

File No. 091159

Committee Item No. 6

Board Item No. 23

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight Date November 12, 2009

Board of Supervisors Meeting Date November 24, 2009

#### Cmte Board

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#### OTHER

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| <input type="checkbox"/>   | <input checked="" type="checkbox"/> | "Pensions: Beyond Our Ability to Pay" Grand Jury Report |
| * <input type="checkbox"/> | <input checked="" type="checkbox"/> | Report Appendices                                       |
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Completed by: Alisa Somera Date November 6, 2009

Completed by: Alisa Somera Date November 10, 2009

An asterisked item represents the cover sheet to a document that exceeds 25 pages.  
The complete document can be found in the file and the online version.

2

1 [Board response to the 2008-2009 Civil Grand Jury Report entitled "Pensions: Beyond Our  
2 Ability to Pay"]

3 **Resolution responding to the Presiding Judge of the Superior Court on the findings**  
4 **and recommendations contained in the 2008-2009 Civil Grand Jury Report entitled**  
5 **"Pensions: Beyond Our Ability to Pay," and urging the Mayor to cause the**  
6 **implementation of accepted findings and recommendations through department heads**  
7 **and through the development of the annual budget.**

8  
9 WHEREAS, Under California Penal Code Section 933 et seq., the Board of  
10 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior  
11 Court on the findings and recommendations contained in Civil Grand Jury Reports; and

12 WHEREAS, In accordance with Penal Code Section 933.05(c), if a finding or  
13 recommendation of the Civil Grand Jury addresses budgetary or personnel matters of a  
14 county agency or a department headed by an elected officer, the agency or department head  
15 and the Board of Supervisors shall respond if requested by the Civil Grand Jury, but the  
16 response of the Board of Supervisors shall address only budgetary or personnel matters over  
17 which it has some decision making authority; and

18 WHEREAS, The 2008-2009 Civil Grand Jury Report entitled "Pensions: Beyond Our  
19 Ability to Pay" is on file with the Clerk of the Board of Supervisors in File No. 090876, which is  
20 hereby declared to be a part of this resolution as if set forth fully herein; and

21 WHEREAS, The Civil Grand Jury has requested that the Board of Supervisors respond  
22 to Finding Nos. 2.1.1 and 4.1.1 as well as Recommendation Nos. 2.2.1, 2.2.2, 2.2.3 and 4.2.2  
23 contained in the subject Civil Grand Jury report; and

24 WHEREAS, Finding No. 2.1.1 states: "The Jury has not found evidence that SFERS  
25 [San Francisco Employees' Retirement System] management has provided the oversight

1 necessary to identify anomalies in pension payouts and to report the occurrences of pension  
2 spiking to the Retirement Board, the Mayor and the Board of Supervisors;" and

3 WHEREAS, Finding No. 4.1.1 states: "The Controllers report stated that this program  
4 would be cost neutral to the City however, in a letter to the Director of Elections dated October  
5 26<sup>th</sup> 2007, SFERS management wrote that: 'While the initiative states that the program shall  
6 be cost neutral, no cost analysis is to be conducted until April 15<sup>th</sup> 2011. In other words the  
7 cost to administer the program has not been determined and the systems necessary to run it,  
8 have not been developed. If the Board of Supervisors determines not to extend the DROP  
9 [Deferred Retirement Option Program] based on this cost analysis no further DROP elections  
10 will be allowed;" and

11 WHEREAS, Recommendation No. 2.2.1 states: "A task force should be established to  
12 evaluate a change to a defined-contribution (DC) plan for all new employees of the City and  
13 County of San Francisco. By adopting a DC plan, the Mayor, BOS and SFERS can do more  
14 to restore credibility to the public pension plans than any other action they can take;" and

15 WHEREAS, Recommendation No. 2.2.2 states: "Pension Spiking should be prohibited  
16 altogether as an unfair and costly practice that benefits no one, except for the retiring  
17 employee;" and

18 WHEREAS, Recommendation No. 2.2.3 states: "An independent investigation of  
19 pension fund spiking should be initiated;" and

20 WHEREAS, Recommendation No. 4.2.2 states: "The City and SFERS should  
21 determine the actual cost of running the program, to determine if the DROP program is  
22 economically viable at this point;" and

23 WHEREAS, in accordance with Penal Code Section 933.05(c), the Board of  
24 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior  
25

1 Court on Finding Nos. 2.1.1 and 4.1.1 as well as Recommendation Nos. 2.2.1, 2.2.2, 2.2.3  
2 and 4.2.2 contained in the subject Civil Grand Jury report; now, therefore, be it

3 RESOLVED, That the Board of Supervisors reports to the Presiding Judge of the  
4 Superior Court that it agrees with Recommendation Nos. 2.2.2 and 4.2.2 of the 2008-2009  
5 Civil Grand Jury Report entitled "Pensions: Beyond Our Ability to Pay;" and, be it

6 FURTHER RESOLVED, That the Board of Supervisors reports that it disagrees with  
7 Finding No. 2.1.1 and Recommendation 2.2.3 because the Board believes that SFERS is  
8 applying due diligence to prevent pension spiking. The Board also disagrees with  
9 Recommendation No. 2.2.1 because a working group created by the Mayor is already  
10 reviewing the City's Defined-Benefit (DB) Pension Plan and evaluating alternative plans and  
11 options; and, be it

12 FURTHER RESOLVED, That the Board of Supervisors reports to the Presiding Judge  
13 of the Superior Court that regarding Finding No. 4.1.1, the Board of Supervisors intends to  
14 discharge its duty of reviewing a fiscal analysis of the DROP program in accordance with the  
15 timeline approved by San Francisco voters; and, be it

16 FURTHER RESOLVED, That the Board of Supervisors urges the Mayor to cause the  
17 implementation of accepted findings and recommendations through his/her department heads  
18 and through the development of the annual budget.



# PENSIONS BEYOND OUR ABILITY TO PAY

In reference to the pension scandal in San Diego in recent years, the Pulitzer Prize winning author Roger Lowenstein wrote:

"The unions push for benefits that are beyond the ability of governments to properly fund. The unions get their promises; the politicians get to satisfy a powerful constituency. And by shortchanging their pension funds, they can run their budgets on borrowed time and put off the necessity to tax until later generations." 1

The time to payback the pension commitments made over the past 20 years is today, and the City of San Francisco may be unprepared to meet its obligations, without severe cuts in essential services to the residents of the City and the business interests who employ

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## 1. Executive Summary

Over the past 8 months the San Francisco Civil Grand Jury (the Jury) investigated the San Francisco Employees' Retirement System (SFERS), which is responsible for the administration of the City's defined benefit plans. In particular, the Jury investigated the significant increases in the cost of pensions and health benefits over the past 10 years.

### 1.1. The Pension Crisis

The Controller of the City and County of San Francisco (CCSF) estimated that the \$15.8 billion investment portfolio (as of June 30, 2008) has declined in value by approximately 20% for the quarter ended March 31, 2009. The full decline in the investment portfolio will not be disclosed until the fiscal year-end audit report is issued in September, 2009.

As recently as January of 2009, the City's Controller, in a presentation to the Jury, indicated that increasing pension costs were not an issue with respect to the City's financial problems. The Mayor, Board of Supervisors, contract negotiators and the unions have ignored and not addressed the alarming increases in pension costs over the past 5 years. For the fiscal year 2005-2006, the City's contribution to the pension fund was approximately \$175 million. By fiscal year 2011-2012 the Controller estimates that San Francisco's pension contribution will be approximately \$544 million.<sup>4</sup>The estimated 200% increase in just 6 years is compounded by the fact that 40% of the active employees are currently eligible for retirement and another 15% will be eligible in the next 5 years. A dramatic increase in the retirement rate for some unforeseen circumstance will present an incredible risk to the City in terms of funding and cash flow. In the past month, the Controller stated to the Jury that the rising pension cost is a serious concern to the financial health of the City.

The escalation of pension costs can be attributed to many factors not the least of which being the relationship of public officials and unions who have negotiated extraordinary pension and retirement benefits today, without consideration of the unfair financial burden placed on future generations.

Unfortunately, the San Francisco electorate is as guilty as the politicians for approving measures that push out obligations to pay retirement and health benefits into future years. This willingness to accept indebtedness into the future is problematic. Over the past 17 years, the electorate has voted on propositions

to increase pension and health benefits for Fire, Police and Miscellaneous workers in excess of \$1.5 billion, an outstanding balance as of July 1, 2008.<sup>3</sup>

Significant time<sup>6</sup> has been spent by law enforcement organizations, examining practices that can be used to dramatically increase the employee's final pension benefits, many of which have been determined to be abuses. Ultimately the public will bear the cost of these increasing pension benefits, via increases in taxes and loss of vital services.

One such practice, in which an individual accrues large numbers of hours of overtime, has been the topic of numerous investigations. In November, 1975, the voters of San Francisco passed Proposition "L" that mandated that overtime pay be excluded from the computation of pension benefits. However, there are other methods used to artificially inflate retirement benefits, thirty of which are described in People's Advocate Research Report, "30 Ways to Spike your Pension." Spiking is the common term used for these abusive practices, although during the investigation, a member of the San Francisco's Police Department referred to one practice as "Chief's Disease". Pension spiking occurs when employees artificially inflate their final compensation just before retiring, in order to increase their pension.

The Jury found a significant number of individuals whose retirement pay increased dramatically as a result of an unusual (see Appendix A, 4.1.1) salary increase during the last year(s) of service.

A Lieutenant was temporarily assigned to a rank of Battalion Chief in his last year of service. As a result, the Lieutenant contributed \$1,915 into the pension fund during the final year of employment, which raised his pension amount by \$25,500 per year for every year of his retirement. The present value of the incremental pension cost of \$25,500 over his life expectancy was estimated to be \$296,000.<sup>9</sup>

A police officer retired after 25 of service years with annual salary of \$88,000, was able to retire at a pension of \$110,000/year. This pension benefit is 121% higher than it would have been if he retired without a change in rank.<sup>10</sup>

A Battalion Chief (Rank H-40) was deemed to have completed 365 consecutive days in a higher rank of Assistant Chief (Rank H-50) and paid a retirement benefit at the rank of Assistant Chief.<sup>11</sup> After reviewing the Work History records, the Jury found that he did not perform at the Assistant Chief position for the required 365 days. However, the resulting spike in his retirement benefit created an obligation to fund his pension by approximately \$503,000 which will be paid over his life expectancy.

The analysis<sup>7</sup> of data provided by SFERS indicates that this practice (spiking)<sup>19</sup> may be institutionalized and ongoing, within San Francisco's Safety personnel. Approximately 25% of safety personnel that retired in the last 10 years received an increase of 10% or greater in their last year prior to retirement (Figure 7). For just the 10 year period of 1998 - 2008, the Jury estimates that spiking will cost active members of SFERS and the City at least \$132 million.<sup>8</sup>

The growth in retirees' pension benefits continues to escalate each year as a result of retroactive salary increases and COLA adjustments. (Figures 8 and 9) The Jury found that 55% of Firefighters and 60% of the Police who retired since 1998, currently receive a pension check that exceeds their highest annual compensation paid to them at the time of their retirement. Based on the City's May, 2009 payroll<sup>12</sup> nearly 20% of retired Safety officers are earning a pension of over \$100,000.

Supporters of government pension benefit increases routinely argue that public employees are underpaid compared to private-sector counterparts, so retirement benefits must be sweetened to compensate. However, recent surveys used by the City's Department of Human Resources to benchmark compensation disclose that in nearly all job classifications the City pays more in wages and salaries than the other governmental agencies and more than most private-sector employers.

The staggering pension and post employment health benefit costs for Police and Firefighter retirees are like having a secondary Police and Fire department – one active member and one retired member. Approximately half of the City's yearly pension payroll is paid to individuals who retired in the last 10 years. When retiring employees play the 'spiking game', they rob the SFERS members' pension fund of the expected lifetime investment income on their contributions. Spiking is "something-for-nothing" abuse of the system.

Since the analysis was limited to Safety personnel, the Jury's findings cannot be generalized across all participants within the SFERS system, or any other individuals participating in any other City pension system.

## **1.2. The Retirement Health Benefits Crisis**

Mercer Consulting (an actuarial firm hired by the City) reported that if the City continued to have an unfunded plan, the projected liability would be approximately \$4 billion<sup>13</sup>. In the actuary's report, the pension obligation for the COLA adjustments that were approved by the voters in the passage of

Proposition B in June 2008, resulted in approximately \$750 million future pension obligation.<sup>3</sup>

### 1.3. DROP Program

The DROP (Deferred Retirement Option Program) enacted in February 2008, addressed the need to retain experienced officers when recruiting new officers is problematic. Currently there are 55 individuals enrolled in the program. If all 55 officers leave DROP after the maximum 3 year period, SFERS will pay a lump sum of over \$17 million, or an average of \$300,000 dollars per person. DROP was enacted without a determination of cost to the City, cost of administering the program as well as systems necessary run calculations and accounting<sup>17, 18</sup>.

### 1.4. Data Inconsistencies

In the course of the investigation the Jury found inconsistencies with the data provided to us by various sources. These inconsistencies in the Jury's opinion could potentially result in an error in the calculation of pension benefits.

## 2. Pension Costs

The City provides a Defined-Benefit (DB) Pension Plan, it is administered by SFERS and **guarantees** all employees participating in the plan a pre-set monthly benefit payment upon retirement. The amount of the benefit is calculated by multiplying a fixed percentage rate by the number of years the employee worked for the city and applying that figure as a percentage of the employee's highest compensation or some blended rate of the employee's highest earnings over a 12 month period.

Safety employees receive a maximum retirement benefit of 90% of their highest compensation ("a 3% at 55 plan"). For example, a firefighter who began employment at age 25 and retired with 30 years of service credit and his final annual compensation was \$100,000, his retirement benefit is \$90,000 (30 years \* 3% \* \$100,000) or a monthly benefit of \$7,500.

Under a DB Plan, the City bears the risk of loss if investment returns are lower than expected, if SFERS is underfunded, if new benefit increases are added to the obligations without funds to support them, or if other actuarial assumptions are overly optimistic.

In contrast to a DB Plan is the Defined Contribution (DC) Plan, which is similar to an IRA or 401K Plan. The Defined Contribution Plan does not offer employees any guaranteed level of benefits. The level of benefits the employee receives upon retirement depends on the performance of his/her investment portfolio, as well as the level of contributions. The significant difference between the Defined Benefit Plan and the Defined Contribution Plan is that under the DC Plan the employee bears the risk of his/her investment not the City.

The ever increasing pension cost for the 52,164 active and retired members of SFERS is contributing to the City's fiscal crisis. San Francisco's present contribution rate to the pension fund is 4.99% of payroll. This contribution rate will increase to 9.49% in fiscal year 2009-10 and under unusual economic conditions may climb to 14.79% in fiscal 2011-12.<sup>3</sup> The employee's rate can remain constant at 7.5%.<sup>3</sup> This year the City will contribute approximately \$178 million to the pension fund. In the next fiscal year the City will contribute \$338 million, an increase of 90%. In just 3 years, the City's contribution is projected to be approximately \$520 million; an increase of 293%.<sup>4</sup> The Controller's projection is based in part on the recent actuary's report which illustrates how the City's contribution rate will be impacted in a volatile and recessionary economic environment<sup>3</sup>.

The Controller estimated that the \$15.8 billion investment fund (as of June 30, 2008) has declined in value by approximately 20% as of March 31, 2009. The full decline in the investment portfolio will not be disclosed until the fiscal yearend audit report is issued in September, 2009. The investment return combined with the employees' and the employer's contribution rates are major factors in the determination of how the pension liability is paid. In January, 2009, the SFERS Board recommended to the City the new employer contribution rate. For fiscal year 2009-10, the City's contribution rate increased from 4.99% to 9.49%.<sup>5</sup> The Retirement Board approved the rate without discussion and presented it to the City for adoption. The City is mandated by charter amendment to accept this new rate.

The Jury analyzed the impact of Proposition B passed by voters in June of 2008 which increased the years of service required to qualify for employer-funded retiree health benefits as well as increased retirement benefits, COLA (cost of living allowance) new City employees, certain employees of the School District, the Superior Court and the Community College District and miscellaneous employees to qualify for employer-funded retiree health benefits.

In the voter's pamphlet, the City Controller Edward Harrington indicated that the annual cost to the City will be approximately \$84 million for the next 20 years, dropping to an ongoing annual cost of approximately \$27 million. In order to partially pay for this increased retirement benefit, Proposition B froze wages

for some employees during the 2009-2010 fiscal years. According to the Controller, the wage freeze would save the City approximately \$35 million annually.

The cost to the City for the union's concession on a pay increase was a net cost to the retirement system of \$49 million for the next 20 years.

The full impact of Proposition B has yet to be estimated, and the City has only allocated \$500,000 to this trust. Government Accounting Standards Board (GASB 45)<sup>20</sup> does not require the City to actually fund the liability; rather it requires that the City start to record and report a portion of the liability each year.

The Superior Court and the Community College District have elected to self-administer their health plan obligations and not participate in the new trust established by the City.

The passage of Prop B was a small measure to curb the mounting unfunded health benefit liability that already exists for approximately 50,704 active employees and retirees. The City funds the current year portion due only, and not the accrued liability or total costs related to post employment health benefits. This type of funding is commonly referred to as "Pay as You Go" method. San Francisco engaged the Mercer Consulting Group to estimate the actuarial valuation of this liability. Mercer reported that if the City continued to have an unfunded plan, the projected liability would be approximately \$4 billion.<sup>13</sup> In the actuary's report, the pension obligation for the COLA adjustments that were approved by the voters in the passage of Proposition B in June 2008, resulted in a \$750 million future pension cost.<sup>3</sup> The Figure 10 shows the historical and projected contribution rates for both the City and employees. The employee contributions tend to remain static at approximately 7.5% while the Employer's contributions resemble a "Hockey Stick" with a projected increase to 14.8% in 2012.

The legacy of pension spiking in the Police and Fire Departments combined with the extraordinary future obligations to fund health care benefits should cause serious concerns by public officials. However, these concerns are perhaps confounded by the fact that everyone involved in pension negotiations as well implementing and monitoring the systems, is a member of the pension system. There is an apparent conflict of interest in nearly any effort on the part of public employees to reform pension practices.

## 2.1. Findings

- 2.1.1. The Jury has not found evidence that SFERS management has provided the oversight necessary to identify anomalies in pension payouts and to report the occurrences of pension spiking to the Retirement Board, the Mayor and the Board of Supervisors.
- 2.1.2. There are a number of cases of retiring employees placed into "Acting Assignments" or "Like Work Like Pay" for various period of time during the employees final year before retirement a period of 365 (or less) consecutive days for the purpose of increasing their final year's salary, which resulted in a significant increase to their pension benefit.
- 2.1.3. Police officers, who retired in 1998, are on average receiving 150% of their original retirement pension amount.
- 2.1.4. Firefighters, who retired in 1998, are on average receiving 153% of their original retirement pension amount.
- 2.1.5. There is a 116% increase in the benefits compensation for the average Firefighter retired in the past 10 years. (See Figure 6)
- 2.1.6. There is a 117% increase in the benefits compensation for the average Police Officer retired in the past 10 years (See Figure 5)
- 2.1.7. Of the 707 Firefighters who retired in the last 10 years, 115 are being paid a pension of over \$100,000 (See Figure 2.).
- 2.1.8. Of the 638 Police officers retired in the last 10 years, 39 are being paid a pension of over \$100,000 (See Figure 1.).
- 2.1.9. On average of individuals retiring since 1998, 26% of Firefighters and 22% of Police officers received an increase of over 10% that is attributable to some type of premium service pay, such as LWLP, temporary assignments, etc. (See Figure 7.)
- 2.1.10. As of the July 1 Cheiron Actuarial Evaluation there are 2,142 retired police officers, and 1,977 retired Firefighters. Their Data provided to us by SFERS shows that 707 Firefighters and 638 Police officers who retired during the years of 1998 to 2008. Of the total number approximately 23% all police officers and 46% of all Firefighters during this time frame did so, on disability.
- 2.1.11. We found several cases of Tier 1 (Old Plan)<sup>21</sup>retiring employees, who did not complete the required 365 consecutive day of service to be eligible for an increased retirement benefit. To date there has not been an adequate explanation of whether certain work schedules by these individuals were included in the Final Compensation used by SFERS to compute the employee's pension benefit.

## 2.2. Recommendations

- 2.2.1. A task force should be established to evaluate a change to a defined-contribution (DC) plan for all new employees of the City and County of San Francisco. By adopting a DC plan, the Mayor, BOS and SFERS can do more to restore credibility to the public pension plans than any other action they can take.
- 2.2.2. Pension Spiking should be prohibited altogether as an unfair and costly practice that benefits no one, except for the retiring employee.
- 2.2.3. An independent investigation of pension fund spiking should be initiated.
- 2.2.4. The Controller should undertake an audit of SFERS to include the reporting of work history and payroll data for the police and fire departments. In addition, the Controller should examine SFERS policies and practices regarding the determination of Final Compensation and the computation of pension benefits.
- 2.2.5. The Controller, Treasurer, and Executive Director of SFERS propose a long term solution to the OPEB \$4 billion unfunded liability that will ensure a prefunding alternative that will begin in the near term.



## 2.2.6.

POLICE OFFICERS WITH PENSIONS OVER \$100,000 IN LAST 10 YEARS (39)						
RANK LABEL	RANK	INITIAL PENSION AT TIME OF RETIREMENT	CURRENT PENSION BENEFIT	NUMBER OF INDIVIDUALS AT RANK	CURRENT AVERAGE BENEFIT	PERCENT INCREASE FORM ORIGINAL TO CURRENT
	0109	\$94,856.40	\$112,762.92	1	\$112,762.92	119%
	0111	\$104,544.00	\$117,330.72	1	\$117,330.72	112%
	0390	\$348,660.84	\$408,083.28	2	\$204,041.64	117%
	0395	\$97,158.00	\$111,481.44	1	\$111,481.44	115%
	0402	\$975,027.24	\$1,189,082.88	8	\$148,635.36	122%
	0488	\$114,737.52	\$133,266.12	1	\$133,266.12	116%
	0490	\$486,566.28	\$555,251.52	4	\$138,812.88	114%
	1237	\$93,106.80	\$103,252.20	1	\$103,252.20	111%
	1842	\$290,120.16	\$342,531.12	3	\$114,177.04	118%
	381	\$98,076.60	\$100,038.12	1	\$100,038.12	102%
	5177	\$92,987.52	\$100,510.20	1	\$100,510.20	108%
	8167	\$118,654.68	\$143,679.72	1	\$143,679.72	121%
	PTF	\$96,732.60	\$115,393.56	1	\$115,393.56	119%
	PTF15	\$105,714.60	\$132,563.76	1	\$132,563.76	125%
	Q 20	\$88,729.32	\$105,351.84	1	\$105,351.84	119%
CAPTAIN	Q 80	\$126,006.60	\$147,726.96	1	\$147,726.96	117%
CAPTAIN	Q 82	\$641,104.20	\$856,514.40	8	\$107,064.30	134%
	Q 90	\$181,683.72	\$234,351.96	2	\$117,175.98	129%

FIGURE 1. For the period 1998 to 2008 only. Prepared by the SFCGJ.

FIREFIGHTERS WITH PENSIONS OVER \$100,000 IN THE LAST 10 YEARS (115)						
CLASSIFICATION	RANK	INITIAL PENSION AT TIME OF RETIREMENT	CURRENT PENSION BENEFIT	NUMBER OF INDIVIDUALS AT RANK	CURRENT AVERAGE BENEFIT (current pension/ Number of individuals)	PERCENT INCREASE FORM ORIGINAL TO CURRENT
	0140	\$251,664.12	\$337,808.40	2	\$168,904.20	134%
	0150	\$775,489.68	\$971,600.64	6	\$161,933.44	125%
	0742	\$128,895.60	\$143,425.68	1	\$143,425.68	111%
	1237	\$85,680.00	\$108,155.28	1	\$108,155.28	126%
	51F	\$430,875.48	\$536,590.56	5	\$107,318.11	125%
	761	\$122,459.04	\$132,366.00	1	\$132,366.00	108%
Lieutenant, BFP	H 22	\$432,439.20	\$509,366.52	5	\$101,873.30	118%
Lieutenant, BFI	H 24	\$187,026.48	\$226,550.64	2	\$113,275.32	121%
Captain	H 30	\$4,721,549.76	\$5,434,646.88	47	\$115,630.7	115%

					8	
Captain, Training	H 39	\$480,886.80	\$580,130.16	5	\$116,026.03	121%
Battalion Chief	H 40	\$3,495,865.80	\$4,250,503.20	34	\$125,014.80	122%
Asst. Chief	H 50	\$162,934.08	\$238,596.72	2	\$119,298.36	146%
Asst. Deputy Chief II	H 51	\$386,282.52	\$433,125.84	3	\$144,375.28	112%
	PTF30	\$90,575.64	\$104,738.16	1	\$104,738.16	116%

FIGURE 2. For the period 1998 to 2008. Prepared by SFCGJ

% INCREASE IN PENSIONS FOR POLICE OFFICERS WHO RETIRED IN 1998						
CLASSIFICATION	Rank	INITIAL PENSION AT TIME OF RETIREMENT	CURRENT PENSION BENEFIT	NUMBER OF INDIVIDUALS AT RANK	CURRENT AVERAGE BENEFIT (current pension/ Number of Individuals)	PERCENT INCREASE FROM ORIGINAL TO CURRENT
		\$32,929.44	\$40,173.60	1	\$40,173.60	122%
	0381	\$50,382.00	\$76,806.00	1	\$76,806.00	152%
	0382	\$142,785.48	\$217,681.08	3	\$72,560.36	152%
	51F	\$46,553.76	\$71,036.16	1	\$71,036.16	153%
	8213	\$54,378.00	\$81,762.36	1	\$81,762.36	150%
	8304	\$47,135.04	\$71,634.60	1	\$71,634.60	152%
OFFICER	Q 2	\$43,106.04	\$63,627.00	1	\$63,627.00	148%
OFFICER	Q 4	\$164,348.88	\$256,076.28	4	\$64,019.07	156%
SERGEANT	Q 52	\$148,924.92	\$211,966.92	3	\$70,655.64	142%
LIEUTENANT	Q 62	\$233,468.88	\$356,035.08	4	\$89,008.77	152%
<b>TOTAL</b>		<b>\$964,012</b>	<b>\$1,446,799</b>	<b>20</b>	<b>\$72,339</b>	<b>150%</b>

FIGURE 3. 10 Year increase in pensions paid to police officers who retired in 1998. Prepared by SFCGJ.

% INCREASE IN PENSIONS FOR FIREFIGHTERS WHO RETIRED IN 1998						
CLASSIFICATION	Rank	NUMBER OF INDIVIDUALS AT RANK	INITIAL PENSION AT TIME OF RETIREMENT	CURRENT PENSION BENEFIT	CURRENT AVERAGE BENEFIT (per Individuals)	PERCENT INCREASE FROM ORIGINAL TO CURRENT
LIEUTENANT		10	\$478,236	\$734,712	\$73,464	154%
BATALION CHIEF		2	\$138,852	\$215,148	\$107,520	154%
FIREFIGHTER/PARAMEDIC		10	\$395,012	\$592,272	\$59,220	150%
INSPECTOR		1	\$48,204	\$74,784	\$74,784	155%
OTHER		1	\$94,464	\$144,396	\$144,396	153%
<b>TOTAL</b>		<b>24</b>	<b>\$1,154,786</b>	<b>\$1,761,312</b>	<b>\$91,876</b>	<b>153%</b>

FIGURE 4. 10 Year increase in pensions paid to firefighters who retired in 1998. Prepared by SFCGJ

**AVG. PENSION BY RANK FOR POLICE WHO RETIRED IN THE PAST 10 YEARS (636)**

RANK LABEL	RANK	SUM OF INITIAL RETIREMENT BENEFIT	SUM OF CURRENT RETIREMENT BENEFIT	MEMBERS	AVERAGE YEARLY RETIREMENT BENEFIT	PERCENT INCREASE FROM ORIGINAL RETIREMENT BENEFIT
		\$8,775,028.08	\$9,231,641.40	112	\$82,425.37	105%
	0109	\$94,856.40	\$112,762.92	1	\$112,762.92	119%
	0111	\$104,544.00	\$117,330.72	1	\$117,330.72	112%
	0114	\$51,795.00	\$70,074.84	1	\$70,074.84	135%
INSPECTOR	0380	\$459,755.76	\$552,450.24	6	\$92,075.04	120%
	0381	\$104,535.00	\$154,906.68	2	\$77,453.34	148%
	0382	\$3,328,129.08	\$4,164,295.20	49	\$84,985.62	125%
	0390	\$348,660.84	\$408,083.28	2	\$204,041.64	117%
	0395	\$97,158.00	\$111,481.44	1	\$111,481.44	115%
	0402	\$975,027.24	\$1,189,082.88	8	\$148,635.36	122%
	0488	\$114,737.52	\$133,266.12	1	\$133,266.12	116%
	0490	\$486,566.28	\$555,251.52	4	\$138,812.88	114%
	1237	\$93,106.80	\$103,252.20	1	\$103,252.20	111%
	1368	\$54,522.00	\$75,965.76	1	\$75,965.76	139%
	1842	\$290,120.16	\$342,531.12	3	\$114,177.04	118%
	3280	\$76,198.68	\$80,042.16	1	\$80,042.16	105%
	337	\$49,806.00	\$69,391.92	1	\$69,391.92	139%
	380	\$97,435.44	\$97,435.44	1	\$97,435.44	100%
	381	\$98,076.60	\$100,038.12	1	\$100,038.12	102%
	382	\$738,539.16	\$795,976.68	9	\$88,441.85	108%
	402	\$71,571.60	\$85,183.20	1	\$85,183.20	119%
	5177	\$92,987.52	\$100,510.20	1	\$100,510.20	108%
	51F	\$46,553.76	\$71,036.16	1	\$71,036.16	153%
	5291	\$69,372.48	\$77,843.40	1	\$77,843.40	112%
	7366	\$28,099.56	\$28,661.52	1	\$28,661.52	102%
	8121	\$102,591.00	\$138,802.08	2	\$69,401.04	135%
	8146	\$144,025.20	\$180,465.48	2	\$90,232.74	125%
	8167	\$118,654.68	\$143,679.72	1	\$143,679.72	121%
	8213	\$677,876.52	\$928,981.08	12	\$77,415.09	137%
	8304	\$47,135.04	\$71,634.60	1	\$71,634.60	152%
	9175	\$86,527.80	\$95,669.40	1	\$95,669.40	111%
	9210	\$33,907.80	\$38,192.16	2	\$19,096.08	113%
	9212	\$60,120.00	\$81,271.20	1	\$81,271.20	135%
	9216	\$74,551.68	\$82,955.64	1	\$82,955.64	111%
	C351	\$241,661.16	\$289,641.84	3	\$96,547.28	120%
	PTF	\$96,732.60	\$115,393.56	1	\$115,393.56	119%
	PTF15	\$105,714.60	\$132,563.76	1	\$132,563.76	125%
OFFICER	Q 2	\$4,171,355.28	\$4,821,125.88	76	\$63,435.87	116%
OFFICER	Q 3	\$840,993.84	\$1,026,489.12	17	\$60,381.71	122%
OFFICER	Q 4	\$10,820,463.12	\$12,929,574.72	190	\$68,050.39	119%
	Q 20	\$88,729.32	\$105,351.84	1	\$105,351.84	119%
	Q 35	\$147,396.72	\$170,060.16	2	\$85,030.08	115%
SERGEANT	Q 50	\$584,272.08	\$708,360.96	9	\$78,706.77	121%
SERGEANT	Q 51	\$51,363.00	\$72,988.92	1	\$72,988.92	142%
SERGEANT	Q 52	\$3,232,862.40	\$3,903,425.52	53	\$73,649.54	121%
	Q 61	\$230,064.00	\$282,744.84	3	\$94,248.28	123%
LIEUTENANT	Q 62	\$2,401,967.64	\$3,020,525.88	33	\$91,531.09	126%
	Q 63	\$46,490.04	\$51,730.68	1	\$51,730.68	111%
CAPTAIN	Q 80	\$126,006.60	\$147,726.96	1	\$147,726.96	117%

CAPTAIN	Q 82	\$641,104.20	\$856,514.40	8	\$107,064.30	134%
	Q 90	\$181,683.72	\$234,351.96	2	\$117,175.98	129%
Total		\$42,101,433	\$49,458,717	636	\$77,765	117%

FIGURE 5. Police who retired during 1998 to 2008. Prepared by SFCGJ.

AVG. PENSIONS BY RANK FOR FIREFIGHTERS WHO RETIRED IN PAST 10 YEARS (707)						
RANK TITLE	RANK	INITIAL PENSION AT TIME OF RETIREMENT	CURRENT PENSION BENEFIT	NUMBER OF INDIVIDUALS AT RANK	CURRENT AVERAGE BENEFIT	PERCENT INCREASE FORM INITIAL TO CURRENT
		\$10,115,699.16	\$10,722,419.52	112	\$95,735.89	106%
	0140	\$251,664.12	\$337,808.40	2	\$168,904.20	134%
	0150	\$775,489.68	\$971,600.64	6	\$161,933.44	125%
	0742	\$128,895.60	\$143,425.68	1	\$143,425.68	111%
	0761	\$186,720.36	\$229,087.20	3	\$76,362.40	123%
	1237	\$85,680.00	\$108,155.28	1	\$108,155.28	126%
	2532	\$109,506.36	\$148,872.00	2	\$74,436.00	136%
	51F	\$430,875.48	\$536,590.56	5	\$107,318.11	125%
	71F	\$245,832.12	\$268,666.68	3	\$89,555.56	109%
	761	\$122,459.04	\$132,366.00	1	\$132,366.00	108%
Fire/Res Paramedic	H 1	\$686,505.36	\$808,868.16	17	\$47,580.48	118%
Firefighter/Paramedic	H 2	\$19,034,128.32	\$22,191,270.36	296	\$74,970.51	117%
Firefighter/Paramedic	H 3	\$872,704.44	\$971,774.40	17	\$57,163.20	111%
Inspector, BFP	H 4	\$973,896.84	\$1,174,059.84	13	\$90,312.30	121%
Investigator, BFI	H 6	\$440,861.40	\$534,987.84	6	\$89,164.64	121%
Incident Support Specialist	H 10	\$1,137,569.76	\$1,392,203.28	18	\$77,344.63	122%
Lieutenant	H 20	\$6,954,159.36	\$8,298,396.12	94	\$88,280.81	119%
Lieutenant, BFP	H 22	\$432,439.20	\$509,366.52	5	\$101,873.30	118%
Lieutenant, BFI	H 24	\$187,026.48	\$226,550.64	2	\$113,275.32	121%
Lieutenant, Training	H 28	\$271,744.68	\$337,880.04	4	\$84,470.01	124%
Special Services Officer	H 29	\$31,523.52	\$48,376.20	1	\$48,376.20	153%
Captain	H 30	\$4,721,549.76	\$5,434,646.88	47	\$115,630.78	115%
Fire/Paramedic Captain	H 33	\$205,101.72	\$238,753.08	3	\$79,584.36	116%
Captain, Training	H 39	\$480,886.80	\$580,130.16	5	\$116,026.03	121%
Battalion Chief	H 40	\$3,495,865.80	\$4,250,503.20	34	\$125,014.80	122%
Section Chief, EMS	H 43	\$70,472.64	\$81,520.08	1	\$81,520.08	116%
Asst. Chief	H 50	\$162,934.08	\$238,596.72	2	\$119,298.36	146%
Asst. Deputy Chief II	H 51	\$386,282.52	\$433,125.84	3	\$144,375.28	112%
	PTF15	\$63,703.80	\$78,773.76	1	\$78,773.76	124%
	PTF30	\$90,575.64	\$104,738.16	1	\$104,738.16	116%
<b>TOTALS</b>		\$53,152,754	\$61,533,513	706	\$87,157	116%

FIGURE 6. Firefighters who retired during 1998 to 2008. Prepared by SFCGJ.

RETIRED SAFETY WITH OVER 10% INCREASE IN COVERED EARNINGS							
	TOTAL POPULATION	UNDER 10%	10% - 20%	20% - 25%	25%-30%	OVER 30%	TOTAL OVER 10%
POLICE							
RAW NUMBER	628	485	52	25	27	39	143

PERCENT		77%	8%	4%	4%	6%		22%
FIRE								
RAW NUMBER	698	533	98	45	6	16		165
PERCENT		76%	14%	6%	1%	2%		24%

**FIGURE 7** The % increase represents the member's gross pay that is included when calculating contributions over regular pay. Prepared by SFCGJ.

### FIREFIIGHTERS CURRENT PENSION AS % OF INITIAL PENSION

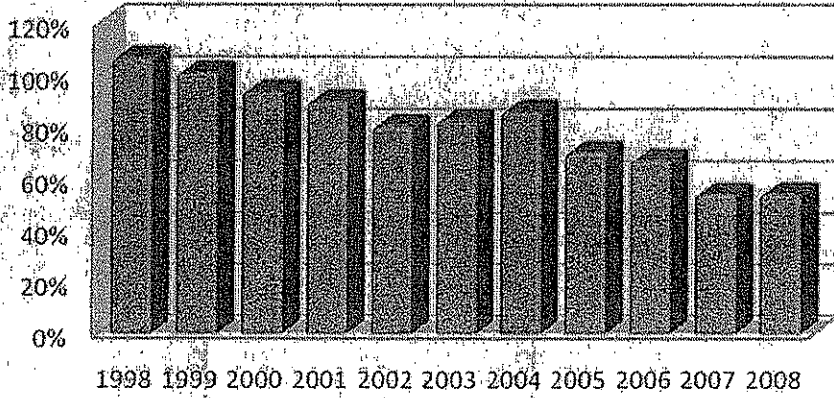


FIGURE 8 Current pensions as a percent of initial pensions. Prepared by SFCGJ.

### POLICE CURRENT PENSION AS % OF INITIAL PENSION

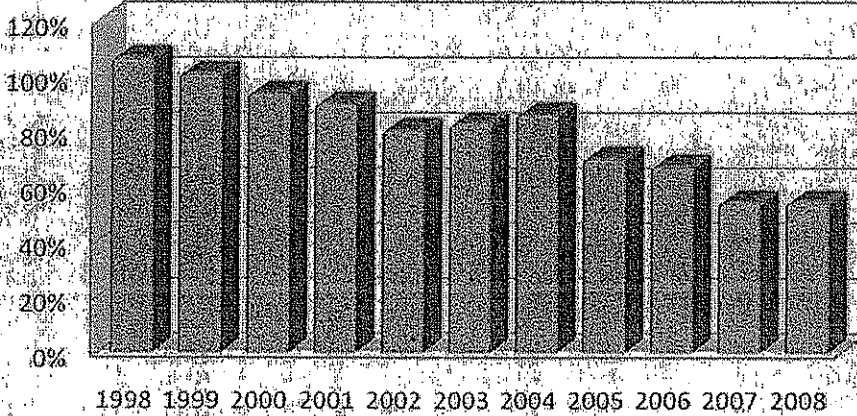


FIGURE 9 Current pensions as a percent of initial pensions. Prepared by SFCGJ.

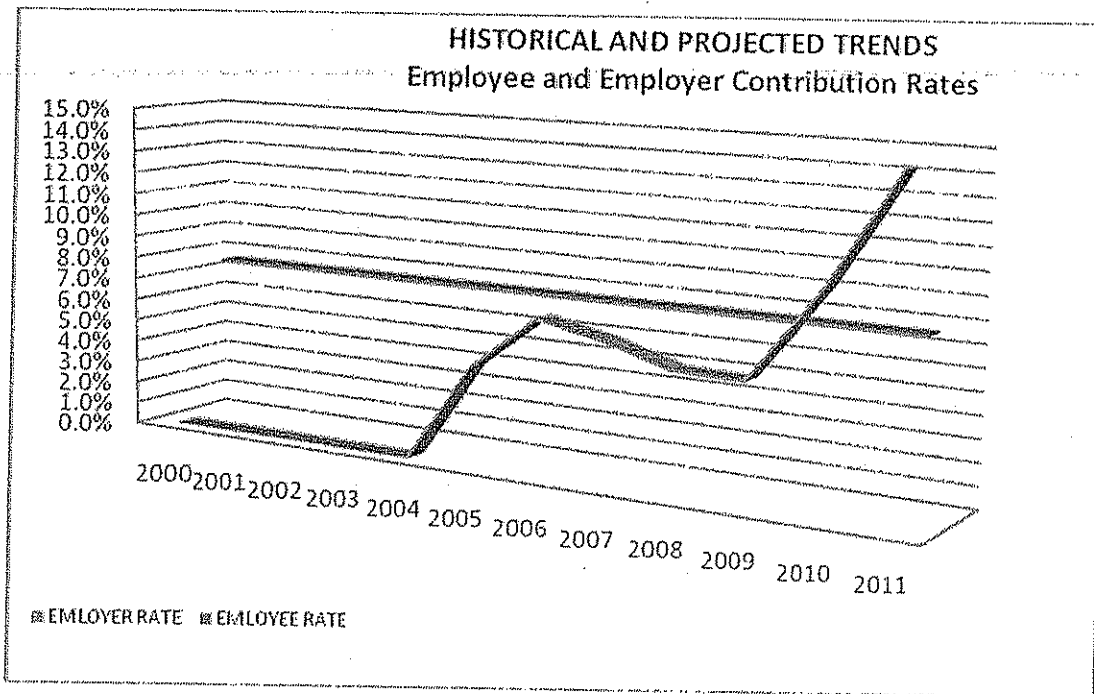


Figure 10 Contribution rates for Employees and Employer into the SFERS pension fund. Year 2011 is a projected rate. Prepared by SFCGJ.

### 3. Data Inconsistencies

The flow of information to SFERS begins with data being entered by the departments into their own systems. Some of these systems are manual and some are automated. Care is taken to make sure accurate data goes to the individual payroll departments in order to produce an accurate payroll check for every individual. The files are then filtered and the information is forwarded to SFERS. Some of the information going to SFERS is in database form, and some is transmitted as a PDF file, which in essence is a picture of reports generated in other departments. SFERS staff then maintains its own database of information it needs for determining pension data. The pension calculation and verifications performed by SFERS team of pension Analysts is extremely involved due to the complexities of the numerous MOU's between the City and the individual unions. SFERS has no manuals that describe how a pension calculation is to be performed. Pension Analysts rely on institutional knowledge of senior members of the staff to learn how to compute a final pension amount for any given individual. Since these calculations are very complex, the analysts check each other's work, and rely on many sources of data.

#### 3.1. Findings

3.1.1. During the course of the investigation the Jury had the opportunity to examine various reports and databases. All of them in one way or

another feed the SFERS system which then computes the final pension benefits for retired individuals. SFERS has no up-to-date procedure or training manual for teaching new analysts how to determine the correct pension amount, and relies on Senior Pension Analysts to assist in resolving issues.

- 3.1.2. SFERS maintains its own database, uses paper and report images files (PDF) to check the calculations, and has assured us that the data which we found to be inconsistent is not used in any calculations. However the Jury finds that since some of the data is entered manually in various systems, an entry error would be easily propagated without being found. This in the Jury's opinion can lead to errors in the data used by SFERS to determine pensions. SFERS maintains a staff of approximately 20 Senior Analysts to determine the accuracy of final benefits, due in their words the "complexity of the task".

### **3.2. Recommendations**

- 3.2.1. The City should undertake an audit of the data initiating with time sheets, and payroll history files of the police and fire departments, and terminating with the process of establishing a pension amount due a retiree.
- 3.2.2. SFERS should become fully automated. This billion dollar agency should not rely on old paper copies of reports to determine correctness of pensions. An integrated data collection system should exist between all agencies feeding data to SFERS.
- 3.2.3. Since the determination of pension benefits is a complex process the need for automation becomes more critical. SFERS should provide its Analysts with a manual of standard procedures and methods for determining every possible variation of an individual's pension amount. We find that this lack of a manual can lead to different analysts computing a different amount of pension for the same individual

## **4. DROP (Deferred Retirement Option Program)**

Officers participating in DROP would continue to receive their regular pay and benefits. DROP participants would begin accumulating their regular retirement payments, frozen at the level that the officer had earned upon entry into DROP. These payments would be placed in a tax deferred DROP account maintained by the City's Retirement system. At the end of the DROP period, officers would begin receiving their regular monthly retirement payment, as well as their retirement benefits that had accumulated in their DROP account, in a lump



sum. An officer can earn a salary and a retirement pension at the same time from the same employer, a practice some call "double dipping". For example, a 55-year-old police officer who enters the program while earning \$100,000 annually could receive a lump sum of \$225,000 after three years. The Proposition provides that the City should not incur any overall cost increase due to the creation and operation of the DROP. This Charter amendment requires periodic evaluation by the City of the costs of the program to ensure its cost neutrality.

#### **4.1. Findings**

- 4.1.1. The Controllers report stated that this program would be cost neutral to the City however, in a letter to the Director of Elections dated October 26<sup>th</sup> 2007, SFERS management wrote that: "While the initiative states that the program shall be cost neutral, no cost analysis is to be conducted until April 15<sup>th</sup> 2011. In other words the cost to administer the program has not been determined and the systems necessary to run it, have not been developed. If the Board of Supervisors determines not to extend the DROP based on this cost analysis no further DROP elections will be allowed".<sup>17</sup>
- 4.1.2. To date approximately 80%-85% of systems required for DROP calculations and accounting have been completed<sup>17</sup>.
- 4.1.3. There 464 officers eligible for DROP as of July 7<sup>th</sup> 2009. As of the writing of this report there are 55 officers enrolled in the program, however costs to SFERS or the City have not been determined, and no special Account has been set up as stipulated in the proposition.
- 4.1.4. Of the 55 officers enrolled in the program all but 4 have a pension benefit of over \$90,000/year. The average pension compensation amount is \$105,000 per year.
- 4.1.5. If all 55 individuals leave DROP after the maximum 3 year period, SFERS will pay a lump sum of over \$17 million (approximately \$300,000 per individual).
- 4.1.6. A law enacted in California, allows the 20 county systems that operate under DROP. Former Gov. Gray Davis vetoed four state and local DROP bills in 2000-2002, citing the increased cost to the state.

#### **4.2. Recommendations**

- 4.2.1. The City and SFERS should complete all systems required to properly calculate and perform accounting functions for DROP.

- 4.2.2. The City and SFERS should determine the actual cost of running the program, to determine if the DROP program is economically viable at this point.
- 4.2.3. SFERS, the City, and the SFPD should not enroll additional individuals into DROP until all necessary systems to monitor and calculate are fully functional, and the costs to run the program are computed and finalized.

## 5. Findings, Recommendations and Required Responses

RESPONDENT	FINDINGS										
	2.1.1	2.1.2	2.1.3	2.1.4	2.1.5	2.1.6	2.1.7	2.1.8	2.1.9	2.1.10	2.1.11
SFERS	X	X							X	X	X
SFFD		X		X	X		X		X	X	X
SFPD		X	X			X		X	X	X	X
SUPERVISORS	X										
CONTROLLER									X		X
MAYOR	X										

RESPONDENT	FINDINGS										
	3.1.1	3.1.2	4.1.1	4.1.2	4.1.3	4.1.4	4.1.5	4.1.6			
SFERS	X	X	X	X	X	X	X	X			
SFFD											
SFPD			X		X	X	X	X			
SUPERVISORS			X								
CONTROLLER			X		X	X	X	X			
MAYOR			X								

RESPONDENT	RECOMMENDATIONS									
	2.2.1	2.2.2	2.2.3	2.2.4	2.2.5	3.2.1	3.2.2	3.2.3	4.2.3	
SFERS	X				X		X	X	X	
SFFD		X	X							
SFPD		X	X							
SUPERVISORS	X	X	X							
CONTROLLER	X	X	X	X	X	X				X
MAYOR	X	X	X		X		X			

RESPONDENT	RECOMMENDATIONS									
	4.2.1	4.2.2	4.2.3							
SFERS	X	X	X							
SFFD										
SFPD	X	X	X							
SUPERVISORS		X								
CONTROLLER	X	X								

MAYOR

x

## 6. End Notes

1. Roger Lowenstein, *While America Aged*, The Penguin Press, New York, 2008
2. Philip LaVelle, "New board for pension has tough task ahead", *San Diego Union Tribune*, April 14, 2005
3. Appendix D. Actuarial Report prepared by Cheiron Consulting as of July 1, 2008, and presented to the SFERS Retirement Board on January 13, 2009. See page 23, Table IV-2, SFERS Development of the Total Propositions Rate as of July 1, 2008 (FY 2010).
4. Appendix F. Controller's Pension and Retiree Health Subsidy Analysis, FY 05-06 to FY11-12
5. See Figure 10 for the historical and projected increase in CCSF Employer Contribution Rates.
6. Task force created against pension fund abuse (Global Pensions May 5<sup>th</sup> 2009). Thirty-six attorney general's offices are set to create a multi-state task force to explore pension fund abuse across the country, New York State attorney general Andrew Cuomo has said, "The task force is intended to enable states to share vital information to prosecute wrongdoing and facilitate nationwide reform. The task force will allow us to have a unified, efficient method for gathering information as we fight to combat corruption and restore transparency and integrity to public pension funds."
7. Appendix A. Methodology for this investigation.
8. Present value calculation for SFFD was \$107 million and SFPD was \$24 million. See Appendix A. Methodology for a present value example.
9. A Lieutenant was temporarily assigned to a rank of Battalion Chief during the course of the last year of before his retirement. This action was authorized by the Fire Chief and sanctioned under the Memorandum of Understanding (MOU) between the City and the San Francisco Firefighters Union (Local 798) dated July 1, 2007 to June 30, 2011. As a result of being assigned to Battalion Chief, the Lieutenant contributed a onetime amount of \$1,915 into the pension fund during his last year of employment. This payment increased his pension amount by \$25,542 per year. The effect of the "spike" was to increase his pension by 22% a year over the pension amount that he would have received at the rank of Lieutenant. The value of a \$25,542 increase over his actuarial lifetime (29.6 years) was calculated to be \$296,000. If one deducts his original contribution and the contribution the City made to the fund, the liability incurred by the City and the active members of the SFERS was \$293,000. The above example was based on the actual retirement record of a 52 year old Fire Lieutenant, who started his career in 1981 and worked for 26.5 years for the Fire department.
10. The practice permitted an officer making \$88,000/year in his final year of service to retire at an initial pension of \$110,000/year, due to an assignment

that allowed him to earn a rate of \$111,000/year for the last 3 months prior to retirement. Cost of living and other increases in his pension benefits have boosted his current retirement pay to \$113,000. This pension benefit is 121% higher than it would have been if he retired without any change in rank.

11. Email received from SFERS Deputy Director. Final Compensation is defined in Charter citations A8.595-1 and A8.559-1 for "Old Plan" members and A8.596-1 and A8.585-1 for "New Plan" members. There are specific Safety Pay Types that are included/excluded in Final Compensation as outlined in a final judgment to a lawsuit won by SFERS in the Superior Court. We found the Pay Type of "WDO" – Work Day Off was not indicated as a pay type to be included in Final Compensation. We contacted the Executive Director and the Deputy Director of SFERS for an explanation of why the WDO pay type was included in the determination of this employee's Final Compensation and the resulting increase in his retirement benefit. The Executive Director and the Deputy Director have not responded to our specific inquiry.
12. Email dated June 19, 2009 from SFERS Deputy Director SFERS.
13. Appendix E. The Mercer Actuarial Valuation report on unfunded retirement health benefits.
14. State of California, Funding Pensions & Retiree Health Care for Public Employees- A Report of the Post-Employment Benefits Commission, 2008.
15. SFERS Annual Reports – 2003 to 2008.
16. Dave Umhoefer, "Pension Twist Costs County Millions", Journal Sentinel Watchdog Report, Milwaukee County, July 29, 2007.
17. **Email From Deputy Director SFERS, July 24, 2009**
  - o "The policies regarding the DROP program have been developed and implemented (see DROP booklet previously provided). The systems for calculation and accounting for DROP are approximately 80 to 85% complete.
18. SFCGJ Internal Analysis 55 DROP members deferred compensation provided by SFERS.
19. People's Advocate Research Report, "30 Ways to Spike your Pension."
20. Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (Issued 6/04)
21. SFERS administers a 2 tier benefit system. Employees who became plan members before 11/2/1976 are said to be Old Plan members while Employees who became members after 11/2/1976 are said to be New Plan member. Each of the plans have had subsequent voter approved Charter Amendments.

## Appendix A. Methodology

### 1. DATA

As of July 1, 2008, the total Fire and Police non-active members was 4,118, consisting of 1,977 Fire and 2,141 police retirees. Our analysis focused on the 707 Fire and 638 Police retirees, who retired during the period January 1, 1998 to December 31, 2008.

The data utilized in this report were obtained from a number of different sources. The Jury obtained data files from SFERS that contained work and pension information that was used by SFERS to compute the retiree's pension benefit. The data file was exported into an Excel file for our review and analysis. The data file layout is included in the Appendix B.

The Jury also obtained from the Police and Fire DHR records on retirees' work history in order to determine the duration and type of work assigned to the retirees in their final year of employment. The work history records were reviewed in conjunction with the analysis of the SFERS data to determine any unusual increases in the retirees' "Covered Compensation" (the key element in the calculation of a retiree's pension benefit). The increases in compensation for job promotions were excluded in our analysis of pension "spiking." See Appendix D for Pension Glossary.

The Jury found 165 or 26% of all Fire retirees and 143 or 22% of all Police retirees retired with a 10% or greater increase in their "Covered Compensation" over their historical pay rate. See Figure 7. The Jury computed the present value of the pension spike to quantify the additional liability to fund that resulted from this practice.

The present value concept as it relates to pension cost is best understood by the example of parents saving for their child's college education. Most parents know approximately, how big the college (or the pension) expense will be when it comes due. The question is how much they must put aside now to meet that expense. The answer is the present value of the future obligation. In our analysis of the present value of the pension spike, we used the same discount rate as the rate used in the latest SFERS actuarial valuation (i.e. 7.75%). See Appendix C for the Cheiron Actuarial Valuation dated July 1, 2008.

## **2. DATA VALIDITY**

Data validity was checked using screen shots from the SFERS system to support the Jury's calculations.

- 2.1. Several iteration of data extraction was needed in order to correct extraction and data miss-matches and errors.
- 2.2. The final extraction was performed on Jan27th, 2009, and was certified as valid by SFERS.
- 2.3. Information was sorted in a manner that isolated individuals receiving an increase in compensation of more than 10% in any given year.

## **3. PROCESS**

- 3.1. Files were analyzed using standard EXCEL formulas
- 3.2. No special codes or macros were used for data evaluation
- 3.3. Sorting was done using standard EXCEL functions such as the sort and filter.
- 3.4. Pivot tables were created to summarize the data in a format that was used in the Jury's analysis.

## **4. DATA ANALYSIS**

- 4.1. Criteria for selection were agreed on with SFERS staff as follows
  - 4.1.1.1. An increase in salary of less than 10% over one year was deemed to be a "maximum ordinary raise"
  - 4.1.1.2. An increase of 10% or greater in any given year indicated some form of extraordinary increase or change in rank, or both.
- 4.2. SFCGJ analyzed the data looking for increases in salary of more than 10% in the three years prior to retirement.
- 4.3. Present Value calculations were done using Excel's PV function  $PV(\text{rate}, \text{nper}, \text{pmt}, \text{fv}, \text{type})$ , as described below
  - 4.3.1.1. Rate - is the discount rate per period. For example, SFERS actuary used a discount rate of 7.75%. This rate is converted into a monthly rate The monthly rate is calculated as  $7.75\%/12$ . You would enter  $7.75\%/12$  or  $.645$  into the formula as the rate.
  - 4.3.1.2. Nper is the total number of payment periods in an annuity. For example, the Jury used a life expectancy after retirement of 29.6 years, based on the average retirement age for Fire retirees was 54.1 years and 51.5 years for Police. You would enter  $29.6 * 12$  into the formula for nper.
  - 4.3.1.3. Pmt is the payment made each period and cannot change over the life of the annuity. The Jury calculated the payment for each retiree in the sample. The payment represents the difference in calculated pension amount with the spike and the calculated pension amount without the spike. The payment is



calculated on a monthly basis and entered into the PV function as a negative amount.

- 4.3.1.4. Fv is the future value, or a cash balance you want to attain after the last payment is made. If fv is omitted, it is assumed to be 0 (the future value of a loan, for example, is 0). Type is the number 0 or 1 and indicates when payments are due – beginning of the period or end of the period.

## Appendix B. Glossary