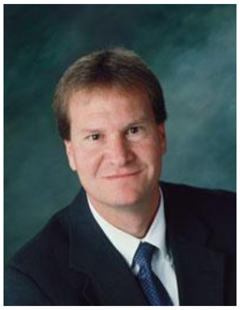
ADVISOR

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



From the Executive Director

Warren J. Schott, CFA

I hope you have noticed the frequency of the Advisor Newsletters has been improving. The membership told us they would like to be kept more up-to-date on the Pension Fund, so we are making a concerted effort to provide quarterly Advisor Newsletters. We will do our best to keep the information informative, interesting, and arriving on a quarterly basis.

The Pension Fund's fiscal year is in its ninth month and the investment returns remain strong. As of the end of June, the asset level is $2.38 billion. This results in a 7.25% investment return for the nine months. Our goal for the year is 7.50%, so we are very near our goal, with three months remaining in the year. Our CIO, Matt O'Reilly, will discuss the investment environment in more detail in his article on page 3, but I can tell you the second quarter of the year was a bit of a rollercoaster ride with April and May being strong and June being weak.

I am proud to report that the San Antonio Fire & Police Pension Fund won the Money Management Letter's award for Small Public Plan of the Year. Money Management Letter is a national magazine focused on the pension industry and is well-respected in the industry. We were one of only three funds nominated by the editors of the magazine. The winner was announced at an awards ceremony on March 13th. This award is further confirmation of the hard work that is being done by the Board and Staff of the Pension Fund. We hope you agree.

Trustee elections were completed several months ago with no changes in the Board makeup. Active Police Representative Shawn Ury ran unopposed, and Active Fire Representative Dean Pearson and Retired Fire Representative Larry Reed won their bids for re-election. Congratulations to all of them. The Mayor also designated former Councilman Art Hall as his representative on the Board. Art has served on the Board previously, so his transition should be an easy one. We look forward to working with Art again.

Along those same lines, the Board elected new officers for the upcoming two years. Police Captain Shawn Ury was elected Chairman, Fire Engineer J.T. Trevino was elected Vice Chairman and Councilman Ray Lopez was elected Secretary.

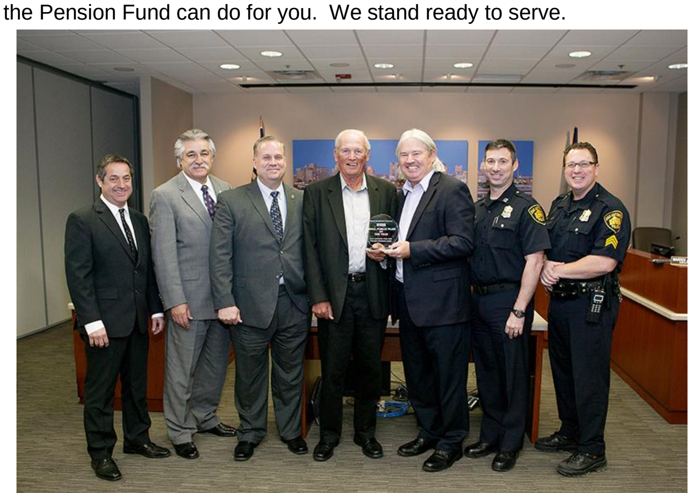
I am happy to report that we have hired a new investment analyst at the Fund. Tyler Dubose has joined the Fund effective June 10th. He replaces Rafael Ramirez who left recently. Tyler is a recent graduate of Texas State University with a Finance Degree. He is also working on his Masters Degree at Texas State University. With the addition of Tyler, we have two very strong analysts in Will Albright and Tyler Dubose. We are lucky to have such capable individuals working on your behalf at the Pension Fund.

Attention Retirees: In the March Newsletter, I notified the retirees that they had received a 1.7% COLA increase in their annuities beginning with the January payroll. I noted that the increase was lower than we expected, but at least it was not a decrease. Well, to keep you updated on the COLA this year, the inflation rate through May 2013 is only 0.2%. There are still seven months remaining in the year, but I wanted to let you know that the COLA is again projected to be low by the end of the year. There is always the possibility that inflation could take off later in the year, but at this point, the chances seem pretty slim. I will continue to give you updates in future newsletters.

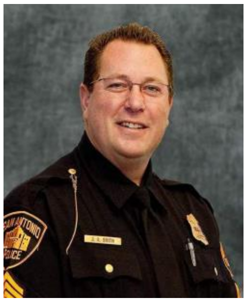
The 2013 Legislative Session has ended, at least as far as the Pension Fund is concerned. As of this writing, the Governor has already called two special Sessions, but neither of these was called to deal with pension issues. I think it is fair to say that this legislative Session was a very positive Session for pension funds, and the San Antonio Fire & Police Pension Fund in particular. I realize that some of you may be questioning why I think this was a positive Session considering we didn't make any benefit improvements to the Fund. Let me explain. The pension fund environment in the state and especially around the country was very negative going into this Session. It seemed like every day there was another article about a city filing for bankruptcy and blaming the public pension fund for its problems. Going into the Session, the Pension Board decided to play defense and just protect the solid benefits that each of you currently has. The last thing we wanted was to try to make improvements to the benefits and instead have the Legislature make reductions. And we viewed this as a very possible scenario. As such, we went into the Session with the goal of educating our local delegation, as well as other key legislators, on the positives of defined benefit plans and the San Antonio Fire & Police Pension Fund in particular. Regarding this goal, we were very successful. There were only a couple of pension-related bills that passed, and none of them could be considered detrimental to defined benefit plans. Additionally, we were called on several times by the State Comptroller and the Chairman of the Pensions Committee for assistance and information, which we believe will help us during the 2015 Legislative Session.

I will finish my article by making you aware that your Pension Fund Board will be conducting a Strategic Planning Retreat this Fall. The purpose of the retreat is to set a course for the Pension Fund for the next five years. The last retreat we conducted was in 2008, and we discussed topics such as staffing needs, office needs, benefit enhancements, fiduciary training, expense-cutting ideas, etc. In 2013, some of these same issues will be addressed along with new ideas in order to keep us proactive vs. reactive on issues. As always, we will let you know the results of the retreat when the final Strategic Plan is completed.

Thank you for support and please let us know if there is ever anything the Pension Fund can do for you. We stand ready to serve.



Board members accepting the Small Public Plan of the Year Award.



TRUSTEE'S MESSAGE

Jim Smith, Active Police Representative

Investment Committee Chairman

Dear Members,

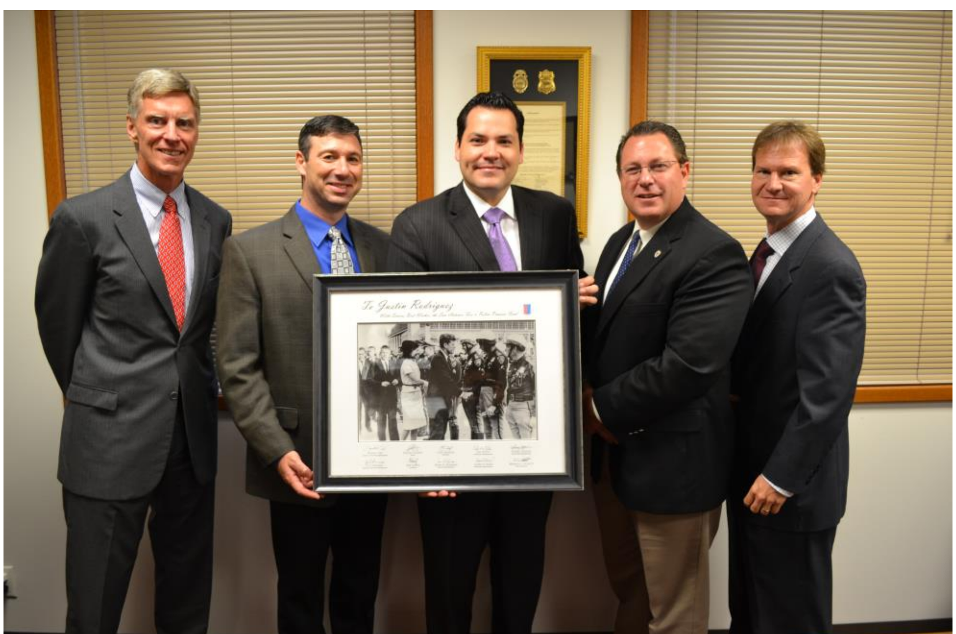
During this past legislative session I had the opportunity to represent the Fund as Legislative Chairman. I, along with other Fund Trustees, traveled to Austin to both monitor and testify on several pension related issues.

Over the past several years, our Board has made the conscious effort to educate our local, state, and federal elected officials about the factual information concerning the advantages of Defined Benefit pensions, and specifically how well our Fund is doing. I can tell you that these efforts paid large dividends. One of the largest take-a-ways from this session is that not once did the House Pension Committee or its Chairman ever mention the idea of moving recipients of Defined Benefit pensions into Defined Contribution (401k) type of plans. Actually the opposite is true. The Chairman, along with other pension committee members, only spoke of wanting to protect and maintain Defined Benefit pensions for first responders, and also for all Texas public employees. It was very refreshing to hear committee members speak of the benefits of Defined Benefit pension plans as a way to both recruit, and retain high quality employees for Texas. These comments were the educational talking points we spoke to Legislators about over the past years. I feel our Fund took a leadership role in this education process and other pension systems, unions, and pension recipients did the same in their local jurisdictions. This was both a local and statewide team effort to educate our state leaders to protect our pensions.

There are groups out there claiming that they were the only ones who "saved your retirement". This is unfair to all of the other organizations and individuals who stepped up and participated in these protective efforts. Some of these same groups actually were the driving force behind bad legislation that would have been detrimental to the pension systems in Texas.

On the other hand I would like to thank the SAPOA's legislative team who took the time to attend our legislative meetings, participate in discussions, and get educated on pension issues. This group always took the time to consult with us at the Capitol concerning proposed pension legislation.

Another important development that transpired during the legislative session is how our Fund's reputation and political clout was enhanced. On several occasions, State leaders asked us to furnish information on how our Fund is operated. It was a great day for the Fund when, during testimony on House Bill 13, the Texas Comptroller, Susan Combs, "called us out". She stated to everyone at the committee hearing that "the folks in San Antonio are doing things the right way".



State Representative Justin Rodriguez accepting a token of appreciation for his service on the San Antonio Fire & Police Pension Fund Board.

During the last week of the regular session we were visiting our local delegation's offices to thank them for their assistance during the session. We made the point to stop at Representative Callegari's office (Chairman of the House Pension Committee). His staff stated he was in session, but that he wanted to speak to us. He came out of session and thanked us for the leadership role our Fund took during this session. His last words to us were that he hopes he can lean on us to take the same leadership role during the 2015 legislative session.

While it was a great session for the Fund, I am not naïve to believe we can rest on our laurels. I believe the most important thing we can do is continue to educate our leaders at all levels. I would like to stress again the importance of all parties to unite as one, who have a vested interest in maintaining our DB plan.

There is no real time to rest. So once again, I would encourage everyone to join your respective PAC's and contribute according to their wishes for our future fights. It is imperative to support our current and future leaders who have championed our concerns.

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. Please be careful out there.

God Bless, Jim Smith.

Market News

Matthew O'Reilly, CFA, Chief Investment Officer

Before jumping into the market update, I would like to take this opportunity to provide the members a quick operational update. First, we added a new investment analyst, Tyler DuBose. Tyler is a graduate of Texas State University and is in the process of getting his Masters. Secondly, the Pension won the "Small Fund of the Year" award by Money Management Letter. Our Executive Director, Warren Schott, already mentioned this to you but I wanted to restate it as the award is a tremendous honor. Finally, over a year ago, the Board asked staff to provide a monthly seminar for the members. The seminar provides information on the pension benefits, the Healthcare Fund, and a 101 on financial planning. The staff provides these seminars every first Friday of the month. This month was unusual as three investment professionals came to listen. After the seminar, these gentlemen introduced themselves and gave a lot of praise for the quality of information we are providing. They said that they travel all over the state listening to other groups providing information to their members and ours was the best. It is a pleasure to hear this from a third party as it validates what we are doing. Please take advantage of these seminars whether you have only a few years under your belt or are about to retire.

Now for the investment market update. The first quarter seemed like a rocket. Large company U.S. stocks were up 10.6%, small company U.S. stocks were up 12.4% and international stocks returned a positive 5.1% for the quarter. Bonds struggled with the broad bond index generating a negative 0.1% return. If the first quarter was a rocket, the month of June was a "crash and burn", particularly tough on investors. Movie buffs will know that quote. There was really no place to hide other than cash. In the month of June, U.S. stocks were down -1.3%, international stocks were down -4.3%, and bonds lost 1.5%. Even with this bad month, the good news is that the second quarter for U.S. equities ended up positive.

One of the main reasons June was so volatile was because the Federal Reserve stated they could possibly begin tapering "QE2", its quantitative easing program, which would push short term interest rates higher. Even though many investors already anticipated the Federal Reserve move, it sent interest rates higher which dropped bond prices.

One of the things we do at the Fund is manage risk. You have to take risks to make money and we take our risks with great calculations. One of the risks we considered some time ago was the possibility for interest rates to rise. Our view was that interest rates would probably stay low or slightly increase for a period of time so we decided to move money into floating rate bonds. We made some additional changes to the bond portfolio and those moves paid off very well for the Fund. For example, the month of May was 0.0% for the SAFP domestic bond portfolio and the general bond market was negative 1.8%.

Let me give you a little bond education: Many people think bonds are safe and cannot lose money. This is not true. Bonds are safe relative to equities but they can lose money. The bond market recently has lost money because interest rates have risen. When interest rates rise, the principal of your investment goes down. If you buy a 30 year treasury bond and rates go up 1%, you would lose 19% of your principal. That is a huge loss. Look at the table in the next column:

How Rising Interest Rates Affect Treasury Bond Prices
(Change in principal value of bonds with $1,000 face value)

Bond Maturity	Coupon	Rates Increased by 25 Basis Points	50 Basis Points	75 Basis Points	100 Basis Points
2 Years	0.24%	-0.5%	-1.0%	-1.5%	-2.0%
5 Years	0.76	-1.2	-2.4	-3.7	-4.9
10 Years	1.85	-2.3	-4.5	-6.8	-9.1
30 Years	3.10	-4.9	-9.7	-14.6	-19.4

Coupons reflect yields on Treasury securities as of 3/29/13. Price changes are apart from fluctuations caused by other market conditions or factors. 100 basis points equals one percentage point. The table may not be representative of price changes for mortgage-backed securities because of prepayments. This is an illustration and does not represent expected yields or share price changes of any T. Rowe Price fund.
Source: T. Rowe Price.

That is because if you bought a bond paying a coupon of 3.1% and the market increases to 4.1% you would not want the 3.1% coupon anymore. Therefore, you would have to sell your 3.1% coupon bond at a discount to what you originally paid. Bonds with a longer duration will have bigger losses than those with a shorter duration. If you bought a bond that was going to mature in 2 years the loss will not be as great since it is only 2 years at a lower interest rate.

Hope you had a great 4th of July as I did. Our team will keep working hard to provide the best results we can. Best Wishes, Matt

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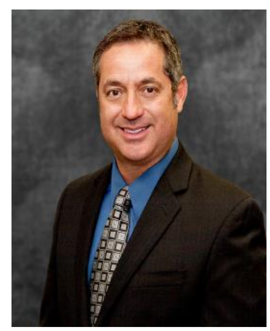
J.T. Trevino

Vice Chairman, Active Fire Representative



This article gives me the perfect opportunity to give you a brief rundown of the first two years of my term as your Active Firefighter Representative. First of all, it was not what I figured it would be. While I thought I was somewhat familiar with the financial world, I learned quickly that I was not (I'm even married to a stock broker).

The first few months at the Pension Fund were challenging in learning the language of the financial world. Other than the everyday financial words like "Stocks and Bonds, Hedge Funds and Trades", I also learned the complexity of those words and a stockpile of others. I understood the necessity of taking the time to learn the language in order to make prudent decisions that affect our Fund's investments. I found that our "investment world" is not about just owning stocks and bonds, but about an investment allocation that marries other types of investments to optimize performance of the Pension Fund. This is where our Fund gets its "diversification". Annually, we adjust our percentages to these asset classes to stay within our policy guidelines, which we obtain from a collaborative effort of our general consultant-NEPC, Pension Fund Staff, and the Fund Trustees. In a nutshell, we establish a benchmark percentage for each investment (ex. US Equity 16.4%), we compare this benchmark to our actual Fund value in that asset class (ex. US Equity 14.4%) which in this case gives us a difference of (-2%) under our benchmark. Finally, we rebalance money into this asset class to bring us back to our benchmark percentage. ***(Article Continues on Page 4)***

(Continued from Page 3)

J.T. Trevino

Vice Chairman, Active Fire Representative

To learn this simply by going to a meeting or two is just not possible. Financial and investment instruction is readily made available to the Trustees. I also find that our meetings with our investment managers are equally important because it reinforces what we learn from the educational forums. When we first meet with a prospective investment manager, the manager gives us a detailed description of their investment strategy with data on performance, as well as the firm. By policy, if a decision is made to hire the manager, a Trustee and staff member will conduct a site visit to the prospective firm to ensure that they have an established facility, research staff and available resources. This process is vital to provide additional assurances that only quality investment managers are selected. The "education" process of the Trustee becomes extremely important at this stage as to incite prudent investment dialogue and decisions.

And, just in case you didn't know, the Pension Fund has four dedicated committees, chaired by the Trustees, to handle various functions associated with the Fund.

1. **Disability Committee**: Assess and determine disability pension applications with the assistance of Fund Staff, attorneys and independent Doctors. Also responsible for conducting ongoing medical re-evaluations on current members to ensure they still qualify for a disability pension.

2. **Legislative Committee**: Monitors legislative issues affecting the Fund by staying active and in contact with Texas, as well as National, legislators. By working closely with Staff and legal, the Legislative Committee is able to make strong recommendations on legislative issues that may arise, especially those that affect our Fund.

3. **Investment Committee**: Monitors the Investment Policy to ensure compliance, and makes recommendations on Fund investments as it applies to our asset allocation. These investment decisions are often time-consuming based on the extensive research needed to make an informed and educated investment commitment.

4. **Personnel/Audit Committee**: Works closely with Fund Executive Director, Warren Schott, to create an annual budget. Responsible for overseeing the audit and actuary work. They are also responsible for approving the policies and procedures of the Fund. Finally, the Committee conducts the executive director's evaluation and contract negotiations.

Being a Pension Fund Trustee is an honor and entails tremendous commitment to become well-versed in the financial world. *Education* is paramount and drives our decisions as Trustees. If you have any questions about the day to day activities of our Board, please feel free to contact me.

Thank you for placing your trust in me.

San Antonio Fire and Police Pensioners' Association

I want to thank the Pension Fund for allowing the SAFPPA space in the Advisor Newsletter. This allows the SAFPPA to communicate important information to our members.

The SAFPPA has a Family Assistance Officer to service our membership. This is something that has been missing for years. Charles Ricketts has been appointed to the new position for all retirees. In the past couple of years several problems with the funeral services for retired police officers have been reported. Our Family Assistance Officer, Charles Ricketts, has been working with the Police Chief's Office to find and solve these problems. We have had no complaints reported from the retired Firefighters families. The Police and Fire Departments handle the funeral services for their retired members in completely different methods. It is not the intention of the SAFPPA to interfere with the authority of either the Police or Fire Departments. We do want our members to understand how to obtain the benefits provided to retired Police Officers and Firefighters upon their death.

Only the retired Police Officers will be addressed in this issue of the Advisor Newsletter. In the case of the death of a retired Police Officer, the surviving family member ***must*** contact the Police Chief's Office at 210-207-7360. This must be done as soon as possible because the Honor Guard Officers are all volunteering their time. Time must be allowed for these volunteers to respond to the request for service. Upon contacting the Chief's Office, you will be put in contact with the Police Department's Family Assistance Officer. The Department's Family Assistance Officer will ask you about viewing, funeral, burial and other arrangements. No promises for assistance will be made at this time. After the Police Chief's Office has been notified, contact the SAFPPA's Family Assistance Officer, Charles Ricketts, at 210-607-9858. Tell him who you talked to and what you were told by the Police Department's Family Assistance Officer. Also notify him of the arrangements that have been made. Contacting the Police Chief's Office on a weekend might be a problem. If there are weekend problems contact Charles Ricketts. He has the ability to contact the Police Department's Family Assistance Officer on call that weekend.

The following can be provided for the funerals of retired Police Officers thru the Police Department's Family Assistance Officer: 1) Provide Texas State Flag 2) Request Police Honor Guard representation at the funeral service 3) Request uniformed motor escort ONLY. Traffic control needs to be coordinated through the funeral home using off duty officers on personal motors that work with the funeral director 4) Request honor watch by Honor Guard 5) Inform family that the funeral information can be placed in the Daily Bulletin 6) Notify TCLEOSE and request Texas State Flag and certificate from the Governor's Office. Please don't forget to notify the Pension Fund of the retired Officer's death by calling 210-534-3262.

This notice will also be sent by e-mail. I ask all members to update their personal information including e-mail address by going to www.safppa.org. Look under the menu button of "SAFPPA" then click on "update your info".

Sincerely,

Michael M. Trainer
President

BENEFITS SPOTLIGHT: Retiree Death Benefits

Rick Matye, Payroll & Benefits Supervisor

Last Newsletter, we covered active member death benefits. This time we will look at retiree death benefits. As with active member death benefits, the benefits paid when a retiree dies depend on whether or not the retiree has beneficiaries. A beneficiary is a surviving spouse, child under 18 years of age, a disabled and wholly dependent child 18 years of age or older, or a dependent parent. Pension fund beneficiaries are determined by pension law; they are not designated by the member or retiree.

If a retiree dies and has one or more beneficiaries, a monthly annuity <u>may</u> be due the survivors. The monthly annuity cannot exceed the vesting percentage for a 27 year pension, currently 80%. In other words, if the retiree's monthly annuity at retirement was 80% or less; the beneficiary pension will be the same amount the retiree was receiving at death. If the retiree's monthly annuity at retirement was more than 80%; the beneficiary pension will be recalculated to be 80% of the average total salary used to determine the retiree's annuity plus cost of living adjustments based on the recalculated annuity. If the retiree received a pension in excess of 80%, the shortcut method to determine the beneficiary annuity is to take the retiree's annuity at death multiplied by 80% divided by the percentage used to calculate the retiree's annuity. If a retiree received an 82% pension, the beneficiaries would receive approximately 97.56% (80% divided by 82%) of the retiree's annuity at death.

If the retiree leaves a surviving spouse and children, the beneficiary annuity 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.

You probably noticed that I said a monthly annuity <u>may</u> be due the survivors. A surviving spouse who was married to the retiree at the date of retirement and remained married to the retiree until the date of the retiree's death is eligible for a monthly annuity. For marriages after retirement, the length of marriage and age of the surviving spouse at the date of the retiree's death will determine whether or not, as well as when, monthly annuity payments are due. For marriages after retirement, the surviving spouse must have been married to the retiree for at least five consecutive years at the date of the retiree's death to qualify for a monthly annuity. Otherwise, the surviving spouse gets a lump sum payment of $15,000. If there are children entitled to a death benefit, the surviving spouse in a marriage after retirement who does not meet the five year rule receives nothing. If the surviving spouse in a marriage after retirement does meet the five year rule and is less than 55 years of age at the date of the retiree's death, payments to the surviving spouse will not begin until the surviving spouse reaches age 55.

For children to qualify for benefits when a retiree dies, the children must have been born or adopted before retirement. The only exception is that a retiree's child born after retirement will qualify as a beneficiary if the retiree's spouse at the date of retirement is the child's other biological parent.

If a retiree dies leaving no surviving beneficiaries, the estate of the retiree is entitled to a death benefit payment in an amount equal to ten times the amount of the annual annuity awarded by the Board effective on the retiree's date of retirement, less any retirement or disability payments and any lump-sum BackDROP payment which was paid to the retiree. No death benefit payment is due the estate if this calculation produces zero or a negative amount. If a BackDROP was elected, the reduced annuity is used to calculate the ten times amount from which all annuity and lump-sum payments are subtracted. If a retiree has no beneficiaries and the potential for this death benefit payment exists, it is important to have a current will so the estate will distribute the death benefit payment as well as other estate assets as you wish.

To sum up, retiree death benefits can be a little complicated. Retiree pensions in excess of 80% will be reduced to determine the beneficiary pension amount. Marriages after retirement must meet certain requirements for the surviving spouse to be eligible for annuity benefits. With the one exception explained above, children born after retirement are not eligible for benefits. Family situations at the date of retirement as well as at the date of death are important in determining benefits. If a retiree leaves no beneficiaries, the ten times annuity calculation is performed to determine if a payment is due the estate.

Getting the Last Word In

Erik T. Dahler, Staff Attorney

When a Member dies without leaving a surviving statutory beneficiary (spouse, dependent child or dependent parent), the death benefit goes to the Members "estate." Simple enough, but what complicates things is: how does the Member's estate get divided up among the Member's heirs? When the Member dies with a valid Last Will and Testament, the answer is easy because the Member's wishes - in effect, the Member's last words - are carried out during the probate process. But believe it or not, we still encounter cases at the Fund offices where Members die without having left a valid Last Will and Testament (having died "intestate") or a statutory beneficiary.

That is where the division of the Member's estate gets interesting because the Member has no final say at all. By the passage of laws on the subject of "descent and distribution" over the years, the State Legislature has decided in excruciating detail how estates must be divided, with some interesting results (see Probate Code §38, below). For example, assume a Member dies intestate and without a statutory beneficiary. If that Member had 4 adult (not dependent) children with one having predeceased the Member with 3 children of his own (the Member's grandchildren), then the three surviving adult children would each take 1/4 of the estate and the three grandchildren (children of the deceased adult child) would each take 1/3 of their deceased parent's 1/4 share (or 8.24% of the Member's estate).

Usually it isn't even as simple as the above hypothetical illustrates. Many times, there have been more than one marriage with children, grandchildren, and great grandchildren resulting from each. There can even be circumstances where the deceased had no children but had siblings (one or more of whom may have preceded the deceased in death and may have children/grandchildren of their own). Texas is known as a "laughing heir" state because it is possible that a distant relative to the deceased - possibly not having been heard from in years - may legally inherit. Sometimes, these descendants live outside of Texas (or the United States), don't know each other and/or don't get along. Lawyers for all sides make a lot of money in these cases. Note that the Fund cannot get involved in these cases. We simply pay the death benefit to the "estate" and let the court decide how the estate gets divided. But there have been times when we've known the Member and when (s)he died without a will, we had a pretty good idea his/her estate was not going to the folks (s)he would have preferred. Unfortunately, nothing could be done.

Obviously, Members should each have an up-to-date valid Last Will and Testament. At one time there was a strong advertising campaign aimed at selling do-it-yourself trust kits. The pitch was to the effect that "avoid probate - probate is expensive." First, probate is not expensive in Texas. Texas has a relatively simple process to probate wills and you'd be surprised at the nominal cost to probate a simple will. Second, there is no particular requirement that just because a person dies with a valid will (testate), the will must be probated. There are circumstances where it may not be necessary to probate. And finally, you can have trust, guardianship designation and other provisions in your will to express your last wishes. By having a will, you help guard against the unknowns and *you get the last word in*!

TEXAS PROBATE CODE

Sec. 38. PERSONS WHO TAKE UPON INTESTACY. (a) Intestate Leaving No Husband or Wife. Where any person, having title to any estate, real, personal or mixed, shall die intestate, leaving no husband or wife, it shall descend and pass in parcenary to his kindred, male and female, in the following course:

1. To his children and their descendants.

2. If there be no children nor their descendants, then to his father and mother, in equal portions. But if only the father or mother survive the intestate, then his estate shall be divided into two equal portions, one of which shall pass to such survivor, and the other half shall pass to the brothers and sisters of the deceased, and to their descendants; but if there be none such, then the whole estate shall be inherited by the surviving father or mother.

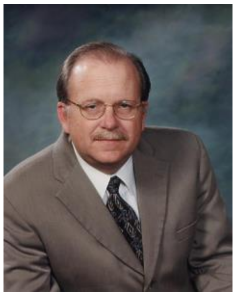
3. If there be neither father nor mother, then the whole of such estate shall pass to the brothers and sisters of the intestate, and to their descendants.

4. If there be none of the kindred aforesaid, then the inheritance shall be divided into two moieties, one of which shall go to the paternal and the other to the maternal kindred, in the following course: To the grandfather and grandmother in equal portions, but if only one of these be living, then the estate shall be divided into two equal parts, one of which shall go to such survivor, and the other shall go to the descendant or descendants of such deceased grandfather or grandmother. If there be no such descendants, then the whole estate shall be inherited by the surviving grandfather or grandmother. If there be no surviving grandfather or grandmother, then the whole of such estate shall go to their descendants, and so on without end, passing in like manner to the nearest lineal ancestors and their descendants.

(b) Intestate Leaving Husband or Wife. Where any person having title to any estate, real, personal or mixed, other than a community estate, shall die intestate as to such estate, and shall leave a surviving husband or wife, such estate of such intestate shall descend and pass as follows:

1. If the deceased have a child or children, or their descendants, the surviving husband or wife shall take one-third of the personal estate, and the balance of such personal estate shall go to the child or children of the deceased and their descendants. The surviving husband or wife shall also be entitled to an estate for life, in one-third of the land of the intestate, with remainder to the child or children of the intestate and their descendants.

2. If the deceased have no child or children, or their descendants, then the surviving husband or wife shall be entitled to all the personal estate, and to one-half of the lands of the intestate, without remainder to any person, and the other half shall pass and be inherited according to the rules of descent and distribution; provided, however, that if the deceased has neither surviving father nor mother nor surviving brothers or sisters, or their descendants, then the surviving husband or wife shall be entitled to the whole of the estate of such intestate.



NEW PENSION FUND STANDARDS FROM GASB

Mark Gremmer, Deputy Director

(You might want to grab a cup of coffee before reading this one)

The Governmental Accounting Standards Board, known as the GASB, has been very busy since their founding in 1984. They just finished promulgating the 70th statement. It's hard to tell sometimes whether government accounting is complicated and needs a lot of statements or it's complicated by the statements themselves. In the past, accounting for governments seemed to focus mainly on those who understood the finances of their own state or local governments. Back then there was not much time spent in the college accounting courses teaching governmental accounting. Now you can get a graduate degree in government accounting. The focus of financial reporting, it seems, has changed too. Standardization and comparability are a big emphasis with the intended users of the financial statements being investors and rating agencies. The investment community has become very important to financing of operations of the local government since the projects can be so large and expensive. Interest rates are usually determined based on the financial condition of the government, and they can make a big difference in the cost of a project since most of the borrowing periods are long term; therefore, it is very important that the government's finance managers be prudent in their use of debt financing.

Recently, a great deal of attention is being given to one type of debt in particular, that being the unfunded portion of defined benefit pension plans. A defined benefit pension plan is still an important part of most state and local governments' compensation packages. It provides a way to keep the governments' compensation packages competitive with those of the private sector. It also provides a way to reduce the cost of that part of the employee's compensation by investing the funded portion of the pension. Usually, if the funded portion is significant enough, investment income will pay 50-70% of the benefits to the employee. The unfunded portion of the pension, like other forms of debt financing, has been a way to pay a portion of an employee's compensation over an extended time period. It is also affected by the fluctuations in investment returns. There are limits on the size of that unfunded portion and the length of time it takes the government to pay it off, and if those limits are exceeded, that government could be at risk of not being able to pay it off without undue burden on the taxpayers. Like other forms of debt financing, the larger the debt, the harder it is to pay off, so it must be managed prudently.

The "Great Recession" has shone a bright light on public pension funds with large unfunded amounts. Some public pension plans had their pension debt reach the unmanageable stage. Some local governments had to file bankruptcy, in part, because of their pension liabilities. There was a general assumption that the economy would not recover as fast as it had in the past, and that has not been proven wrong at least as far as the "Main Street Economy" goes.

GASB has made changes to pension accounting for state and local governments to make it easier to spot problems before they become unmanageable. The private sector had already made changes to pension fund accounting. Those changes added a great deal of volatility to the financial statements of the companies that still had defined benefit pension plans. In order to rein in some of that volatility, some companies closed their defined benefit plans and replaced them with defined contribution plans, mostly "401.k" plans. The GASB changes will also cause more volatility and it is possible that volatility might change the way folks look at public pensions too. The changes are being made through two new statements, Statements No. 67 and 68.

Statement No. 67 applies to the financial statements of the pension fund itself and Statement No. 68 applies to the government plan sponsor. The changes in reporting under Statement No. 67 are mainly in the footnotes to the financial statements and the Required Supplemental Information (RSI). The body of the financial statements will be very similar with the exception of a name change or two. The "Statement of Plan Net Assets" will become the "Statement of Fiduciary Net Position", and the "Statement of Changes in Plan Net Assets" will be the "Statement of Changes in Fiduciary Net Position". This, one supposes, is to prove once again that GASB is made up of dedicated professionals (with a sense of humor). The Fire and Police Pension Fund will have to expand its Notes to the Financial Statements and RSI somewhat, but for the most part, we are already including a lot of the required information. We will have to incorporate more historical information than in the past, but the information has been reported in past statements.

The most important changes will be on the government plan sponsors financial statements. Statement No. 68, as stated above, applies to the government plan sponsor. The new statement will change how the government plan sponsors will report the net pension liability in their financial statements. Under the new statement, the total amount of the pension "debt" or the Net Pension Liability, which is the total pension liability minus the market value of the investment portfolio, will have to be shown on the financial statements of the plan sponsor. It is rare under the present circumstances, but it is possible that the sponsor could be over funded, which overfunding would then become a pension asset. The Net Pension Liability (or asset) could vary wildly from year to year based on the returns in the financial markets. It is hard to understand how this will improve comparability of one year's statements to the next. Having everyone follow the same set of rules has some merit, though, when one government's performance is compared with another. For the investor and even the informed taxpayer, the performance of their respective government will be difficult to compare from one year to the next at least as it regards this one line item in the financial statements. A thorough assessment will almost have to include a comparison of the performance of other similar governments. In light of some of the recent publicity over the condition of some public pension plans, it is not hard to imagine how some of this new perspective on pension liabilities might be used politically.

It remains to be seen how these changes will help or hurt the readability and understandability of the financial statements presented under these new statements. Statement No. 67 is required for accounting periods beginning after June 15, 2013, and Statement No. 68 is required for accounting periods beginning after June 15, 2014. Earlier application is encouraged (they always say that). Presumably, most investors in government type securities are familiar with the intricacies of public pension plans already. Also, there has been a great deal of information already available under the current statements. As was said earlier, defined benefit plans are still a very important part of compensation plans for public employees and a good way to make public sector employment more competitive with private sector employment, and they make it possible for the public sector to hire and retain highly qualified and conscientious employees to serve the needs of the communities they live and work in.

News from the Healthcare Fund

James Bounds, Executive Director

The Fire and Police Retiree Healthcare Fund is setup to be the primary health insurance for retirees until they reach Medicare eligibility. Once the member is Medicare eligible, the plan will be secondary to Medicare. The requirement to have Medicare has been part of the Plan since 1995. As members approach their 65th birthday, we recommend that they should apply at least three months prior for Medicare parts A and B.

Medicare part A is for hospital care. Part A requires forty quarters of contributions to qualify. Members may qualify by their work history, their spouse's work history, or even their ex-spouse's work history. Part A is free to those who qualify. If a member applies for part A and receives a letter from Medicare stating that they do not qualify, the Fund will continue as primary for the member on hospital care.

Medicare part B is for doctors and labs. Part B requires only U.S. citizenship to qualify. To date, all retirees have qualified for part B. Part B has a monthly premium which is adjusted annually.

Medicare part D is for prescriptions. Part D is not required by the Fund, in fact, the Fund recommends members not take part D.

When a member fails to take Medicare, the Plan "assumes benefits". This means the Plan assumes that Medicare would have paid 80% of all invoices received. The remaining 20% would be addressed by the Fund. The 80% that Medicare should have covered becomes the member's responsibility. It is important to have your Medicare status settled before your birthday to prevent "assumed benefits." Medicare has limited re-enrollment dates to rectify a missed entry date.

As always, Benefit Specialists are available toll free at (866) 652-4237.

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