

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



PERFORMANCE TODAY
PLANNING FOR TOMORROW

2010 REPORT TO PARTICIPANTS

A photograph of a person walking a dog on a paved path in a park. The scene is captured at sunset, with the sun low on the horizon, casting long shadows and a warm glow. The person and dog are silhouetted against the bright sky. The path curves through a green lawn with several trees, some of which have reddish leaves. The sky is a mix of blue and orange. The overall mood is peaceful and serene.

Performance Today

Planning for Tomorrow

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 July 1, 2010. (The full CAFR is available on our website at www.hmeps.org/publications.html.)

Table of Contents

Introduction

A Letter from the Chairman	3
Board of Trustees	4
Organizational Overview	5
Why Pensions Work	6
The Staff	8

Benefits Overview

Participant Data	10
Schedule of Annuitants By Type	10
Historical Active Participant Data	11

Financials

Summary Comparative Financial Statements	12
Actuarial Summary.....	13

Investments

System Asset Allocation	14
Comparison of Investment Returns – Years Ended June 30	15

Historical Overview	16
----------------------------------	----

Acknowledgement	17
------------------------------	----



Willie Scott, Convention and Entertainment Facilities Department.

A LETTER FROM THE CHAIRMAN

December 16, 2010

Dear Plan Participants:

At HMEPS, we never waver in our commitment to do what's best for the long-term health and security of your pensions and benefits. As the public debate about pension fund reform escalates, it's important that we all keep in mind that HMEPS remains financially sound and fully able to meet current and future obligations for many years to come.



Rest assured that HMEPS is committed to responsible stewardship and service excellence, and with a focus on the long term. Taking a long-term view is not always easy. The economic upheaval of 2008, for example, was a clear test of our disciplined approach. I am pleased to report that we ended the year with a solid investment performance return of 12.2%. I would like to thank our professional staff for their continued dedication and commitment to serving our participants.

In 2010, HMEPS welcomed two new Trustees – David L. Long and Roy W. Sanchez, as well as a new Executive Director – Rhonda Smith. David transitioned from Executive Director to Retiree Trustee on the Board and Rhonda assumed the role of Executive Director. Rhonda came to HMEPS in 2008 and has brought with her a wealth of experience and knowledge in financial and pension administration. She is a strategic thinker with a positive management style, and has proven to be a great asset for HMEPS.

In 2010, we also forged ahead with a number of internal process and service improvements designed to increase our efficiency and enhance our value to members. Some highlights include financial system upgrades, successful transition to a new retiree payroll provider, delivering access to online payment information for retirees, and enhancements to our Web reporting tools. Throughout this report, you'll find information about many other improvements. The Board of Trustees also updated our Ethics Policy to incorporate best practices into our fiduciary activities and conduct.

This is definitely an exciting time for the System. It has been an honor to serve each of you this year, and I look forward to a great year in 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Sherry Mose". The signature is fluid and cursive.

Sherry Mose

BOARD OF TRUSTEES

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. A system of internal controls is an entity's plan of organization and all of its coordinated methods and measures adopted to safeguard its assets, to ensure the accuracy and reliability of the accounting system and to promote adherence to management policies. These controls include strategic design of the entity's business systems, the appropriate segregation of duties and responsibilities, sound practices in the performance of those duties, capable personnel, and the organizational structure itself. We believe the System's internal controls are adequate and are working as designed.

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 working of HMEPS, and constructing the procedures for HMEPS' adherence to applicable laws.

ORGANIZATIONAL OVERVIEW



Sherry Mose
Chairman



Terrence Ardis
Vice Chairman



Lonnie Vara
Secretary



David L. Long
Elected Trustee



Lenard Polk
Elected Trustee



Roy W. Sanchez
Elected Trustee



Barbara Chelette
Appointed Trustee



Richard Badger
Council Appointee



Justo P. Gonzalez
Council Appointee



Executive Director
Rhonda Smith

General Counsel
Erin Perales

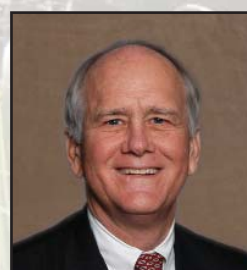
Investments
Investments Manager – Greg Brunt
Investment Managers' Services
Performance Measurement
Market Research

Operations
Information Systems Manager – Scott Otto
Accounting
Financial Reporting
Information Technology and Records

Member Services
Benefits Manager – Carole Snyder
Benefit Member Services
Financial Counseling
Communications



Alfred Jackson
Controller Appointee



Craig T. Mason
Mayoral Appointee

The first defined benefit (DB) pension plans in the United States came about in the railroad industry in the late 1800's. The railroads were looking for ways to attract – and especially to retain – quality employees. The success of these retirement systems led to them being adopted by more and more large organizations, including the pension for Houston Municipal employees, which started in 1934. The System was formally established by the Texas Legislature in 1943.

Many workers find DB pensions attractive because they provide a lifetime benefit throughout their retirement, regardless of how long they live. Furthermore, their benefit amount is based on their years of service and salary while they were working, rather than volatile investment returns. Together, these features provide one of the most important keys to retirement success – security.



Omar Regalado, 3-1-1 Houston Service Center.

But are DB pensions the best way to provide for retirement? Some people believe it would be better and cheaper to simply allow workers to save more out of their paychecks and use that savings in retirement.

In fact, DB pensions are a much cheaper way to deliver each dollar of retirement benefit than alternative systems. Consider some of the daunting tasks an individual faces when trying to provide a secure lifetime income *without* a DB Plan.

- An individual worker trying to save enough for his or her entire retirement must calculate how much to save. This is not easy to do. In reality, most people without DB pensions significantly under-save for their retirement.
- A worker must maintain the discipline of continuously saving throughout his or her career. This is also difficult, and the data shows that very few workers are able to do it. Even when provided with good deferred compensation plans for their savings, most workers have sporadic and low contributions. Also, a very large portion of workers "cash out" of these plans when they change jobs, which makes it difficult or impossible to accumulate the amount of savings they need for retirement.
- Workers need to invest this savings so it can grow throughout their working years. But as individuals, they pay "retail" costs for investment management, which are substantially higher than the costs available to large institutions such as pension funds.
- The data also shows that individuals tend to underperform when it comes to their investment decisions. Pension funds provide continuous professional money management, as well as a wider range of investment opportunities than is typically available to individuals.
- As workers get close to retirement, and after they retire, they face heightened risks when it comes to market volatility. When they were younger, it was somewhat easier to tolerate the ups and downs of financial markets, since they had many years to recover losses and were regularly adding to their savings. But now this volatility can be much more damaging. In a DB plan, new participants are coming into the system at the same time that others are retiring, so the fund does not face the same degree of this risk as an individual would.

- Finally, one of the biggest problems faced by an individual retiree is this basic question: how long will he or she live? Without knowing the answer, how can you decide how much to spend each year in retirement? This is called “longevity risk.” To reduce the chances of out-living savings, many individuals have to save extra money “just in case.” In a DB system, this risk is essentially spread out as large numbers of people are pooled together. For each individual, this risk is eliminated.



Cindy Ellis and Gina Goosby-Harris, Information Technology Department.

The bottom line is that in the absence of a good DB plan, retirement planning and savings tends to entail higher costs, lower returns and additional risks. To offset this, and to generate the same retirement benefit as the DB approach, much more of a worker’s total compensation would have to be devoted to retirement. Or, failing that, the worker will face reductions in his or her standard-of-living during retirement, which is exactly what many baby boomers who don’t have access to a DB plan are beginning to discover.

Furthermore, when DB plans and other benefits are added to salaries, the “total compensation” package for the typical public sector employee is not unusually large, as is sometimes claimed. In fact, when controlling for education, experience and other factors, one study based on US Department of Labor data concluded that “On average, full time state and local employees are undercompensated by 3.7% in comparison to otherwise similar private sector workers.*”

None of this means that an individual in a DB plan has no need to save money. There are many reasons to supplement a DB plan with savings – to prepare for early retirement, to provide for family members or others, to help retire debt. Deferred Compensation systems (such as the City’s 457 Plan) are one way to provide this supplemental savings. While a DB system is

ideal for providing the basic benefit that virtually all workers will need in retirement, deferred compensation is ideal for enabling workers to “customize” their retirement benefits for their individual needs.

Also, none of this means that DB systems are infallible. Constant improvement is necessary. When the strong investment markets of the late 1990s and early 2000s ended and a period of rocky markets ensued, many pension systems failed to respond. HMEPS, however, acted quickly. Benefit enhancements that had been implemented during the boom years were halted and a plan was put in place to gradually pay off the unfunded benefits that had already accrued. Various other steps were taken to help significantly improve the pension’s funding level.

HMEPS will continue to look for ways to improve services, enhance sustainability and serve the membership more effectively. Still, it’s helpful to consider the value of a defined benefit pension plan to participants, who increase their retirement security, and to City residents, who benefit from a quality City workforce in a more cost-effective way.

* Jeffrey Keefe, “Debunking the Myth of the Overcompensated Public Employee,” Economic Policy Institute.

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.

They can be found in four divisions: Member Services, Investments, Legal and Operations.

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 benefits options.

The **Investments division** develops and implements investment strategies that maximize returns while minimizing risks. This division is charged with effectively and prudently investing and monitoring HMEPS' assets while adhering to all laws, regulations and policy guidelines.

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 members in compliance with federal, state and local laws.

The **Operations division** is responsible for accounting, records and the technology that is so crucial to serving HMEPS' participants.

The accounting section of the Operations division manages the accounting, budgeting, retiree payments, internal audit and financial reporting functions at HMEPS. Strong financial stewardship of our participants' money is the primary responsibility of this department.

Major Current and Future Initiatives

During the fiscal year, the System successfully implemented a number of key initiatives designed to expand and improve customer service, one of its core objectives. The System, among other things:

- Processed more than 100,000 benefit payments totaling more than \$191 million in monthly retirement and lump-sum payments.
- Unveiled a redesigned and enhanced website at www.hmeps.org. The redesigned website includes many new sections and resources, such as an "Investment Update" section, a Retiree section and a Financial Counseling section. Members can view and print forms and publications, make an appointment with the Financial Counselor, and register for the HMEPS' MyPenPay retiree portal and AccessHMEPS online DROP service. Finally, the website was given technology enhancements such as drop-down menus for easier navigation and more aesthetically pleasing graphics.





- Selected State Street Bank and Trust as the new payroll provider, and with State Street, implemented a new service that allows retirees to securely access their benefit payment information online. This new service is free.
- Participated in the 2010 Financial Retirement Employees Educational (FREE) Summit, an important annual event designed to help City employees prepare for their financial future. The free event was a tremendous success this year with over 600 attendees.
- During fiscal year 2010, the financial counselor had 416 financial counseling sessions with participants. In addition, the financial counselor and the benefit counselors hosted 66 field visits and presentations at City department locations.

Additionally, HMEPS adopted a new workflow solution for the Benefits and Investments divisions. The new workflow solution uses technology to route documents through HMEPS' business processes. For the Benefits division it eliminates the need to process transactions using paper files, allowing the division to function more efficiently. For the Investment division, the workflow solution increases efficiency by eliminating the need for duplicate primary storage.

During fiscal year 2010, the Investment staff initiated the Board-approved search for a Core Fixed Income

manager to further diversify the System's Core Fixed Income portfolio. Staff further assisted the Board in its hiring of two U.S. Equity Enhanced Index managers to complement the existing Enhanced Index portfolio, three private equity managers to expand the private equity portfolio and one investment manager for the inflation-linked asset class.

HMEPS received its 2010 Actuarial Experience Study for the 5-Year Period Ending June 30, 2009. The Experience Study analyzed the System's experience in terms of economic assumptions (Price inflation (CPI), investment return, salary increases, payroll growth rate) and demographic assumptions (retirement, mortality, disability, other terminations) for purposes of evaluating the current assumptions and adopting changes to those assumptions.

In the past few months, significant steps have been taken to identify reasonable office space for HMEPS' planned relocation in June 2011 when the current lease at the Heritage Plaza building expires. We are working to ensure that the new office space is consistent with our mission of providing excellent service to our participants and providing a more cost-effective, professional environment for HMEPS operations.

BENEFITS OVERVIEW

The System is a defined benefit pension plan covering all municipal employees, except police officers and firefighters (other than certain police officers in the System as authorized by the Pension Statute), employed full time by the City of Houston, elected City Officials, and the full time employees of the System. As of July 1, 2009, there were 27,415 participants in HMEPS. Included in this figure are active members, inactive participants, service retirees, disabled retirees and beneficiaries and spouses. Information as of July

1, 2010 will be available with the next actuarial valuation, which is expected in early 2011.

The System 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. Participants newly hired on or after January 1, 2008 automatically become members of Group D pursuant to the Fourth Amendment to the Meet and Confer Agreement dated June 27, 2007.

PARTICIPANT DATA

	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Service
Active Members	13,333	7,392	\$40,428	45.1	9.2 years
Inactive Participants	5,742	2,884	6,796	–	–
Service retirees	6,336	–	21,799	66.7	–
Disabled retirees	415	–	8,889	62.2	–
Beneficiaries and spouses	1,589	–	10,412	66.4	–

SCHEDULE OF ANNUITANTS BY TYPE

Schedule of Annuitants by Type	June 30, 2009			June 30, 2008		
	Number	Benefits (\$000)	Average Benefit	Number	Benefits (\$000)	Average Benefit
Retirees receiving benefits	6,336	138,123	21,799	6,186	131,765	21,300
Retired on disability	415	3,689	8,889	428	3,648	8,523
Survivors and beneficiaries	1,589	16,544	10,412	1,541	15,180	9,851
Total retirees, survivors and beneficiaries	8,340	158,356	18,988	8,155	150,593	18,466
Former participants eligible but not yet receiving benefits	2,884	19,598	6,795	2,931	19,811	6,759
Total Eligible for Benefits	11,224	177,954	15,855	11,086	170,404	15,371

HISTORICAL ACTIVE PARTICIPANT DATA

Valuation Date	Number of Participants	Annual Payroll \$(000)	Average Salary (\$)	% Salary Increase
July 1, 2000 ¹	13,126	421,591	32,119	7.6
July 1, 2001 ¹	12,928	413,021	31,948	(0.5)
July 1, 2002	12,527	399,794	31,915	(0.1)
July 1, 2003	12,120	390,314	32,204	0.9
July 1, 2004	11,856	366,190	30,886	(4.1)
July 1, 2005	11,974	404,565	33,787	9.4
July 1, 2006	12,145	422,496	34,788	3.0
July 1, 2007	12,376	448,925	36,274	4.3
July 1, 2008	12,653	483,815	38,237	5.4
July 1, 2009	13,333	539,023	40,428	5.7

¹ 2000 and 2001 do not include DROP participants

² 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



Carole Snyder, Houston Municipal Employees Pension System (HMEPS), Rita Zamora, Houston Police Department (HPD), Lynnette Bartula (HMEPS), Deborah McCoy (HPD), Kiyomi King (HPD), and Cassie Middleton (HPD).

FINANCIALS

Each year HMEPS coordinates an independent external audit to review the System's financial statements and confirm that the statements are free of material misstatement. This outside opinion considers internal control over financial reporting. All HMEPS divisions collaborate to produce the System's Comprehensive Annual Financial Report (CAFR).

The System's CAFR is submitted to the Government Finance Officers Association (GFOA), which oversees governmental entity CAFR certification. For the 15th consecutive year, HMEPS has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the CAFR.

SUMMARY COMPARATIVE STATEMENT OF PLAN NET ASSETS (\$000)

ASSETS	FY 2010	FY 2009
Cash and equivalents	\$1,599	\$405
Investments	1,824,933	1,744,241
Receivables on asset sales	7,574	7,796
Other receivables	8,500	6,267
Collateral on securities lending	151,090	81,757
Furniture, fixtures and equipment, net	352	471
Total Assets	1,994,049	1,840,937
LIABILITIES		
Payable on asset purchases	5,693	22,342
Accrued liabilities	8,773	6,696
Collateral on securities lending	151,091	81,757
Total Liabilities	165,557	110,795
Plan Net Assets	\$1,828,492	\$1,730,142

SUMMARY COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS (\$000)

	FY 2010	FY 2009
Additions		
Contributions	\$101,788	\$97,286
Investment and interest income, net	195,433	73
Other income	557	489
Total additions	297,778	97,775
Deductions		
Benefits paid	191,048	180,361
Contribution refunds	1,285	1,795
Administration and professional fees	7,095	7,211
Total deductions	199,428	629,666
Net (decrease) increase in plan net assets	98,350	(531,891)
Plan net assets, prior year	1,730,142	2,262,033
Plan net assets, current year	\$1,828,492	\$1,730,142

Investment Portfolio

The System invests in seven major asset classes and engages the services of or directly invests with numerous professional investment managers with demonstrated skills and expertise in managing portfolios within each asset class as a method to maximize overall fund diversification. As of June 30, 2010 the System's current investment policy targets are: 20% U.S. Equities, 20% Non-U.S. Equities, 20% Fixed Income, 18% Private Equity, 12% Real Estate, 5% Absolute Return and 5% Inflation-Linked.

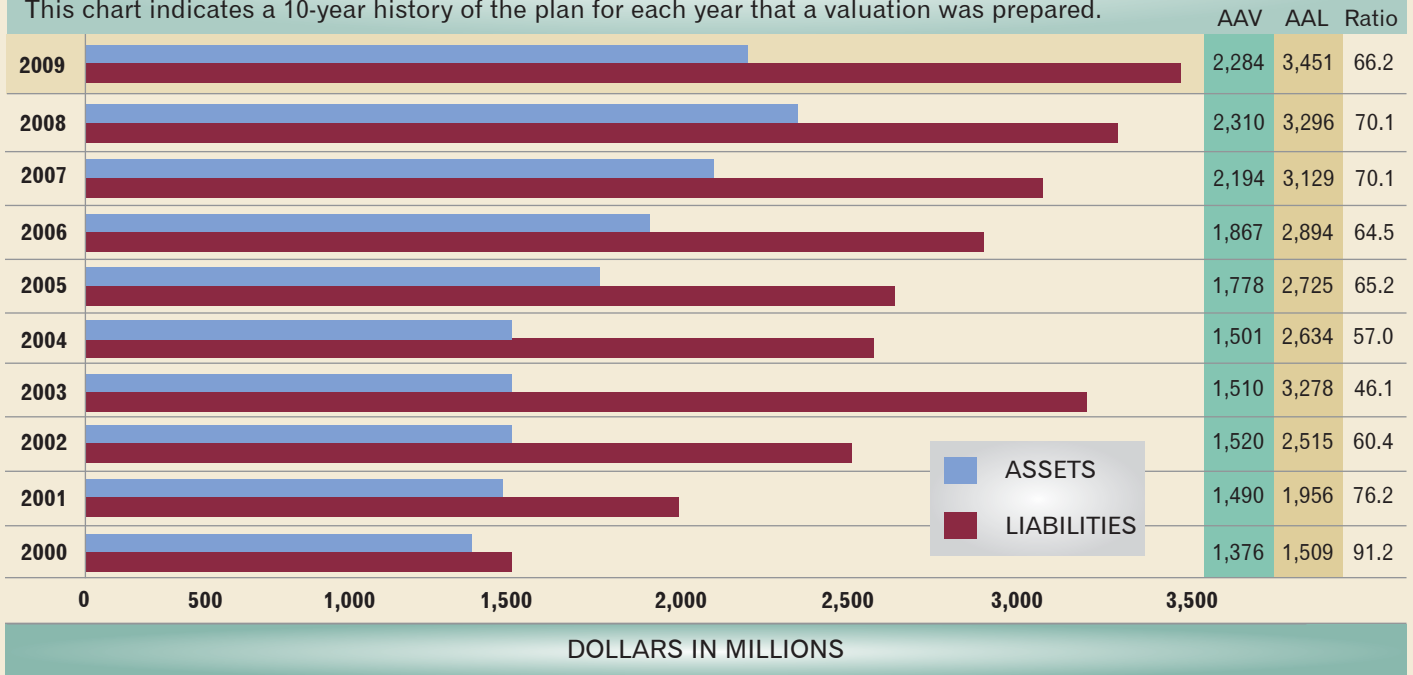
Fiscal Year 2010 Financial Highlights

The System's investment portfolio closed fiscal year 2010 at \$1.83 billion, up from \$1.73 billion at the beginning of the year. The total investment return for the fiscal year was 12.2 percent.

The System's investment performance was 12.2 percent, -1.8 percent and 5.8 percent for the past 1-, 3- and 5-year respective periods. Although the 1-year performance lagged the System's policy benchmark, longer term results are materially above that benchmark. Relative to its peer group (Wilshire Public Fund Universe), the fund continues to post attractive long term investment returns. For the 1-year period ending June 30, 2010, the fund ranks in the top 6th percentile over the trailing 3-year period, and is the top performing fund over the trailing 5- and 10-year periods.

HISTORICAL ACTUARIAL FUNDING RATIO

The funding ratio reflects the System's actuarial assets value (AAV) relative to its actuarial accrued liability (AAL). This chart indicates a 10-year history of the plan for each year that a valuation was prepared.



Financial Markets

The gradual improvement in the financial system that began in the Spring of 2009 continued through the early Spring of 2010, as first quarter financial market conditions generally became more supportive of economic activity. Yields and spreads on corporate bonds declined, broad equity price indices rose and measures of stress in many short-term funding markets fell to near their pre-crisis levels. In late April and early May, however, concerns surfaced about the effects of fiscal pressures in a number of European countries. These concerns, along with the oil spill in the Gulf of Mexico and high unemployment rates, led to increases in credit spreads on many U.S. corporate bonds and declines in broad global equity prices. The Wilshire 5000 Total Market Index fell 11.19 percent in the second quarter, giving up all of 2010's gains and bringing its year-to-date return to -5.83 percent. In the fixed-income markets, the second quarter of 2010 presented a classic flight to safety as investors sold stocks and lower quality corporate bonds and purchased US Treasuries. The Federal Reserve maintained its accommodative stance over the first half of 2010 and many analysts are predicting an overnight target rate of 0.00 - 0.25 percent to continue through the end of the year.

On the inflation front, prices of energy and other commodities have declined in recent months, and underlying inflation has trended lower. The overall PCE price index rose at an annual rate of about three-quarters percent over the first five months of 2010 (compared with an increase of about 2 percent over the 12 months of 2009), while price increases for consumer expenditures other than food and energy items – so-called core PCE – slowed from 1.5 percent over the 12 months of 2009 to an annual rate of 1 percent over the first five months of 2010.

Throughout the market declines of fiscal year 2009, HMEPS' investment portfolio participated in the sell-off, but not as severely as most of its peers. Likewise, during the market recovery experienced in fiscal year 2010, the System's investment portfolio posted attractive positive returns, but not as high as others. Through the efforts of the Board over the preceding 10 years, the System's investment portfolio is more broadly diversified than most public pension plans, and consequently exhibits less volatility, particularly during extreme market environments like those experienced during the 2-year period ending June 30, 2010.

INVESTMENTS

The 10-year period that ended June 30, 2010 produced volatile annual returns, both for the markets as a whole, and also for HMEPS. The System generated double-digit positive returns in 5 of the past 10 fiscal years, matched or exceeded its policy index in 7 of those 10 fiscal years, and outperformed its peer group in 7 of those 10 years. The System's 10-year annualized return of 5.18 percent, however, is below its return target of 8.50 percent but is above the median public fund's annualized return of 3.45 percent. The 20-year return stands at 8.38 percent.

An integral part of HMEPS' overall investment policy is its strategic asset allocation policy. The System's investment allocation provides an efficient allocation of assets designed to achieve portfolio risk and return objectives (see Figure 1).

benchmark for the same 3-, 5- and ten-year time periods. Over the 5- and ten-year periods, HMEPS is the top performing fund in the Wilshire universe.

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 (see Table 1). The ending points indicate that \$1,000 invested in HMEPS' total fund would have grown to \$1,656, while the same \$1,000 would have grown to \$1,396 and \$1,376 in the policy portfolio and the median public fund, respectively.

Fiscal Year 2010 Results

For the fiscal year that ended June 30, 2010, the System returned 12.24 percent.

SYSTEM ASSET ALLOCATION

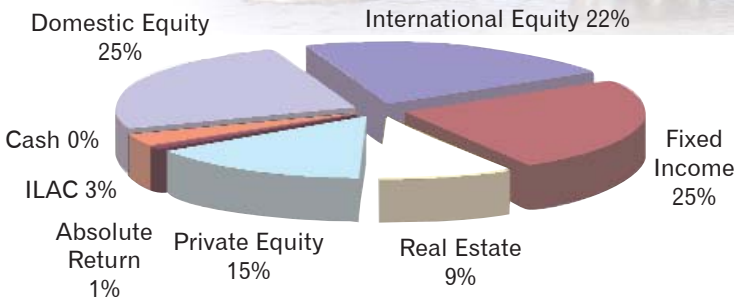
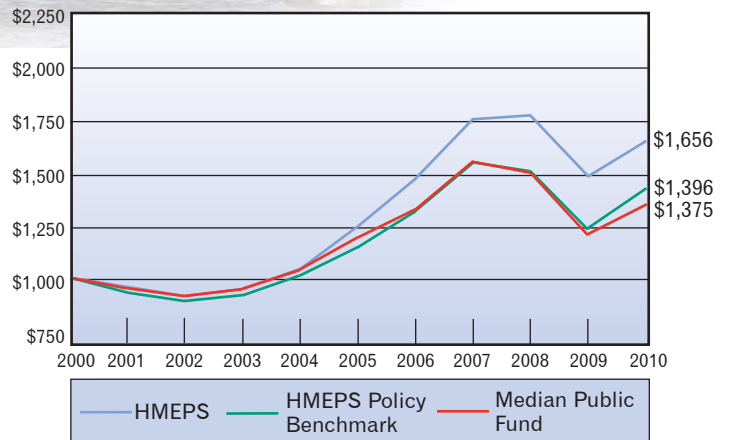


FIGURE 1

As shown in the investment results in the Table "Comparison of Investment Returns – Years Ended June 30" on the following page, HMEPS' total fund return exceeds its policy portfolio for the 3-, 5-, and ten-year time periods. The System's total fund performance also compares very favorably relative to the median public fund, as represented by the Wilshire Associates Public Pension Fund universe, and has outperformed this

TABLE 1



COMPARISON OF INVESTMENT RETURNS – YEARS ENDED JUNE 30

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

	2010	3-yrs	5-yrs	10-yrs	2009	2008	2007	2006
Actuarial rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Total Portfolio	12.2	-1.8	5.8	5.2	-16.0	0.4	18.6	18.1
Median Public Fund (Wilshire Public Fund Universe)	14.8	-4.6	3.1	3.4	-19.2	-4.9	17.8	11.1
U S Equities	17.3	-10.9	-1.3	0.9	-26.4	-16.8	19.4	11.1
Wilshire 5000 Index	15.7	-9.4	-0.3	-0.8	-26.4	-12.5	20.5	9.9
International Equities	7.9	-11.4	3.2	1.1	-31.9	-5.4	29.5	30.1
MSCI All Country World ex US Index	10.9	-10.3	3.8	6.2	-30.5	-6.2	30.1	28.4
Fixed Income	17.0	6.2	6.1	6.5	0.4	2.0	9.6	2.6
Barclays Aggregate Index	9.5	7.6	5.5	6.5	6.1	7.1	6.1	-0.8
Merrill Lynch High Yield Master II Index	27.5	6.4	7.1	7.1	-3.5	-2.1	11.7	4.7
Real Estate	-9.5	-13.9	0.9	8.3	-40.4	18.2	20.1	36.4
NCREIF Property Index	-1.5	-4.7	3.8	7.1	-19.6	9.2	17.2	18.7
Private Equity	16.8	1.1	9.7	3.7	-20.9	11.9	25.4	22.5
S&P 500 Index	17.4	-6.8	2.2	-1.6	-20.9	-13.1	20.6	8.6
Absolute Return	23.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LIBOR + 5%	5.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Inflation Linked	21.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a
CPI + 5%	6.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a



Abel Ruiz, Parks & Recreation Department.

HISTORICAL OVERVIEW

City of Houston officials in 1934 began setting aside funds with a special goal in mind – creating a retirement system to serve its hard-working employees. Nine years later, they had accumulated \$281,000 that they used to create the Municipal Pension System. The Texas Legislature established the plan, making the system official on May 3, 1943.

Sixty-six years of service later, the System remains true to the original vision of providing retirement benefits to its members. But there have been a few changes along the way, as well as plenty of growth in assets and membership.

In the System's early years, membership included 108 retirees who received average monthly pensions of \$44.98 and 1,067 active members who made monthly contributions of \$2.00.

By 1950, Houston was the nation's 14th largest city – behind Milwaukee – with a population of 596,163.

As the city continued to expand, officials knew they needed a solid workforce to fuel the growth and so they promised new hires a pension. The offer attracted many citizens to local government work, spurring a dramatic increase in the pension system's membership.

Membership in the mid-1950s reached 4,548 and assets grew to \$3,966,825. An employee retiring in 1956 with 28 years of service was entitled to a pension benefit of \$100 per month. The monthly contribution by employees rose to \$7. Also during that time, employees became eligible for Social Security benefits.

As a new decade began in 1960, the System's assets surpassed the \$10 million mark for the first time to total \$10,596,901. Membership stood at 5,376 and active members were contributing \$10 a month to help fund the System's positive trend.

More change came in 1981, when bills were introduced in the Texas Legislature to establish a noncontributory pension group for employees, Group B.

The Pension System continued its upward trek in the early 1980s, with membership topping 14,856, including 12,252 active members and 2,604 retired members, beneficiaries and inactive vested members. During this time, Houston became the nation's fourth largest city. The System's mar-

ket value surpassed yet another milestone, the \$100 million mark, to equal \$108.5 million.

In 1987, the U.S. stock market suffered a severe decline and budgets in most of the nation's cities, including Houston, were adversely affected.

Despite the economic turmoil of the 1980s, the System's market value continued to grow. The 1989 fund was \$546.3 million – a 400 percent increase from 1980. That same year, the System published the first issue of the *Pension Press* newsletter.

In 1992, Roderick J. Newman was elected as the first African American to serve on the HMEPS Board. In 1993, the Board hired its first executive director, David L. Long, and his administrative staff. That same year, the name was changed to the Houston Municipal Employees Pension System, HMEPS.

HMEPS thrived and its market value climbed to \$1.17 billion in 1997, another major first for the pension system. Also, that year the Deferred Retirement Option Plan (DROP) was instituted.

In 2004, HMEPS and the City entered into its first Meet and Confer Agreement to make certain changes to the pension plan.

In subsequent years, there have been addi-

tional amendments to the original Meet and Confer Agreement. The Meet and Confer Agreement also established a new noncontributory group – Group D.

HMEPS continued to expand services to its membership in 2006 by participating in the City's first Financial Fitness Expo and introducing AccessHMEPS, an online service for DROP participants.

After serving the System for 35 years in different capacities, Chairman Fred Holmes stepped down from the HMEPS Board in 2008. Rod Newman was elected Chairman, the first African American elected to the post since the creation of the fund in 1943. In September of 2008, Sherry Mose became the first female elected to the office of Chairman.

As of July 1, 2010 the System had more than 27,415 participants and total assets of \$1.9 billion. HMEPS is honored to continue the commitment set forth so many decades ago for the valued employees of the City of Houston.

*Serving City of
Houston
Employees for 67
Years*

ACKNOWLEDGEMENT

- HMEPS would like to thank all of the City of Houston employees whose photographs appear in this report.



Irvin Nguyen, Municipal Courts Department

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM
1111 BAGBY, SUITE 2450, HOUSTON, TEXAS 77002-2555
PHONE 713-595-0100 | WEB WWW.HMEPS.ORG