

**CITY OF EL PASO, TEXAS**  
**AGENDA ITEM**  
**DEPARTMENT HEAD'S SUMMARY FORM**

**AGENDA DATE:** December 12, 2017

**CONTACT PERSON NAME AND PHONE NUMBER:** Tyler Grossman, (915) 771-8111

**DISTRICT(S) AFFECTED:** All

**SUBJECT:**

Discussion and action on Resolution by City Council approving the action taken by the Firemen and Policemen Pension Fund Board of Trustees on March 22, 2017, September 20, 2017, and November 29, 2017 in passing the Amendment to the Plan to increase contributions to 18% for all members (Fire and Police) to match the City Contribution, changing the benefit guidelines for Tier 2 to lower the age and service required for a minimum retirement to age 45 and service of 20 years, and giving a 50% increase to all pre-January 1, 1980 retirees; with said Amendment effective December 31, 2017.

**BACKGROUND / DISCUSSION:**

The Firemen and Policemen's Pension Fund of the City of El Paso ("the Fund") is governed by the provisions of Article 6243b of Tex. Rev. Civil Statutes and the El Paso City Charter Section 6.12-11(D). As part of the statutory framework, the Fund is governed by the Board of Trustees, which is empowered from time to time to propose changes to the Firemen and Policemen's Pension Fund of the City of El Paso ("the Plan") which would modify benefits, change membership qualifications, change eligibility requirements, and change contribution's and other conditions of the Plan, as long as the proposed change is (1) approved by a qualified actuary based on an actuarial finding that the change is supported by the existing funding status of the Fund; and (2) approved by a majority of all persons making contributions to the Fund. The Board of Trustees passed by resolution on September 20, 2017, proposed specific changes to the Plan ("the Amendment") which included for Fire: (1) Change the minimum Vesting Service, the minimum Credited Service and the minimum age requirements at Section 7, 8.03, 11 & 12 of the Second-Tier Plan from twenty-five (25) years to twenty (20) years of Vesting Service and Credited Service and the Member's minimum age from fifty (50) years to forty-five (45) years for a Tier 2 Service Retirement Benefit. (2) Replace the current Section 7.02 of the Second-Tier Plan with the pre-age 45 early retirement benefit provisions currently in Section 7.02 of the Base Plan, to enable Second-Tier Plan Members with 20 or more years of Vesting Service to retire before age 45, but using the Tier-Two 2.5% multiplier for benefit computations. (3) Amend the first sentence of Section 16.01 in both the Base Plan and Second-Tier Plan to make a 50% increase to each of the Section 16 "Minimum Pension" provisions for Firemen (from \$400 to \$600) to be effective December 31, 2017, with the first payment increase to be shown in the end of January 2018 payroll. (4) Amend Section 5.01(b) in both the Base Plan and Tier-Two Plan to increase the annual active Member contribution rate for Fire Fighters (presently at 15.28% of wages) by 0.544%, effective September 1, 2018, and by additional cumulative 0.544% increases as of September 1<sup>st</sup> of each of the next four (4) years, for a total Fire Member contribution rate of 18.00% as of September 1, 2022.

And for Police: (1) Change the minimum Vesting Service, the minimum Credited Service and the minimum age requirements at Sections 7, 8.03, 11 & 12 of the Second-Tier Plan from twenty-five (25) years to twenty (20) years of Vesting Services and of Credited Service and the Member's minimum age from fifty (50) years to forty-five (45) years for a Tier 2 Service Retirement Benefit, and (2) Replace the current Section 7.02 of the Second-Tier Plan with the pre-age 45 early retirement benefit provisions currently in Section 7.02 of the Base Plan, to enable Second-Tier Plan Members with 20 or more years of Vesting Service to retire before age 45, but using the Tier-Two 2.5% multiplier for benefit computations. (3) Amend the first sentences of Sections 16.02 in both the Base Plan and the Second-Tier Plan to make a 50% increase to each of the Section 16 "Minimum Pension" provisions for Policemen (from \$500 to

\$750) to be effective December 31, 2017, with the first payment increase to be shown in the end of January 2018 payroll. (4) Amend Section 5.01(a) in both the Base Plan and Tier-Two Plan to increase the annual active Member contribution rate for Police Officers (presently at 13.89% of wages) by 0.822%, effective September 1, 2018, and by additional cumulative 0.822% increases as of September 1<sup>st</sup> of each of the next four (4) years, for a total Police Member contribution rate of 18.00% as of September 1, 2022.

The Amendment was deemed actuarially sound and supported by David Kershner, FSA, EA, MAAA, FCA, Principal, Conduent HR Services. Mr. Kershner is a Fellow of the Society of Actuaries, and Enrolled Actuary, a Member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries. He meets the Qualification Standards of the American Academy of Actuaries. A majority of all persons making contributions to the Fund approved the Amendment. The Amendment becomes effective December 31, 2017 only upon approval of City Council.

**PRIOR COUNCIL ACTION:**

No direct action by Resolution.

**AMOUNT AND SOURCE OF FUNDING:**

No additional funding required by City; funding by increased employee contributions thru payroll withholding.

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**BOARD / COMMISSION ACTION:**

N/A

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\*\*\*\*\*REQUIRED AUTHORIZATION\*\*\*\*\*

**DEPARTMENT HEAD:**



Department Head Summary

Form is initiated by Purchasing, client department should sign also)

*Information copy to appropriate Deputy City Manager*

## RESOLUTION

**WHEREAS**, the Firemen and Policemen Pension Fund of the City of El Paso is governed by the provisions of Article 6243b of Tex. Rev. Civil Statutes and El Paso City Charter Section 6.13-11(D);

**WHEREAS**, Section 1 of Article 6243b provides for the Firemen and Policemen's Pension Fund to be governed by a Board of Trustees;

**WHEREAS**, Section 10A of Article 6243b authorizes the Board of Trustees, by majority vote, to modify benefits, change membership qualifications, change eligibility requirements, and change contributions and other conditions;

**WHEREAS**, the Board of Trustees, on September 20, 2017 adopted an amendment which proposed an across the board member contribution increase ("the Amendment") to the Firemen and Policemen's Pension Fund Plan, with said Amendment effective December 31, 2017;

**WHEREAS**, the Amendment has been approved by a qualified actuary as required by Section 10A (b) (1) of Article 6243b of the Tex. Rev. Civil Statutes;

**WHEREAS**, a majority of all persons making contributions to the El Paso Firemen and Policemen's Pension Fund have approved the Amendment as required by Section 10A(b)(2) of Article 6243b of Tex. Rev. Civil Statutes;

**WHEREAS**, the Amendment is not effective unless and until the City Council shall approve the Amendment in accordance with Section 10A(c) of Article 6243b Tex. Rev. Civil Statutes;

**WHEREAS**, the City Council finds each of the conditions required by Section 10A(b) of Article 6243b Tex. Rev. Civil Statutes have occurred and been complied with and in the sequence required by said Section;

**WHEREAS**, none of the aforementioned actions violate the provisions of Article 6243b of Tex. Rev. Civil Statutes or Section 6.13-11(D) of the El Paso City Charter Section 6.13-11(D);

**WHEREAS**, the City Council finds that a public purpose is served by the passage of this resolution.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL PASO THAT:**

The City Council hereby specifically approves the action of the Firemen and Policemen Pension Fund Board of Trustees taken on September 20, 2017 and approves the Amendment to the Plan, with said Amendment effective December 31, 2017.

APPROVED this \_\_\_\_ day of December 2017.

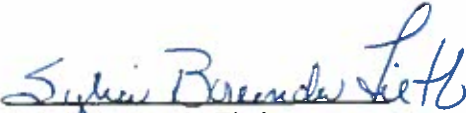
**CITY OF EL PASO**

\_\_\_\_\_  
Dee Margo  
Mayor

**ATTEST:**

\_\_\_\_\_  
Laura D. Prine  
Interim City Clerk

**APPROVED AS TO FORM:**

  
\_\_\_\_\_  
Sylvia Borunda Firth  
City Attorney

**CITY OF EL PASO, TEXAS**  
**AGENDA ITEM**  
**DEPARTMENT HEAD'S SUMMARY FORM**

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The Amendment was deemed actuarially sound and supported by David Kershner, FSA, EA, MAAA, FCA, Principal, Conduent HR Services. Mr. Kershner is a Fellow of the Society of Actuaries, and Enrolled Actuary, a Member of the American Academy of Actuaries and a Fellow of the Conference of Consulting Actuaries. He meets the Qualification Standards of the American Academy of Actuaries. A majority of all persons making contributions to the Fund approved the Amendment. The Amendment becomes effective December 31, 2017 only upon approval of City Council.

**PRIOR COUNCIL ACTION:**

No direct action by Resolution.

**AMOUNT AND SOURCE OF FUNDING:**

No additional funding required by City; funding by increased employee contributions thru payroll withholding.

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**BOARD / COMMISSION ACTION:**

N/A

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\*\*\*\*\*REQUIRED AUTHORIZATION\*\*\*\*\*

**DEPARTMENT HEAD:** \_\_\_\_\_ **Department Head Summary**  
**Form is initiated by Purchasing, client department should sign also)**

*Information copy to appropriate Deputy City Manager*

**EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
REGULAR MEETING**

**Wednesday, September 20, 2017 at 1:00 PM**

**El Paso Firemen and Policemen's Pension Fund Office  
909 East San Antonio Avenue, El Paso, Texas 79901**

**MINUTES**

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**TRUSTEE MEMBERS PRESENT**

**Fire Division:**

Chief Jerry Villanueva  
Chief Ricci Carson  
Lieutenant Paul Thompson

**Police Division:**

Lieutenant John Schneider  
Sergeant Sean Shelton

**Mayoral Appointments:**

Ms. Leila Melendez  
Dr. Robert Tollen  
Mr. Presi Ortega

**City Manager Appointments:**

**OTHERS PRESENT**

Mr. Tyler Grossman – Executive Director  
Ms. Christina Ramirez – Deputy Executive Director  
Ms. Lena Ellis - CFO  
Mr. Matt Clark - PIMCO

**TRUSTEE MEMBERS ABSENT:**

Ms. Terri Garcia  
Sergeant JD Cotham

EL PASO FIREMEN & POLICEMEN'S PENSION FUND

September 20, 2017 - 1:00 P.M.

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1. Establishment of Quorum.

Chairman Villanueva established that a Quorum was present. The Regular Meeting of the El Paso Firemen & Policemen's Pension Fund Board of Trustees was called to order at 1:00 p.m.

2. Reading and approval of the Minutes from the previous Regular Board Meeting held August 23, 2017.

*Dr. Tollen moved to approve the minutes of the Regular Board Meeting held July 19, 2017, seconded by Mr. Ortega and unanimously passed by the Board.*

Consent Agenda

*Dr. Tollen moved to approve the Consent Agenda, seconded by Mr. Carson and passed by the Board.*

1. Internal Financial Statements for month ending August 31, 2017.

Northern Trust Financial Statements for month ending August 31, 2017.

2. Expense Reports for the month ending August 31, 2017.

3. Approve Pension Payrolls:

Fire	\$2,926,553.63
Police	\$4,002,728.20

4. Payments to Service Providers

A. Baillie Gifford – 2 <sup>nd</sup> Q2017	\$150,627.93
B. Brown Advisory – 2 <sup>nd</sup> Q2017	\$37,154.05
C. Cooke & Bieler – 2 <sup>nd</sup> Q2017 (Small Cap Value)	\$37,974.03
D. Cooke & Bieler – 2 <sup>nd</sup> Q2017 (Large Cap Value)	\$159,306.99
E. Fisher Broyles thru July 31, 2017	\$450.00
F. Harvest Fund Advisors LLC – 2 <sup>nd</sup> Q2017	\$115,473.42
G. Intech – 2 <sup>nd</sup> Q2017	\$78,956.70
H. Legislative Consultants - August 2017	\$5,000.00
I. Mondrian – 2 <sup>nd</sup> Q2017	\$195,523.76
J. Moss Adams – Audit 12/31/2016	\$10,800.00
K. The Northern Trust Company – 2 <sup>nd</sup> Q2017	\$8,750.95
L. PBI – Annual Fee	\$500.00
M. PIMCO – 2 <sup>nd</sup> Q2017	\$109,635.41
N. Rudd and Wisdom Inc. - thru July 2017	\$654.00
O. Sheehan Phinney - thru June 30,2017	\$14,782.50

P.	Summit Strategies Group – Reimbursement of Travel Expenses	\$891.31
Q.	The Wharton School	\$10,250.00
R.	William Blair – 2 <sup>nd</sup> Q2017 (Small Cap Growth)	\$84,151.78
S.	William Blair – 2 <sup>nd</sup> Q2017 (Small Cap Value)	\$124,333.90

### Reports and recommendations of Committees

#### Unfinished Business

#### New Business

1. Investment Performance Review for the period ended December 31, 2016 and update as presented by Mr. Matt Clark of PIMCO.

Mr. Clark explained that PIMCO's relationship with the Pension Fund began in May of 2003. He provided an update on the Fund's Core Plus Fixed Income Portfolio. Thru July 31, 2017, the Portfolio has outperformed the benchmark by 1.2%. The three year, five year and since inception points, all show that the portfolio has outperformed the benchmark. The state of the global economy is relatively stable for the next year. The US and Europe central banks are trying to increase interest rates slowly and are adjusting their balance sheet. However in light of where prices have moved in the market, this is the time to appropriately reduce risk on a very pragmatic basis in the Portfolio.

2. Discussion and action on approval of actuarial findings reference benefits and contributions as required under 6243(b)(10A)(b)(1).

Mr. Grossman explained that the actuarial report was previously ordered by the Board to determine the cost of the Benefit Enhancement of lowering the Tier 2 age and service requirements for retirement to 45 years of age and 20 years of service and at the same time raising contributions on the employee side to meet the City's contribution rate of 18%. With these changes the Fund's Amortization Period is lowered which helps the Fund; therefore the recommendation is to approve Conduent's (formerly Buck Consultants) study.

*After careful discussion and due consideration, Mr. Shelton moved to approve the actuarial findings reference benefits and contributions as required under 6243(b)(10A)(b)(1), seconded by Mr. Schneider and passed unanimously by the Board.*

3. Discussion and action on approval of ballot language proposed to membership for benefit and contribution changes 6243(b)(10A)(b)(2).

Mr. Grossman reviewed the proposed amendments to the plan document and the ballots with the Board. These were prepared in order to complete the Board's task of giving Tier 2 the ability to

retire at age 45 with 20 years of service, allowing Tier 2 to enter the Forward DROP at age 45 with 20 years of credited service and giving a 50% increase to the Fund's pre-1980 retirees.

*After careful discussion and due consideration, Mr. Shelton moved to approve proposed amendments to the City of El Paso Firemen & Policemen's Pension Fund [Jan 18, 2017, As Amended] including both Part I, The Base Plan, and Part II, The Second-Tier Plan, in the form presented to the Board today, this 20<sup>th</sup> of September 2017, establishing both certain Benefit Enhancements to become effective December 31, 2017 and Member Contribution Increases, to become effective in 5 annual increments beginning Sept 1, 2018, seconded by Mr. Schneider and passed unanimously by the Board.*

*Mr. Shelton also moved to approve the Board's attached Member ballots and the Board's recommendation to Members to vote their approval of such amendments by majority vote of, respectively, the Membership of the Police Division and the Membership of the Fire Division, subject to Sec. 10A of Article 62-43b, Vernon's Annotated Texas Statutes, seconded by Dr. Tollen and passed unanimously by the Board.*

4. Discussion and action on benefit and contribution election dates.

Mr. Grossman reviewed the election dates with the Board.

*After careful discussion and due consideration, Dr. Tollen moved to accept the benefit and contribution election dates, seconded by Mr. Thompson and passed unanimously by the Board.*

Mr. Thompson absented himself at 2:08 p.m.

5. Opportunity for Statements from Members/Retired Members/Public.

None.

6. Report of Executive Director.

See Submitted Written Report

7. For Notation:

Informational Material For Review. No Action Required.

- A. Service Retirement
- B. Early Retirement
- C. Service/Forward DROP Retirement
- D. Service/Back DROP Retirement


EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
September 20, 2017 - 1:00 P.M.

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- E. Death of member
- F. Cost of Living Adjustments
- G. Refund of Contributions

8. Adjournment.

*Mr. Ortega moved to adjourn, seconded by Mr. Schneider and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 2:12 p.m.*

  
\_\_\_\_\_  
Chairperson

  
\_\_\_\_\_  
Secretary

September 9, 2017

Mr. Tyler C. Grossman  
Executive Director  
El Paso Firemen & Policemen's Pension Fund  
909 East San Antonio  
El Paso, TX 79901-2523

**Re: Proposed Plan Changes, Cost Study**

Dear Mr. Grossman:

On October 24, 2016, we provided an analysis regarding the funding impact of changing the retirement eligibility requirements for Tier 2 members to age 45 with 20 years of Credited Service<sup>1</sup>. On March 15, 2017, we supplemented that analysis by adding the stipulation that members contribute 18.0% of pay<sup>2</sup>.

You have now asked that we supplement these previous analyses by estimating the funding impact of changing the eligibility requirements for Tier 2 members to participate in the Forward DROP from age 50 with 25 years of Credited Service to age 45 with 20 years of Credited Service. For purposes of this analysis, we did not assume any changes to the eligibility requirements for Tier 2 members to participate in the Back DROP, or the assumed DROP period.

Attached to this letter are two exhibits that illustrate the impact on the January 1, 2016 valuation results based on these plan changes. There are four columns in each exhibit: (i) the January 1, 2016 valuation with no changes; (ii) the October 24, 2016 change; (iii) the October 24, 2016 and March 15, 2017 changes; and (iv) the Forward DROP change combined with the October 24, 2016 and March 15, 2017 changes.

As you can see, the effect of the Forward DROP change is a slight *decrease* in the Present Value of Future Benefits and Actuarial Accrued Liability (whereas the other changes caused increases in these measures). As previously communicated, it is beneficial to the Fund (i.e., lower liabilities) to allow members to enter the DROP for as long as they want because the DROP account doesn't accrue any interest. Please note that changes to the Back or Forward DROP could affect employee behavior (e.g., retirement patterns), but these potential changes in behavior have not been reflected in our calculations. Please also refer to our March 2015 communications to Mr. Robert Stanton regarding other DROP considerations.

**Disclosure**

The results of this letter are based on the same data, assets, assumptions and plan provisions as those used for the January 1, 2016 valuation, unless otherwise noted. We assumed that retirement rates for Tier 2 members mirror the retirement rates for Tier 1 members from age 45 through age 49.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

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<sup>1</sup> The current retirement eligibility requirements for Tier 2 members are age 50 with 25 years of Credited Service.

<sup>2</sup> Currently, members contribute 13.89% (Policemen) and 15.28% (Firemen) of pay.



Use of this letter for any other purposes or by anyone other than the Board members and staff of the Fund may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, Conduent recommends requesting it to perform an advance review of any statement, document, or filing based on information contained in this letter. Conduent will accept no liability for any such statement, document or filing made without prior review by Conduent.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities.

I am a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Please call me at (602) 803-6174 if you have any questions or need additional assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "D. J. Kershner".

David J. Kershner, FSA, EA, MAAA, FCA  
Principal  
Conduent HR Services

EXHIBIT 1

El Paso Policemen's Pension Fund

	1/1/2016 Valuation <u>without</u> <u>Plan Change</u>	1/1/2016 Valuation <u>with Plan Change</u>	1/1/2016 Valuation <u>with Plan Changes</u>	1/1/2016 Valuation <u>with Plan Changes</u>
Plan Change Description:	None	Tier 2 eligibility changed to 45/20	Tier 2 eligibility changed to 45/20, and member contributions increased to 18% of pay	Tier 2 eligibility changed to 45/20, member contributions increased to 18% of pay, and Tier 2 eligibility for Forward DROP changed to 45/20
Present Value of Future Benefits	1,112,979,000	1,115,995,000	1,116,796,000	1,115,823,000
Present Value of Future Employee Contributions	87,905,000	84,456,000	109,447,000	109,447,000
Present Value of Future Normal Costs	160,308,000	161,727,000	162,274,000	161,545,000
Actuarial Accrued Liability (AAL)	952,671,000	954,268,000	954,522,000	954,278,000
Actuarial Value of Assets (AVA)	772,732,000	772,732,000	772,732,000	772,732,000
Unfunded Actuarial Accrued Liability (UAAL = AAL-AVA)	179,938,000	181,535,000	181,790,000	181,546,000
Funded Ratio (AVA/AAL)	81.1%	81.0%	81.0%	81.0%
Normal Cost Rate:				
- Total (before adjustment for overtime)	25.35%	26.62%	26.71%	26.59%
- Total (after adjustment for overtime)	23.05%	24.20%	24.28%	24.17%
- Member Contribution Rate	13.89%	13.89%	18.00%	18.00%
- Employer Normal Cost Rate	9.16%	10.31%	6.28%	6.17%
Tier 2 Normal Cost Rate (after adjustment for overtime)	16.41%	18.88%	18.97%	18.64%
Funding Period to Amortize 1/1/2016 UAAL	33 years	50 years	26 years	26 years

EXHIBIT 2

El Paso Firemen's Pension Fund

	1/1/2016 Valuation <u>without</u> <u>Plan Change</u>	1/1/2016 Valuation <u>with Plan Change</u>	1/1/2016 Valuation <u>with Plan Changes</u>	1/1/2016 Valuation <u>with Plan Changes</u>
Plan Change Description:	None	Tier 2 eligibility changed to 45/20	Tier 2 eligibility changed to 45/20, and member contributions increased to 18% of pay	Tier 2 eligibility changed to 45/20, member contributions increased to 18% of pay, and Tier 2 eligibility for Forward DROP changed to 45/20
Present Value of Future Benefits	782,277,000	784,601,000	784,967,000	783,624,000
Present Value of Future Employee Contributions	79,065,000	76,494,000	90,110,000	90,110,000
Present Value of Future Normal Costs	114,484,000	115,760,000	116,010,000	114,959,000
Actuarial Accrued Liability (AAL)	667,793,000	668,841,000	668,957,000	668,665,000
Actuarial Value of Assets (AVA)	528,803,000	528,803,000	528,803,000	528,803,000
Unfunded Actuarial Accrued Liability (UAAL = AAL-AVA)	138,990,000	140,038,000	140,154,000	139,862,000
Funded Ratio (AVA/AAL)	79.2%	79.1%	79.0%	79.1%
Normal Cost Rate:				
- Total (before adjustment for overtime)	22.14%	23.14%	23.19%	22.98%
- Total (after adjustment for overtime)	21.29%	22.25%	22.30%	22.10%
- Member Contribution Rate	15.28%	15.28%	18.00%	18.00%
- Employer Normal Cost Rate	6.01%	6.97%	4.30%	4.10%
Tier 2 Normal Cost Rate (after adjustment for overtime)	16.50%	18.22%	18.28%	17.86%
Funding Period to Amortize 1/1/2016 UAAL	26 years	32 years	24 years	23 years

**EL PASO FIREMEN & POLICEMEN'S PENSION FUND**  
**REGULAR MEETING**  
**Wednesday, March 22, 2017 at 1:00 PM**  
**El Paso Firemen and Policemen's Pension Fund Office**  
**909 East San Antonio Avenue, El Paso, Texas 79901**

**MINUTES**

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**TRUSTEE MEMBERS PRESENT**

**Fire Division:**

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Lieutenant Paul Thompson

**Police Division:**

Lieutenant John Schneider  
Sergeant Sean Shelton  
Sergeant JD Cotham

**Mayoral Appointments:**

Dr. Robert Tollen  
Ms. Carmen Arrieta-Candelaria  
Mr. Presi Ortega

**City Manager Appointments:**

Ms. Judy A. Balmer  
Ms. Terri Garcia

**OTHERS PRESENT**

Mr. Tyler Grossman – Executive Director  
Ms. Christina Ramirez – Deputy Executive Director  
Ms. Lena Ellis – CFO  
Mr. Thad Fletcher – Cooke & Bieler  
Mr. Mehul Trivedi – Cooke & Bieler  
Mr. Tim Campbell – Baillie Gifford  
Mr. Matthew Coyle – Baillie Gifford

**TRUSTEE MEMBERS ABSENT:**

Chief Ricci Carson

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
March 22, 2017 - 1:00 P.M.

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1. Establishment of Quorum.

Chairman Villanueva established that a Quorum was present. The Regular Meeting of the El Paso Firemen & Policemen's Pension Fund Board of Trustees was called to order at 1:00 p.m.

2. Reading and approval of the Minutes from the previous Regular Board Meeting held February 15, 2017.

*Dr. Tollen moved to approve the minutes of the Regular Board Meeting held February 15, 2017, seconded by Mr. Shelton and unanimously passed by the Board*

Consent Agenda

*Dr. Tollen moved to approve the Consent Agenda seconded by Mr. Schneider and passed by the Board*

1. Internal Financial Statements for month ending February 28, 2017.

Northern Trust Financial Statements for month ending February 28, 2017.

2. Expense Reports for the month ending February 28, 2017.

3. Approve Pension Payrolls:

Fire	\$2,774,391.56
Police	\$3,858,695.18

4. Payments to Service Providers

A. Baillie Gifford – 4 <sup>th</sup> Q2016	\$139,351.62
B. Brown Advisory – 4 <sup>th</sup> Q2016	\$32,978.48
C. Cooke & Bieler – 4 <sup>th</sup> Q2016 (Large Cap Value)	\$42,437.87
D. Cooke & Bieler – 4 <sup>th</sup> Q2016 (Small Cap Value)	\$4,686.50
E. Fidelity Investments – 4 <sup>th</sup> Q2016	\$89,774.81
F. Harvest Fund Advisors, LLC – 4 <sup>th</sup> Q2016	\$112,469.06
G. Intech – 4 <sup>th</sup> Q2016	\$19,844.77
H. Legislative Consultants – February 2017	\$8,052.66
I. Mondrian – 4 <sup>th</sup> Q2016	\$179,319.35
J. The Northern Trust Company – 4 <sup>th</sup> Q2016 (Custody & Benefit Payments)	\$21,818.82
K. PIMCO – 4 <sup>th</sup> Q2016	\$109,117.80
L. Powers Mediaworks, LLC – January 2017	\$1,664.00
M. Rudd and Wisdom, Inc. – January 2017	\$8,097.00
N. William Blair – 4 <sup>th</sup> Q2016 (Small Cap Growth)	\$72,887.82

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
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O. William Blair – 4 <sup>th</sup> Q2016 (Small Cap Value)	\$124,170.20
P. Buck Consultants (Xerox) – 4 <sup>th</sup> Q2016	\$19,771.00

*Chairman Villanueva requested that New Business Items 1 & 2 be moved ahead of Unfinished Business. There were no objections to these changes so the items were moved.*

*Mr. Thompson arrived at 1:04 pm.*

New Business

1. Investment Performance Review for period ended December 31, 2016 and update as presented by Mr. Thad Fletcher and Mr. Mehul Trivedi of Cooke & Bieler.

Mr. Fletcher explained that not much has changed since he last reported to the Board. Cooke & Bieler has been managing equity portfolios since 1949. They are independent and management – owned with 12 partners and 30 employees with a little over \$5B in assets under management.

The Large Cap Value Portfolio began with an initial allocation of \$32M in September of 2005 with an additional allocation of \$18M and \$41M in withdrawals. As of February 28, 2017, the value is at \$75M. Cooke and Bieler sticks to the same discipline. The index has been outperformed by 75 bps per year. Because Cooke & Bieler invests in quality companies, it generally does well in down markets. They find good businesses with strong companies and own them for a period of 3 to 5 years; therefore their turnover is only at 31%.

The Small Cap Value Portfolio began with an initial allocation of \$20M in August of 2014 with an additional allocation of \$40K and \$3M in withdrawals. As of February 28, 2017, the value is at \$23M. Small Cap will have greater return versus the Large Cap which is more of an anchor for the Fund. The expectation for small cap is 150 bps to 200 bps of return. Going forward the Fund will see a 6 to 8% returns over the next fifteen years in the Large Cap strategy.

2. Investment Performance Review for period ended December 31, 2016 and update as presented by Mr. Tim Campbell and Mr. Matthew Coyle of Baillie Gifford.

Mr. Campbell provided the Emerging Markets update and explained that the firm is in good shape with no major changes. The team is exactly the same with three new partners and one retiring. Per year since inception the Fund (March 2005) has earned 8% per year. Going forward, the outlook for emerging markets is optimistic.

Mr. Coyle provided the International Focus update. The strategy is just over \$11B in three different strands. The fund has invested in the EAFE Pure Strand which is invested purely in developed markets. There are 105 investment professionals in the firm and there is a lot of interaction amongst all of the professionals. The Investment philosophy is growth oriented and active with a long-term perspective. The range of names in the portfolio is 50 to 90 and currently at about 60. Typically holding periods are for at least 5 years. This is very different from the market. Joe Faraday will be the main point of contact for this plan. There are four key questions

that govern Baillie's Investment Criteria: 1) Growth – Will this company be significantly larger in five years? 2) Management - Are management sensible guardians of our clients' capital? 3) Valuation – Why is this growth not reflected in the current share price? And 4) Discipline – What would make us sell? Risk is extremely important. There is an Independent Risk Team that provides oversight in the area of risk.

#### Reports and recommendations of Committees

#### Unfinished Business

##### 1. Discussion and action on benefit analysis.

Mr. Grossman explained that the Current Contribution Percentage for Fire is at 15.28% and Police is 13.89%. The cost to change the age and time for Tier 2 to match the Base Plan is an additional 2.2% in contributions for Police and 1.6% in contributions for Fire. The total for Police would then move to 16.09% and Fire would move to 16.88%. Buck was then asked for an analysis if both sides go up to 18% to match the City contribution. Police would go up by 1.91% and Fire would increase by 1.12%. The total contribution increase for Police would be 4.11% and for Fire would be 2.72%. This would move both to 18%. If this increase was spread over five years, Police would see a 0.82% increase each year and Fire would see a 0.54% increase each year. Buck was asked to ascertain how this increase in contributions would affect the Fund's Amortization Period. Police would go from an amortization period of 33 years to 26 years. Fire would go from an amortization period of 26 years to 24 years. All retiree that currently receive a minimum pension would receive a 50% increase.

*After careful discussion and due consideration, Mr. Schneider moved to approve going forward with increasing contributions to 18% for all members and changing the benefit guidelines for Tier 2 to lower the age and service required for a minimum retirement to age 45 and service of 20 years, and also giving a 50% increase to all pre January 1, 1980 retirees. This is all subject to both the City's and the active member approval. This motion was seconded by Dr. Tollen and passed unanimously by the Board.*

##### 2. Discussion and action on Executive Director's 2016 performance review.

Mr. Thompson explained that the committee would be meeting in the next few weeks to summarize Mr. Grossman's evaluation.

*Mr. Thompson moved to table this item until next month, seconded by Dr. Tollen and passed unanimously by the Board.*

#### New Business (cont.)

3. Discussion and action on changes to the Fund's Voting Procedure.

Mr. Grossman explained that the company that previously handled our Voting Procedure is no longer in business. As a result, some of the policy was written in reference to the contract that was in place with the old company. This version of the procedure makes it more generic so that other companies can be utilized for this purpose.

*After careful discussion and due consideration, Ms. Garcia moved to approve the changes made to the Fund's Voting Procedure, seconded by Dr. Schneider and passed unanimously by the Board.*

4. Discussion and action on Disability Recall Policy.

This policy has gone to the committee and back to the attorneys for approval. This is the final version of this policy. The statute allows us to perform disability recalls at will. This procedure is random because there are some people who will never have to come back for a recall based on the nature of their disability. The staff will have to review and bring back those members to the Board who legitimately need to be reviewed.

*After careful discussion and due consideration, Dr. Tollen moved to approve the changes requested by the Benefits Committee and reviewed by legal counsel to the Fund's Disability Recall Policy, seconded by Mr. Schneider and passed unanimously by the Board.*

5. Discussion and action on Security Litigation representation as approved by the Ad-Hoc Securities Litigation Committee.

Mr. Schneider spoke on behalf of the Ad-Hoc Securities Litigation Committee. He explained the process utilized by the committee to select the Fund's litigation firms. The committee decided to go with three firms: a large size, a medium size, and a small size. Robbins Gellar gave an excellent presentation. They are a very well-known firm probably the top in their class. Cohen Milstein brought in four representatives for their presentation. They are one of the fastest growing firms. The third firm selected was Spector Roseman. They are a smaller firm; however they focus on global issues.

*After careful discussion and due consideration and at the recommendation of the Ad-Hoc Securities Litigation Committee, Mr. Schneider moved to terminate the firm of Bernstein Litowitz Berger & Grossmann and the hiring of Robbins Geller Rudman & Dowd, Cohen Milstein Sellers & Toll, and Spector Roseman Kodroff & Willis with monthly reports to the Executive Director, a \$100,000 threshold, and when a claim is presented then the Executive Director will consult with the Chair Person to proceed and advise the Board at the next available regular Board meeting. This was seconded by Ms. Arrieta-Candelaria and passed unanimously by the Board.*

6. Opportunity for Statements from Members/Retired Members/Public.

None.

EL PASO FIREMEN & POLICEMEN'S PENSION FUND  
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7. Report of Executive Director.

See submitted Written Report

8. For Notation:

Informational Material For Review. No Action Required.

- A. Service Retirement(s)
- B. Service/Forward DROP Retirement
- C. Deferred Retirement
- D. Death of member(s)
- E. Cost of Living Adjustments
- F. Refund of Contributions

9. Adjournment.

*Mr. Ortega moved to adjourn seconded by Ms. Arrieta-Candelaria and passed by the Board. The El Paso Firemen & Policemen's Pension Fund Board of Trustees meeting stands in adjournment at 3:10 p.m.*

  
\_\_\_\_\_  
Chairperson

  
\_\_\_\_\_  
Secretary



14911 Quorum Drive  
Suite 200  
Dallas, TX 75254

March 15, 2017

Mr. Tyler C. Grossman  
Executive Director  
El Paso Firemen & Policemen's Pension Fund  
909 East San Antonio  
El Paso, TX 79901-2523

**Re: Proposed Plan Changes, Cost Study**

Dear Mr. Grossman:

On October 24, 2016, we provided an analysis regarding the funding impact of changing the retirement eligibility requirements for Tier 2 members to age 45 with 20 years of service. As requested, we have supplemented that analysis by adding the stipulation that members contribute 18.0% of pay.

Currently, members of the Second-Tier Plan are eligible to commence retirement benefits upon attainment of age 50 with 25 years of Credited Service. Members of the Base Plan are eligible to commence retirement benefits upon attainment of age 45 with 20 years of Credited Service.

Additionally, members currently contribute 13.89% (Policemen) and 15.28% (Firemen) of total salary.

In completing this analysis, we did not assume any changes to the eligibility requirements for Tier 2 members to participate in the Back DROP or Forward DROP, nor the assumed DROP period. Additionally, we assumed that retirement rates for Tier 2 members mirror the retirement rates for Tier 1 members from age 45 through age 50.

Attached to this letter are two exhibits that illustrate the impact on the January 1, 2016 valuation results based on these plan changes.

**Disclosure**

The results of this letter are based on the same data, assets, assumptions and plan provisions as those used for the January 1, 2016, valuation, unless otherwise noted.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

Use of this letter for any other purposes or by anyone other than the Board members and staff of the Fund may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, Conduent recommends requesting it to perform an advance review of any statement, document, or filing based on information contained in this letter. Conduent will accept no liability for any such statement, document or filing made without prior review by Conduent.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for



evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities.

David Kershner is a Fellow of the Society of Actuaries and an Enrolled Actuary. Janie Shaw is an Associate of the Society of Actuaries. Both are Members of the American Academy of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

If you have any questions or need additional assistance, please let us know.

Sincerely,

A handwritten signature in black ink that reads "Janie Shaw".

Janie Shaw, ASA, MAAA  
Consultant, Retirement  
Conduent HR Services

A handwritten signature in black ink that reads "DJK".

David J. Kershner, FSA, EA, MAAA  
Principal, Retirement  
Conduent HR Services

JES/DJK/em  
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**EXHIBIT 1**

**El Paso Policemen's Pension Fund**

	<b>1/1/2016 Valuation <u>without Plan Change</u></b>	<b>1/1/2016 Valuation <u>with Plan Change</u></b>	<b>1/1/2016 Valuation <u>with Plan Change</u></b>
<b>Plan Change Description:</b>	None	Tier 2 eligibility changed to 45/20	Tier 2 eligibility changed to 45/20, and member contributions increased to 18% of pay
<b>Present Value of Future Benefits</b>	1,112,979,000	1,115,995,000	1,116,796,000
<b>Present Value of Future Employee Contributions</b>	87,905,000	84,456,000	109,447,000
<b>Present Value of Future Normal Costs</b>	160,308,000	161,727,000	162,274,000
<b>Actuarial Accrued Liability (AAL)</b>	952,671,000	954,268,000	954,522,000
<b>Actuarial Value of Assets (AVA)</b>	772,732,000	772,732,000	772,732,000
<b>Unfunded Actuarial Accrued Liability (UAAL = AAL-AVA)</b>	179,938,000	181,535,000	181,790,000
<b>Funded Ratio (AVA/AAL)</b>	81.1%	81.0%	81.0%
<b>Normal Cost Rate:</b>			
- Total (before adjustment for overtime)	25.35%	26.62%	26.71%
- Total (after adjustment for overtime)	23.05%	24.20%	24.28%
- Member Contribution Rate	13.89%	13.89%	18.00%
- Employer Normal Cost Rate	9.16%	10.31%	6.28%
<b>Tier 2 Normal Cost Rate (after adjustment for overtime)</b>	16.41%	18.88%	18.97%
<b>Funding Period to Amortize 1/1/2016 UAAL</b>	33 years	50 years	26 years

**EXHIBIT 2**

**El Paso Firemen's Pension Fund**

	<b><u>1/1/2016 Valuation without Plan Change</u></b>	<b><u>1/1/2016 Valuation with Plan Change</u></b>	<b><u>1/1/2016 Valuation with Plan Change</u></b>
Plan Change Description:	None	Tier 2 eligibility changed to 45/20	Tier 2 eligibility changed to 45/20, and member contributions increased to 18% of pay
Present Value of Future Benefits	782,277,000	784,601,000	784,967,000
Present Value of Future Employee Contributions	79,065,000	76,494,000	90,110,000
Present Value of Future Normal Costs	114,484,000	115,760,000	116,010,000
Actuarial Accrued Liability (AAL)	667,793,000	668,841,000	668,957,000
Actuarial Value of Assets (AVA)	528,803,000	528,803,000	528,803,000
Unfunded Actuarial Accrued Liability (UAAL = AAL-AVA)	138,990,000	140,038,000	140,154,000
Funded Ratio (AVA/AAL)	79.2%	79.1%	79.0%
Normal Cost Rate:			
- Total (before adjustment for overtime)	22.14%	23.14%	23.19%
- Total (after adjustment for overtime)	21.29%	22.25%	22.30%
- Member Contribution Rate	15.28%	15.28%	18.00%
- Employer Normal Cost Rate	6.01%	6.97%	4.30%
Tier 2 Normal Cost Rate (after adjustment for overtime)	16.50%	18.22%	18.28%
Funding Period to Amortize 1/1/2016 UAAL	26 years	32 years	24 years



**David Kent,**  
**FSA, EA, MAAA**  
 Director, Retirement  
 Wealth Division

Buck Consultants, LLC  
 A Xerox Company  
 14911 Quorum Drive  
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 Dallas, TX 75254

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[David.Kent@xerox.com](mailto:David.Kent@xerox.com)  
[www.xerox.com/hrconsulting](http://www.xerox.com/hrconsulting)

October 24, 2016

Mr. Tyler C. Grossman  
 Executive Director  
 El Paso Firemen & Policemen's Pension Fund  
 909 East San Antonio  
 El Paso, TX 79901-2523

**Re: Proposed Plan Changes, Cost Study**

Dear Mr. Grossman:

As requested, we have investigated the impact of two independent potential changes to the El Paso Firemen & Policemen's Pension Fund (the Fund).

**1. Funding impact of changing the retirement eligibility requirements for Tier 2 members to 45 years of age with 20 years of service.**

Currently, members of the Second-Tier Plan are eligible to commence retirement benefits upon attainment of age 50 with 25 years of Credited Service. Members of the Base Plan are eligible to commence retirement benefits upon attainment of age 45 with 20 years of Credited Service.

In completing this analysis, we did not assume any changes to the eligibility requirements for Tier 2 members to participate in the Back DROP or Forward DROP, nor the assumed DROP period. Additionally, we assumed that retirement rates for Tier 2 members mirror the retirement rates for Tier 1 members from age 45 through age 50.

The impact on the January 1, 2016, valuations as if this provision had been in effect is as follows:

<b>Police</b>	<b>Current</b>	<b>Proposed</b>
Funded Ratio	81.1%	81.0%
Years to Fund	33 years	50 years
Normal Cost Rate (adjusted for OT)	23.05%	24.20%
Tier 2 Normal Cost Rate (adjusted for OT)	16.41%	18.88%
<b>Firefighters</b>	<b>Current</b>	<b>Proposed</b>
Funded Ratio	79.2%	79.1%
Years to Fund	26 years	32 years
Normal Cost Rate (adjusted for OT)	21.29%	22.25%
Tier 2 Normal Cost Rate (adjusted for OT)	16.50%	18.22%

The impact on the funded ratio due to this change is minimal since it only impacts active members with very little service. However, the impact on the normal cost is more significant. Since more of the annual contribution will be required to fund the cost of the Tier 2 active members accruing benefits each year due to this change, there is less available to pay down the unfunded liability. As seen above, this increases the amount of time required to pay off the unfunded. In order to keep the same years to fund as in the current plan, the contributions for all police active members would need to increase by approximately 2.2% of pay and the contributions for all firefighter active members would need to increase by approximately 1.6% of pay.

**2. Funding impact of increasing the minimum retirement benefit for pre-1/1/1980 retirees to \$600 (Fire) and \$750 (Police).**

Currently, the minimum monthly retirement benefit is \$400 for members of the Firemen's Pension Fund and \$500 for members of the Policemen's Pension Fund. This analysis examines the funding impact of a 50% increase in the minimum retirement benefit for members who retired before January 1, 1980.

For this analysis, we increased the benefit for any member of the Firemen's Pension Fund with less than a \$600 monthly benefit to \$600. Similarly, we increased the benefit for any member of the Policemen's Pension Fund with less than a \$750 monthly benefit to \$750.

The impact on the January 1, 2016, valuations as if this provision had been in effect is as follows:

<b>Police</b>	<b>Current</b>	<b>Proposed</b>
Funded Ratio	81.1%	81.0%
Years to Fund	33 years	33 years
<b>Firefighters</b>	<b>Current</b>	<b>Proposed</b>
Funded Ratio	79.2%	79.1%
Years to Fund	26 years	27 years

Since this change does not impact active members, there is no change in normal cost rate. In addition, due to the age of the retired members impacted by this, and the relatively small increase in benefit amount, the impact on accrued liability and funded ratio is minimal.

**Disclosure**

The results of this letter are based on the same data, assets, assumptions and plan provisions as those used for the January 1, 2016, valuation, unless otherwise noted.

Use of this letter for any other purposes or by anyone other than the Board members and staff of the Fund may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of

Mr. Tyler C. Grossman  
October 24, 2016



the letter for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting it to perform an advance review of any statement, document, or filing based on information contained in this letter. Buck will accept no liability for any such statement, document or filing made without prior review by Buck.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities.

Please note future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

If you have any questions or need additional assistance, please let us know.

Sincerely,

A handwritten signature in black ink that reads "David".

David Kent, EA, FSA, MAAA  
Director, Consulting Actuary

DK

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# 2017 El Paso Fire & Police Pension Fund Proposed Amendment Ballot Results

## Police Division

	Eligible	Votes Received	Percent
Accept .....	1045	646	62%
Reject .....	1045	197	19%
Abstain .....	1045	1	<1%

## Fire Division

	Eligible	Votes Received	Percent
Accept .....	905	545	60%
Reject .....	905	118	13%
Abstain .....	905	3	<1%

	Eligible	Voted Using			Total Voted
		Online Ballot	Paper Ballot	Phone Ballot	
Police .....	1045	774	55	15	844
Fire .....	905	589	68	9	666



## 2017 El Paso Fire & Police Pension Fund Proposed Amendment Ballot Results

### Ballot Received

Weekday	Date	Ballots
Monday.....	October 23, 2017 .....	590
Tuesday.....	October 24, 2017 .....	169
Wednesday .....	October 25, 2017 .....	128
Thursday .....	October 26, 2017 .....	79
Friday .....	October 27, 2017 .....	65
Saturday.....	October 28, 2017 .....	26
Sunday .....	October 29, 2017 .....	46
Monday.....	October 30, 2017 .....	165
Tuesday.....	October 31, 2017 .....	29
Wednesday .....	November 1, 2017 .....	30
Thursday .....	November 2, 2017 .....	28
Friday .....	November 3, 2017 .....	13
Saturday.....	November 4, 2017 .....	9
Sunday .....	November 5, 2017 .....	10