Volume 41, Winter 2010

PENSION◆PRESS

The Newsletter of the Houston Municipal Employees Pension System www.hmeps.org

2010 Is Going To Be An Exciting Year

Dear Participants,

I will start off the first newsletter of the year with a major announcement – our Executive Director, David L. Long, is retiring from HMEPS at the end of February. I am happy for David as he enters this next great phase of his life, but I am so sorry to see him go. David has been a tremendous help to me and his expert leadership has guided us steadily through the years. He definitely will be missed. Please read the announcement below regarding his retirement.

In other developments, by now you should have received a copy of our 2009 Report to Participants, which is filled with information about your pension system. But we also dedicated a part of the member report to all of the City of Houston employees who worked tirelessly to get the city back on its feet after Hurricane Ike struck the Texas coast. You have our thanks and appreciation for doing such a great job during a particularly tough time.

Council Member Anne Clutterbuck and HMEPS' Chairman Sherry Mose hold the City Proclamation announcing "Save For Retirement Day" in Houston. The announcement was made in conjunction with the Fourth Annual Financial Fitness Expo.

As you read the member report, please keep in mind that our portfolio continues to recover from the economic turmoil of 2008 and 2009. Specifically, our investments are up approximately 12 percent from the totals posted in the Report to Participants, and the pension fund is working its way to $2 billion in total assets.

Additionally, pension statements and DROP

(Continued on Page 2)

HMEPS Executive Director David L. Long Announces His Retirement

After serving as Executive Director of the Houston Municipal Employees Pension System since 1993, David L. Long announced he is retiring from HMEPS effective Feb. 28, 2010.

"It has been a great honor serving as Executive Director of HMEPS. I want to thank every HMEPS staff member and the board of trustees for all the work they have done and will continue to do to protect the retirement security of the City's hard-working municipal employees," Long said. "While I am looking forward to my new life as a retiree, I will miss the people at HMEPS. But I know they will continue to act in the best interests of our participants."

HMEPS Board of Trustees Chairman Sherry Mose thanked Long for his valuable service to the pension system and the City of Houston.

"David Long has an exemplary and enviable public service record, and his expertise in finance and management has well served HMEPS participants," Mose said. "David's long tenure with HMEPS and his extensive knowledge and professionalism have given us a strong administration, and we are fortunate to have such a great system in place from which to continue after he retires."

Long began working for the City of Houston in 1979. He worked in the City's Finance and Administration Department before becoming Executive Director of HMEPS in 1993.

"Please join us in expressing our appreciation to David Long for his commitment to the improvement of HMEPS, for his leadership of the system for over 16 years, and for his tireless efforts on behalf of the Board, the staff and the over 27,000 members of HMEPS," Mose said. "I know that we all wish him the best in his retirement."

HMEPS has a strong executive staff that will help ensure a smooth transition for the System. The Board of Trustees will make decisions regarding the executive director position.

The Chairman's Letter (Continued from Page 1)

Council Member Wanda Adams and Chairman Sherry Mose hold the City Proclamation announcing "Save For Retirement Day" in Houston.

statements have been mailed to HMEPS participants. Our goal was to distribute these statements to our members by the end of January so you would have them along with all of your other important tax and financial documents.

We also are beginning to schedule general informational meetings this year at various sites to keep you informed about your benefits and answer any questions you may have about the pension system (see additional details about these meetings on page 7). These meetings are part of our Educational Outreach Program and ongoing efforts to increase communications to our participants.

However, if you have a question, you don't have to wait for a meeting to get an answer. You can always call the HMEPS office at 713-595-0100.

I hope you enjoy the latest edition of *Pension Press*.

Your Chairman,

Sherry Mose

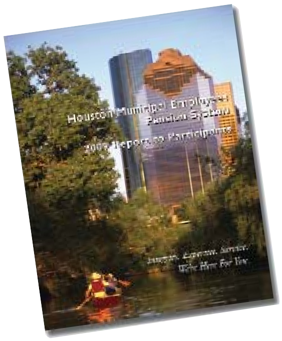
HMEPS INVESTMENTS

Market Value by Asset Class

	December 31, 2009	June 30, 2009
US Equity	$499,897,908	$392,175,214
Non-US Equity	461,759,941	391,757,111
Fixed Income	433,318,229	416,399,771
Real Estate	170,218,915	182,694,104
Inflation Linked	62,906,004	46,115,711
Private Equity	241,233,857	238,764,865
Absolute Return	19,306,701	16,991,754
Cash	25,596,430	49,672,142
Total Fund	**$1,914,237,986**	**$1,734,570,672**

Annual Statements and Reports to Participants Were Mailed – Did You Receive Yours?

Annual pension statements, DROP statements and the 2009 Reports to Participants (Report) were mailed at the end of January. Did you receive yours?



Active participants of the system should have received a regular pension statement and a Report. DROP participants should have also received a DROP statement. Retirees should have received the Report.

If you did not receive any mailing from HMEPS, please call our office at 713-595-0100.

DROP Interest Rate for Calendar Year 2010

Many of our participants are eligible to participate in our Deferred Retirement Option Plan (DROP).

Each year, the Board of Trustees sets the annual DROP interest rate. The DROP interest rate for calendar year 2010 will be 2.5%, the minimum rate provided under the Meet and Confer Agreement between HMEPS and the City of Houston. The rate was approved at the October Board meeting and is effective January 1, 2010.

The DROP interest rate is equal to half of the percentage return on HMEPS' investments for the prior fiscal year, with a minimum rate of 2.5% and a maximum rate of 7.5%. Because HMEPS' investment return for Fiscal Year 2009 was -16.02%, which is below the minimum rate, DROP participants in 2010 will receive the 2.5% rate on their DROP accounts.

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

Oakbrook's Unique Approach Proves Successful

Janna Sampson believes in doing things differently.

As a founding member and Co-Chief Investment Officer at OakBrook Investments, LLC, Sampson puts that principle to work each day as she and her team manage nearly $2 billion in investments, primarily for institutional clients such as HMEPS. HMEPS hired OakBrook late last year and invested $50 million with the enhanced index manager in January.

"One of the things we believe in is not doing things the way everyone else does," Sampson said. "We believe in picking stocks in a unique way to beat the market, and we have."

The boutique firm specializes in quantitative domestic equity strategies and has developed and fine-tuned a one-of-a-kind investment model that is rooted in extensive economic research. It's getting results. OakBrook has outperformed the S&P Index by 1-2 percent a year on an annualized basis over the last five years. The firm was one of the few quantitative enhanced index managers to outperform the index over the two years ending December 2009.

Those positive returns are getting noticed in the investment world. During the second half of 2009, Oakbrook brought in approximately $260 million from clients to invest in about four months. Oakbrook now has approximately $1.8 billion in assets under management from some 45 clients.

"We're getting a lot of interest right now," acknowledges Tom Page, OakBrook's Director of Marketing. And HMEPS is one such public fund that decided to hire the firm. "We're excited about working for HMEPS. It's great for us and we want it to be great for them too," Page said.

While other managers use traditional investment approaches, OakBrook's strategy applies economic theory to capital markets. That strategy is implemented by OakBrook professionals with advanced degrees in economics, including Sampson, who has been involved in the investment business for nearly 30 years. She and other OakBrook executives began developing this strategy in 1993, when they were working at another investment company.

"It's not just about how we pick stocks (differently) but how we control risk"

– Janna Sampson

And while economics is the heart of OakBrook's strategy, strict risk controls also are a key component, Sampson said.

"It's not just about how we pick stocks (differently) but how we control risk. Our risk controls worked well during the difficult markets and that allowed us to continue to outperform the market," Sampson said. "I think people are beginning to appreciate the value of our risk control system."

OakBrook's approach begins with an evaluation of the 1,000 largest capitalization stocks that involves grouping each into one of 12 style baskets, rather than evaluating the stocks within sector and industry groups. This three-tier approach to style ranks stocks in terms of value vs. growth, capitalization and volatility.

After dividing stocks into these style baskets, OakBrook evaluates the stocks further by using a quantitative factor called "range of opinion," which is based on the theory that stock prices are not determined by consensus, but rather by the most optimistic buyer. Determining and continuously tracking a stock's range gives OakBrook another tool in projecting how it will perform.

Janna Sampson, Founder and Co-Chief Investment Officer

Another key element of OakBrook's investment strategy is their price momentum factor, which involves evaluating a stock's behavior in the third month of each quarter. If a stock's range of opinion and momentum are different in a quarter's third month, more emphasis is given to the momentum variable in deciding what to do with that stock.

OakBrook's model is proprietary, but not patented, and the staff only goes so far in explaining what they do.

"We say what we do, not how we do it. We don't reveal the model," Page said.

Because Oakbrook's investment process is so different from everyone else in the industry, the company spends a lot of time educating potential clients.

"We keep saying we don't do fundamental analysis on stocks, and some potential clients may never get comfortable with our investment process. However, more and more are getting comfortable with us since we held up really well in the dire market during the second half of 2008 and the beginning of 2009," Page said. "If they take the time to understand what we do, they come to understand the benefits."

Sampson spends a significant amount of her time on client service and education.

"Being a small, employee-owned firm helps (with serving customers). We care a lot about how this firm does, so we care a great deal about our clients. It is vitally important that our clients are happy and get the best performance from us. So they get that extra attention from us," Sampson said.

"It's all part of our different view of the world. All of these factors come together to make a product that is very attractive to investors like HMEPS," she said.

2010 Is the Year of the "Roth IRA" *by Steve Waas*

In the Fall edition of the Pension Press, Steve Waas, HMEPS' Financial Counselor, discussed Tax Season Dangers. Steve, who is a Certified Financial Planner, is available for individual meetings with participants, and also will be discussing financial topics in our newsletters to help participants better understand these important issues. This time the topic is "Roth IRA's".

Steve Waas
Financial Counselor

Because of an important change in the tax law taking effect in 2010, you will probably be hearing more and more about Roth IRAs. But before addressing exactly what this change is, I'd like to focus on one group of people that should learn about Roth IRAs regardless of this change: younger people.

If you are young and at a relatively early stage in your career, you simply must consider Roth IRAs as a savings vehicle.

Tax rates in the US are at historically low levels. Government deficits are growing rapidly. Also, a young, ambitious worker will – over the course of a full career – see raises and promotions. The conclusion is unavoidable: today's younger workers could face much higher tax rates when they are older than they currently experience.

What can you do about this? One thing that might help some young people (if certain requirements are satisfied) is to save money through a Roth IRA. When you do this, you effectively pay the tax now, at your current tax rate. And then when you tap into these funds in retirement, no taxes will be due - regardless of how much the account has grown. As far as funds in your Roth IRA are concerned, the higher tax rates you face in the future won't matter.

There are a variety of things you should consider when deciding whether or not to save this way. Also, it isn't available to everyone. Nevertheless, every young worker should give it serious thought.

Now, what happens in 2010?

Beginning in 2010 most people will be able to convert existing IRA funds into a Roth IRA. Prior to 2010 there were limits on who can do this, but these limits disappear in 2010. Generally this will be more relevant to older workers who have accumulated significant tax deferred savings. It is a potentially powerful, but quite complex, tool to manage your risk of higher taxes.

In a "Roth conversion," you pay taxes now on all the funds you convert. That's the bad news. The good news is that those funds are never taxed again, and no "required minimum distributions" apply at age 70 ½.

How do you balance the pros and cons of such a transaction? It's a task that requires careful analysis. Generally it should be considered for funds you don't anticipate needing for many years – or funds you anticipate passing on to the next generation. But even in these scenarios a number of factors must be analyzed. Ultimately, you would need to consult with a qualified tax or financial advisor to sort through all the implications.

However, if you'd like to have a preliminary discussion on the Roth and how it works, remember that free financial counseling is available at the pension office.

Financial counseling is available at the HMEPS office. Call 713-595-0100 to make an appointment. You can also email Steve Waas at swaas@hmeps.org to set up an appointment.

Why Do My Pension Cost of Living Adjustment (COLA) and Social Security COLA Differ?

Q. Why are my pension COLAs (Cost of Living Adjustment) and social security COLAs different?

A. All COLA's are certainly not the same. The HMEPS pension COLA is fairly simple. For Group A & B participants who were employed on or before 12/31/2004, pension checks grow at an uncompounded 3% annual rate. For those hired or rehired on or after 1/1/05, the rate is 2%. These rates are fixed regardless of what the actual inflation rate is in the economy as a whole.

The social security COLA, on the other hand, is directly determined by the actual inflation rate, as measured by the Consumer Price Index (CPI). So in 2009 the COLA was a hefty 5.8%, reflecting the steep price increases we saw in 2008 in energy and other goods. However, as recession gripped the nation, many of these prices have since plummeted. Fortunately, the law does not allow the Social Security COLA to be negative, so the 2010 COLA will be 0%. But because prices have to make up those declines before they begin to nudge the Social Security COLA higher, it is highly likely that the COLA will be 0% again in 2011.

New Choices for DROP Participants Over Age 70

During the January Board of Trustees meeting, the Board approved a new policy regarding DROP accounts that provides more flexibility for many participants. HMEPS Financial Counselor Steve Waas explains the policy change:

Q: What is the change?

A: Under the old procedure, retirees with DROP accounts could only keep their money in DROP after reaching age 70½ if they adhered to a specific withdrawal schedule. Under the new policy, retirees have more flexibility. They can keep their money in DROP, and still have access to the funds through Partial Distributions just as they could before age 70½. While participants have to agree to an automatic Required Minimum Distribution each year, they retain the ability to withdraw more.

Q: Why did the pension systems have restrictions in the first place?

A: It stems from IRS regulations. DROP is a tax deferred account, meaning generally that the dollars in DROP have never been taxed. The IRS wants to make sure that it eventually collects taxes on this money. This is why they invented the RMD. Basically, if you are retired, you must begin taking money out of DROP – and therefore pay taxes on it beginning in the year you turn 70½. You don't have to take all of it, only a portion needs to be withdrawn. The precise amount is explained in detail in IRS Publication 590.

The problem is that administering and monitoring these distributions for a large number of people is a complex process. The pension plan has not been set up to implement such a process, until now.

Q: Why the change?

A: First, many retirees have requested it. These retirees have had their DROP accounts for many years and are comfortable with how it works. They simply didn't want to make a big change. Second, we believe we've designed a system for giving these participants the flexibility they want, but without adding a costly administrative burden on the pension system.

Q: How will this work?

A: Beginning in 2011, HMEPS will automatically distribute an RMD for all retirees with DROP accounts who have an RMD due that year. We plan to make these distributions in January. This will be based on the age and marital status information that HMEPS has on file. Ultimately, the participant is responsible for ensuring that the correct RMD is distributed each year.

Q: What about those who have RMDs due in 2010?

A: Any retiree with a DROP account, and who was born between July 1, 1939 and June 30, 1940, will have their 70½ birthday in the year 2010. This means that a 2010 distribution is required. Over the course of this year, I will be trying to contact those people to make arrangements for the 2010 RMD and subsequent distributions. To any of those people reading this, please feel free to contact me to get this process going.

Also this year, I will be trying to contact retirees who have DROP accounts and who were born between July 1, 1940 and June 30, 1941 – they will have their 70½ birthday in the year 2011. They don't need to take a distribution this year, but we want to have all the arrangements in place for next year's required distribution.

Q: What if the retiree wants to take out more than the RMD?

A: The participant will still be free to take out additional partial distributions, following the same process they did prior to reaching age 70½.

Q: Since participants can receive partial DROP distributions only once every 90 days, does this mean that a participant will have to wait 90 days after an RMD before taking another partial distribution?

A: No. The RMD will not count against the participant in terms of the 90-day restriction. In other words, the participant can request a partial distribution in addition to, or immediately after the automatic RMD, rather than waiting 90 days.

Q: Is it a good idea for participants to leave funds in DROP after age 70½?

A: This is a personal decision. I frequently meet with participants to discuss the pros and cons of various options. Anyone wanting to receive such counseling can reach me at 713-595-0140.

What Is the DROP?

The Deferred Retirement Option Plan (DROP) is an optional retirement method for HMEPS members who have reached their normal retirement eligibility (age and years of credited service) but do not want to retire. It is an alternative method of accumulating and receiving a pension benefit from HMEPS. The decision to participate in the DROP is a personal one that each member should make only after careful consideration of his or her individual financial needs and goals. For more information, call the HMEPS office at (713) 595-0100.

Retirements – September to December 2009

Administration & Regulatory Affairs

James, Robert

Aviation

Bartlett, Thomas
Chaney, Martha
Chhim, Suzanne
Harden, Robert
Heckman, Walter
Marshall, Linda
Naguit, Zen
Parada, Omaira
Powell, William
Reyes, Gilbert
Roa-Davis, Maria
Rostovtseva, Natalia*
Summy, Maria
Valadez, Blanca*
Webb, George
Will, Rainer*

Fire

Darwiche, Diana*

General Services

Pete, Ella

Health & Human Services

Booker, Laura
Bradford, Linda*
Hernandez, Mary
Igbokwe, Ignatius
Ingoe, Margie
Medina, Becky*
Norman, Sherry
Pearson, Ora*
Rundell, David*

Houston Emergency Center (HEC)

Bilson, Hannah*
Foy, Jacquelyn*
Rojas Jr., Nemecio*
Turner, Cheryl*
Williams, Joslyn

Human Resources

Sion, Carolyn*

Information Technology

Lee, Robert

Legal

Alacon, Teodora*
Knighten, Diana
Montgomery, Y.*
Thibodeaux, Norma

Library

Garrett, Gustavia
Hubert, Rebecca
Townsend, Mary
Warren, Denise*

Municipal Courts

Duncan, Katherine*

Parks & Recreation

Banda, Julio*
Johnson, Vanessa*
Quiroz, Juan
Valerio, Arnold
Villanueva, Guilivaldo

Planning

Blue, Bonnie*

Police

Boozier, Yvonne
Garza, Martha*
Goodwyn, Lloyd
Grieve Jr., Thomas*
Harris, Michelle*
Horn, Kenneth*
McGinnis, Karl
Osborne, Darla*
Ramon, Zulma*
Tucker, Shanika*
Woods Jr., Ambus

Public Works & Engineering

Allen, James*
Bosley, Gladys
Castex, Doreen*
Coleman, Kenneth*
Davis, Kenneth*
De Luna, Jesus
Diop, Abdoulaye*
Franklin, Kirk*
Frye, Lawrence
Garibaldi, Javier
Germany, John
Gibson, James*
Greene, Jesse
Gutierrez Jr., David
Gutierrez-Richmond, Lorrie*
Haley, Ralph
Hartley Jr., James
Hernandez, Estela
Hunt, Chester
Hunt, Mary*
Little, Joseph*
Luna, Johnny*
Lynn, Marietta*
Matthews, Larry*
Mrsny, Reid*
Nargo, Joe*
Sanders, Roy
Shaddox, James
Sharma, Perveen
Smith, Gladys
Southerland, James*
St. Mary, Adrian
Womack, Edward*

Solid Waste

Davis, Masker*
Garza, Robert
Perez, Robert*
Rabb, Eddie*

*Deferred Retirement

In Remembrance

Active Employee and Retiree Deaths – September to December 2009

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

Anders, Derrick*
Andrews, James
Attaway, Charlotte*
Bailey, Shirley
Barefield, Marjorie**
Beecher, Alice**
Black, Vernon
Blackman, James
Boudny, Kris
Burns, Dorothy
Burroughs, Sherman
Bustin, Julia**
Byron, P.
Carpenter, Arlene
Colbert, Alzonia
Deshayes, H J.
Duke, Sulma
Echerman, Raymond*
Edgerson, Orlando*
Emerson, Roxie**
Eng, Sam
Forrester, James
Forsythe, Violent
Francis, Russell
Frye, Lawrence
Gray, Doris**
Griffith, Roman
Guerra Sr., Phillip
Hagan, Gladys
Henderson, Jackie
Hicks, Clyde
Hoang, Khang
Holloway, Nickey
Jefferson, Joseph
Johnson, Hattie*
Johnson, Leonard
Johnson, Maxine
Jones, Sadd
Julian, David
Koger, Robert
Landrum, Forrest
Lannin, David
Lozes, Elbert
Marrs, Buellah**
Miller, Lillie
Moore, Lillie
Narcisse, Lumus
O'Connor, Joyce
Orange, Thelma
Orta, Eva**
Owens, Lottie**
Paradoski, William
Parkerson, Molly
Patillo, Nellie
Payne, Robert
Penney, Mildred
Perry, William
Portz, Harry
Quinones, Melba**
Rabotte, Enola
Rabotte, John
Radley, Charles
Reed, Billie**
Reed, Winbourne
Richter, Sophie**
Slater, Peggy*
Stewart, Rayfield
Taylor, Wilda
Tran, Dich
Trojan, Robert
Turner, Vernon
Uhlin, Robert
Walker, Curtis
West, Melba
Whittaker, Phillip
Williams, Dana
Williams, Shawn
Wood, Harold
Wright, Leorange
Zeigler, R.

*Active Employee Death
**Surviving Spouse

HMEPS Staff Coming to a Location Near You

As part of the HMEPS Educational Outreach Program, HMEPS representatives will be holding informational classes and setting up informational booths at convenient city locations. The purpose is to offer participants opportunities to learn more about their pension benefits at locations that are convenient to them. Participants do not need to register.

The following are upcoming dates, types of meeting, locations, and times.

Date	Type of Meeting	Location	Time
03/16/2010	Informational Booth	900 Bagby Public Level	10:30 am – 12:30 pm
03/18/2010	Informational Booth	Public Library 500 McKinney 4th Floor Room 437 "Program Place"	10:00 am – 1:00 pm
03/30/2010	Informal Presentation	900 Bagby 3rd Floor Conference Room	1:00 pm – 3:00 pm
04/13/2010	Informational Booth	HEC 5320 N. Shepherd Conference Room 2004	9:00 am – 1:00 pm
04/21/2010	Informational Booth	HEC 5320 N. Shepherd Conference Room 2004	3:00 pm – 7:00 pm
04/27/2010	Informal Presentation	611 Walker Auditorium	9:00 am – 12:00 pm
04/29/2010	Informal Presentation	611 Walker Auditorium	2:00 pm – 5:00 pm
05/24/2010	Informational Booth	611 Walker Auditorium	11:00 am – 1:00 pm

More classes and informational booths will be added to the schedule soon. To schedule a class or booth at your City location, call Terri Murray at 713-595-0134 or visit the HMEPS website at www.hmeps.org.

Pension Payment Schedules: February to May 2010

The following are the dates pension benefit checks will be mailed in the months ahead. The schedule will be strictly adhered to.

- **Wednesday, February 24, 2010**
- **Monday, March 29, 2010**
- **Wednesday, April 28, 2010**
- **Wednesday, May 26, 2010**

Direct deposits (ACH) will be deposited on the last business day of each month, as follows:

- **Friday, February 26, 2010**
- **Wednesday, March 31, 2010**
- **Friday, April 30, 2010**
- **Friday, May 28, 2010**

If you are interested in direct deposit of your pension benefit, please call our office at 713-595-0100.

Are You Planning On Moving or Changing Addresses?

Are you in the process of, or already moved to, a new address (or one different from the current address HMEPS has on record)? If so, and you are an active City employee, you need to contact your payroll representative to ensure the City has your correct address on file. The payroll system for the City stores two addresses, but HMEPS can only capture the first address you have listed. If you are a retiree, you need to submit a "Change of Address" form to the HMEPS office (available from the HMEPS office or on the website at www.hmeps.org).

Maintaining a current address is necessary to ensure you receive important communications from HMEPS, including election notices, annual statements, Reports to Participants and more. If you need assistance, please call the HMEPS office at 713-595-0100.

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PENSION PRESS

David L. Long, Executive Director
Peter Koops, Communications Specialist
Naomi “Amy” Rowley, Executive Assistant

Thanks to the HMEPS staff for their contributions to the ongoing success of the *Pension Press.*

NEWSLETTER CONTENT

The material contained in this newsletter is intended to provide you with important information about your pension participation. The content cannot be taken as the basis of any contractual rights between HMEPS and its participants. If there is a question of interpretation, retirement laws are the final authority.

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