



# ADVISOR

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

## FROM THE EXECUTIVE DIRECTOR

**Warren J. Schott, CFA**



Since our last Advisor Newsletter in April, we have had a couple of very positive developments: our 2009 Legislative Bill was signed by the Governor and our investment performance has been very strong. On the next several pages, you will find more detail

on both of these issues. However, I would like to take this opportunity to give a brief update on these issues, as well as several other things that are happening at the Fund.

Let me begin with the Pension Bill. It was signed by the Governor in May and it will become effective October 1, 2009. If you are interested and would like to see the changes, please go to our website at [www.safireandpolicepension.org](http://www.safireandpolicepension.org). The Benefits Department has a more thorough review of the changes on page 2.

Regarding the investment portfolio, what a difference the last six months have made. Six months ago the Fund was down 24.0% and all news seemed to be negative. Fast forward six months and we have reduced the return to -9.3%. On a dollar basis, the Pension Fund stands at \$1.7 billion, up from our low of \$1.429 billion in March. As I have stated many times before, this Pension Fund is not in the business of trying to "time the market." We have an asset allocation that gets tweaked periodically, but for the most part, we stick to an asset allocation that we believe will perform well regardless of whether the stock market is up or down. In this way, we are never at risk of missing a run-up in the market like we just witnessed the past six months.

The latest on the search for a new office building for the Pension Fund is that we are still looking. At this point, we are being very particular in our search. We want a building that is inexpensive, has ample parking, is easily accessible and will generate income. We have not been able to find it yet, so we just keep looking. Office prices have been falling, so hopefully something will surface soon.

Our elections are completed and each of the three incumbents won: Active Police Trustee Shawn Ury, Active Fire Trustee Bart Moczygmba and Retired Fire Trustee Larry Reed. Congratulations to each of them.

We are still awaiting the appointments of the Mayor and City Council. Due to the change in the Mayor, we may see a change in the City Council Representatives. The current City Representatives are Councilman Justin Rodriguez, Councilman Phillip Cortez and Mayoral Appointee Art Hall. Each of them has been a valuable addition to the Board over the past two years.

Finally, I want to take this opportunity to encourage the active members of the Fire and Police Department to attend one of our Pre-Retirement Seminars.

We conduct these seminars twice a year in the City Council Chambers. They begin at 8:00 a.m. with breakfast and end at approximately 3:00 p.m. If you have more than 20 years of service, this is a good way to get ahead on your preparation for retirement. If you have over 30 years, it isn't too late, but you really need to attend to make sure you are aware of the various decisions you will face upon retirement. I hope to see you there.

Thank you and be safe.

### NEXT PRE-RETIREMENT SEMINAR



**Friday, November 13, 2009**

City Council Chambers  
Municipal Plaza Building

8:00 a.m. ~ 3:00 p.m.

**Seminar Topics:**

- *Review of New Benefits*
- *Need for Financial Planning*
- *Deferred Compensation*
  - *Social Security*
- *Tax Implications @ Retirement*
  - *Psychological*
  - *Medical*
  - *Long Term Care*
    - *Legal*

For additional information, please call the Pension Office @ (210) 534-3262.

**PLAN FOR YOUR FUTURE!**

# BENEFIT CHANGES AS OF OCTOBER 1, 2009

*By Mark Gremmer, Deputy Director*



As most members already know, the Governor signed our pension bill into law in May of 2009. The new law will go into effect on October 1, 2009. In this article, we will go over the major changes that affect the benefits provided by the Pension Fund.

Active Members who served on probation between the time they graduated from their academy and the time they became a member of the Pension Fund will have an opportunity to purchase that probationary time and add it to their service credit. This is a one time election opportunity. The irrevocable election has to be done in our office between October 1, 2009 and December 31, 2009. The cost of the probation "buy back" is the amount that would have been paid by the member during the probation period plus 2 times that amount for the City's contribution, plus interest on both sums at 8% per year from the date of graduation until the earlier of December 31, 2009 or the date it is actually received by the Pension Fund. Payments cannot be received before October 1, 2009. The amounts have to be paid using funds from a "qualified" retirement fund. For the most part, this would mean it would have to come from your 457 plan. The funds must be paid to the Pension Fund by the earlier of September 30, 2010, or before retirement. An expanded explanation of this procedure along with some of the considerations relevant to the decision will follow later in this article.

Members who retire after October 1, 2009 will be able to elect a backDROP for up to 5 years instead of up to 4. The backDROP election will be made the same way as in the past.

Retirees who retired between October 1, 1997 and October 1, 1999 will receive a cost of living adjustment (COLA) beginning January 1, 2010 equal to 100% of the change in the Consumer Price Index for All Urban Consumers (CPI-U) up to 8% plus 75% of the change in CPI-U of any amount over 8%. Previously those retirees only received 75% of the change in CPI-U as a COLA. This provision is automatically applied to the retirees in this group. No action is required from the retiree. Retirees that retired prior to October 1, 1997, are already receiving 100% of the COLA.

There are also changes that affect death benefits paid to spouses who married the retiree after their retirement date. A spouse who married the retiree after the retirement date but less than 5 years prior to the retiree's death will be eligible to receive a death benefit of \$15,000. This is increased from \$2,500, and there is no longer a requirement that the marriage must last 2.5 years. For marriages after retirement that have lasted more than 5 years, the surviving spouse will receive an annuity that is equal to the annuity that a surviving spouse would receive had they been married prior to retirement. However, in this case, the surviving spouse must be at least 55 years of age before they are eligible to begin receiving the annuity.

Finally, there is one change that will have an effect on how the benefits will be divided between minor children and spouses of members who have died.

If a member dies while active or a retiree dies and is survived by a spouse and minor children, the death benefit will be divided between the minor children and the spouse. The minor children will receive 25% of the total benefit and the surviving spouse will receive 75% of the benefit. In the past the division of benefits was 50/50. This change is effective for those minor children already receiving the benefit and those that become eligible for this benefit in the future. This change is prospective only and will not affect payments made in the past. A guardianship is still required for the minor children to receive their benefit. The only change is in the division of the benefit.

The one area that we are receiving most of our phone calls on is the buyback of probation time. This is one of the more difficult decisions to make, at least in our estimation. There are many variables that affect a member's decision; in fact, so many that for the most part, everyone's situation will be different. We will list some of the considerations and their possible impact on this decision. The following discussion should not be taken as advice.

One of the most obvious benefits would be that if a member has less than 20 years of service credit, that member could purchase the probation time and become eligible to retire that much sooner.

If a member is already eligible to retire but has not maximized the retirement benefit, purchasing the probation time would increase the retirement benefit. For instance, if a member who was on probation for 6 months after graduation and had earned 21 years of service credit purchased those 6 months, the benefit would increase by 2.5% of the average total salary. If their average total salary was \$50,000 per year, that would amount to \$1,250 per year and would increase the retirement benefit from \$25,000 per year to \$26,250. If it cost \$20,000 to purchase the probation time, it would take 16 years to make it back. If during the pay back period the member could have earned 5% on the \$20,000, it would take a little over 32 years to make it back. If the average salary were higher, the pay back period would be shorter. If it cost less to purchase the probation time, the pay back period would be shorter. This example does not take into consideration the cost of living adjustments that would increase the amounts being paid back; this would also speed up the pay back period.

The example above assumes that you have enough information about the day you are going to retire to make your decision. Of course, that information becomes much clearer the closer you are to that date. If you are 10 years away from retiring, the variables are very hard to predict. In other words, it is very difficult to say whether it is worth buying the probation time. Probably the best course of action, if you think you would be interested, would be to come in and see how you will be affected. In some cases this could be handled by phone, so it is a good idea to call first. Our staff will be pleased to provide you with the information they have available. Just remember that they are not allowed to give advice on what you should do.

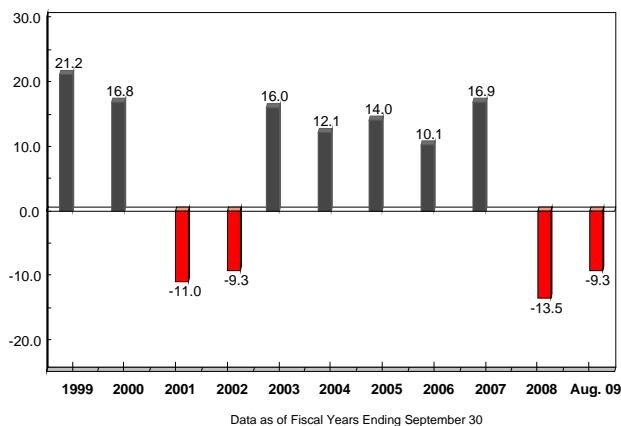
# “Those Who Cannot Remember the Past are Condemned to Repeat it”

A. C. Berry, Investment Analyst



For those of you with good memories, you will remember the title above from an article written by the Executive Director, some eight years ago. Written in the fall of 2002, after the fund had realized back-to-back (fiscal) year losses of -11.0% and -9.3%. It is an appropriate title since the Fund is approaching similar returns as fiscal year 2009 nears an end.

Total Portfolio - Rate of Return  
Average Rate of Return - 5.91%



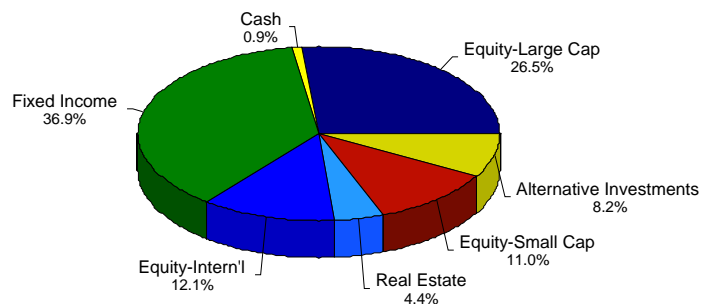
So let me begin by telling you where we are and how we got there. The Pension Fund currently stands at a realized return of -9.3% on a fiscal year-to-date (FYTD) basis. Performance has improved measurably since I last wrote based on what some see as “green shoots” in the economy. Unfortunately, the “green shoots” do not portray an economy on the rebound. The data simply implies an economy which is not deteriorating as bad as previously reported. Our economy has seen a complete about face from just a few years ago. The economic deterioration experienced at the end of 2008 came about with a severity not seen in decades. In a matter of just a few months, there was a pull back in manufacturing, a spike in job losses, further weakening in the housing market, and significant erosion in consumer sentiment. And this was only the beginning. With each gauge (indicator) released, the economy appeared to be getting worse. Though initially thought to be contained within the U.S., the downturn soon spread to economies throughout the globe. The violent unraveling of stock prices alone was nothing short of stunning. Major indexes lost upwards of 50% from their peaks, while incurring daily swings of 5% (upside/downside) during the crisis. The financial market meltdown, the global economic stall, and sheer panic fueled staggering destruction in equity wealth that spared no asset class, geographical region, or investment style. As reported in my last address, the Fund had realized a return of -14.0% during the fourth quarter of calendar year 2008 (first quarter fiscal year 2009). A report in the latter part of 2008 from the National Bureau of Economic Research (NBER) stated that the expansion peaked in December 2007 and the recession began in January 2008.

This means we are already a year into the pain with the worst losses expected in the second half of 2008 and first half of 2009. No matter the view taken, this will likely be the longest and most broad-based recession of the post-World War II period.

But with all the gloom, some bright spots surfaced which some see as influencing an economic recovery in late 2009. That said, what is often overlooked is the fact that equity markets are forward looking and thus tend to bottom well before the economy does. As such, the markets (and Pension Fund), has seen an improvement in performance since the (perceived) bottom in mid-March. Consider this, from the Fund’s fiscal year onset; performance was down approximately -24% through mid-March. Since then, performance has improved measurably and stands at approximately -9.3% fiscal year-to-date (FYTD). In dollar terms, the Fund was down at mid-March approximately \$454M. Since mid-March, the Fund has recovered approximately \$280M simply by staying the course. The Pension Fund is now down approximately \$175M on a fiscal year-to-date basis. This coming off the 2008 fiscal return of -13.5%.

Gains and losses are nothing new to either the Fund or financial markets. As mentioned earlier, the Fund realized losses in fiscal years 2001 and 2002. The symptoms (factors) which influenced the markets are different than today’s markets but the results are the same. When the Executive Director initially used the title, the markets were in the process of concluding two successive years of negative losses. The S&P 500 returned -11.9% and -22.1% in calendar years 2001 and 2002, respectively. The driver of these returns was the dot-com bubble which had a devastating effect on the financial markets. Fueling the bubble was the rise of internet sites and technology industry in general. Several factors combined to cause the dot-com bubble, which has commonly been known as a period of investment and speculation in internet firms occurring between 1995 and 2001. The effects of the market losses were far-reaching, including that on the San Antonio Fire & Police Pension Fund.

ASSET ALLOCATION BY ASSET CLASS

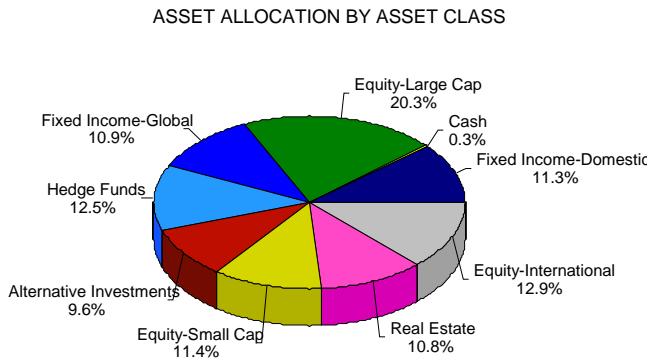


September 30, 2002

(Article Continues on Page 4)

# "Those Who Cannot Remember the Past are Condemned to Repeat it"

(Continued from Page 3)



September 30, 2008

As a long-term investor (with long-term obligations) the Fund has inherently sought to diversify itself as a means of long-term stability. The Pension Fund seeks to achieve competitive risk-adjusted returns in a prudent manner. Risks can take the form of company specific risk, systematic (market) risk, or the short-term effects of an individual asset class performance on a portfolio value. Towards this, the Fund has a broad asset mix which includes U.S. equities, U.S. bonds, international equities, international bonds, real estate, private equity, hedge funds, emerging markets, and even timber. As illustrated, the Pension Fund has increased its level of diversification since fiscal year 2002 to fiscal year 2008. Behind this initiative is the fact that the Pension Fund stands as one of the best publicly funded pension funds within the state. A basket with such a broad array of assets (portfolio diversification) is a means by which investors minimize risks while availing oneself to the upside returns.

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*Aubrey C. Berry is Investment Analyst for the Fire and Police Pension Fund, San Antonio. Mr. Berry has over 15 years industry experience in the investment field. Mr. Berry received his B.B.A. in Finance from Incarnate Word College and M.B.A. in Finance from University of the Incarnate Word.*



**Fire and Police Pension Fund, San Antonio**  
311 Roosevelt Avenue  
San Antonio, TX 78210  
(210) 534-3262 (210) 532-4339 Fax  
[www.safireandpolicepension.org](http://www.safireandpolicepension.org)

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