Dear Plan Participants,

This issue of the Pension Press marks the end of a very tumultuous year. It was a year that saw the economy continue to struggle and one in which Houston was put into the national spotlight for corporate fiascos. Despite these obvious reasons for pessimism, I would rather shift the focus to the many positive, “quiet” achievements that HMEPS pushed forward in the last year:

1. The introduction of our successful “Group DROP Sessions,” which have streamlined the DROP process.

2. The introduction of the 457 Trustee-to-Trustee Transfer/Rollover Program (discussed more on page 7), which has been met with great enthusiasm.

3. HMEPS’ investment performance has been better than the majority of our peers. During the three-year period ending September 30, 2002, HMEPS’s investment performance exceeded 80% of our public fund peers.

The momentum will continue in the year ahead. HMEPS has set many goals for 2003 — all aimed at improving services for our participants. These include:

• The HMEPS Information Technology department has many enhancements planned that will significantly increase the level of service and decrease the amount of time participants spend accomplishing necessary functions with HMEPS.

• The HMEPS website (www.hmeps.org) will continue to be enhanced and refined. (See page 7 for a brief discussion of what you can expect.) New forms, the latest publications, and other enhancements will continue to be added to the site.

The pension system is excited and optimistic about 2003 — I hope you are too.

Sincerely,

Fred Holmes
Chairman

Fred Holmes
Chairman

Ray Kennedy
Vice Chairman

Sherry Mose
Elected Trustee

Barbara Chelette
Secretary

Roderick J. Newman
Elected Trustee

Lee Pipes
Elected Trustee

Lonnie G. Vara
Mayor’s Representative

Albertino Mays
Treasurer

James E. Bashaw
Appointed Trustee

Robert Hu
Appointed Trustee

Ignacio Pujol, Jr.
Appointed Trustee

David L. Long
Executive Director

In This Issue...

Top Questions & Answers About Leaving Service Before You Retire .................................................. 2-3
Purchasing Credited Service - The Correct Steps To Take ............................................................... 3
Pension Check News and Notices ...................................................................................................... 4
HMEPS Investments and More ........................................................................................................... 5
Normal/Deferred Retirements September 2002 to December 2002 ................................................ 6
Active Employee and Retiree Deaths ................................................................................................. 6
Letter From Elected Trustee Sherry Mose and IT Department News .............................................. 7
Top Questions & Answers About Leaving Service Before You Retire

HMEPS staff consolidated the most frequently asked questions and answers pertaining to leaving service before retirement. The results are presented here. If you have a question that is not addressed, please contact the HMEPS office.

1. If I leave service covered by HMEPS before I’m old enough to retire will I still receive a retirement benefit?

If you have a minimum of five (5) years of credited service and leave covered employment and have made a proper application for a deferred retirement benefit, you are eligible to receive a retirement benefit beginning in the month following the month in which you attain either (1) age 62 or (2) a combination of age/years of credited service equal to 70 or more.

2. Should I notify the HMEPS office if I leave before I’m old enough to retire?

In order to receive a deferred retirement benefit, and for any of your eligible survivors to receive a survivor’s benefit in the event of your death, you must complete a deferred retirement application and provide HMEPS with all requested information. If you fail to timely file an application, you will delay the beginning date of your benefit and no survivor benefits will be paid in the event of your death. Benefits are not retroactive if you fail to apply upon reaching retirement eligibility. Therefore, it is very important that you timely file a complete application and provide HMEPS with all requested information.

3. Do I have to notify the HMEPS office when I become eligible to receive a retirement allowance?

Yes, it is your obligation to contact HMEPS prior to reaching retirement eligibility so that HMEPS has a correct current address and other important information regarding the payment of your benefit. Therefore, we recommend that you contact the HMEPS office several months before you reach eligibility or wish benefits to begin.

4. How do I get a refund?

If you have separated from the City of Houston and want a refund of your HMEPS contributions, you must file a written, signed request with HMEPS. Necessary forms and notices will be forwarded to you by mail. Once HMEPS receives your refund request, it should take between 45 and 60 days for your refund to be sent to you. It is not always mandatory that you take a refund. You may wish to leave your contributions in HMEPS if you anticipate returning to a HMEPS-covered position.

5. In the past I worked in an HMEPS-covered position, but left my job and withdrew my contributions. Is there any way I can get back the creditable service I forfeited when I withdrew my money from HMEPS?

Yes, if you are currently employed in an HMEPS-covered position and meet the eligibility criteria, you can purchase credit for previous service by completing a service purchase obligation. Please contact the HMEPS office for information.

6. Can I quit my job and leave my contributions in the system?

Yes. If you have five (5) years of credited service, you can maintain your eligibility for a retirement benefit by not taking a refund if you separate from service. By leaving your contributions in HMEPS and filing an application for deferred retirement, you are eligible to draw a monthly benefit for life when you reach retirement age. It is important to notify HMEPS of any change in your address even if you are in deferred retirement status so that you will receive important information about your benefits that may from time to time be provided by HMEPS.
7. What kind of insurance coverage will I be eligible for when I retire?

The insurance programs available to retirees are administered by the Health Benefits Division of the City of Houston. All inquiries regarding insurance coverage should be directed to the Health Benefits Division.

...and Two Questions & Answers About Direct Deposit.

Is Direct Deposit available? How do I sign up?

HMEPS strongly recommends that you sign up for Direct Deposit when you retire, so your checks will be electronically deposited to your account in your financial institution. Application forms are available from the HMEPS office. You must take the application form to the financial institution where you want your checks deposited to get a signed certification of the account numbers. HMEPS must be kept informed in writing of any changes in your home address after you retire, even if you use Direct Deposit, so periodic statements, news updates, and your 1099-R can be mailed to you.

If I sign up for Direct Deposit, when will my first pension check be deposited electronically?

The Direct Deposit network regulations require that a test of your transaction be made the first month you have Direct Deposit. Therefore, your first pension check will be a paper check mailed to your address of record. If the first month test works correctly, your second and subsequent checks will be deposited electronically. HMEPS must receive your Direct Deposit form before the 15th of a month in order for the process to begin that month. If HMEPS receives your Direct Deposit form after the 15th, the process will begin the next month.

Purchasing Credited Service - The Correct Steps To Take

In order to be eligible to purchase credited service into Group A or to convert service from Group B to Group A, a person must be a HMEPS member (eligible active employee) not currently participating in the Deferred Retirement Option Plan (DROP), and HMEPS must receive the member’s executed service purchase obligation or RT-1 (rollover/transfer) form before the member terminates employment.

A member should initiate the service purchase process by submitting a completed “Request to Purchase Credited Service” form (Request) to HMEPS. The form can be downloaded from the HMEPS website (www.hmeps.org) or obtained by calling HMEPS at (713) 759-9275. IMPORTANT: The Request is not binding on the member or HMEPS. If the member only submits the Request and does not submit an executed service purchase obligation or RT-1 form to HMEPS prior to terminating employment (last day paid), the member will not be able to purchase credited service. Please contact HMEPS if you have any questions about purchasing credited service.

The following is a brief overview of the general steps for purchasing credited service:

1. Submit Request form to HMEPS. You must select a method of payment on this request in order for HMEPS to send you the appropriate service purchase package.

   HMEPS sends you:
   a. service purchase obligation (used for payroll deduction or lump-sum payment), or
   b. RT-1 form (used for rollovers/transfers, e.g., transfers from City of Houston Deferred Compensation Plan)

2. You return a completed service purchase obligation or RT-1 to HMEPS (HMEPS must receive prior to your termination of employment)

   Payment begins

3. You receive credited service upon completion of payment

This overview is intended only as a brief description of the service purchase procedures. Nothing contained herein can be construed to convey any right or privilege not otherwise provided by the pension law. In the event of any conflict between this overview and the pension law, the pension law shall take precedence.
Replacement Check Policy

Several participants have asked about replacement checks. The following questions and answers are provided as a result.

When will my pension check be mailed each month? What if I don’t get my monthly pension check in the mail?

Pension checks are mailed on or about the 27th of each month and are paid at the end of the month for which they are due. To give the Post Office time to deliver your check, please wait until the 10th of the next month after you should have received your pension check to contact the HMEPS office. HMEPS will not take any action until the 10th of the next month.

What if my pension check is not delivered, or is lost, stolen, or destroyed?

If your pension check is not delivered by the 10th of the next month after it is mailed, or it is lost, stolen, or destroyed after you receive it, contact the HMEPS office between the 10th and 14th of the month in order for HMEPS to initiate processing a replacement check for you. Do not contact HMEPS before the 10th, as no action will be taken prior to that date. If you report that your check has not been delivered, or if it has been lost, stolen or destroyed, HMEPS will place a stop payment on the check. Replacement checks will be processed twice a month, under the following time frames:

Undelivered check: If you call between the 10th and 14th of the month, a replacement check will be processed on the 15th day of the month.

You should receive the check two or three days later. If you call after the 14th day of the month, your check will be processed at the month-end payroll, on or around the 27th day of the month, and you should receive the check in the mail two or three days later.

Lost, stolen or destroyed check: If you call between the 10th and 14th of the month, an affidavit will be mailed to you. Complete, sign, and return the affidavit immediately. If HMEPS receives the affidavit by the 14th day of the month, a replacement check will be processed on the 15th day of the month, and you should receive the check two or three days later. If HMEPS receives the affidavit after the 14th day of the month, your check will be processed at the month-end payroll, on or around the 27th day of the month, and you should receive the check in the mail two or three days later.

If the cause of the loss is not attributable to HMEPS, its agents or the bank or payroll processor, HMEPS has the right to charge a participant for any expense incurred by HMEPS in causing a new check to be issued and stopping payment on the original check.

You can avoid the problems of undelivered, lost, stolen or destroyed checks by signing up to have your check deposited directly into your bank account. Please contact HMEPS to obtain the necessary form for initiating direct deposit.

Remember, Your Pension Check Has Changed!

HMEPS recently announced that it had changed payroll providers from ADP to Ceridian Corp. The October pension payroll reflected this change. If you missed the notice HMEPS sent out, here are the highlights:

- If you previously had a direct deposit arrangement on file with ADP, it will continue to be in place and processed by Ceridian Corp. You do not have to do anything!
- If you are receiving a check, it will appear similar to the one pictured here. Please note that this is a one-piece document, with perforations on both sides, which also functions as an envelope. The bottom part of the document is the check, which you detach before going to the bank to cash or deposit it in your account.
Constitutional Amendment to Protect Public Pensions

The Houston Municipal Employees Pension System Board of Trustees approved a resolution at its November 2002 board meeting to support the efforts of the Texas Association of Public Employee Retirement Systems (TEX-PERS) for passage of an amendment to the Texas Constitution that would protect the pensions of public employees in Texas, including HMEPS members, retirees and their beneficiaries. Texas currently does not constitutionally guarantee the pensions of public sector employees, unlike numerous other states in which public pensions are protected by state constitution.

If you would like more information about the proposed constitutional amendment, or would like to make a non-tax-deductible contribution to the effort, you can write to the following address:

The Committee for Secure Retirement
P.O. Box 24
Rowlett, Texas 75030

Can’t Get to the HMEPS Website Because You Don’t Own a Computer? Try Your Local Library.

Just because you don’t own a computer doesn’t mean you can’t access the HMEPS website. Every local branch of the Houston library system has computers with internet access. Below are the names, addresses, and phone numbers for every branch in the Houston area.

HMEPS Investments

As of 6/30/02:

<table>
<thead>
<tr>
<th>Investment</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity</td>
<td>$362,478,151</td>
</tr>
<tr>
<td>International Equity</td>
<td>$243,606,714</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$259,873,667</td>
</tr>
<tr>
<td>Real Assets</td>
<td>$230,419,205</td>
</tr>
<tr>
<td>Alternative Investments</td>
<td>$167,579,383</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>$5,424,556</td>
</tr>
<tr>
<td>Market Value – 6/30/2002</td>
<td>$1,269,381,677</td>
</tr>
</tbody>
</table>

For the Fiscal Year ending June 30, 2002 the return on the Fund’s investments was - 7.08%.

For the first six months of Calendar Year 2002, the return on the Fund’s investments was - 4.67%.

Volume 19, Winter 2002
NORMAL and DEFERRED* RETIREMENTS
SEPTEMBER 2002 TO DECEMBER 2002

Aviation
Doerre, Herby
Him, Kimbuoy
Lake, Prospera
Mallett, Sharon
Randall, Carmona*
Reynaud, Lloyd
Villanueva, Helen
Yates, Nordean
Zamanian, Touradj

Building Services
Apodaca, Abelardo
Cessna, Yolanda*
Delphin, Lynwood A.

Controllers
Beck, George C.*

Finance & Administration
Webb, Wanda

Fire
Toliver, Lonnie*
Wafer, Patricia

Health & Human Services
Crocker, Kathleen*
Jean, Catherine
Pesses, Philo

Information Technology
Hansen, Margaret

Library
Mba, Martha

Mayor's Office
Gallegos, Robert*

Municipal Courts
Belk, Joan

Parks & Recreation
Andresen, Linda
Belk, Joan
Clark, Charles
Grow, Daniel
Lester, Barbara
Herwig, Nelson
Howard, Stephen*
Moraes, Modesto
Mosty, Robert
Salinas, Elier
Smith, Zalee
Todd, William
Wilson, Betty

Police
Flores, Carmen
Green, Louella
Mader, Anthony
Marroquin, Gloria

Policies
Middleton, Dave
Rusinski, Shirley
Silguero, Benito
Simmons, Sarah P.*
Vanvolkom, Paulette
Villela, Joe A.*

Public Works & Engineering
Britt, Krista*
Carrizal, Raymond*
Cross, C.T.
Culp, Dwight*
Davis, Gwendolyn
Gardemal, Mark
Garza, Edward*
Gasper, Billy
Girardi, John
Gonzales, Albert
Hearn, Bobby
Johnson, Edward
Lee, Clarence*
Lewis, Joe
Martin, Garland
Mason, Kenneth
McElroy, Toni
McClendon, Curtis
Minnick, Gloria
Rochell, Margaret
Silvers, Vickie*
Tankersley, Doris
White, Billy
Willett, Ty
Williams, Edward*
Zenzin, David*

Solid Waste
Brooks, Evelyn*
Calloway, Melvin
Dowell, Edward
Johnson, Irvin Jr.

IN REMEMBRANCE

ACTIVE EMPLOYEE AND RETIREE DEATHS

HMEPS received notification of the following participants’ deaths. We wish to remember these individuals and their dedication and service to the City of Houston.

Bedford, Nathaniel
Black, Hayden
Bridges, Ronald*
Burnet, Roland
Carroll, Georgia**
Combs, Earnest Jr.
Coteat, James
Demeris, Nick
Dillard, Helen**
Flugence, Margaret**
Froehlich, Lydia**
Gaston, Wellborn
Green, Otis
Harris, Altha**
Johnson, Marvin
Johnson, Robert
Larry, Joannen**
Lewis, Willie Jr.
Lowery, Inez**
Magness, Johnie**
McCull, John
McConnell, Layne
Mergela, Marvin**
Moore, Mary**
Moreno, Martha
Owens, Clarence
Palla, Sarah
Pickell, Thomas
Pledger, Sadye
Pogue, James
Porter, Darrell
Powell, Edna**
Russell, Anna
Schmidt, James
Sherman, Tom
Spiller, Cleopatra**
Taylor, Margery
Torres, Ophelia
Toussaint, Alcindor
Watkins, Paul*
Williams, George*
Wilson, Mary**
Wycoff, Vincent
Young, Geneva

Active Employee Death*
Widow(er)**
I am very pleased to tell you that the 457 Trustee-to-Trustee Transfer Program introduced by HMEPS in early Fall has proven to be very popular with our participants. To date, 110 participants have taken part in the program, and the HMEPS staff reports they are receiving more transfer applications every day.

If you are unfamiliar with the Transfer program, please refer to the Fall issue of the Pension Press, which had an extensive write up on the Rollover/Transfer program. If you do not have the newsletter you can find it online at the HMEPS website (www.hmeps.org, look under the “Publications” link). Even if you are familiar with the program, there are several points the staff wanted me to remind you about:

- Submitting paperwork to financial institutions can take time. If you are planning on utilizing the program, please make sure you leave ample time for the paperwork involved. Remember, you are responsible for all paperwork in a transfer from your plan administrator or IRA.
- If you have already submitted paperwork to HMEPS, please be patient! The HMEPS staff is processing all paperwork as fast as possible.

I would also like to thank you for supporting me during the most recent HMEPS election. It gives me great pride to work for HMEPS and to help provide our dedicated city employees a secure retirement and future.

Sherry Mose

The HMEPS Information Technology department recently announced work has begun on an important enhancement to the website calculator. The enhancement, which the department estimates will be implemented in the first half of 2003, will primarily benefit those participants in Group B. Currently, if you are in Group B and want to see how much your retirement income would hypothetically increase under Group A rates the website calculator can provide you with the answer. With the planned enhancement in place you will be able to forecast the cost of converting your service from Group B to Group A, and compare this cost estimate with the estimated benefits from a service conversion into Group A.

The “cost estimator” is scheduled to be introduced early in 2003. The enhancement will serve the needs of Group B participants who are attracted to the benefit increase that a service conversion would yield, as well as how much cost just such a change would cost.

This program’s launch is part of HMEPS on-going effort to make the website a useful and relevant tool for participants. We will keep updated to the progress of the enhancement in the next issue of the Pension Press, as well as on the site itself.

The Entire Staff of HMEPS Would Like To
Wish Our Participants a Happy and Safe New Year.
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.