As the first year of my service as executive director of our Pension Fund ends, I am proud to report on our organization’s momentum – both with the performance of the Fund and with our team supporting active and retired members.

The Fund is meeting our core mission to preserve the promise of benefits for members and beneficiaries. The Texas Association of Public Employee Retirement Systems (TEXPERS) recently recognized us as first in 15- and 20-year performance. As a police officer retiree, I also share your expectation that our fund will continue to be secure.

This year also has been momentous with the passage of the Forward DROP, which became effective on July 1. With your overwhelming approval, our Fund is proactively helping ensure our Fund will stay strong for our members. From a political perspective, the Forward DROP is proof of improving cooperation between the City Council and staff and the Fund.

Operationally, the Fund staff continues to develop and is working hard to implement new initiatives to better serve members. Thanks go to Lena Ellis, our chief financial officer, and Gerardo Marin, our senior accountant, for their work on our independent annual financial audit performed by Moss Adams. For the first time since I have been part of the Fund, our staff had, in audit terms, no material weaknesses or reportable findings. It has definitely been a team effort.

Our efforts to move toward a more cost-effective, paperless office also continue. New information technology has enabled us to hold board meetings without distributing reams of paper.

We recently launched a more user-friendly website and redesigned quarterly newsletter. Strengthening our communications capabilities has been a priority of the past year as well. We hope the updated newsletter better informs members of our efforts to maintain strong Fund performance and better serve you.

On the statewide political horizon, dangers still loom. Despite our progress in El Paso, we are not in the free and clear. A growing number of state politicians continue to try to weaken the retirement security of Texas firefighters and police officers. The upcoming legislative session, which begins in January 2017, will be challenging, to say the least. But our work with local and state elected officials continues year-round.

I am glad to report our working relationships with city and state leaders continue to improve. Our communications with them generally are open and productive. But other politicians and activists do not believe you are worth the benefits you have earned. So, as the legislative session approaches, please stay alert and be prepared to answer the call if your trustees request your assistance in defending you and the Fund.

Thanks for your time and your support of the Fund. Please contact us anytime if you have questions or comments.

Our purchase and renovation of a building added an asset to the Fund.
We live in a different world than we did just a couple of years ago. Today, more than ever, there are countless external forces impacting public pensions. Public pensions are under attack and ours is no different.

The El Paso Firemen and Policemen’s Pension Fund (EPFPPF) provides benefits to almost 4,000 active and retired firefighters and police officers. Our board of trustees has a fiduciary responsibility to the members to ensure that they have a financially sound retirement for life. As times change, so too must our organization.

Organizations change for many different reasons. Unfortunately, most change is driven by reaction to crisis. Our Board, however, has committed to improve the organization, and rather than be reactive, we strive to be proactive. We initiated several changes within the organization. The Board along with the administrative staff have identified performance gaps, built on existing strengths, taken advantage of opportunities, and brought in new technology all in an effort to provide a better customer experience, increase transparency, and become an industry leader in public pensions.

In 2014, our Board voted to stop throwing away money on office leasing and we bought our own building. In July 2015, we moved into our state-of-the-art office building located at 909 E. San Antonio. Now instead of spending hard-earned dollars on rent, we members now have a Fund-owned asset as an office building. The building is a must-see space and it employs new technology for video conferencing and other meetings. For managing the building, we brought in Michele Amaya, who is doing a beautiful job.

We also hired Lena Ellis as the fund’s first chief financial officer (CFO). Lena was brought in to manage the fund’s finances and manage our accounting systems. Prior to Lena’s arrival, these duties were outsourced. She has done an extraordinary job and has since hired Gerardo Marin, our senior accountant, to assist her. Together, they analyze our financial strengths and weaknesses and institute operational controls.

After the retirement of our longtime executive director in September 2015, the board hired Tyler Grossman, our former chairman, to take the leadership position and help lead us through continued changes. Tyler, a retired police officer of 20 years, brings with him 14 years of pension board leadership experience.

In April, Tyler hired Christina Ramirez as our new deputy executive director. Christina was previously our benefits manager. Nashyelli E. Mathews was promoted from benefits specialist to benefits manager. Because we have excellent talent from within, we did not need to go outside. Susan May filled Nashyelli’s position and is an excellent addition to the EPFPPF.

The Board approved the development of a new web based pension administration system. With this new system the work product of the benefits specialist will increase which will allow them more productive time to enhance the Fund. Members will be able to log into their accounts to see annual income statements and Forward DROP account information. Switching to a web-based system will allow us to have a more fluid emergency plan in case the office ever needs to set up a temporary office. These are just a few of the enhancements that will make your Fund better prepared for the future.

The Board has also completed a one-year strategic planning session. This year’s meeting was very successful as the Board set near-term goals and addressed how the Fund is going to enhance its service footprint for members. One goal is to create a new five-year strategic plan for the Fund. The Board will go through this practice in 2017 in order to better prepare for the future of the Fund and for even stronger footing five years out.
Texas State and Local Pension Funds Continue to Reach New Heights

By Max Patterson

The latest Texas Pension Review Board summary of pension fund health confirms a very positive trend: the 93 state and local pension funds monitored by the state continue to do their job in managing benefits with returns and funding projections.

In fact, in the last six years, those 93 systems have never done better in terms of achieving remarkable overall financial healthiness than they did the last 12 months.

Our organization, the Texas Association of Public Employee Retirement representing 80+ systems around the state, follows PRB reports very closely. It’s part of our work in keeping the legislature up to date on the good work of the men and women who run pension funds.

Our assessment of financial health considered year-over-year data for amortization periods, the number of years a pension fund needs to pay off all present and future projected benefits to employees. It is similar to a home mortgage in terms of years needed to pay down interest and principal owed. The PRB says that amortization periods are the single “most appropriate” measure of public retirement systems’ health.

There were two notable improvements contained in the latest report. Five pension systems attained the PRB’s recommended status of amortization periods of 25 years or less, joining 34 others in this category and setting another six-year record.

In addition, three pension systems moved out of the infinite amortization period, from 7 to 4. This follows a dramatic improvement of 8 fewer pensions out of that worrisome category the prior year. An infinite amortization period means that, at current levels of funding and investment projections, there will never be enough funds to pay future benefits.

These amortization period trends matter more than unfunded liabilities, the accountants’ moment-in-time snapshots of pension fund health. TEXPERS maintains that Texas pension fund Trustees and staff can, with time, make necessary adjustments to improve upon various measures of performance. As long as the city government employer provides the key ingredient — appropriate funding — we will continue to see ongoing improvements to amortization periods.

Moreover, these positive amortization period trends should be put in perspective: The pension funds did well despite 2015 stock markets performing worse than they had the prior seven years. As the 2016 market has performed well, we think this overall amortization period improvement trend will continue into 2017.

TEXPERs will work with its member systems to remind Texas lawmakers, who meet again in January, of the sound performance of public employee pension funds. They should, with confidence, maintain the status quo going forward. Of course, TEXPERS will be there every step of the way.

You can learn more about our analysis at www.TEXPERS.org/amortization-report-2016.

Max Patterson is executive director of the Texas Association of Public Employee Retirement Systems.

Number of Texas State and Local Pension Funds in PRB Amortization Periods Bands

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Pension Review Board Recommended Amortization Period 0–25 years

Source: Texas Pension Review Board Actuarial Valuation Reports for the following six reporting periods (1) August 1, 2011 (2) June 13, 2012 (3) June 13, 2013 (4) June 12, 2014 (5) June 16, 2015 (6) August 4, 2016. The reports were provided by the PRB as part of an information request from the Texas Association of Public Employee Retirement Systems.
A letter from the Texas Attorney General’s office went out with much fanfare in September, but its importance should be noted.

The letter, in response to a legislator’s inquiry, said, “In no instance does the constitution or the Legislature make the state liable for any shortfalls of a municipal retirement system regarding the system’s financial obligations under title 109. The Texas Constitution would in fact prohibit the State from assuming such liability without express authorization.” The legislator had wanted to know whether the state would ever be called on to make contributions to 13 local pension systems which are governed by Texas statutes.

TEXPERS, the association representing public employee retirement systems, applauded the opinion. TEXPERS has supported the 13 pension funds because their statutes prevent whipsaw effects which can occur when pension fund issues become fast-moving political footballs under city council control. In contrast to normal council processes, pension funds function best when stable, long-term thinking dominates. TEXPERS’ research shows that most Texas pension funds perform at or above their 20-year assumed rate of return, a key to pension fund health. The systems are working well.

“The AG’s opinion is welcome at this time in the debate over local control, which really means exclusive city council control of a pension system,” said Max Patterson, executive director of TEXPERS. “In fact, the AG’s opinion is not news in the sense that this question has been asked, and answered, in House committee sessions reaching several years back, and essentially confirms the understanding by which all local pension fund systems already operate. Namely, that their financial matters are the responsibility of the pension fund members and their city. It has never been expected that the state would be a backstop to local pension fund problems.

“This opinion should further the public’s understanding that the 13 pension funds in statute come to the Legislature for one thing: a checks-and-balances process that ensures every local group agrees on proposals for changes to benefits or funding. The process works well as it is because any change must receive complete approval and support from a city council, its mayor, the pension fund Board of Trustees, retirees association, active members, and unions. Without such consensus, there will not likely be a path forward for legislation in Austin. The Legislature does not take sides in who is right or wrong in pension fund matters. It wants all local concerns to be equally satisfied with change proposals,” Patterson said.

The Texas Attorney General’s office opinion may be found in its entirety at https://texasattorneygeneral.gov/opinions/opinions/51paxton/op/2016/kp0112.pdf.
Pension and Divorce: What You Need to Know

By Richard C. Mumey, Esq.

About half of all marriages will end in divorce. For Texas firefighters and police officers who face dissolution of their marriages, proper planning can help prevent financial ruin.

We are seeing a disturbing trend in Texas family law regarding the characterization and division of municipal pension plans. Many family lawyers focus on the more traditional divorce issues – such as dividing the marital home, the debts, and the personal property – at the expense of your pension, despite the fact that the pension is often the most valuable asset of the marriage.

Moreover, with the advent of DROP, dividing the pension in divorce has become counterintuitive. After working 25, 30, or even 35 years, you are counting on that pension income to survive in retirement, yet divorce can take a nasty toll on your expectations. The last thing most police officers and firefighters want to do is give away more of their pension than necessary to an ex-spouse.

Since defined benefit pension plans like yours are becoming more rare, due to private sector transition to defined contribution plans, they do not arise as an issue in most divorces anymore. This contributes to lack of familiarity with the way the pension benefits operate and often a tendency to consider it all community and divide more than should be considered. You should insist that your attorney either truly understand your pension benefits and the proper way to divide them or have them engage a pension expert that does. One caveat: be careful who you select as your pension expert, there are some who only work for the other side and will not be kind to you if you mistakenly pick them.

While I consider DROP the best benefit police officers and firefighters have achieved in the last 20 years, it is increasingly under attack these days and the divorce court is no exception. Recent court cases have had a nonsensical impact on the division of DROP in divorce, particularly when the participant is not even eligible to elect DROP yet. For instance, a member with 19 years of service gets divorced and the ex-spouse is awarded a portion of any DROP account that gets started after the divorce.

Believe me, firefighters and police officers do not think this can be true, but it is happening all over Texas. On the other hand, just because a member is married the entire time they are in DROP, does not mean the ex-spouse is entitled to half the DROP in cases where the member participated in the plan for some time before marriage. A very common situation. Both of these consequences run counter to conventional wisdom and common sense, but I assure you they are real.

Another important consideration in dividing pension benefits is that they are contingent on both parties living into retirement and are not guaranteed to be paid to an ex-spouse if one of the parties dies. Therefore, when comparing values of assets like home equity or bank accounts against seemingly more valuable pension benefits, it really is apples to oranges. Yes, the pension may pay out big numbers over time, but then again it might be worthless to the ex-spouse if one of the parties dies prematurely.

To ensure you do not give away too much of your hard-earned pension if you find yourself in the unfortunate circumstance of getting divorced, I strongly suggest you become very familiar with the benefits of your pension plan and the policies your Board of Trustees have established. You should also ensure that your attorney understands the complexities of your pension benefits or engages a pension expert that can advise and assist them to navigate the division of these benefits during your divorce.

Stay informed, and stay safe out there.

Richard C. Mumey, of The Mumey Law Firm PLLC in Houston, is a retired firefighter.