earned your benefits!



Sherry Mose
Chairman

Be aware that several individuals and groups have launched a hard-hitting media and legislative campaign to replace the defined benefit plan with a 401-k type of plan that instead gives each employee an individual separate account. You already have access to a supplemental retirement plan with individual accounts, which is the 457 deferred compensation plan that the City sponsors. While the 457 plan provides great advantages to saving for retirement, it is not a replacement for the HMEPS defined benefit plan, nor is any other 401-k type plan. This is a very important time to make your voice heard about what your HMEPS benefits mean to you, and you should reach out to all stakeholders to provide your thoughts, and to give accurate and meaningful information on these plans. Please visit the HMEPS website for more details.

As we approach the end of 2011, I want to thank each of you for your support during the past year and look forward to your continued support in our commitment to protecting your financial future. I also wish to take this opportunity to wish you and your family a happy holiday season.

Sincerely,

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

	September 30, 2011	June 30, 2011
US Equity	\$451,527,056	\$533,481,590
Non-US Equity	407,072,731	505,029,006
Fixed Income	430,849,647	464,005,492
Real Estate	186,477,957	191,436,291
Inflation Linked	74,751,699	96,260,692
Private Equity	281,297,900	269,722,405
Absolute Return	64,921,575	53,237,661
Cash	12,748,764	20,422,690
Total Fund	\$1,909,617,329	\$2,133,595,827

HMEPS' New Office - Information on Tunnel Access, Handicapped Access and Parking (Continued from Page 1)

Tunnel and Skywalk” system. Go to the Total Plaza building and enter through the glass doors. In the building, take the escalator to the street level, then take the next escalator to the 2nd floor. On the 2nd floor go to the elevator bank for floors 2-15 (closest to Milam Street) and take the elevator to the 9th floor and the HMEPS office.

Handicapped Access: If you are unable to use the escalators, there is an elevator from the street level to the 9th floor. The accessible elevator is located in the elevator bank for floors 2-15 and is marked with a “2” (silver) on the top of the elevator door. (It is to the left as you walk into the elevator bank). This elevator may not be the first one to arrive when returning to the street level but can also be accessed on the 2nd level.

Parking: Parking is available at the Regency Garage parking structure (see map). There are two entrances: one at Clay Street and the other at Louisiana Street. After your park, take the garage elevator to level B2 and follow the directional sign (yellow) to the Hyatt Regency Hotel and Total Plaza building. When you get to the Total Plaza building and enter through the glass doors, follow the directions under “Tunnel Access” above. On surface streets, the nearest entrance from the Hyatt Regency parking garage is at the corner of Louisiana Street and Dallas Street. There is also an entrance at the corner of Milam Street and Dallas Street.



DROP Interest Rate for Calendar Year 2012

The Deferred Retirement Option Plan (DROP) interest rate for calendar year 2012 will be 7.5%, effective January 1, 2012. The rate was approved by the Board of Trustees at the October 2011 Board meeting.

Under the Meet and Confer Agreement, the DROP interest rate for each calendar year is half (50%) of the HMEPS investment return for the prior fiscal year, with a maximum rate of 7.5% and

a minimum rate of 2.5%. The HMEPS investment return for Fiscal Year 2011 was 22.17%. Because half of 22.17% is in excess of the maximum rate of 7.5%, DROP participants in 2012 will receive 7.5% on their DROP accounts.

To speak with a benefit counselor to learn more about DROP, please call the HMEPS office at 713-595-0100.

New Logo and Brand Coming Soon

The HMEPS staff and local design firm Woreman Brand Agency have been developing a new logo for HMEPS. The new logo will be unveiled in early 2012.

“HMEPS has been working hard to improve communications with our members,” said HMEPS Executive Director Rhonda Smith. “An important component of our overall plan is a new logo. Just as we are proud of our participants and their service

to the City of Houston, the new logo will reflect the pride we have in serving them.”

The logo will be used in all future print publications, on the HMEPS website, in the new HMEPS office and more. Also, look for a new redesigned *Pension Press* next year as we incorporate the new logo into our newsletter.

The Retirement Numbers Game: What is the Best Age to Retire?

by Steve Waas, CFP®, EA

In the Summer edition of the Pension Press, Steve Waas, HMEPS' Financial Counselor, discussed Social Security. Steve, who is a Certified Financial Planner, is available for individual meetings with participants, and also will be discussing financial topics in our newsletters to help participants better understand these important issues. In this issue, Steve discusses key ages that might be important in your retirement.



Steve Waas
Financial Counselor

For many City employees, a key date they mark on their calendars is their “eligibility” date. While this can be a very important number for you, it’s just one of many dates that are potentially important to your retirement situation.

What does it mean to be “eligible” to retire within the Houston Municipal Employees Pension System? Most people focus on the date they are eligible to begin collecting a normal retirement benefit. This is the date when a participant can retire from his or her job, and immediately go onto the pension payroll.

Just because you’re eligible, however, does not mean that it is smart to do so. More to the point: just because you’re eligible to retire does not mean you can afford to retire.

This is why many people, upon reaching their eligibility date, try to improve their financial situation by continuing to work. By doing this, not only do they collect a salary longer, but the value of their pension also generally grows (either by accruing more credited service, or by participating in DROP).

But there’s more. By working longer, you get closer to other key dates, which can have a major impact on the affordability of retirement: Social Security retirement benefits, Medicare, relaxation of certain IRS penalties, etc.

Sorting this out can be difficult. To help, here is a list of some of the key ages that might be important in your retirement.

Age 55: You’re 55th birthday might be important if you have a DROP account. What matters is the year that you turn 55, and your date of retirement from the City. These numbers are relevant to whether or not you will be subject to a 10% IRS penalty (on top of normal taxes) on any withdrawals you make from your DROP account.

This is a tricky rule. It is especially tricky for some people if they have other retirement accounts for which the different rules apply. IRA accounts, 457 plans, and DROP accounts each have a different set of tax issues.

Age 59½: This age is also related to IRS penalties, but many people are misinformed as to how it applies. Again: IRA, 457 and DROP accounts all have different tax implications, and you should get qualified counseling before making important decisions.

Age 62: This is generally the youngest age at which you can begin social security retirement benefits. See “Full Retirement Age.”

Age 65: For some people, this could be the most significant age for financial purposes. It is a critical age not because of income you receive, but because of expenses you are likely to incur. This is the age you generally can begin to participate in Medicare. People who retire before the Medicare eligibility age generally face substantially higher health insurance costs. And not only is the cost very high for these people, the uncertainty of these costs is much greater as well. Health insurance costs can change, as can the rules for Medicare eligibility.

“Full Retirement Age” (Social Security): People often have a mistaken impression of the “full retirement age (FRA).” There are two main things to keep in mind. First, you can generally start your Social Security retirement benefits any time between age 62 and 70. The longer you wait, the larger the benefit amount you will be locking in. Second, a primary role of the FRA is to govern how much you will collect if you are still working. Between age 62 and FRA, Social Security benefits will be reduced if you are earning income through a job. This is the so-called “earnings test.” For this reason, many people find that if they are still working when they turn 62, it is better to not start their Social Security retirement benefits and instead let them grow. Once you reach FRA, you can collect these benefits without any reduction even if you are working. Even then you can still gain by waiting, since the benefit amount can still grow.

Age 70: Waiting to begin your Social Security benefits beyond age 62 allows you to lock in a higher benefit amount. However, beyond age 70, there are no more so-called “delayed retirement credits.” So there is no reason to wait beyond this age. See “Full Retirement Age.”

The Retirement Numbers Game – Con’t.

Age 70 ½: While your money remains in a DROP account or other deferred compensation retirement plan, it is not being taxed. But the IRS does not let you do this forever. The year you turn 70 ½, you must begin to withdraw funds from these accounts (there is an exception in DROP if you are still not separated from the City). But it does not mean that you must take all of the money out. In fact, it is a relatively small percentage each year after reaching this age.

For now, don’t get bogged down too much in the detail. Stand back and see the big picture. Suppose you are eligible to retire at age 58. Every year that you continue to work causes financial improvement in several ways. You have another year to save out

of your salary, you are another year closer to Social Security retirement benefits, you have another year on the advantageous active employee’s health insurance, you are a year closer to Medicare eligibility, etc. Viewed in this context, the value to you of each day of work is a lot more than just the salary you receive.

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.

Vara Joins ARHME Board (Continued from Page 1)

Vara also is a retiree trustee on the HMEPS board. ARHME is an organization of fellow workers and retirees whose purpose is to inform and educate participants and others about pension, health and other pertinent issues.

“These goals are very important, as we must always be ready to protect and preserve our municipal retirement benefits,” Vara said.

Recently, a group called Texans for Public Pension Reform was formed with the goal of passing a constitutional amendment in Texas designed to eliminate defined benefit (DB) pension plans and replace them with 401(k)-style systems, arguing that 401(k) type plans are cheaper. These types of plans pay you only what has accumulated in your account based on contributions and the positive (or negative) earnings on the investments held by the account.

However, recent studies show that 401(k) type plans are only cheaper than DB systems if the benefits are drastically reduced. On an apples-to-apples comparison, those studies report that DB plans actually are a cheaper and more efficient way to provide for workers’ retirement.

Over the past 10 years, HMEPS and the City of Houston have worked together on finding ways to better secure the financial promises made to municipal workers. HMEPS, like many other

pension systems, can work at the local level to address its own individual pension concerns without a statewide “one-size-fits-all” solution that would likely compromise its carefully designed and thoroughly negotiated benefit plan.

A statewide organization called Texans for a Secure Retirement (www.texansr.com) has been created to counter the threat to pension plans. TSR coordinates the efforts of many local retirement organizations, such as AHRME and the pension systems, as well as the numerous public employees at the state, county and local levels. Its purpose is to educate the general public about the value and need of the public sector’s DB plans and to fight the misinformation distributed by those who seek to end DB plans.

AHRME will work with TSR to educate participants, elected officials and the public about the negative effects of any attempt to severely

diminish or destroy retirees’ hard-earned benefits. AHRME is committed to fighting for the benefits that retirees have earned and that City employees work hard for every day.

If you would like to join ARHME, please go to the website at www.arhme.net and complete a short application, or call ARHME at 713-646-6729. ARHME would like to have you as a member. We believe our strength is in our numbers and in staying informed and educated.

“I have tremendous respect for City employees, the public services they perform and the fact that they need to be properly compensated. A big part of that compensation is their pension.”
 – Trustee Lonnie Vara

Retirements – 3rd Quarter 2011

Controllers

Owens, James

Fleet

Tran, Phong

Parks & Recreation

Richard, Mary

Public Works & Engineering

George, David
Mendez, Romeo
Ramirez, Cesario

Notice on Newsletter Sections “Retirements” and “In Remembrance”

Two newsletter sections, “Retirements” and “In Remembrance,” have had to be reworked to take into account changes in Texas law. The Retirement section now lists names and departments of those retiring participants who have indicated on their retirement application that they wished to have an announcement of their retirement included.

Upcoming HMEPS Mailings

Notice Regarding Form 1099-R

HMEPS will mail Form 1099-R’s to benefit recipients at the end of January 2012. If you have not received your Form 1099-R by the second week of February 2012 you should contact the HMEPS office (713-595-0100). If you have moved or are in the process of changing your mailing address from the address on file at HMEPS, you must submit a completed change of address form to HMEPS on or before December 31, 2011 in order to timely receive your Form 1099-R. You can obtain a change of address form from the HMEPS office or the Forms page on the HMEPS website (www.hmeps.org).



Mailing Dates for Annual Statements and Reports to Participants

Annual pension statements, DROP statements and the 2011 Reports to Participants (Report) will be mailed the second week of February.

Active participants of the system will receive a regular pension statement and a Report. Retirees will receive the Report. DROP participants will also receive a DROP statement.

If you do not receive any mailing from HMEPS by the first week of March please call our office at 713-595-0100.

Keeping Public, Government Informed About Pensions (Continued from Page 1)

Long-Range Financial Task Force. Oakley gave an informative and insightful talk Dec. 5 about the value of retirement security to employees, employers and the economy.

Oakley heads the NIRS, a not-for-profit organization that contributes to informed policymaking by fostering a deep understanding of the value of retirement security through national research and education programs.

NIRS also seeks to encourage the development of public policies that enhance retirement security in the U.S. Its vision is one of a retirement system that simultaneously meets the needs of employers, employees and the public interest.

Additionally, on Dec. 1, the Houston Organization of Public Employees (HOPE) hosted an action forum at the E.B. Cape

Center to inform attendees about ongoing discussions regarding pensions. HMEPS Chairman Sherry Mose, Executive Director Rhonda Smith and Trustee Roy W. Sanchez gave brief presentations



HMEPS Chairman Sherry Mose, Executive Director Rhonda Smith and Trustee Roy Sanchez at the recent HOPE forum on pension issues.

to the audience of more than 150 people. They discussed the importance of defined benefit plans, provided the latest investment figures for HMEPS and urged attendees to stay in touch with HMEPS in the year ahead. HOPE members showed their appreciation with enthusiastic applause.

We welcome opportunities such as Oakley’s visit and the HOPE meeting to educate key stakeholders about pension issues. It’s part of HMEPS’ mission to protect and grow the System for our participants.

2012

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.hmepps.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

January 2012							February 2012							March 2012							April 2012						
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	7				1	2	3	4					1	2	3	1	2	3	4	5	6	7
8	9	10	11	12	13	14	5	6	7	8	9	10	11	4	5	6	7	8	9	10	8	9	10	11	12	13	14
15	16	17	18	19	20	21	12	13	14	15	16	17	18	11	12	13	14	15	16	17	15	16	17	18	19	20	21
22	23	24	25	26	27	28	19	20	21	22	23	24	25	18	19	20	21	22	23	24	22	23	24	25	26	27	28
29	30	31					26	27	28	29				25	26	27	28	29	30	31	29	30					

May 2012							June 2012							July 2012							August 2012						
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					1	2	1	2	3	4	5	6	7				1	2	3	4	
6	7	8	9	10	11	12	3	4	5	6	7	8	9	8	9	10	11	12	13	14	5	6	7	8	9	10	11
13	14	15	16	17	18	19	10	11	12	13	14	15	16	15	16	17	18	19	20	21	12	13	14	15	16	17	18
20	21	22	23	24	25	26	17	18	19	20	21	22	23	22	23	24	25	26	27	28	19	20	21	22	23	24	25
27	28	29	30	31			24	25	26	27	28	29	30	29	30	31				26	27	28	29	30	31		

September 2012							October 2012							November 2012							December 2012						
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	1	2	3	4	5	6				1	2	3							1		
2	3	4	5	6	7	8	7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8
9	10	11	12	13	14	15	14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15
16	17	18	19	20	21	22	21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22
23	24	25	26	27	28	29	28	29	30	31				25	26	27	28	29	30	23	24	25	26	27	28	29	
30													30						30	31							

Changes at the US Postal Service Expected to Lengthen Delivery Time

Join the majority of HMEPS retirees who receive their benefits by Direct Deposit!

The US Postal Service has initiated steps to reduce its service network, which if implemented will lengthen the delivery time for first class mail. While the change to the delivery cycle is not projected to occur until late 2012, HMEPS participants who receive their monthly benefit payment by mail can avoid any potential delays by switching to direct deposit now. Please contact our office or visit the website for a direct deposit form.

Pension Press

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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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