



**HMEPS**  
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



**THANKS** TO ALL OF OUR MUNICIPAL EMPLOYEES



A Component Unit of the  
City of Houston, Texas

**2017 REPORT TO PARTICIPANTS**  
for the years ended June 30, 2017 and June 30, 2016

**HOUSTON  
STRENGTH  
IS IN OUR**

**COOPERATION**





## Letter From the Chairman

January 29, 2018

Dear Participants,

2017 has been quite a year, both for HMEPS and for Houston in general. In January, the Texas Legislature convened for its 85th regular session and pension reform took center stage. In late August, Hurricane Harvey, the worst flooding event in United States history, ravaged southeast Texas, flooding more than 100,000 homes in Houston alone. And in November, the Houston Astros won Major League Baseball's World Series! This was followed by a City of Houston election featuring a \$1 billion pension obligation bond proposition with a direct impact on HMEPS. Throughout a remarkably eventful year, our HMEPS Board of Trustees and staff delivered outstanding service to our participants while strengthening the System for the long term.

When the Texas Legislature opened its 85th regular session in Austin in January 2017, Mayor Sylvester Turner, a former longtime Texas House member, made the pension reform negotiated with the Houston pension systems his top legislative priority. After months of hard work, Senate Bill 2190 was signed into law, making significant changes to all three Houston public employee pension systems. In keeping with the overall pension reform, in the November bond election, voters – by more than a three-to-one margin – overwhelmingly approved authorizing the City of Houston to issue \$1 billion in pension obligation bonds to reduce public employee pension unfunded liability, including \$250 million to

HMEPS. I believe the reforms enacted will strengthen HMEPS' ability to deliver a secure retirement to our participants for the long term. I applaud the diligent efforts of our Board, staff and government relations team in working through this challenging process.

I am especially pleased to report that HMEPS' investment performance for Fiscal Year 2017 was 12.7%. HMEPS has posted double-digit investment returns in three of the last five years, and the System's 10-year investment performance is in the top 15% among its peer groups. We continue to diversify our investment portfolio to manage risk and maximize returns for our participants.

We look forward to a successful 2018, in which we will continue to protect and grow the System for our participants, in the context of newly enacted pension reforms and Houston's overall recovery from Hurricane Harvey where City employees demonstrated exemplary commitment and dedication. We will continue to work diligently to protect your benefits today and for decades to come.

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



Sherry Mose  
Chairman

# BOARD OF TRUSTEES



Sherry Mose  
Chairman



Roy W. Sanchez  
Vice Chairman



Lonnie Vara  
Secretary



Roderick J. Newman  
Elected Trustee



Asha Patnaik  
Elected Trustee



Lenard Polk  
Elected Trustee



Barbara Chelette  
Appointed Trustee



David Donnelly  
Mayoral Appointee



Edward J. Hamb II  
Controller Appointee



Denise Castillo-Rhodes  
Council Appointee



Adrian Patterson  
Council Appointee



David L. Long  
Executive Director

## BOARD OF TRUSTEES

### Elected and Appointed Trustees

Sherry Mose, Chairman  
Roy W. Sanchez, Vice Chairman  
Lonnie Vara, Secretary  
Roderick J. Newman  
Asha Patnaik  
Lenard Polk  
Barbara Chelette, Appointed

### City Appointed Trustees

Denise Castillo-Rhodes  
David Donnelly  
Edward J. Hamb II  
Adrian Patterson  
*David L. Long, Executive Director*

### Administrative Organization

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

# HMEPS HONORS THOSE WHO SERVED DURING HURRICANE HARVEY



City of Houston employees have long served as the rescue and clean-up resources citizens rely on when their world is dismantled and capsized by a natural disaster. Employees work hard to do their jobs in the worst of circumstances, and then commit to continue working to return residents to their communities.

Hurricane Harvey made landfall between Port Aransas and Port O'Connor as a Category 4 hurricane, with winds of 130 miles per hour, and dumped a record 51.66 inches of rain over six days. An unprecedented 27 trillion gallons of water hit Texas and Louisiana, 43,300 homes were damaged, 37,000 families were displaced, and 36 deaths were reported (as of Sept. 29, 2017).<sup>1</sup> And Houston citizens, many of whom were City employees, responded by logging over 256,845 volunteer hours and rescuing over 72,000 people. The 911 personnel received 56,000 calls in 15 hours.

City employees responded by immediately returning to work, and helped coordinate the formidable task of recovery. The Solid Waste Department is one group of employees that shouldered one of the hardest jobs resulting from Harvey's torrential rain and we are taking this opportunity to single them out for recognition as unsung heroes. For example, they collected over 779,181 cubic yards of debris as of September 2017. That amount of debris would fill over 239 Olympic-sized swimming pools. In their effort to remove the debris as quickly as possible, 487 trucks were used to clear area yards and businesses.

It has only been a couple of months since Harvey roared into our city, and the recovery is underlined by the tremendous resolve and effort of City employees. The Board and staff members of HMEPS are proud to serve the hard-working City employees and wish to thank each of them for their service and commitment.



<sup>1</sup> Scott McDonald, "Houston's Mind-Boggling Numbers In Hurricane Harvey Aftermath," [www.patch.com](http://www.patch.com), Sept. 29, 2017.

# PARTICIPANT DATA AS OF JUNE 30, 2016



## PARTICIPANT DATA

	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Years of Service
Active Members	12,103	7,966	\$50,253	47.1	11.1
Inactive Participants	5,606	3,432	7,073	—	—
Service Retirees	8,084	—	24,538	68.5	—
Disabled Retirees	336	—	10,596	64.8	—
Beneficiaries & Spouses	1,869	—	15,523	67.8	—

## SCHEDULE OF ANNUITANTS BY TYPE

	June 30, 2016			June 30, 2015		
	Number	Benefits (\$000)	Average Benefit (\$)	Number	Benefits (\$000)	Average Benefit (\$)
Retirees Receiving Benefits	8,084	198,364	24,538	7,819	188,491	24,107
Retired on Disability	336	3,560	10,956	350	3,643	10,409
Survivors and Beneficiaries	1,869	29,013	15,523	1,854	27,349	14,752
Former Participants Eligible But Not Yet Receiving Benefits	3,432	24,274	7,073	3,202	22,450	7,011

## HISTORICAL ACTIVE PARTICIPANT DATA

Valuation Date	All Active			Number of Participants	Annual Payroll (\$000)	Average Salary (\$)	% Salary Increase
	Group A	Group B	Group D				
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
July 1, 2015	5,911	1,489	4,427	11,827	584,025	49,381	3.7
July 1, 2016	5,537	1,417	4,979	12,103	608,210	50,253	1.8

# FINANCIALS

Each year, an independent external audit is performed to review HMEPS' financial statements to provide reasonable 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 23rd consecutive year, HMEPS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the 2016 CAFR.

## Revenues (Additions) and Expenditures (Deductions)

The historical Summary Comparative Statement of Changes in Fiduciary Net Position table shows HMEPS' funding is derived from income appreciation on investments and member and employer contributions. For 2017, net investment income was \$290.9 million and total contributions were \$198.5 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 \$281.2 million, or 97.6% of total expenses. The remainder of the fund's expenses is comprised of administrative expenses of \$6.0 million (2.1% of total expenses), and professional fees of \$805,000 (0.3% of total expenses).

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

ASSETS	FY 2017	FY 2016
Cash and equivalents	\$ 7,917	\$ 7,551
Contribution receivable - City of Houston	7,363	0
Receivables on asset sales	4,303	6,048
Receivables on foreign exchanges	448	2,993
Other receivables	3,661	4,337
Investments	2,594,843	2,396,798
Collateral on securities lending	47,371	73,941
Furniture, fixtures and equipment, net	178	298
<b>Total Assets</b>	<b>2,666,084</b>	<b>2,491,966</b>
DEDUCTIONS		
Payable on asset purchases and foreign exchange	9,783	12,133
Accrued liabilities	6,264	5,868
Collateral on securities lending	47,371	73,941
<b>Total Liabilities</b>	<b>63,420</b>	<b>91,942</b>
<b>FIDUCIARY NET POSITION</b>	<b>\$ 2,602,665</b>	<b>\$ 2,400,024</b>

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

ADDITIONS	FY 2017	FY 2016
Contributions	\$ 198,459	\$ 175,832
Investment and interest (loss) income, net	290,911	27,988
Other income	1,272	1,303
<b>Total Additions</b>	<b>490,642</b>	<b>205,123</b>
DEDUCTIONS		
Benefits paid	280,455	253,178
Contribution refunds	718	1,105
Administration and professional fees	6,826	7,360
<b>Total Deductions</b>	<b>288,000</b>	<b>261,643</b>
Net increase (decrease) in plan net position	202,641	(56,520)
Plan net position, beginning of year	2,400,023	2,456,544
<b>FIDUCIARY NET POSITION</b>	<b>\$ 2,602,665</b>	<b>\$ 2,400,024</b>

The background of the entire page is a photograph of the Houston Museum of Natural Science. The central focus is the tall, slender obelisk standing on a stone base. In the foreground, there are several water fountains spraying upwards. The sky is a clear, light blue. A dark blue banner with white text is positioned in the upper right quadrant. The main title 'HOUSTON STRONG' is centered in large, white, bold letters.

**WE ASSESS  
WE OVERCOME  
WE PREVAIL  
WE ARE**

# **HOUSTON STRONG**

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