

City and County of San Francisco  
Employees' Retirement System

**Office of the Executive Director**



**SFERS**

San Francisco Employees' Retirement System

January 22, 2016

Angela Calvillo  
Clerk of the Board  
Board of Supervisors  
Room 244, City Hall  
1 Dr. Carlton B. Goodlett Pl.  
San Francisco, CA 94102

Erica Major  
Assistant Committee Clerk, Government Audit and Oversight Committee  
Board of Supervisors  
Room 244, City Hall  
1 Dr. Carlton B. Goodlett Pl.  
San Francisco, CA 94102

**Re: Actuarial Cost and Effect Report regarding File No. 151277 – Ordinance amending the Administrative Code to update the definition of final compensation for purposes of retirement benefits under the San Francisco Employees' Retirement System, and to include in that definition compensation earnable under the Judges' Retirement System and Judges' Retirement System II**

Dear Ms. Calvillo and Ms. Major,

The Retirement System acknowledges receipt of your referral of the above referenced proposed ordinance amending the Retirement System provisions of the Administrative Code and your request for an actuarial cost and effect report of the proposed ordinance under Charter Section A8.500.

### **Terms of the Proposed Ordinance**

If adopted by the Board of Supervisors, the proposed ordinance would amend the Administrative Code to update the definition of final compensation for purposes of retirement benefits under the San Francisco Employees' Retirement System (SFERS), and to include in that definition compensation earnable under the Judges' Retirement System (JRS) and Judges' Retirement System II (JRSII). Under the current law, when a member leaves SFERS and is subsequently employed as a California judge and earns benefits under JRS or JRSII, only compensation earned under SFERS is considered in the calculation of the member's SFERS retirement benefit. Under the proposed ordinance, for a member who leaves SFERS employment and maintains membership in SFERS and is subsequently employed as a California judge and earns benefits under JRS or JRSII, SFERS would use the higher of a) the member's compensation earnable during their service under SFERS or b) the member's compensation earnable during their service under JRS or JRSII in the calculation of the member's SFERS retirement benefits provided that the member retires concurrently from

SFERS and JRS or JRSII. The proposed ordinance does not provide for including service under JRS or JRSII for determining eligibility to receive SFERS retirement benefits.

### **Cost and Effect of the Proposed Ordinance**

The Retirement System's consulting actuary, Cheiron, conducted an analysis of the cost and effect of the proposed ordinance. I have summarized Cheiron's analysis below. The full Cheiron report is attached.

Cheiron has determined, given the small number of members likely to be affected by the proposed ordinance, any additional costs of including JRS and JRSII compensation would be minor. SFERS has identified four inactive SFERS members who would be affected by the proposed ordinance. The estimated increase in the annual benefits for these members is \$45,000 and the estimated increase in the present value of benefits at retirement age for these four inactive SFERS members is \$591,000.

In the future, more SFERS members are likely to be affected by this change. Between July 1, 2005 and July 1, 2015, there were 13 members who terminated from SFERS, became judges under JRS or JRSII, and subsequently retired from SFERS. Cheiron determined, if this 10-year recent history is representative of the likely future impact, the effect on SFERS in aggregate will continue to be small.

From a policy perspective, the proposed ordinance will conform SFERS policy related to plan members who have service under JRS and JRSII to how similar service is recognized under CalPERS and most California county retirement systems.

The Retirement System will appear at the Government Audit and Oversight Committee hearing on this subject and be available to address any questions of the Committee members.

Best regards,



Jay Hujsh  
Executive Director  
San Francisco Employees' Retirement System

Attachment: Cheiron report dated January 18, 2016

cc: President London Breed  
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1390 Market Street, Suite 1150  
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*Via Electronic Mail*

January 18, 2016

Mr. Jay Huish, Executive Director  
San Francisco Employees' Retirement System  
1145 Market Street, 6<sup>th</sup> Floor  
San Francisco, California 94103

***Re: Revision to Administrative Code Section 16.29-7.3 – Definition of Final Compensation for the San Francisco Employees' Retirement System (SFERS)***

Dear Jay:

As requested, we have analyzed the effect of implementing Ordinance No. 151277, which states that the definition for Final Compensation under SFERS would include compensation earnable under the Judges' Retirement System (JRS) and Judges' Retirement System II (JRSII), if the member retires concurrently from both systems.

Under the current law, the calculation of a member's retirement benefit, when a member leaves SFERS but is subsequently employed and earns benefits under JRS or JRS II, only considers compensation during their service with SFERS. Note, however, that the ordinance does not include service under JRS or JRS II for determining the eligibility to receive benefits. As a result, most Miscellaneous members would need 10 years of SFERS credited service to be entitled to a benefit based on their final average salary (Proposition C members can retire at age 65 with less than 10 years of service).

Given the small number of members likely to be affected by this change, we believe any additional costs of including JRS/JRS II compensation would be minor compared to the costs of SFERS in aggregate. As of July 1, 2015, we understand this ordinance would only affect the SFERS benefits of four inactive SFERS members. The estimated increase in the annual benefits for these members is \$45,000 and the estimated increase in the present value of benefits at retirement age is \$591,000. This amount compares to an actuarial liability for SFERS of over \$21 billion as of July 1, 2014. The table on the next page summarizes the impact for the four affected members, with about two thirds of the impact attributable to one individual.

Impact of Revising SFERS' Definition of Final Compensation to Include Compensation from JRS or JRS II				
	Current SFERS Plan	New Definition of Final Compensation	Change Amount	Change Percent
Total Estimated Annual Benefits at age 65 <sup>1</sup>	\$187,000	\$232,000	\$45,000	24.1%
Total Estimated Present Value of Benefits (PVB) at retirement age 65	\$2,466,000	\$3,057,000	\$591,000	24.0%
Average Increase in Annual Benefits at age 65			\$11,250	
Average Increase in PVB			\$147,750	

<sup>1</sup> For SFERS - Greater of retirement or deferred vested benefit (200% of employee contribution balance converted to an annuity).

The potential impact for an individual can be substantial if their compensation under JRS or JRS II is significantly greater than their compensation under SFERS and they have a significant amount of service with SFERS. For other individuals, the impact can be minor or it may make no difference in their benefits from SFERS.

In the future, more SFERS members are likely to be affected by this change. Between July 1, 2005 and July 1, 2015, there were 13 members who terminated from SFERS, became judges under JRS or JRS II, and subsequently retired from SFERS. If this history is representative of the likely future impact, the effect on SFERS in aggregate will continue to be small while the impact on certain individuals may be significant.

**Data Summary**

Below is a summary of the data that was used in the analysis provided by the SFERS' staff.

SFERS Inactive Judges as of July 1, 2015	
Number of Inactive Judges	4
Average Age	49.5
Average Service	8.3
Average Final Compensation	\$170,000



In preparing these calculations, we used the assumptions listed below. All other actuarial assumptions used were adopted by the Board at its November 18<sup>th</sup> meeting.

Retirement Age:	65. Based on CalPERS JRS II retirement assumptions from the June 30, 2014 actuarial valuation report.
Pay Increases under JRS/JRS II:	3.0%
Credited Interest Rate:	4.0%
Mortality:	CalPERS 2009 Healthy Annuitant Table prior to scale BB projection with an adjustment factor of .909 for males and 1.014 for females. Mortality improvements are projected from 2009 generationally using the MP2015 projection scale modified to converge to an ultimate rate of 0.85% in 2017.

When calculating current estimated retirement benefits under SFERS, we have assumed that the definition of Final Compensation in the Charter overrides the current definition in Section 16.29-7.3 in the Administrative Code which states that the average monthly compensation is the compensation earned by a member during the 10 years immediately preceding his or her retirement.

In preparing this letter, we relied on information, some oral and some written, supplied by SFERS. This information includes, but is not limited to, the plan provisions and employee data. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23. For a summary of the plan provisions and methods, please refer to the July 1, 2014 actuarial valuation report for SFERS.

To the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advice.

This letter was prepared exclusively for the City and County of San Francisco Employees' Retirement System for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.



Mr. Jay Huish  
January 18, 2016  
Page 4 of 4

If you have any questions, please let us know.

Sincerely,  
Cheiron



Anne D. Harper, FSA, EA, MAAA  
Consulting Actuary

cc: Janet Brazelton  
Bill Hallmark