June 17, 2024

Victor Young
Assistant Clerk, Rules Committee
Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: File No. 240552 (ver1)

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate "final compensation" for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; calculate "final compensation" on the basis of average compensation earnable rather than compensation earned for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage; at an election to be held on November 5, 2024.

Dear Mr. Young:

This letter is the cost and effect report required to be prepared by the San Francisco City and County Employees' Retirement System under Charter Section A8.500.

Effect of the Proposed Charter Amendment

The proposed Charter Amendment will amend the two firefighter retirement benefit plans approved by the voters, and applicable to persons who became or become members of the Fire Department on and after July 1, 2010: Charter Section A8.601 et seq., applicable to members on and after July 1, 2010, and Charter Section A8.604 et seq., applicable to members on and after January 7, 2012.

Under existing law, firefighters receive a service retirement allowance that is a percentage of the two or three years of their highest final compensation depending on the retirement benefit plan. This service retirement allowance is determined by the following formula:

Total Years of Service Credit x Age Factor x Final Compensation = Benefit (in $)

The Charter proposal changes the final compensation and age factor components of the benefit calculation. These changes have three primary components.

First, the proposal will both increase the factors on which the firefighters' retirement benefit in Charter Section A8.604 will be calculated and these firefighters will reach the maximum factors at an earlier age. For example, currently an A8.604 firefighter retiring at age 50 with 30 years of service will receive a 66% service retirement allowance. Under the Charter proposal, at age 50, the same firefighter would receive a 72% service retirement allowance. The maximum service retirement allowance remains at 90%. The proposal will also lower the age when members of the A8.604 firefighter plan reach the maximum factor of 3% from 58 to 55.

Second, final compensation will be calculated based on any one year in which a firefighter's average final compensation is the highest. Currently, final compensation is calculated based on the member's highest average two or three years' compensation, depending on the retirement benefit plan.

Third, "final compensation" will be based on compensation "earnable" rather than compensation actually earned. Currently, "final compensation" is calculated based on the compensation the member actually earns. Under the Charter proposal, when a firefighter has no actual earnings during the final compensation measurement period, the Retirement System will apply the remuneration attached to other firefighters' rate of pay in their rank or position to determine their monthly service retirement benefit.

Cost of the Proposed Charter Amendment

As required under Charter Section A8.500, Cheiron, the SFERS consulting actuary, has conducted its analysis to estimate the cost and effect of the proposed legislation. Cheiron's analysis is summarized below. The full Cheiron report is attached. Please refer to this report to review Cheiron's assumptions and for further costing detail.

To estimate the cost, Cheiron based its analysis on the July 1, 2023 Actuarial Valuation Report. The report can be found at: https://mysfers.org/sfers-actuarial-valuation-2023/.

Should the voters approve the proposal, the normal cost for the impacted firefighter plans will increase by 3.5% of covered payroll. The increase to the normal cost rate is a permanent change that raises costs each year in the future as payroll increases. It represents the increased value in future benefits earned. The unfunded actuarial liabilities (UAL) are expected to increase by $34.4 million. The increase in UAL represents the amount of money needed today to immediately fund the increased benefits that have already been earned by the firefighter group. However, the UAL will not be immediately funded but instead will be amortized over 15 years, i.e. paid over a 15 year period, in a method designed to keep costs approximately level with payroll. The initial year's payment will increase 3.25% each year until the 15th payment is made. There are no further payments to the UAL after year 15. In annual dollar terms, the normal cost and UAL payment together result in an estimated increase in employer contributions of $10.2 million in FY 2026, increasing to $21.2 million by FY 2040. In FY 2041, the UAL component declines to zero and the estimated normal cost increase is $16.7 million.

Cheiron estimated the cost of the components of the proposal sequentially. Cheiron first costed the impact of the multiplier/age factor, then added the final averaging period, and finally layered on the earnable compensation component. Thus, the cost of each component is not completely independent of the other components. The breakdown for each component of the Charter proposal is below.

The changes to the multiplier and lowering the maximum retirement age are estimated to increase the normal cost for the impacted firefighter plans by 1.2% of covered payroll. In addition, the UAL is expected to increase by approximately $13.1 million. Fiscal year 2025-26 costs are expected to be $3.7 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

Adding on to the changes to the multiplier and lowering the maximum retirement age, the proposed changes to the final compensation averaging period, from two or three years to one year, are expected to increase the normal cost rate an additional 1.8% of covered payroll. The UAL will additionally increase by approximately $19.6 million. Fiscal year 2025-26 costs are expected to be $5.5 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

The proposal to change final compensation calculation from “earned” to “earnable” will have a significant impact only with respect to disability benefits. Cheiron costed the difference with respect to that benefit. The normal cost is anticipated to increase the normal cost rate by an additional 0.5% of covered payroll. The UAL will additionally increase by approximately $1.7 million. Fiscal year 2025-26 costs are expected to be $1 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

The Retirement System will appear at the Rules Committee hearing on this subject and address Committee member questions.

Very truly yours,

Alison Romano

Alison Romano
CEO & CIO
San Francisco Employees’ Retirement System

Attachment: Cheiron report dated June 2024

cc: Supervisor Aaron Peskin, President, Board of Supervisors
Supervisor Hilary Ronen, Chair Rules Committee
Supervisor Shamann Walton, Rules Committee
Supervisor Ahsha Safai, Rules Committee
Angela Cavillo, Clerk, Board of Supervisors

Via Electronic Mail

June 17, 2024

Ms. Alison Romano
Chief Executive and Investment Officer
San Francisco City and County Employees' Retirement System
1145 Market Street, 6th Floor
San Francisco, CA 94103

Re: Proposed Charter Amendment – Fire Department Service Retirement Pension

Dear Alison:

As requested, we have estimated the cost impact of the proposed Charter amendment that would improve benefits for members of the fire department covered under Charter sections A8.601 (Prop D) and A8.604 (Prop C). The proposed amendment would:

- Improve the multiplier for each year of service at each retirement age for Prop C members,
- Reduce the averaging period in the determination of final compensation, and
- Change the definition of compensation from "earned" to "earnable" compensation.

The table below summarizes the estimated cost for each component assuming the amendment is effective January 1, 2025, and is first reflected in contribution rates on July 1, 2025. The cost of each component is not independent of the other components. The table shows the costs assuming each component builds on the components from any columns further to the left.

Estimated Increase Due to Proposed Charter Change

	Multiplier / Retirement Age	Final Averaging Period	Earnable Compensation	Total
Actuarial Liability	$ 13.1	$ 19.6	$ 1.7	$ 34.4
Normal Cost Rate	1.2%	1.8%	0.5%	3.5%
FYE 2026 Employer Contribution Increase				
Employer Normal Cost	$ 2.4	$ 3.6	$ 0.9	$ 6.9
UAL Payment	1.3	1.9	0.1	3.3
Total	$ 3.7	$ 5.5	$ 1.0	$ 10.2

Dollar Amounts in Millions

The increase to the firefighter normal cost rate is a permanent change that raises costs for each year in the future, increasing as a dollar amount as the affected payroll increases. Since Fire members hired prior to January 7, 2012 are currently assumed to be replaced when they retire or otherwise leave SFERS covered employment by members covered by Charter Section A8.604, the affected payroll is expected to grow more rapidly than overall payroll growth. The UAL payment, however, is an annual payment that increases 3.25% each year for 15 years. After 15 years, there are no further payments. To illustrate these dynamics, the table below shows the expected increase in contributions due to the Charter amendment for select years in the future. These projections assume all assumptions used in the July 1, 2023 valuation are exactly met each year in the future.

Estimated Employer Contribution Increase Sample Fiscal Years			
Fiscal Year Ending	**Employer Normal Cost**	**UAL Payment**	**Total**
2026	$ 6.9	$ 3.3	$ 10.2
2030	9.7	3.7	13.4
2035	12.9	4.4	17.3
2040	16.1	5.1	21.2
2041	16.7	0.0	16.7

Dollar Amounts in Millions

Basis for Analysis

Our analysis uses the census data, assumptions, and methods from the July 1, 2023 actuarial valuation. Please refer to that report for a summary of the data, assumptions, and plan provisions applicable to Fire members under the various Charter sections. To value the proposed provisions, we applied the assumptions applicable to "Other than Prop C."

Valuation results are projected to July 1, 2024 to determine the expected impact on the liability as of July 1, 2024 and contributions for the fiscal year ending June 30, 2026. While the changes are not effective until January 1, 2025, we anticipate reflecting the changes in the July 1, 2024 actuarial valuation so that the amendment is reflected in contribution rates beginning July 1, 2025.

There are some subtle differences between "earned" compensation and "earnable" compensation that could affect service retirement benefits for some members. However, the only significant impact of changing to "earnable" compensation is on disability benefits. We understand that for disabilities, "earned" compensation does not increase between the date of disability and the Qualified Service Retirement date while "earnable" compensation does increase. This difference is what has been valued in this analysis.

Detailed Results

The table below summarizes the impact separately for Charter sections A8.601 and A8.604.

Detailed Impact of Proposed Charter Change	Current	Multiplier / Retirement Age	Final Averaging Period	Earnable Compensation
7/1/2024 Actuarial Liability – Active Members				
Prop D (A8.601)	$ 41.3	$ 41.3	$ 42.5	$ 42.5
Increase		0.0	1.2	0.0
Prop C (A8.604)	308.7	321.8	340.2	341.9
Increase		13.1	18.4	1.7
Normal Cost Rate				
Prop D (A8.601)	35.1%	35.1%	36.1%	36.5%
Increase		0.0%	1.0%	0.4%
Prop C (A8.604)	30.8%	32.1%	34.0%	34.4%
Increase		1.3%	1.9%	0.4%
FYE 2026 Employer Contribution Increase				
Prop D (A8.601)	N/A	$ 0.0	$ 0.2	$ 0.0
Prop C (A8.604)	N/A	$ 3.7	$ 5.3	$ 1.0

Dollar Amounts in Millions

We interpret the proposal to state that disabilities prior to January 1, 2025 will not be re-calculated using earnable compensation. However, if our interpretation is incorrect and current disabilities would be re-calculated using earnable compensation, it would add an additional $3.9 million to the Actuarial Liability and $0.4 million to the employer contribution. It would not affect the normal cost.

It should be noted that new hires enter under Charter section A8.604, so the increase in normal cost rate for that Charter section represents the ongoing permanent expected cost increase for the proposed amendment. The increase in normal cost rate for Charter section A8.601 will only last while current members under that Charter section remain actively employed, and the increase to the Actuarial Liability will be paid off over the 15-year amortization period.

This estimate and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this estimate. This estimate does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

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

If you have any questions on this estimate, please let us know.

Sincerely,
Cheiron, Inc.

William R. Hallmark

William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary

Anne Harper

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

Attachment

cc: Caryn Bortnick, Chief Operating Officer
Janet Brazelton, Actuarial Services Coordinator
Matt Wells, Cheiron

Summary of Proposed Changes to Charter

Benefit Provision	Current Charter Section Provisions: A8.601	Current Charter Section Provisions: A8.604	Proposed Provisions
Final Compensation	Average monthly compensation **earned** during the higher of any **two** consecutive fiscal years or the 24 months immediately prior to retirement	Average monthly compensation **earned** during the higher of any **three** consecutive fiscal years or the 36 months immediately prior to retirement	Highest average monthly compensation **earnable** during any **one year** of credited service
Benefit Multiplier Age at Retirement	Percent for Each Year of Credited Service		
50	2.40	2.20	2.40
51	2.52	2.30	2.52
52	2.64	2.40	2.64
53	2.76	2.50	2.76
54	2.88	2.60	2.88
55	3.00	2.70	3.00
56	3.00	2.80	3.00
57	3.00	2.90	3.00
58 or Older	3.00	3.00	3.00