



March 2019

# ADVISOR

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

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



Let me begin by wishing each of you a Happy New Year. I hope you had a great 2018 and that you will have an even better 2019. I have quite a few updates regarding your San Antonio Fire & Police Pension Fund, so let's get started.

First, your Pension Fund continues to be one of the healthiest in Texas. We are currently 90 percent funded and expect that to be 100 percent within the next 10 years. This should give all our active and retired members comfort knowing that your Pension Fund will be around for a long time. A lot of your brothers and sisters in Houston, Dallas and Fort Worth do not have the same level of comfort, and that is unfortunate. We are, as our mission statement states, “Dedicated to providing retirement security for firefighters and police officers – past, present, and future.” That is the ultimate job of the Pension Fund Board and Staff, and we take that job very seriously.

**COLAs Increase.** The Bureau of Labor Statistics reported that inflation rose 1.9% in 2018. As such, our retired members saw a nice increase in their January retirement checks. Per our Pension Law, if you retired prior to October 1, 1999, your check increased by 1.9 percent. If you retired after that date, you receive 75 percent of the inflation rate, or 1.4 percent. As I tell the cadets when they graduate, the automatic COLA is one of the best benefits of the Pension Fund. Ask any retiree and they will tell you the automatic increase they see in their January check every year is very welcome. And they don't have to bargain for it – it's automatic.

**13<sup>th</sup> Check Update.** Our preliminary calculation of our investment return for 2018 is negative 4.0 percent. Based on the rules outlined in our Pension Law, we

will not achieve the necessary five-year average investment returns for the Board to have discretion to issue this Check. Hopefully the joy from receiving the 13<sup>th</sup> Check last year will keep you content until we are able to issue the next one.

**Investments Update.** Cary Hally has joined SAFPPF as our new Chief Investment Officer. Please see our interview with Cary on page 4. Welcome Cary!

**Legislative Update.** Our Board approved seeking a Legislative Package from the Texas Legislature this session. The Package contains 20 language changes for clarification purposes or to get us in compliance with IRS Code.

The changes do not make any benefit improvements. As you may recall, in 2015 the Board approved an Actuarial Funding Policy which ensures that your benefits are safeguarded for the long-term against political winds. The policy gives our Board a persuasive argument to improve benefits – when the time is right. With recent problems in Dallas, Houston and Fort Worth still fresh on the minds of legislators, we cannot ask for improved benefits under our policy.

**Board Appointments.** The San Antonio City Council has appointed City Councilman Art Hall to serve on the Pension Fund Board to replace former Councilman Cruz Shaw. Hall will serve until June 30, 2019. He has previously served several different terms on the Board both as an active City Councilman and then as the Mayor's Designee. In total, Councilman Hall has served 11 ½ years on the SAFPPF Board, so he is well versed on how we work. Councilman Shaw is now Judge Shaw, an associate judge in the 436<sup>th</sup> Judicial District Court. We thank Judge Shaw for his service to the Board and our members.

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*Councilman Cruz Shaw (center) receives a plaque in appreciation for his service to SAFPPF. From left are Trustees Larry Reed, Dean Pearson, Jimmy Foster, Shaw, Jim Smith, Clayton Perry and Harry Griffin.*

The Mayor has also designated former councilman and Bexar County Commissioner Justin Rodriguez as his representative on the Board. Commissioner Rodriguez previously served on the Board for six years as an active city councilman and then as the Mayor's Representative. Commissioner Rodriguez takes over for Reed Williams, who resigned at the beginning of the year. We thank Mr. Williams for his service and wish him well.

**Your Benefits Information.** Annual statements are now available online for active members. Go to [www.safppf.org](http://www.safppf.org) and sign-in to MemberDirect. Sign up with MD if you have not done so already.

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.

## Our Investment History: A Reassuring Story

### *Harry Griffin, SAFPPF Trustee, Retired Police Representative*



Our Pension Fund is financially strong and is considered, by many, one of the best managed and fiscally responsible defined benefit plans in both Texas and the country.

Our asset size has grown significantly from \$340 million in 1991 to \$3 billion in 2019. This growth has been the result of regular contributions from both employees and our employer coupled with the strong investment performance of our assets.

My intent with this article is to highlight how regular contributions coupled with significant investment returns provide our Fund with the necessary assets to ensure the payment of pensions.

Contributions from active firefighters and police officers and contributions from the City of San Antonio are a significant factor in the health of our Fund.

In fact, the city contributes nearly \$76 million per year and members nearly \$38 million per year. For years, these contributions exceeded benefits paid to retired firefighters and police officers.

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## *A Reassuring Story, continued*

Today the benefits paid to retirees exceed contributions making it even more important we earn investment returns necessary to pay future pensions.

Our December 31, 2017 annual audit by BDO reflects total contributions of \$113.9 million compared to pensions paid of \$155 million.

Investment return is necessary to ensure we meet our requirement to pay pensions.

Responsible pension plan funding requires we invest our assets prudently with a goal of meeting our actuarial liabilities. The table below shows our actual investment performance for the past 20 years.

The total growth in asset value of our Pension Fund was \$2,379,670,300.00 over this 20-year period. This

return of nearly \$2.4 billion was accomplished even with significant losses in 2001-02 and 2008-09.

Finally, our pensions are a significant part of our net worth and allow us to retire with dignity. We should all rest assured our Fund is strong and can pay the pensions it has promised.

Many have contributed to the success of our Fund, including members willing to contribute a sizeable part of their salary each paycheck, the City of San Antonio for its generous matching contributions to our Fund, and those who have made decisions regarding asset investments resulting in the returns reflected below.

## **SAFPPF Investment Returns, 1998-2017**

Year	Gain / (Loss)	Return Percentage
1998	\$17,033,347	1.81%
1999	\$203,527,404	20.94%
2000	\$208,388,392	17.52%
2001	(\$159,851,000)	-11.32%
2002	(\$119,915,000)	-9.51%
2003	\$179,311,000	15.66%
2004	\$158,002,000	11.87%
2005	\$207,914,000	13.90%
2006	\$173,218,000	10.15%
2007	\$311,238,000	16.54%
2008	(\$292,269,000)	-13.40%
2009	(\$100,618,000)	-5.36%
2010	\$153,829,000	8.68%
2011	\$54,976,000	2.87%
2012	\$266,277,000	13.54%
2013	\$248,187,404	11.17%
2014	\$223,053,939	9.07%
2015	(\$47,586,525)	-1.79%
2016	\$287,674,638	10.87%
2017	\$407,279,701	14.48%

*(Source: Segal Actuarial Report , year ended December 31, 2017. )*

# Meet our New Chief Investment Officer:

# Cary Hally

Cary Hally started his role as Chief Investment Officer for the fund in mid-2018. He has 25 years of investment experience, primarily working with pension funds in structuring prudent, risk-controlled portfolios.



### What pension fund experience do you have?

I was an investment consultant providing investment advice to several pension funds similar in nature to SAFPPF, and I was CIO for a multi-billion dollar pension fund. Working in this industry can be very challenging, but I also find it gratifying. I personally consider it an honor and a privilege to be serving the firefighters and police officers of San Antonio.

### What happened in 2018?

Last year should remind us that investing can be challenging. After nine years of mostly positive returns, US stock markets ended 2018 in the red. Early on, 2018 looked promising. On September 20<sup>th</sup> the S&P 500 Index set a record high and another positive year was almost certain. Then, we had a 20 percent selloff. December was particularly dreadful: the S&P 500 went down nine percent, the worst December since 1931.

### But doesn't SAFPPF diversify investments?

Yes, we do, but it wasn't just the US stock market. Almost every asset class produced negative results for 2018. It was the first year since 1994 in which cash

outperformed both stocks and bonds. To put it simply, 2018 was an extremely difficult year to make money in financial markets. I call 2017-18 the Dr. Jekyll, Mr. Hyde years. (see chart below)

**Did diversification help us?** Yes, it did. For 2018, SAFPPF was down approximately four percent, well below the +14 percent return from 2017 but you can see from the chart there were far larger losses in various asset classes. Our diversification strategy succeeded in minimizing overall losses.

**How did SAFPPF manage that in such a challenging year?** Discipline, diversification, and rebalancing helped us manage the downturn. One of the key lessons from 2018 is the importance of remaining disciplined. Emotion and market fluctuations should not override the discipline necessary to achieve long-term goals. Without a mythical crystal ball to time markets (which I am convinced doesn't exist), we must manage the portfolio knowing large fluctuations can occur.

Broad diversification dampens the downside in markets like 2018. For example, our hedge fund portfolio makes up 10 percent of our fund. It returned +0.9 percent and helped minimize the downdraft caused by other asset classes.

### Did SAFPPF take any money off the table in 2018?

We also routinely rebalance our portfolio to help achieve long-term return objectives. We have allocation targets for each asset class. When assets fall outside the range, we rebalance the allocation back towards the target. For example, if stocks drop below their range, we will sell assets in an asset class which is above its target and buy more stocks. Conversely, if stocks increase above the allocated range, we sell some stocks and then buy assets that have fallen below their range. Being disciplined in this manner enforces a process of buying low and selling high.

### How are we doing in 2019?

To end on a positive note, during the first five weeks of 2019 the stock market is up approximately 10 percent, a sharp reversal from December. Whether up markets or down markets, we will continue to strive to manage the investments in a disciplined, risk-controlled approach.

### The Dr. Jekyll, Mr. Hyde Years

	2017	2018
Domestic Equities	21.1%	-5.2%
International Dev. Equities	33.8%	-13.8%
Emerging Market Equities	37.3%	-14.6%
Domestic Fixed Income	3.5%	0.0%
High Yield Fixed Income	7.5%	-2.2%
International Fixed Income	7.5%	-0.8%
Cash & Equivalents	0.9%	1.9%



# Tax Time: How to Use Premiums Paid to Reduce Income

*Rick Matye, SAFPPF Payroll & Benefits Advisor*

Federal laws provide retired public safety officers a tax benefit related to payments for qualified health insurance premiums.

Retired public safety officers can use at least a portion of the premiums they paid in 2018 to reduce adjusted gross income, rather than claiming them as itemized deductions which may result in little or no tax benefit. This option has been around a while, but not all retirees may be aware of it or how it works.

All Fire and Police retirees in the San Antonio Fire and Police Pension Fund should meet the definition of retired public safety officer. As such, you can reduce taxable pension income up to \$3,000 per year for qualified health insurance premiums.

Qualified health insurance premiums include premiums for accident and health insurance or qualified long-term care insurance contracts. Please consult a CPA or tax advisor to determine which premiums qualify. To get the benefit, the insurance premiums must be deducted from your monthly pension payment and paid directly to the insurance company by the Pension Fund. **Premiums paid by retirees directly to the insurance company are not eligible.** The amount of the exclusion is the lesser of \$3,000 or the actual amount of premiums deducted from your pension for the year. If both you and your spouse are retired public safety officers, both would be eligible to use up to \$3,000 per year if both are having deductions taken from their pension payments.

The benefit applies to premiums paid for you, your spouse, and dependents. However, if a retiree passes away, surviving beneficiaries are not able to claim the benefit on their own returns. The benefit is for premiums paid by retirees only.

As an active member, your Form W-2 box 1 Wages reflected a reduction for nontaxable items such as health insurance deductions. As a retiree, Taxable Income in box 2a of your Form 1099-R is not reduced for your insurance premium deductions. **You must**

**make an election on Form 1040 to get the benefit.**

On Form 1040 for 2018, report total distributions from Form 1099-R box 1 on line 4a. On line 4b, report the taxable amount determined after reducing Taxable Income from Form 1099-R box 2a by the exclusion amount. Enter "PSO" next to line 4b. There is no form or statement required to make the election. Reducing the taxable income and the "PSO" designation serve as your election. The Year-to-Date column on your December pay stub will give you the information needed to determine your qualified health insurance premiums. Here's an example:

Form 1099-R, Box 1 Gross Distribution = \$50,000.00  
Form 1099-R, Box 2a Taxable Amount = \$50,000.00  
December Pay Stub, Year-to-Date Qualified Health Insurance Premiums = \$4,000.00

Form 1040, Line 4 should look as follows:

4a IRAs, pensions, and annuities	4a	<u>50,000.00</u>
b Taxable Amount	PSO 4b	<u>47,000.00</u>

Line 4b is the \$50,000.00 from Form 1099-R, Box 2a minus the exclusion amount of \$3,000.00. The qualified health insurance premiums of \$4,000.00 exceed the maximum, so \$3,000.00 is used for the exclusion.

If you are using a computerized tax program, when completing 1099-R interview or entry menu there should be a question asking if you are a retired public safety officer or a menu box to enter the necessary information.

Any amount excluded from taxable income by making the election cannot also be used as an itemized deduction on Form 1040, Schedule A. However, premiums over the \$3,000 maximum can be used on Schedule A.

You can read more about this benefit in IRS Publication 575, Pension and Annuity Income, and the instructions for IRS Form 1040. Both are available at [www.irs.gov/forms-instructions](http://www.irs.gov/forms-instructions). Finally, remember that you should contact a CPA or tax advisor about your options and what will work best for your situation.



## Gray Divorce: Implications for Your Pension and How We Can Help

*Gail Jensen, SAFPPF General Counsel*

What do Antonio Banderas, Jeff Bezos, Harrison Ford and Morgan Freeman all have in common? They each got (or are getting) divorced after age 50, and after nearly 20+ years of marriage.

For better or worse, divorce happens. And while divorce rates in general have declined in the last several years, divorce rates among “seniors” have increased. In fact, for those older than 50, the divorce rates have roughly doubled; and for those older than 65, they have roughly tripled. The phenomenon even has its own term – “gray divorce.”

Divorcing after you’ve retired could have a significant impact on your pension. In addition, many “gray divorcées” go on to remarry, and that also could have implications for your pension. Should you find yourself facing either divorce and/or remarriage after you’ve retired, here are some things to be consider.

No matter how old you are, when couples get divorced, the spouses’ retirement accounts are considered property which could be subject to division by the Court. If you were married while you were working, the pension credit you earned during the marriage is considered community property, which is what gets divided by the court in a divorce. Courts typically divide community property 50/50, or at least that’s the starting point. Often, when SAFPPF members get divorced, their pensions get divided between the spouses, although it is possible for the spouses to agree to a different arrangement. For example, sometimes the spouses will agree that they each keep their own pension/retirement account, or sometimes the member is able to persuade the spouse to give up the SAFPPF pension in exchange for some other property – like cash, or the house. You should consult with an experienced family law attorney about your options and what will work best for your situation.

If your pension does get divided, the Pension Fund Office can help you by calculating what portion of your pension is community property, and then determining what your ex-spouse’s monthly annuity payment will be. When you retire, your ex-spouse will then be entitled to receive those monthly payments until your death, or your ex’s death, whichever occurs first.

Many members choose to have the Pension Fund pay their ex-spouse directly, as doing so can be easier overall to administer and the income tax withholdings are taken directly from each payment – meaning, you pay tax on your share, and your ex-spouse pays tax on his or her share. To have the Pension Fund make the payments directly, though, you will need a Qualified Domestic Relations Order (or QDRO), a special type of court order which authorizes and directs the Pension Fund to make those payments. QDROs can be stand-alone documents, or they can be included as a section in the Divorce Decree itself. Additional information about the Pension Fund’s QDRO policy can be found at [http://www.safppf.org/Pub\\_QDROPolicy.aspx](http://www.safppf.org/Pub_QDROPolicy.aspx). Also, we are happy to answer any questions you may have (although we cannot provide specific advice).

Once you are divorced, the only thing your ex-spouse will be entitled to is whatever the court awards in the divorce. That is to say, your ex-spouse will no longer be entitled to receive any of the other pension benefits, including benefits that are payable to your survivors upon your death.

So, what happens to your pension if you decide to remarry? Remarriage itself has no impact on your monthly annuity payments. You will continue to receive the same monthly payments you received prior to the marriage; and your ex-spouse will continue to receive his or her monthly payments. Upon your death, the monthly payments to your ex-spouse will cease, and your new spouse will be considered the “surviving spouse” under the Pension Law. If your new spouse meets certain requirements,  
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## *Gray Divorce, continued*

he or she will generally be entitled to receive your full, undivided retirement annuity (capped at 27 years' service credit), shared with any dependent children.

So, what are the requirements? There are two. First, since the remarriage occurred after retirement, the marriage must have lasted at least five years at the time of your death. If the marriage was for less than five years, your new spouse will not be eligible to

receive the monthly annuity payments, and instead will receive a \$15,000 lump sum payment (provided you have no dependent children). Second, the annuity payments will not be made to the surviving spouse unless or until he or she reaches the age of 55.

Divorce and/or remarriage are significant life changes and could have wide-ranging impacts when it comes to your retirement and financial security. It is always advisable to consult with experts – financial planners, lawyers, social security experts, etc. to make sure you are prepared.

## **Congratulations! 2018 Retirees**

### **January 2018 – Police**

Richard R. Sanchez – 39 years  
Ronald J. Heinrich – 20 years  
Jose Bara, Jr. – 24 years  
Mary L. Dye – 29 years  
Jesus M. Oliva – 29 years  
David Lee Felux – 27 years  
Joseph D. MacKay – 32 years  
Erik R. Doyle – 31 years  
Timmy L. Bowen – 26 years  
James A. Ellis – 31 years  
Nunzio J. La Maestra – 30 years  
Marc A. Ebinger – 23 years

### **January 2018 – Fire**

Patrick M. Grams – 27 years  
James A. Rios – 20 years  
Richard J. Llewellyn, Jr. – 34 years  
Jonathan E. Doran – 30 years  
John M. Sandoval – 31 years

### **February 2018 – Police**

Vincent M. Sanchez – 21 years  
Brian Lamar Head – 28 years  
Jeffery R. Smith – 31 years  
Leslie Ann Saenz – 28 years  
David R. Lopez – 32 years  
Barry K. Gresham – 29 years  
David S. Anderson – 29 years  
Paul S. Woodward – 29 years  
Mark L. Frost – 32 years  
Chinee Edwards, Jr. – 32 years  
William Edward Nuernberg – 27 years

### **February 2018 – Fire**

Deborah Mae Foster – 23 years

### **March 2018 – Police**

Joseph D. McKay – 31 years  
Margaret Gonzalez – 31 years  
Robert D. Moffitt – 29 years

### **March 2018 – Fire**

Martin Connor, III – 31 years

### **April 2018 – Police**

Richard F. Sanchez – 31 years  
Orlando Navarro – 40 years  
Ramon A. Moreno – 32 years  
Edward C. Klauer – 32 years  
Jeffrey C. Hastings – 27 years  
Encarnacion Y. Guzman – 28 years  
John R. Dyer, Jr. – 30 years  
Darryl E. Christensen – 32 years  
Robert Rosales – 27 years  
Bryan S. Griffin – 27 years

### **April 2018 – Fire**

Richard F. Garcia – 31 years  
Mario Cortes – 32 years  
Raymond A. Perez – 32 years  
Jacob Mendiola – 31 years  
Edward Casias – 27 years

### **May 2018 – Police**

Loy C. Wong, Jr. – 36 years  
David W. Sczepanik – 33 years

### **May 2018 – Fire**

Tomas G. Garcia – 40 years

### **June 2018 – Police**

Gerald A. Garcia – 31 years  
Rodolfo Lopez – 33 years  
Robert Dale Lambert – 31 years  
Alexander R. De La Garza – 23 years  
Bryan Lee Cowan – 28 years

### **July 2018 – Police**

Randy Lee Walter – 27 years  
Daniel J. Savino – 31 years  
Rene Martinez – 32 years  
Guillermo Mendoza, Jr. – 29 years  
Betty Jean Cardona – 31 years  
David A. Alonzo – 20 years  
Randy E. Jones – 29 years  
Thomas A. Brittain – 29 years  
Shawn R. Ury – 22 years  
Rodney S. Tubergen – 27 years

### **July 2018 – Fire**

Ronald M. White – 32 years  
Steven W. Nuernberg – 29 years

### **August 2018 – Police**

Earl Wayne Wade – 23 years  
Rudolph A. Garza – 31 years  
Kevin Barre Coble – 24 years  
Martin J. Landgraf – 31 years  
Mark C. Clancy – 29 years

### **September 2018 - Police**

Javier A. Ybanez – 32 years  
Leonard C. Embry, Jr. – 24 years  
Reimundo Moron – 20 years  
Frank Nathan Garibay – 27 years  
Roberto Velasquez – 30 years  
David W. Pruitt – 24 years  
Andrew F. Camplen – 23 years

### **September 2018 – Fire**

David Ruiz – 21 years  
Ruben G. Leal – 32 years

### **October 2018 – Police**

James D. Jones – 34 years  
Vidal Resendez, Jr. – 34 years  
David Allen Turner, Jr. – 32 years  
David L. Torres – 32 years

### **October 2018 – Fire**

Rodolfo Morales, III – 34 years  
Henry E. Leslie – 29 years  
Steven P. Guadiano – 35 years

### **November 2018 – Police**

William R. Johnson – 30 years  
Alexander Devora, Jr. – 28 years

### **November 2018 – Fire**

Bennie R. Marberry, Jr. – 29 years

### **December 2018 – Police**

Raymond A. Todd, Jr. – 23 years  
Charlie W. McInvale – 24 years  
Paul Andrew Heitzman – 29 years  
Cindy G. Brown – 23 years  
John V. Saucedo – 33 years

### **December 2018 – Fire**

Michael T. Walsh – 30 years  
Kevin S. Koch – 22 years



As this is the first newsletter of the New Year, we would like to take this opportunity to honor the memory of those active and retired police officers and firefighters who passed away in 2018. We continue to be grateful for their past service and sacrifice.

Victor Emilienburg	12/31/2018	Morris Tomlinson, Jr.	12/13/2018
Marvin R. Siebert	12/01/2018	Jim I. Bunn	09/30/2018
Richard P. Ibarra	10/21/2018	Danny Wayne Lewis	09/24/2018
Trevor N. Hollimon	10/18/2018	Ramiro Cavazos	09/02/2018
Herman Cantu	09/11/2018	Leonardo Paccione	08/30/2018
David A. Arredondo	09/10/2018	Roland A. Perez	08/20/2018
Danny E. Cortez	08/22/2018	Roy R. Rivas	07/19/2018
Max L. Weltens, Jr.	07/27/2018	Robert C. Bradley	07/13/2018
Francis Edward Bieller	06/12/2018	Thomas Frank Connolly	05/20/2018
Ernest M. Galvan	04/24/2018	Albert Gonzales	05/15/2018
Robert B. Guerra	04/04/2018	Eleazar P. Alfaro	05/11/2018
Eugene Garza	01/22/2018	Deborah M. Wichlep	05/09/2018
Leslie V. Derry	01/22/2018	Joseph M. Stolowski	04/22/2018
		Refugio M. Perez	04/10/2018
		Steven A. Holson	04/07/2018
		Thomas J. Shaw	03/26/2018
		Philip Norvell	03/06/2018
		John Munoz	02/21/2018
		Harvey D. Spiars	01/14/2018
		Adalberto Laurel, Jr.	01/12/2018
		Steve M. Abbot	01/04/2018



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## THE ADVISOR

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