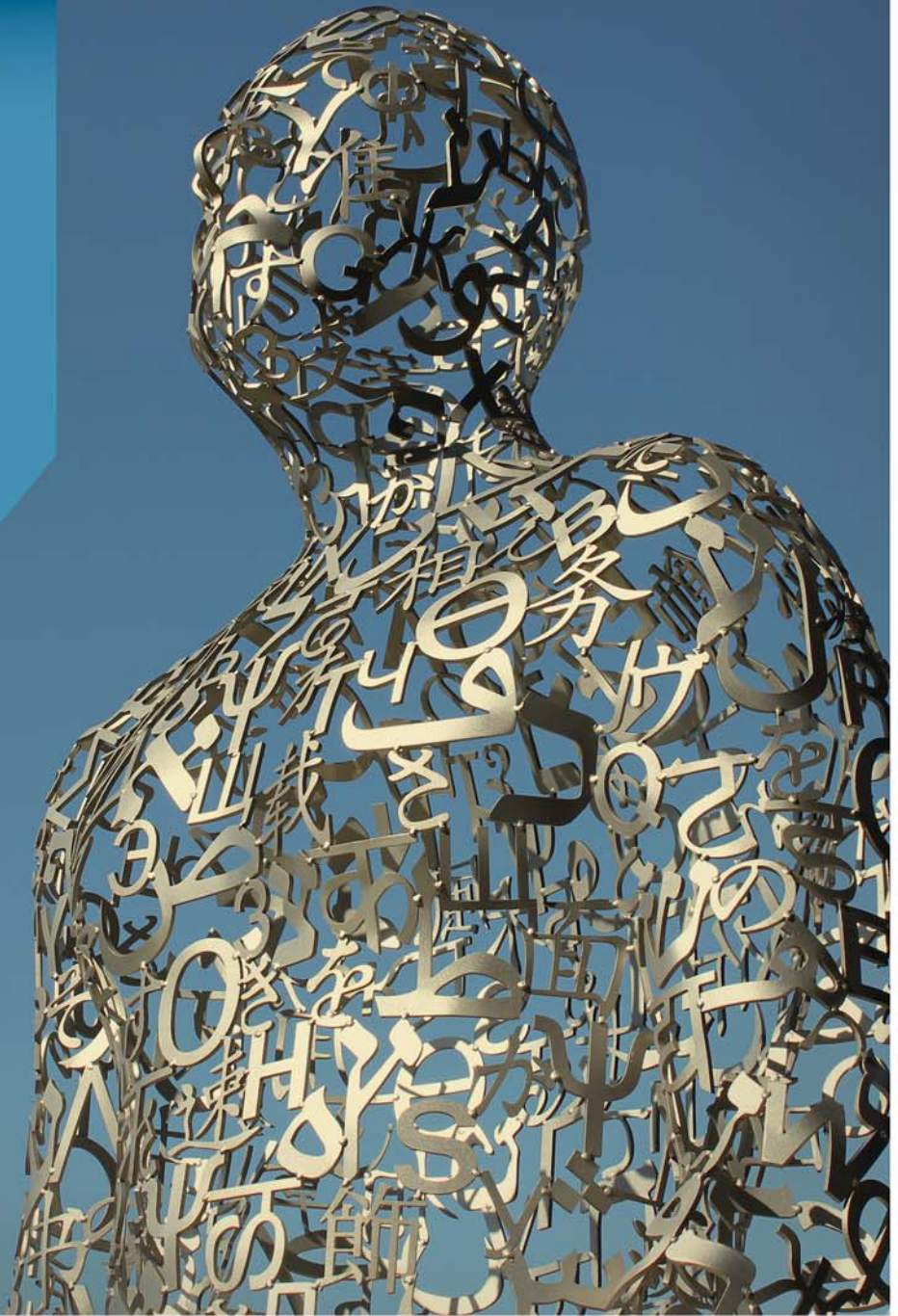




HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

JOINING
TOGETHER
FOR A
BETTER
FUTURE



Buffalo Bayou - Tolerance - by Jaume Plensa

2012 **REPORT TO PARTICIPANTS**



HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

WHEN WE STAND TOGETHER, NOTHING IS AS STRONG AS OUR COMMON GOAL

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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, 2012. (The full CAFR is available on our website at www.hmeps.org/publications.html.)



HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

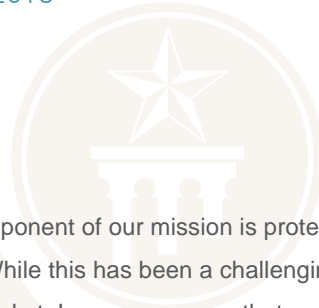
Discovery Green Park - Synchronicity of Color - by the Houston Arts Alliance

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM
2012 REPORT TO PARTICIPANTS



LETTER FROM THE CHAIRMAN

January 15, 2013



Dear Plan Participants:

I'm proud to present you with the 2012 Report to Participants, which summarizes the HMEPS 2012 Comprehensive Annual Financial Report (CAFR) and provides an overview of our operations.

It's been a productive year at HMEPS and we accomplished a great deal in 2012. This year, we put into effect additional measures to ensure we are communicating with all of our stakeholders and keeping them informed of developments regarding pensions and the System. I like to think of 2012 as "The Year of Communication." We also implemented new social media tools, met proactively with local and state leaders and developed an email e-blast system. We will move forward with our proactive communications efforts during the 2013 Texas legislative session.

Of course, in the midst of this activity we continued to provide excellent service to our participants and helped prepare them for a more secure retirement. City of Houston employees spend their careers working hard to provide vital services that make Houston a great place to live. In return, we at HMEPS are committed to protecting and growing the System so that our members can enjoy a stable and secure financial future. It is important to remember that HMEPS retirement benefits are more than just an earned, financial benefit for our participants. Those benefit payments also provide a strong boost to the Houston economy and have played a key role in the city's economic recovery.

A primary component of our mission is protecting the assets of the fund. While this has been a challenging year in the investment market, I can assure you that our Board and staff have worked hard to professionally manage the fund in order to protect the financial interests of our members, retirees and their families.

At HMEPS, we strive to attain the highest standards of accountability, integrity and openness by applying rigorous controls within the System. This is evident as HMEPS is once again honored to receive the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association (GFOA) of the United States and Canada for its comprehensive annual financial report for fiscal year 2011.

We look forward to a successful 2013, in which we will continue to work to protect and grow the pension system for our participants, to communicate effectively about pension issues, and to monitor efforts regarding pensions. We will always work diligently to protect your benefits.

As always, it is an honor to serve each of you as Chairman.

Sincerely,

Sherry Mose
Chairman



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. 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.



A significant responsibility of the Board is to ensure that HMEPS has in place an adequate system of internal controls.

ORGANIZATIONAL OVERVIEW

Board of Trustees

Elected and Appointed Trustees



Sherry Mose
Chairman



Roy W. Sanchez
Vice Chairman



Lonnie Vara
Secretary



Asha Patnaik
Elected Trustee



David L. Long
Elected Trustee



Lenard Polk
Elected Trustee



Barbara Chelette
Appointed Trustee



Richard Badger
Council Appointee



Justo P. Gonzalez
Council Appointee



Craig T. Mason
Mayoral Appointee



Ramon Manning
Controller 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
- Member Services
- Financial Counseling
- Communications

Operations

- Accounting and Financial Reporting
- Financial Reporting
- Records
- Technology Support

BUILDING A STRONG FOUNDATION



THE STAFF

Serving City of Houston Employees for 69 Years

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

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.

During the fiscal year, the Member Services division continued to improve processes designed to expand and improve customer service, including:

- Processed 1,698 members for payroll, including retirements, survivor benefits and lump-sum payments.
- Responded to increased 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 113 individual counseling sessions and hosted 73 joint presentations for various City departments as well as new employee orientations. A growing number of participants requested financial counseling based on other participants' recommendations.
- Initiated 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. The HMEPS Financial Counselor conducted 410 one-on-one counseling sessions with participants during the past fiscal year in addition to numerous group presentations. He also has been involved in monitoring pension related issues nationally and locally, a critical part of fulfilling HMEPS' obligation to keep participants fully informed. This also has



JOINING TOGETHER FOR A BETTER FUTURE



TALENTED PROFESSIONALS COMMITTED TO EXCELLENCE

enabled HMEPS to effectively respond to misinformation about pensions generally and about HMEPS in particular.

- Benefits counselors and the financial counselor participated in the 2012 Financial Retirement Employees Educational Summit on October 23 and 24, 2012. This important annual event has been a tremendous success in helping City of Houston employees better plan their financial futures.

Investment Division

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.

During fiscal year 2012, the System completed a search for a Master Limited Partnership investment manager to further diversify the Inflation-Linked Asset Class (ILAC). With the help of the System's alternative investment consultant, Cliffwater LLC, HMEPS invested in four private equity partnerships, two real estate partnerships, two ILAC partnerships and six absolute return funds. This activity will bring the System's portfolio closer to the strategic asset allocation policy targets.

Operations Division

The **Operations** division is responsible for accounting, records and the technology that is critical 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 system assets is the primary responsibility of this department.

Legal Division

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.

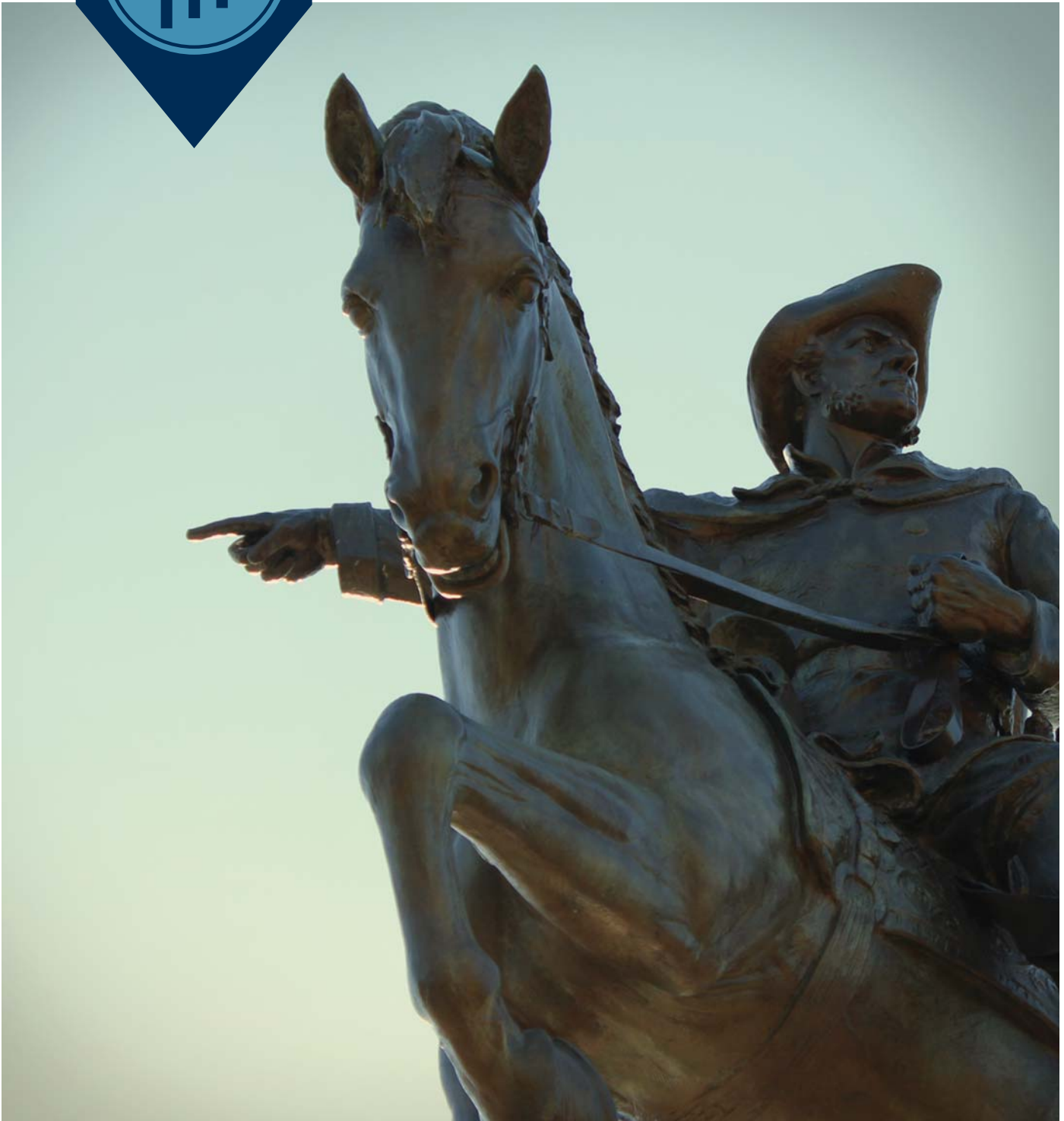
System Milestone

The Board and staff significantly reduced the System's expenses by relocating its offices to a new location as well as by creating new efficiencies to the operation and by prudently managing the budgeted expenses. HMEPS' office relocation provided a substantial reduction in operational costs and allowed the System to become more accessible to a greater number of participants. These savings are renewable into the future and will reduce the budget by \$1 million over the next five years. The move and new efficiencies will not sacrifice service or performance, but rather, will increase access for our members as well as enhance productivity through the use of higher level technology.

Throughout the relocation, benefit counselors were able to provide effective and efficient service for participants at all levels. In addition, the Operations Division provided significant assistance in the relocation of the System's office, including coordinating the move and maintaining connectivity to web services and voice communications, both of which are vital to HMEPS' operations.



PARTICIPANT OVERVIEW



Hermann Park - *Sam Houston Monument* - by *Enrico Cerracio*



PROUDLY SERVING OUR PARTICIPANTS FOR 69 YEARS

HMEPS participants come from all walks of life and serve their communities' diverse and special needs, including as doctors, engineers, safety inspectors, clinicians, urban planners, accountants, attorneys, counselors, investment managers, librarians, dispatchers, fire and police support personnel, groundskeepers, nurses, surveyors, information technology specialists, parks designers, waste management personnel, municipal courts staff, and thousands of other jobs that contribute to the City's mission of serving its citizens.

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, 2011, there were 26,675 participants in HMEPS. Included in this figure are active members, inactive participants, service retirees, disabled retirees and beneficiaries and spouses. Of the 12,345 active employees, 6,644 are male and 5,701 are female. HMEPS also serves 6,663 service retirees, 398 disabled retirees and 3,178 deferred retirees.

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.





BY THE NUMBERS

The impact of HMEPS' benefits amounts to over \$164 million in the City of Houston

HMEPS participants and retirees not only make Houston a better place to live, they also help the Texas economy. Nearly \$10 of total economic impact to the State of Texas is generated from each \$1 of taxpayer contributions to Texas public pensions, according to a recent report by Ilana Boivie of the National Institute for Retirement Security (Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures.) The report traced the extensive impact pensions have on the economy, and quantified how pension spending “ripples through the economy, supporting jobs and incomes in the process.”

Applying conclusions from the report, the impact of HMEPS' benefits alone amounts to over \$164 million annually in the City of Houston. This doesn't

even count the surrounding suburbs and towns, which nearly doubles the total.

CONTRIBUTIONS TO TEXAS AND US ECONOMY		
	Texas	United States
Retiree expenditures stemming from state and local pension plans benefits support jobs in state of Texas	75,221	\$4.9 billion total income to state residents
State and local pension funds paid in benefits to Texas residents	\$8.59 billion	\$12.3 billion total economic output in state
Direct economic impacts supported by retirees' expenditures on goods and services in state of Texas	\$8.3 billion	\$2.1 billion total in indirect economic impacts
State and local pension payments made to Texas residents support to federal, state and local governments	\$1.7 billion	\$1.4 billion total tax revenue attributable to direct, indirect and induced expenditures

The HMEPS Pension Buck Pensions are a shared responsibility.

Every dollar paid to HMEPS participants comes from three sources:*

51¢
HMEPS Investment Earnings (Historically as high as 80¢)

39¢
City Contributions

10¢
HMEPS Members

In total, HMEPS pays out approximately \$190 million in benefits each year to retirees and beneficiaries. The sources of these funds are investment income and cash contributions from both members and the City. The breakdown between these sources can be seen in the “HMEPS Pension Buck” illustration (10 years ending June 30, 2011).

PARTICIPANT DATA AS OF JUNE 30, 2011

PARTICIPANT DATA					
	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Service
Active Members	12,345	8,108	\$44,120	46.5	10.6 years
Inactive Participants	5,613	3,178	6,453	—	—
Service Retirees	6,663	—	22,783	67.4	—
Disabled Retirees	398	—	9,355	63.0	—
Beneficiaries & Spouses	1,656	—	11,884	68.0	—

SCHEDULE OF ANNUITANTS BY TYPE						
	June 30, 2011			June 30, 2010		
	Number	Benefits (\$000)	Average Benefit	Number	Benefits (\$000)	Average Benefit
SCHEDULE OF ANNUITANTS BY TYPE						
Retirees Receiving Benefits	6,663	151,806	22,783	6,482	144,421	22,280
Retired on Disability	398	3,723	9,355	404	3,663	9,067
Survivors and Beneficiaries	1,656	19,681	11,884	1,640	18,374	11,204
Total Retirees, Survivors and Beneficiaries	8,717	175,210	20,100	8,526	166,458	19,524
Former Participants Eligible but not yet receiving Benefits	3,178	20,507	6,453	2,815	19,275	6,847
Total Eligible for Benefits	11,895	195,717	16,454	11,341	185,733	16,377

HISTORICAL ACTIVE PARTICIPANT DATA					
Valuation Date	Number of Participants	Annual Payroll \$(000)	Average Salary (\$)	% Salary Increase	
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	
July 1, 2010	12,913	550,709	42,648	5.5	
July 1, 2011	12,345	544,665	44,120	3.5	

Beginning with 2005, a change in methodology annualizes payroll for new entrants.



FINANCIALS

Each year, HMEPS is subject to an independent external audit to review the System's financial statements to provide assurance 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 18th consecutive year, HMEPS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the 2011 CAFR.

Revenues (Additions) and Expenditures (Deductions)

The Summary Comparative Statement of Changes in Plan Net Assets table (see below) shows the Fund's primary income is derived from member and employer contributions, and income appreciation/loss on investments. For 2012, total contributions were \$115.6 million dollars, and net investment income was a loss of \$11.9 million dollars, which includes \$7.49 million in fees for external investment management services.

On the expenditure side, the majority of the fund's expenses were associated with participants' periodic and one-time (refund or DROP) payments of \$202.2 million, or 96.5% of total expenses. The remainder of the fund's expenses is comprised of administrative expenses of \$6.3 million or 3% of

total expenses, and professional fees of \$1.1 million or 0.5% of total expenses.

Fiscal Year 2012 Financial Highlights

The System's investment portfolio closed fiscal year 2012 at \$2.02 billion, down from \$2.13 billion at the beginning of the year. The total investment return for the fiscal year was -0.14%.

The System's investment performance was -0.1%, 11.1% and 2.9% for the past one-, three- and five-year periods ending June 30, 2012. Although the System lagged slightly behind the policy benchmark for fiscal year 2012, it outperformed the policy benchmark for the five-year period. Relative to its peer group, the fund continues to post attractive investment returns over the long term. Over the past five year period ending June

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

ASSETS	FY 2012	FY 2011
Cash and equivalents	\$1,647	\$1,065
Investments	2,048,112	2,192,678
Receivables on asset sales	9,934	7,487
Other receivables	6,717	27,480
Collateral on securities lending	261,195	116,401
Furniture, fixtures and equipment, net	325	307
Total Assets	2,327,931	2,345,419
LIABILITIES		
Payable on asset purchases	36,997	72,632
Accrued liabilities	5,504	26,944
Collateral on securities lending	261,195	116,401
Total Liabilities	303,696	215,977
PLAN NET ASSETS	\$2,024,234	\$2,129,441

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

	FY 2012	FY 2011
<u>Additions</u>		
Contributions	\$115,634	\$106,611
Investment and interest (loss) income, net	(11,964)	391,095
Other income	654	1,185
Total additions	104,325	498,891
<u>Deductions</u>		
Benefits paid	200,014	189,199
Contribution refunds	2,206	1,620
Administration and professional fees	7,311	7,123
Total deductions	209,532	197,942
Net increase (decrease) in plan net assets	(105,206)	300,949
Plan net assets, beginning of year	2,129,441	1,828,492
PLAN NET ASSETS, ENDING OF YEAR	\$2,024,234	\$2,129,441

STANDING STRONG DURING DIFFICULT TIMES

30, 2012, the fund performed in the top quarter of all public funds in the TUCS Master Trusts - Public Universe. The System places in the top 10% of all public funds over 10 years.

Financial Markets

Market volatility remained high during fiscal year 2012 as equity markets fell sharply in the quarter ending September 30, 2011. Domestic equity indexes rose significantly over the next two quarters before declining again before the fiscal year end.

The U.S. stock market, as represented by the Wilshire 5000 index, finished the fiscal year with a gain of 4.0%.

Unemployment remained high at 8.2%, although this rate was down slightly from the 9% unemployment rate recorded in June 2011. GDP grew during the fiscal year, but the rate was slower than expected and remained below the historical average growth rate of 3.3%. With banks reluctant to lend, credit markets remained tight. Concerns about high levels of U.S. government debt lingered following the Standard & Poor's downgrade of U.S. Treasuries in August 2011.

There were also concerns that the financial problems in Europe would affect not only European markets, but would spill over into U.S. markets. Initially, the concern was centered on consequences of possible Eurozone bailouts for Greece and Spain. In Spring 2012, opposition to austerity measures figured prominently in national elections in France and Greece. Meanwhile, China's economy slowed in the last few months of the fiscal year. Overall, the broad international equity index, the MSCI All Country ex-U.S. Index, was down 14.2% for the fiscal year.

In the fixed income markets, investment grade bonds and treasuries performed well, gaining 7.5% for the fiscal year, as represented by the Barclays Aggregate, as investors continued to seek safety in bonds. However, these positive returns are tempered by the expectation that the current low interest

rates will rise. Non-investment grade fixed income provided a similar return as the Merrill Lynch High Yield Master II Index gained 6.5%.

The System benefited from its exposure to private markets as private equity was the best performing asset class, returning 11.0%. However, its strategic asset allocation has a higher allocation to Non-U.S. Equity than many of its peers, and international stocks significantly underperformed domestic stocks in fiscal year 2012. As a result, for the fiscal year end-



ing June 30, 2012, the System's investment portfolio remained relatively flat.

Through the efforts of the Board over the past 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. Over long periods of time (10 years), the System's investment performance exceeds 95% of its peers. During the 10-year period ending June 30, 2012, the System's annualized return was 8.52%, with the median comparable fund returning 6.38%.



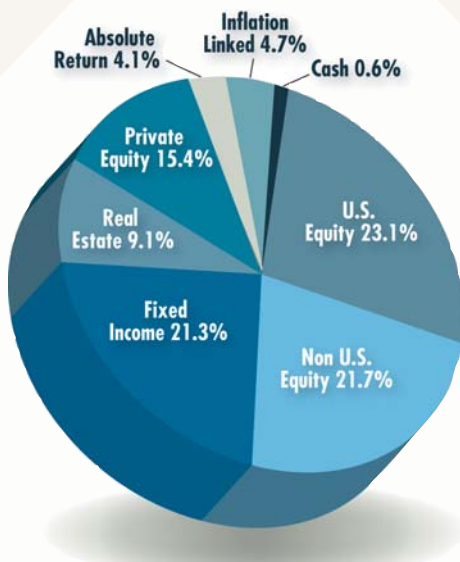
INVESTMENTS

The 10-year period ending June 30, 2012, has produced annual returns that have been volatile, but not as much as the markets as a whole. The System generated double-digit positive returns in six of the past 10 fiscal years, met or exceeded its policy index in six of those 10 fiscal years, and outperformed its peer group in seven of those 10 years. Despite severe market volatility over the past decade, the System's 10-year annualized return is 8.52%, in line with its return target of 8.50%. The 20-year return stands at 8.68%.

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

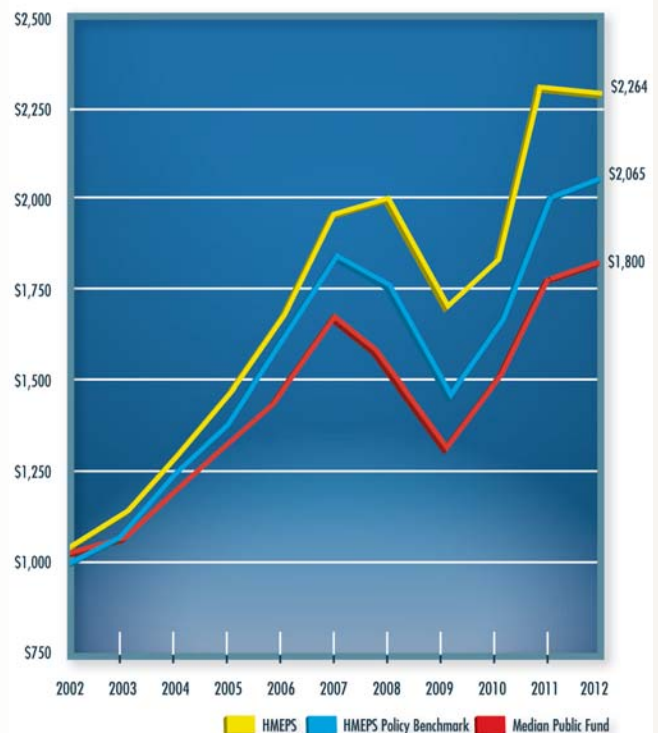
The consistent long-term above-benchmark performance is best illustrated by the growth of \$1,000 invested in HMEPS' total fund, the policy portfolio and the median public fund during the past 10 years. The ending points indicate that

SYSTEM ASSET ALLOCATION



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 five- and 10-year time periods. In addition, HMEPS' total fund performance compares very favorably to the median public fund, as represented by the TUCS Master Trusts-Public Universe, and has outperformed this benchmark for the five- and 10-year periods. Over the 10-year period, HMEPS is in the top 10% of funds in the TUCS Master Trusts-Public Universe.

GROWTH OF \$1,000



\$1,000 invested in HMEPS' total fund would have grown to \$2,264, while the same \$1,000 would have grown to \$2,065 and \$1,800 respectively in the policy portfolio and the median public fund.

GIVING A STRONG PERFORMANCE – IT'S WHAT WE DO



COMPARISON OF INVESTMENT RETURNS – YEARS ENDED JUNE 30

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

	2012	3 Yrs.	5 Yrs.	10 Yrs.	2011	2010	2009	2008
Total Portfolio	-0.14	11.05	2.93	8.52	22.17	12.2	-16.0	0.4
Actuarial Rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Policy Benchmark	3.23	12.81	2.39	7.57	22.89	13.0	-17.55	-4.88
Median of Wilshire Public Fund Universe/TUCS	1.25	11.85	1.94	6.38	21.19	14.8	-19.2	-4.9
U.S. Equity	3.43	17.51	-0.40	5.83	33.77	17.3	-27.6	-16.8
Wilshire 5000 Index	3.96	16.65	0.43	6.04	31.99	15.7	-26.4	-12.5
International Equities	-12.86	6.40	-4.96	6.72	28.14	7.9	-31.9	-5.4
MSCI All Country World ex US Index	-14.15	7.43	-4.18	7.20	29.73	10.9	-30.5	-6.2
Fixed Income	6.31	10.79	6.83	7.31	9.33	17.0	0.4	2.0
Bardays Aggregate Index	7.48	6.93	6.80	5.63	3.90	9.5	6.1	7.1
Merrill Lynch High Yield Master II Index	6.51	16.16	8.17	9.94	15.40	27.5	-3.5	-2.1
HMEPS Private Equity	11.00	16.69	7.05	10.98	22.54	16.8	-20.9	11.9
S&P 500 Index +3%	8.44	19.39	3.21	8.33	33.68	17.40	-23.22	-10.12
Real Estate	3.78	1.36	-6.00	6.73	10.92	-9.5	-40.4	18.2
NCREIF Property Index	12.00	8.81	2.50	8.29	16.73	-1.5	-19.6	9.2
Inflation-Linked	-21.96	9.83	n/a	n/a	39.72	21.5	n/a	n/a
Consumer Price Index +4%	5.66	6.09	n/a	n/a	7.56	5.1	n/a	n/a
HMEPS Absolute Return	-0.86	11.70	n/a	n/a	13.94	23.4	n/a	n/a
LIBOR +4%	4.46	4.53	n/a	n/a	4.33	4.3	n/a	n/a

□ - HMEPS Assets

□ - Benchmark



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.

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 additional 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.

Effective on July 1, 2011 the Amended and Restated Meet and Confer Agreement (Agreement) between the City and the System went into effect. The Agreement provides for structured contributions from the City to provide the City budgetary flexibility while strengthening the System, enhancements to Board operations to promote best practices, and increased options for eligible participants that are cost neutral to the System.

As of June 30, 2012 the System had total assets of more than \$2.0 billion. HMEPS is honored to continue the commitment set forth so many decades ago for the valued employees of the City of Houston.



CHARLES J. WILLIAMS, SR.

Charles J. Williams, Sr., was an 18-year veteran of the City of Houston Public Works and Engineering Department who worked tirelessly to improve the lives of Houston residents. On May 31, 2012, Charles died in an accident while in the performance of his duties in the Street and Drainage Division and Storm Water Maintenance branch.

HMEPS wishes to honor the service Charles provided to the City of Houston and its citizens. His dedication to the City and the manner in which he lived his life were a model for admiration.

The Public Works and Engineering Department staff praised Charles as “a valued and highly respected veteran member” of the department. Charles carried out his duties with pride and commitment. During Hurricane Ike, he worked relentlessly to clear debris from the roads and helped return the lives of Houston’s citizens to normalcy.

Charles not only served the City full time, but he was also very involved with his church, volunteering in the local community, and being a devoted husband and father of two sons. His wife of 53 years, Lue Williams, described her husband as “a dedicated worker who had compassion for his fellow man. He enjoyed his job with the City and believed in doing his best, always taking pride in his work.”

Charles is one of the many “unsung heroes” of the City of Houston that HMEPS recognizes for their commitment and dedication to serving the public in ways that make our lives easier and more enjoyable. The Trustees and staff of HMEPS salute Charles Williams for his service and dedication, and we are proud to be able to provide needed benefits for the families of those, like Charles, who have given their lives in service.





HMEPS
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