San Antonio Fire & Police Pension Fund

ADVISOR

August 2019

"Dedicated to Providing Retirement Security for Firefighters and Police Officers – Past, Present, and Future."

From the Executive Director, *Warren J. Schott, CFA*

I hope everyone is having a fun and safe Summer so far. 100-degree temperatures have stayed away and the rain has been a true blessing for our yards.

Let's hope both continue for another couple of months. On the pension fund front, everything continues to run smoothly.

Board Members Elections. We had Board elections this spring. Or more accurately, we were supposed to have Board elections. In a solid show of confidence, all three incumbent trustees were unopposed for re-election. Congratulations to Active Police Trustee Jim Smith, Active Fire Trustee J.T. Trevino and Retired Police Trustee Harry Griffin. The staff looks forward to working with you in the future. Following the elections, the Trustees selected their new slate of officers for the next two years. Congratulations to the new officers!

Audit and Actuarial Reports Look Great. We recently received our Annual Audit and Actuarial Valuation Report, and both were very strong.

The auditors gave the Pension Fund an "unqualified opinion" on our financial statements which means the financial statements prepared by our staff are fairly and appropriately presented and in accordance with Generally Accepted Accounting Principles. Congrats and thanks to the accounting department for their hard work!

We also received the Actuarial Valuation Report from our actuarial firm. It showed that our funding level dropped to 87.94% from 90.34% and the years needed to pay this off increased from 10 to 14 years.

To put this in perspective, the Texas Pension Review Board, which is charged with overseeing the approximately 100 public pension funds in the state, has guidelines for the appropriate funding of pension plans. They have an upper limit not to exceed 30 years, with 10-25 years being preferred.

Your pension fund is at 14 years.

Legislative Recap. Our legislative package did not pass in the 2019 Texas Legislative Session which ended in May. Our package contained approximately 20 language changes for clarification purposes and clearer compliance with IRS Code. It contained no benefit improvements. Our Bill passed in the House, but it did not have the same good fortune in the Senate. Our new Board Chairman Jim Smith provides a more detailed explanation of what happened on page 3.

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From the Executive Director, continued

Benefits for Beneficiaries. We have received several calls over the past few months regarding death benefits for active members' beneficiaries. There seems to be some confusion right now on this matter so our Benefits Manager, Rick Matye, explains these benefits in detail on page 5.

Bottom line, if an active member dies, their spouse will receive, at a minimum, 50% of the member's average salary. This is 50% of the salary, not 50% of what the member would have received. Again, Rick's article provides a thorough explanation. It is a great benefit and it should put you at ease that your spouse will be taken care of if something should happen to you. Oh, and this benefit has automatic, annual, compounding cost of living adjustments included.

Former Councilman and Mayoral Designee Reed Williams (center, left) accepts a plaque from SAFPPF Chairman James Smith in appreciation for his service. From left are Trustees Dean Pearson, Larry Reed, Williams, Smith, Harry Griffin, JT Trevino and Jimmy Foster.

County Commissioner Justin Rodriguez (left) takes the oath of office from then-Chairman JT Trevino (right) as he rejoins the Board for his third appointment.

Justin Rodriguez is Back. San Antonio Mayor Ron Nirenberg has appointed former City Councilman and current County Commissioner Justin Rodriguez to serve as the Mayoral Designee on the pension Board of Directors.

Commissioner Rodriguez has previously served different terms totaling 5½ years on the Board both as an active City Councilman and then as the Mayor's Designee. He is well versed on the workings of your pension fund. He takes over for former Councilman Reed Williams who resigned at the beginning of the year. We look forward to working again with Commissioner Rodriguez in the coming years. He has always been a friend and supporter of our pension fund while on City Council and then as a State Representative.

Final 2018 Numbers. We've been noting how 2018 was a tough year on our investments. More accurately, it was a tough 4th quarter last year. Most of you knew that from looking at your own 457 or 401K investments.

Our final investment return was - 4.0%. Although this obviously was not what we were hoping for, it could have been much worse. The overall U.S. equity market was down 7%, international markets were down 14%, and U.S. bond markets were flat. On the positive side, our real estate portfolio was up 9%, our private equity assets were up 7%, and our private debt holdings were up 4%. It certainly was not the type of market anyone wants, but it justifies our diversification program.

Annual statements are now available online for our active members to view. Just go to our website at www.safppf.org and sign on to MemberDirect. I encourage you to sign up if you have not done so already.

As always, thank you for your support, and please let us know if there is anything your Pension Fund can do for you. We stand ready to serve.

From the Chairman
Jim Smith, Active Police Representative

Dear Members,

First, I would like to congratulate Harry Griffin and J.T. Trevino on receiving new four-year terms on our Board of Trustees to continue serving you, the membership. I am also humbled to serve you for the next four years. Secondly, I would like to thank J.T. for his outstanding service as Chairman of our pension fund for the past four years. I want to thank my fellow board members for their confidence in electing me as Chairman for the next two years.

After serving as the Legislative Committee Chairman, I'd like to update you on the past Legislative Session. As usual, a few bills that were filed would have been harmful to us. Fortunately, they did not pass. Most did not even receive Committee hearings. With that said, we did have one disappointment: the failure of our bill, HB 3188.

Here's some background you should know. Any piece of legislation we file is first guided by a Funding Policy we developed on the advice of our actuary in 2015. Funding policies guide pension funds and their city sponsors in ensuring that full retirement benefits are available to retiring members. They are essentially a self-protection measure with their goal being the long-term health of a pension fund. (The Legislature this year decided *all* Texas pension funds should have a funding policy.) Our Funding Policy requires our funded ratio to be 90% funded *after* any new benefits are implemented. Because our funding level last year was 90.34%, and increased benefits would have easily taken us below the 90% funded ratio status, we could not seek benefit increases in HB 3188.

Pension fund Boards which don't keep close tabs on their benefits and funding have had problems in recent years. Pension systems in Dallas and Houston were forced to reduce member benefits after the 2017 Legislative session due to the failure of those systems to keep pace with their financial goals. Their city sponsors protested the amounts they contributed to police, firefighters, and municipal employees' retirement benefits. With regards to HB 3188, we were advised that, given events in 2017, no Texas legislator would consider adding benefits to a plan. We were told that even our strong financial footing, as one of the best pension funds in the state, would not be enough.

Our legislative bill had a different intent than benefit increases. We needed numerous updates to the language in our current law to deal with USERRA (veteran's rights), IRS updates, and guardianship issues. We also wanted to add "slayer" language to prevent a spouse who intentionally causes the death of the member from collecting a lifetime pension. We went forward with those language changes, without benefit increases, because cleaning up technical issues would make it less complicated to pass possible benefit improvements in the future. All pension fund stakeholders participated in the process of developing our bill language as far back as February of 2018. SAPOA, the Retirees' Association and the City Council all supported our proposed bill. The fire union did not.

Our legislation was filed by Representative Barbara Gervin-Hawkins and co-authored by Representative Steve Allison. HB 3188 passed unanimously in the House even though the fire union

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president testified against it in the Pension Sub-committee hearing. The bill then moved to the Senate. Unfortunately, none of our local State Senators were willing to “carry the bill” due to the fire union’s opposition. The fire union hired a lobbyist to attack HB 3188. The fire union’s leadership told legislators their opposition stemmed from their belief that our plan “does not take care of widows.” This is just not the case. Our Pension Benefits Manager, Rick Matye, has written an article in this Advisor that details the active member death benefits included in our plan document. Please take a moment to decide for yourselves if we are taking care of our widows and widowers.

Our pension fund has thrived when others across the state have struggled. Our success resides in our reluctance to make short-term changes that would be harmful to the long-term soundness of our Fund. Our protective Funding Policy reminds us that we can’t step backward in the progress we’ve made. Our built-in limitations ensure that our pension fund stays strong not only for today, but into perpetuity. Even a modestly down year last year has moved our funded ratio below 90 percent.

How We Compare

Ranking, by funded ratio, of Texas public employee pension systems with more than $1 billion in assets.

Pension System	Funded Ratio	Actuarial Value of Assets
San Antonio Fire and Police Pension Fund	90.30%	$3,196,529,718
Texas County & District Retirement System	89.10%	$28,975,651,686
Texas Municipal Retirement System	87.40%	$27,813,135,331
Dallas Employees' Retirement Fund	82.30%	$3,601,612,000
CPS Energy Pension Plan	80.80%	$1,500,740,708
Houston Firefighter's Relief and Retirement Fund	80.50%	$3,883,807,000
Houston Police Officers Pension System	79.40%	$5,128,835,000
Teacher Retirement System of Texas	76.90%	$154,050,930,573
Employees Retirement System of Texas	70.20%	$27,753,334,784
Austin Employees' Retirement Fund	68.30%	$2,592,460,631
Fort Worth Employees Retirement Fund	57.80%	$2,288,265,169
Houston Municipal Employees Pension System	57.70%	$2,874,585,000
Dallas Police and Fire Pension (Combined Plan)	47.70%	$2,151,039,343

Source: Texas Pension Review Board Actuarial Valuation Report January 24, 2019

This chart, from data provided by the Texas Pension Review Board in January, shows SAFPPF’s comparative health to other systems in Texas. The funded ratio will be 87.94% in the next report.

Make no mistake, probably every one of your Board Members wants to approve benefit improvements. But we want to make them when it is prudent to do so. We want them to last so that firefighter members like Manuel Vela, age 99, (page 7) and police members like Jimmy Gaffney, age 95, (page 8) – and all our members – have a secure retirement.

Look at what happened to your brothers and sisters in Dallas, Houston and Fort Worth. You will see what can happen to your retirement security when benefits are given but cannot be afforded. Or call one and ask which pension fund they would rather be in, yours or theirs. It is truly unfortunate that HB 3188 was not allowed to pass on your behalf. Rest assured, we will try again in the 2021 Legislative Session.

While I have had the pleasure to serve you over the past nine years, I want to give a shout out to all of the Trustees and staff who have served you over the years, and also to those who are still serving the pension fund. These staff members and trustees have made and continue to make some very wise and conservative decisions to ensure we have a secure pension today and into the future.

Once again if you have any issues, concerns, or rumors that need to be addressed please do not hesitate to contact any trustee or staff member so we can take care of your needs. If at any time you would like us to visit your individual shift or attend a Retirees’ Association meeting to address any pension questions, just let us know and we can come by. Please be careful out there.

God Bless,

Jim Smith

Benefits for Active Members' Beneficiaries

Rick Matye, SAFPPF Payroll & Benefits Supervisor

Death benefits for beneficiaries are complicated issues and your pension representatives or members of our staff are always available to answer your questions. Allow me to address some questions we've been getting recently.

Who is a Beneficiary? A beneficiary is a surviving spouse, child under 18 years of age, or a disabled and wholly dependent child 18 years of age or older. Pension fund beneficiaries are determined by our Pension Law, not by the member.

Active Member Death Benefits. The benefits paid when an active member dies depend on whether the death is killed in the line of duty and whether the member has beneficiaries.

If an active member **is killed in the line of duty and has one or more beneficiaries**, the benefit is a monthly annuity of 100% of the member's salary. This monthly annuity is not subject to federal income tax. If the member leaves a surviving spouse and children, the benefit is split 75% to the surviving spouse and 25% to the child or children. Benefits paid to a minor child cease at age 18 unless the child is disabled and wholly dependent. When all children are no longer eligible for benefits, the surviving spouse then receives 100% of the benefit. The surviving spouse receives this benefit until death.

If an active member **is killed in the line of duty leaving no beneficiary**, a lump sum payment is made to the member's estate. The lump sum amount is their average annual salary multiplied by the vesting percentage based on service credit multiplied by 10. There is no minimum vesting percentage used in this calculation. The only minimum is that the estate will receive at least a refund of the member's contributions.

If an active member's death is **not killed in the line of duty** and the member leaves one or more beneficiaries, the benefit is a monthly annuity equal to the member's average monthly salary multiplied by the greater of 50% or the member's vesting percentage (not to exceed 80%). If a member has 21 years or less of service credit, the percentage used in the calculation is 50%. If a member has 27 years or more of service credit, the percentage used in the calculation is 80%. If a member has between 21 and 27 years of service credit, the vesting percentage of the member is used. If the member leaves a surviving spouse and children, the benefit is split 75% to the surviving spouse and 25% to the child or children. The rules concerning this split are the same as described for line of duty death.

If the member was vested, the surviving spouse may elect a backDROP lump sum payment and a reduced monthly annuity. This option is **NOT** available in a line of duty death.

If an active member leaves no beneficiary in a non-line of duty death, a lump sum payment is made to the estate of the member. The calculation is the same as in the case of a line of duty death. The lump sum amount is the member's average annual salary multiplied by the vesting percentage based on service credit multiplied by 10. There is no minimum vesting percentage used in this calculation. The only minimum is that the estate will receive at least a refund of the member's contributions.

The monthly annuity payments are made to surviving spouses and children. If no beneficiary, the lump sum payment is made to the estate. You need to have a current will so the estate will distribute the lump sum payment as well as other estate assets as you wish.

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Benefits for Active Members' Beneficiaries, continued

As you can see, the benefits vary greatly depending on type of death, existence of beneficiaries, and service credit and salary of the member. It is important to understand these benefits in your situation when planning the financial security of your family and loved ones.

And again, if you have any questions, please ask one of your representatives or a member of the pension staff.

When Cities Abandon Defined Benefit Pension Plans, Troubles Ensue

Art Alfaro, TEXPERS Executive Director

Firefighters and police officers sometimes get caught in political scuffles over the best type of retirement benefit plan for public employees. The opponents to defined benefit plans for public employees promote the private sector's use of 401(k)s as the best option for a city sponsor. DC plans for public employees always fail because they never consider the real-world impact of change.

The following case studies offer more examples, and the results, of failed "reform" efforts: early retirements, resignation, and increased training costs.

Palm Beach ditches 401(k)s, returns to DB plan for Police, Firefighters

In early 2016, the Palm Beach, Florida, town council restored traditional defined benefit pensions for its police and firefighting force after a four-year failed experiment with a 401(k)/defined benefit mix. Its 2012 reform attempt of deeply cutting all employee retirement benefits had failed miserably.

Reform advocates had anticipated to save taxpayers $6.6 million immediately and $10.2 yearly by 2020.

The reform advocates did not anticipate that 20 percent of the workforce would retire immediately, nor that 109 officers and firefighters would leave for other jobs, causing workforce shortages, higher training costs, increased overtime and a significant loss of institutional knowledge.

Nor did reform advocates anticipate the town's forfeiture of access to $800,000 in annual state financial support for the retirement system. The high turnover rate which ensued after the "reform" cost the city an additional $20 million in training costs.

West Haven struggles with effects of 2009 "reform"

In 2010, the Connecticut city of West Haven adopted 401(k) plans for police hired after Nov. 1, 2009 in a reform plan that would save millions. Since then, 17 officers were hired and trained, but left for other departments which have defined benefit plans. Training costs $70,130 for each new police officer, so total waste amounted to $1.7 million. The department has budgeted for 120 police officers but is only able to maintain 105 on the job.

Unexpected costs occurred when the move from a DB plan to 401(k) was made without consideration of the additional Social Security taxes. Police now do not have a significant disability benefit which would care for their family if harmed in the line of duty.

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When Cities Abandon Pension Plans, continued

Former West Haven police officer Scott Carrigan said, “You’ll see people go [to West Haven] to basically just get their foot in the door [of police work], and it’s a shame, because it’s a great department. [I]t’s basically like a farm team.”

TEXPERS Mission

We at the Texas Association of Public Employees Retirement Systems will continue to defend the use of defined benefit plans for firefighters, police and municipal employees. They are the best option for ensuring a secure retirement. When plans run into trouble, they can always adjust. It may take time, but they can always recover. And great systems, like our member San Antonio Fire and Police Pension Fund, set standards for high performance. We at TEXPERS will continue to support their mission.

Art Alfaro is the Executive Director of the Texas Association of Public Employee Retirement Systems, an 80+ member organization comprised of pension plans for firefighters, police, and municipal employees. He served as city treasurer for the city of Austin for 13 years and served as a trustee on the city’s three pension fund boards.

The San Antonio Fire and Police Pension Fund Board of Trustees in March recognized Manuel Vela, 99, (center), as its oldest retired member of the San Antonio Fire Department. SAFPPF leads other billion dollar-plus Texas pension funds in measures of its financial health, assuring members like Mr. Vela of their retirement security. From left are SAFPPF Trustees Dean Pearson, Jimmy Foster, Larry Reed, and JT Trevino. After Vela are Trustees Harry Griffin and Councilman Clayton Perry. Behind Perry is San Antonio Police Chief William McManus, Carlos Resendez, SAFPPF Trustee Jim Smith, and SAFD Battalion Chief Rich Giusti.

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THE ADVISOR

The San Antonio Fire and Police Pension Fund Board of Trustees in March recognized Jimmy Gaffney, 95, (center), as the oldest retired member of the San Antonio Police Department. SAFPPF leads other billion dollar-plus Texas pension funds in measures of its financial health, assuring members like Mr. Gaffney of their retirement security. From left are SAFPPF Trustees Dean Pearson, Jimmy Foster, Larry Reed, and JT Trevino. After Gaffney are Trustee Harry Griffin, San Antonio Police Chief William McManus, Trustee and Councilman Clayton Perry, Trustee Jim Smith, and SAFD Battalion Chief Rich Giusti.