



# ADVISOR

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

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



It's been a relatively slow couple of months since the last Advisor Newsletter was published. However, there are several items that should be of interest to you that I would like to discuss.

The Pension Fund Board has been meeting for the past several months discussing the pros and cons of changing the Pension Fund's fiscal year from September 30th to

December 31st. The main reason for the change is to improve efficiency. The majority of our investment managers use a calendar year, but because we currently use a September date, our staff must roll-forward the cashflows from the managers' December Audits to our September 30th Audit. Due to the number of investment managers we have, this is a very time-consuming task. We have discussed with our Auditor, Actuary, the Pension Review Board and the City of San Antonio. None of the organizations expressed any major concerns with the switch, so effective January 1, 2016, the Board changed from a September 30th Fiscal Year to a Calendar Year. In conjunction with this change, the Pension Fund conducted an abbreviated audit for the period October 1, 2015 – December 31, 2015. The results of this audit were presented in July and the Pension Fund was again given a clean bill of health. Along with this change, it is also worth noting that the calculation and possible disbursement of a 13<sup>th</sup> Check will be based on the newly approved calendar year data.

On the legislative front, we continue to discuss the issue of "local control" and its impact on the Pension Fund. As you know, the issue we have with local control is that it places sole control of the Pension Fund in the hands of City Council. We believe that our approach, requiring all affected parties to agree before we go to the Texas Legislature, is a better system. In response to an Op Ed that was run in the Express News supporting local control, our former Executive Director and former City Councilman, Weir Labatt, responded with a well-written Op Ed in opposition to local control. His Op Ed was published in the Express on July 3<sup>rd</sup> and can be found on our Facebook Page. We want to re-assure you that the Pension Fund is constantly monitoring these types of attacks on our system and will always take the necessary steps to defend the Fund. Erik Dahler, general counsel for the Fund, has an article later in this Advisor Newsletter giving more information on Local Control.

The investments of the Fund continue to perform well in this modest economic environment. As of the end of August, our investments are up 5.75% which is in line with our goal of 7.25% by the end of December. Our Chief Investment Officer, Matt O'Reilly, has been with the Fund for over 5 years and continues to do a great job maximizing our returns while controlling our risk. Later in this Advisor, Matt discusses in detail a couple of our recent and successful private equity investments. As you may be aware, the Pension Fund invests 7% of our assets (\$140 million) in private equity investments. These are investments in companies that are not listed on any of the public exchanges. While the risk is higher on these investments, the return is also expected to be higher. Your Fund was a private equity investor in such companies as Google and Facebook before they became public companies. I hope you enjoy Matt's report on some of our recent successes.

Congratulations to Larry Reed on his re-election to the TEXPERS Board for another 4-year term. TEXPERS is a state-wide association organized in 1989 to educate and represent public employee retirement systems. It is a big benefit for the Pension Fund to have Larry serving on this Board. We also have one of our police board members, Jim Smith, serving on this Board with Larry.

I want to take this opportunity to congratulate one of our Board Members for his ongoing continuing education endeavors. Shawn Ury, Investment Committee Chairman, has passed Level I, II and III of the Chartered Financial Analyst (CFA) Program. The CFA credential has become the most respected and recognized investment designation in the world. It is organized into three levels, each culminating in a six-hour exam. Congrats to Shawn for passing Level III and earning his designation. The Pension Fund encourages our Board and staff to take advantage of continuing education opportunities. The Pension Fund has over \$2.7 billion in a wide array of investments, and extensive knowledge is important for both staff and Board Members.

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

# Investment Market News & Information

*Matthew O'Reilly, CFA, Chief Investment Officer*



Dealing with the financial aspects of retirement is often one of the largest issues and concerns for families. In fact, if an internet search is performed on retirement issues, almost all the articles written focus on money and health care. With increasing life expectancies, many people should anticipate a retirement lasting 30 plus years. Today, a 65 year old man will live until age 84.4 and woman until

86.7. With lower return expectations and increased volatility, a secure retirement for many could be stressful. For the members of SAF&P, financial issues are greatly resolved because of the pension.

Most financial advisors will recommend for individuals to replace 75% of their current income for retirement. The great thing for police and fire members is that if you have worked more than 27 years, you will surpass this replacement target. Being a police officer or firefighter is stressful enough but a secure retirement is one thing you should not stress over.

Furthermore, your pension fund is one of the best funded in the country. Since we are in such a great financial position, we maintain a well-diversified mix of investment strategies. One of the better asset classes has been real estate. The Pension Fund generated 15.0% and 14.5% over the past 3 and 5 years respectively. Most of our real estate is invested in the United States but we have increased our global exposure a small amount. Thinking globally, we believe, should increase the return opportunities and reduce risk long-term.

One example of a deal we became involved in 2013 is "Project Seed". Our advisor Townsend, a global real estate consulting firm, along with China Logistics Property Holdings, successfully listed the project on the Hong Kong Stock Exchange. Under the Project Seed sales agreement, the partnership exchanged equity interests in 17 logistic projects for a combination of cash proceeds, listed company shares, and a \$50m promissory note. For the Pension, this was roughly a \$4 million investment in which we already got back \$3 million and still have a remaining \$3.65 million in market value. It is fantastic to get most your money back and ride the upside.

Another exciting transaction the Pension has an investment in is Jet.com. You might remember the commercial where the actor's mind blows into a purple cloud of smoke because of the unbelievable low prices. Our manager, WesternTech, provided a loan to Jet.com and was able to buy stock at a discounted price. Recently, Walmart agreed to acquire Jet.com in order to compete with Amazon Prime. This deal highlights Walmart's interest in competing directly with Amazon online in the years ahead. It was not a large loan but similar to "Project Seed", we got all our money back and still have 3 times our money in equity.

We are always on the lookout for opportunities where we can get a very good return and protect on the downside. Jet.com and Project Seed are just two examples of hard work put forth by a team of people. The Board, Staff, and Advisors will continue to work hard finding good risk versus reward trade-offs for the benefit of the Pension.

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## BENEFITS SPOTLIGHT: Active Member Death Benefits

*Dean Pearson, Active Fire Representative*



Recently, I have been approached with questions regarding death benefits for beneficiaries. It seems there has been some incorrect information being disseminated, so I want to take the opportunity to clarify the numerous death benefits that are provided by our pension fund. There is no doubt that this is a complicated issue and we always prefer you ask your pension representative or a member of the staff if you have any questions regarding pension issues. So let me begin and hopefully provide some beneficial information regarding the Pension Fund's death benefits.

### Active Member Death Benefits

The benefits paid when an active member dies depend on whether or not the death is in the line of duty and whether or not the member has beneficiaries. 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; they are not designated by the member. *(Article continues on Page 3)*

## **BENEFITS SPOTLIGHT: Active Member Death Benefits** *(Continued from Page 2)*

If a member dies **in the line of duty** and has one or more beneficiaries, the benefit is a monthly annuity of 100% of the member's salary. In addition, 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 dies in the line of duty leaving no beneficiary, a lump sum payment is made to the estate of the member. 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.

An example will show how different the benefit can be depending on the existence of beneficiaries. A member has one year of service credit in the Pension Fund, a current annual salary of \$48,000, and an average annual salary of \$47,000. If a member dies in the line of duty leaving a surviving spouse only, the surviving spouse will receive a monthly annuity of \$4,000 ( $\$48,000 / 12$  months) for life. If a member dies in the line of duty leaving no beneficiary, the estate will receive a one-time lump sum payment of \$10,575 ( $\$47,000 \times 2.25\% \times 10$ ).

If an active member's death is **not 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.

An example will show the difference with or without beneficiaries. A member has 8 years of service credit and an average annual salary of \$60,000. With beneficiary, the monthly annuity is \$2,500.00 ( $(\$60,000 / 12$  months)  $\times 50\%$ ). Without beneficiary, the one-time lump sum payment is \$108,000.00 ( $\$60,000 \times (8 \times 2.25\%) \times 10$ ).

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.

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 that you understand the benefits in your particular situation when planning for 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.

# Give Me Local Control or Give Me Death!

By Erik Dahler, General Counsel



Okay, Patrick Henry never said that. But a lot of Texas Legislators and local politicians are (or something to that effect)! There has been a lot of talk about "local control" so we thought we'd take the opportunity to give you a few examples of how that would look, based on actual bills filed during the 2015 legislative session. We fully expect even more similar bills during the upcoming 2017 session.

So, who doesn't want to take decisions about your pension health and benefits away from Austin and let the local powers-that-be (where the funds are actually generated) "control" things? Ask anyone on the street who doesn't know what "local control" means and why the current system affords plenty of local control and they will probably think it is a good idea!

But *we* know that currently, decisions about plan changes initiate with the membership and Board of Trustees and those decisions are scrutinized and subject to approval by the City Council. Once everyone is in agreement at the local level, the Legislature considers the changes and in effect, acts as a check-and-balance to help make sure the changes are fair and sustainable. In essence, the Legislature helps to make sure local politics don't produce unfair, unworkable, or unsustainable changes to the plan. Imagine if the City Council or even the membership, had too much power and could make whatever changes they want.

Well, giving the local politicians and staff too much power without a check and balance is exactly what "local control" is all about. Keep in mind, too much control without oversight is what has many pension funds in trouble. The common practice of skipping contribution payments is an example (politicians most often would rather fund high-profile projects).

So here are actual examples of some of the attempts at undoing the check-and-balance that were introduced in the last legislative session.

HB 2955 by Representative Klick (of Tarrant County) would have *repealed* all the local statutory pension plans (including this one). In place of each statutory plan, a loose framework of "stakeholders" would have been established to negotiate and produce a revised set of rules and procedures pertaining to contributions, eligibility, benefits, and administration of benefits. The stakeholders were to include the fund board, city council, a retiree committee and an active member (employee) committee. As bad as this bill was, *at least* it required some input by the membership, as opposed to other bills below. Once a new set of rules and procedures was crafted, each stakeholder group was to vote on adoption. The bill didn't address what happens if there was a failure to adopt; and remember, the pension law would have been repealed, so there was no fallback!

HB 2608 by Representatives Murphy (of Harris County), Schaefer (of Smith/Tyler Counties), and Stephenson (of Ft. Bend County) would have allowed municipal plan sponsors (such as San Antonio) to supersede provisions of a plan, *by ordinance or resolution*, including any provision relating to the benefits, participation and eligibility requirements, funding source or amount, and administration of the plan. So much for letting the members have a say! Word is, Representative Murphy fully intends to refile and push this even harder in the next session!

SB 1994 by Senator Bettencourt (of Harris County) is similar but it would have applied only to persons who become members after a certain date, *and it also included an option to transition to a DC plan*. That is the end-game of the "local control" tactic, whether these bills actually say it or not. It's in every playbook of the anti-defined-benefit advocates!

We will keep the membership updated and will continue to defend against these attacks. If you have any questions, contact the Chair of the Legislative Committee/Active Police Representative Sgt. James Smith or Board Chairman/Active Fire Representative J.T. Trevino.



## LEST WE FORGET

By Henry Trevino, Retiree Health Care Fund

It was September 11<sup>th</sup>, 2006, the 5<sup>th</sup> Anniversary of the 911 terrorist attack on the twin towers. I moved from firefighter to firefighter exchanging greetings and embraces with seasoned veterans and young eager recruits. It was 7am on a muggy Monday morning where a small but proud band of firefighters was gathering in downtown San Antonio to honor the heroes of 911; we planned to march through the heart of the city from Milam Park to the Alamo where we would witness a solemn ceremony remembering those first responders who had made the ultimate sacrifice on that fateful day on September 11, 2001. *(Article continues on Page 5)*

## **LEST WE FORGET** *(Continued from Page 4)*

Our brothers from the SAPD led the way, clearing the streets and halting traffic for our memorial. As we passed the intersections the police officers saluted the flags and stood silently at attention. Local 624's Honor Guard and the Pipe and Drum Brigade, followed dressed in their splendid uniforms. Next in line were our Antique Coast Fire Truck and another vintage pumper with veteran firefighters proudly riding the tailboard of the pumpers. Finally, a contingent of over 100 firefighters in dress uniforms followed the Fire Department entourage. Many of the San Antonio Firefighters and First Responders following in the parade were augmented by first responders from other surrounding towns and cities.

The solemn procession slowly marched down Houston Street. The Drums of the Fire Brigade beat out a slow and deliberated cadence. As we passed, citizens began filling the sidewalks. The canyon formed by the buildings of downtown San Antonio was filled with the magnificent sound of the bagpipes. As the memorial dirge proceeded, the somber music of the bagpipes reverberated against the tall buildings. Business owners, patrons, workers and visitors were drawn outside. It was all too obvious what this procession was all about. The citizens stood in reverent silence; some removed their hats, others saluted or held their hands over their heart. Some cheered or cried out sincere thanks.

For those of us who marched in the parade, our souls filled with pride; at the same time our hearts felt the sorrow of the great loss. The deliberate drumbeat and the soulful sound of the pipes reminded us of the service and the sacrifice that defines our noble profession. My mind wandered to the terrible events on that fateful day. When the two towers were hit by terrorists, our country was plunged into a depth of despair and depression that had not been seen in many years. The strike on the towers not only activated, but also united our people to fight a common enemy. I can't remember such patriotism and sense of purpose since the years of the Second World War. It made me very sad at the great loss of life, but at the same time very proud to be an American.

That fateful day and some of the days that followed, I was so choked up that I found it hard to talk to anyone about events of that day. I kept thinking about the many, many firefighters, police officers and rescue personnel who rushed up the stairs to help the injured and assist in evacuating the buildings. I had climbed fire escapes in multi-story buildings many times and I knew full well what they were feeling. Hundreds of good young men and women desperately trying to do their jobs only to have a massive building collapse, extinguishing their young lives and burying them under tons of debris. The dastardly and depraved act on September 11 so affected me as a retired firefighter that I was in a daze for days. Our nation, likewise, suffered emotionally as it assessed the events of that awful day.

Our leaders of the United States, the leaders of New York and every other city in our great nation stood together in trying to make sense of our tragedy. The people were united and retribution was decisively extracted. Fire and rescue teams from throughout the country were sent to assist in rescue and recovery efforts. The San Antonio Fire Department assisted by sending a rescue team to this horrific scene.

The year 2001 can be considered a tragic year because of the great loss of life of so many innocent people. However, 2001 was also a good year in that it brought out the best in people. Unity, courtesies, respect, helpfulness and a sincere concern for fellow Americans were abundant and could readily be seen and felt in our everyday life. When collections were taken up at street corners, our citizens couldn't give enough. They dug deep into their pockets and sometimes gave more than they could really afford. Gold rings, watches, religious medals, silver and gold chains and some gold coins were put in the boots of firefighters who were taking up collections at street corners.

During the walk from Milam Square to the Alamo, people along the sidewalks clapped and cheered as the procession of firefighters passed. I thought to myself what an impression we could have made with two or three times the number of firefighters. How fitting it would have been if all off duty firefighters had participated in this memorial. It could have been a tremendous show of respect and an honor to all our fallen brothers and sisters. It would have also shown the unity of our extended Firefighting family.

I congratulate the Members of the Firefighters Benevolent Fund and all other firefighters for coordinating and putting this event together. It raised the stature of the Firefighters in the eyes and hearts of the citizens that watched us pass.

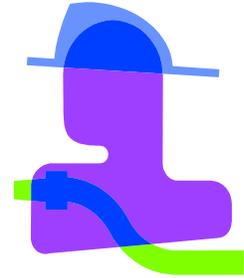
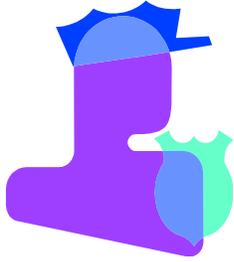
Now more than ever we should be united. We should be proud of our work as Firefighters, Police Officers, Paramedics and First Responders. Let's stand together and never forget our brothers who gave their all in defense of humanity. We must forever continue to be unified and remember those who came before us and laid the ground work for our proud and noble professions.

We will never forget.

Fraternally,  
Henry Trevino

# PRE-RETIREMENT SEMINAR

Friday, November 4, 2016



**Fire & Police Pension Fund  
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**8:00 a.m. - 3:30 p.m.**

## **Seminar Topics:**

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