June 26, 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. 240551 (ver1)

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to allow registered nurses, who are or become members of the San Francisco Employees' Retirement System and have worked an average of 32 hours or more per week for at least one year, to purchase up to three years of service credit for time previously worked as per diem nurses; and to move public safety communications personnel (911 dispatchers, supervisors, and coordinators) from the miscellaneous retirement plans to the miscellaneous safety retirement plan, for compensation earned on and after January 1, 2025; 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 Employees' Retirement System under Charter Section A8.500.

Effect of the Proposed Charter Amendment

The proposed Charter Amendment increases benefits for two Retirement System membership classifications. The proposal increases prior service purchase opportunities for current nurses and credits retirement benefits earned for defined public safety communications personnel on and after January 1, 2025 to the miscellaneous safety retirement plans.

Prior Service for Retirement System Nurses

Nurses who are members of the Retirement System are unable to purchase credit for time worked in a P103 per diem nurse classification before they became Retirement System members. The nurses are unable to do so because the Charter expressly excludes Retirement System credit for that work. The proposed Charter Amendment would allow nurses who currently work in nurse classifications subject to Retirement System membership to purchase up to three years of service for work performed as a P103 per diem nurse prior to their membership. Work in a P103 per diem classification by itself remains ineligible to establish membership in the Retirement System. The employing department must certify to the Retirement System that a registered nurse seeking to purchase prior service for P103 per diem work meets the Charter eligibility work requirements to do so.

Public Safety Communications Personnel

Public Safety Communications Personnel, defined as 911 dispatchers, supervisors and coordinators, are members of the miscellaneous plans. The Charter proposal will credit work performed by Public Safety Communications personnel on and after January 1, 2025 to the current miscellaneous safety plan.

The move will impact this group in four significant ways. First, employee contributions for Public Safety Communications Personnel will increase from 7.5% to 9%, before cost sharing. Second, they will be eligible for a service retirement at age 50 with 5 years of service. Currently, in order to be eligible for a service retirement, Public Safety Personnel must have 20 years of service at age 50 or 53, depending on their retirement plan. Third, "final compensation" will be based on compensation "earnable" rather than compensation actually earned during the three consecutive years in which their compensation is the highest. Under compensation "earnable," when there are no actual earnings during the final compensation measurement period, the remuneration attached to other Public Safety Communications Personnel in their position is used to determine the service retirement benefit. Fourth, the proposal will both increase the factors on which the impacted group's retirement benefit will be calculated and they will reach the maximum factors at an earlier age.

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. Cheiron prepared separate reports for each component of the legislation because they are unrelated. Both Cheiron reports are attached. Please refer to these reports 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/.

Prior Service for Retirement System Nurses

The Charter proposal requires an eligible nurse to apply and pay for the prior service before they receive the additional credit. Because of this provision, there will be no additional liability to the Retirement System until the eligible nurse completes the purchase. In addition, because the eligible nurses can purchase the service credit any time before they retire, it is anticipated that the additional liability for this provision will increase gradually over time.

To provide some basis for estimating cost, the actuary assumed there are approximately 1400 eligible nurses and each will purchase the maximum three years of service immediately. Since it is unlikely that all eligible nurses can or will do so, this scenario attempts to estimate the outer bound of possible cost and impact to the Retirement System. Based on these assumptions, Cheiron estimates the net increase in the unfunded liability for this group will be $56.6 million, after deducting the estimated amount each nurse is required to pay to purchase their eligible prior service. The anticipated increase in the employer contribution for FYE 2026 is $4.4 million under this maximum impact scenario.

Public Safety Communications Personnel

Cheiron assumed, based on July 2023 data, that there are approximately 160 Public Safety Communications Personnel eligible for the benefit improvement. The benefit improvement impacts future service only, which is reflected in the normal cost rate. There is no change to the unfunded actuarial liabilities (UAL.) The employer normal cost rate for this group will increase by approximately 10.5% of covered payroll (i.e. payroll associated with these current Public Safety Communications Personnel), reflecting the increased benefits for miscellaneous safety members. The increase in normal cost rate for newly hired Public Safety Communications Personnel will be 11.9% of covered pay. The increase to the normal cost rate is a permanent change that raises costs for the Public Communications Safety Personnel each year in the future as payroll increases. The normal cost change results in an estimated increase in employer contributions of $2.3 million in FYE 2026 for current personnel, increasing each year as covered payroll rises.

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

Very truly yours,

Alison Romano

Alison Romano
CEO & CIO
San Francisco Employees' Retirement System

Attachments: Cheiron reports 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 Calvillo, Clerk, Board of Supervisors

Via Electronic Mail

June 25, 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 – Credit for Per Diem Nurse Service

Dear Alison:

As requested, we have estimated the cost impact of the proposed Charter amendment that would permit members employed in a registered nurse classification to purchase of up to three years of service credit under the Retirement System for time worked in a P103 per diem appointment prior to becoming a member in the Retirement System. Because this provision requires an individual member to request and pay for the service credit before they receive credit in the Retirement System, the actuarial valuation would not reflect any additional liability under this proposed Charter Amendment until eligible members completed the purchase. Eligible members can elect to purchase the service credit any time between entry into the Retirement System and retirement. Consequently, we expect the additional liability for this provision to emerge gradually over time.

To provide some estimate of the additional liability that could be incurred over time, the table below summarizes the impact if all 1400 eligible members as of July 1, 2023 purchased the maximum of three years of additional service. Since not all 1400 eligible members would be able or would choose to purchase three years of service, this estimate can be thought of as a measure of the maximum potential impact for registered nurses currently covered by the Retirement System.

Estimated Maximum Impact of Proposed Change Assuming All Current Registered Nurses Purchase 3 Years of Service	
Net Increase in Liability	$ 56.6 million
Increase in FYE 2026 Employer Contribution	$ 4.4 million

The net increase in liability represents the increase in the value of benefits due to the three additional years of service minus the estimated amount the member paid for the service. The increase in the employer contribution assumes all the service is purchased at once and the $56.6 million net increase in liability is amortized over 20 years. In reality, service is likely to be purchased in small amounts each year with the cost of each purchase starting a new 20-year amortization payment.

The estimated maximum cost shown in the table can be scaled for different estimates of the amount of time that would be purchased or the number of nurses that would purchase service assuming their demographics are similar to the group as a whole. For example, if it is reasonable to expect the average nurse to only purchase one year of P103 service, the estimates above could be divided by three.

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 plan provisions and assumptions applicable to the Miscellaneous groups. As of July 1, 2023, there were 1400 active members in job classification 2320 that we understand cover the vast majority of registered nurses. As of July 1, 2023, their average service prior to any purchase and average projected salary is 9.2 years and $179,000, respectively.

Since eligible members can purchase the service at any time they are an active member, we estimated the increase in liability based on the increase in the present value of future benefits if each eligible member had three years of additional service. To purchase the service, members pay the employee rate in effect at the time the P103 service was performed multiplied by the salary at the time increased with interest at a minimum of 4.0% per year to the date of the purchase. To estimate this amount as of the valuation date, we multiplied the current employee rate prior to any cost-sharing by the member's current salary and by the number of years purchased. Actual timing and amounts could vary significantly.

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

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

Via Electronic Mail

June 25, 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 – Public Safety Communications Personnel

Dear Alison:

As requested, we have estimated the cost impact of the proposed Charter amendment that would classify Public Safety Communications Personnel as miscellaneous safety plan employees for all service on or after January 1, 2025. Service prior to January 1, 2025 would remain in the miscellaneous plan applicable to the member.

Because this amendment only affects benefits earned for future service, it does not affect the Actuarial Liability. The table below summarizes the impact on member contribution rates and the employer normal cost rate.

Estimated Impact of Proposed Change			
	Before Change	**After Change**	**Net Increase**
Member Contribution Rate	7.5%	9.0%	1.5%
Employer Normal Cost Rate	7.4%	17.9%	10.5%
FYE 2026 Employer Contribution			$ 2.3 million

The employer normal cost rate before the change is a weighted average of normal cost rates for members covered by different Charter sections. The increase to the 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. The current employer normal cost rate for members covered by the Charter section that is open to new members is 6.0%, so the increase applicable to any new Public Safety Communications Personnel is 11.9% of pay.

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 plan provisions and assumptions applicable to the Miscellaneous and Miscellaneous Safety groups. There are currently 86 active members in Charter sections A8.587 and A8.600 and 74 active members in Charter section A8.603 who would be affected by the proposed amendment.

Since the amendment only affects future service, technically only the normal cost should be affected, and the Actuarial Liability would remain unchanged. This is how we have estimated the costs. However, given the small size of this group and the difficulty of programming this change precisely as a part of the actuarial valuation, we expect to use a simplified approach that will produce an increase in the Actuarial Liability and an offsetting reduction to normal cost for current Public Safety Communications Personnel.

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 Key Proposed Changes

Benefit Provision	Current Charter Section Provisions: A8.587 and A8.600	Current Charter Section Provisions: A8.603	Proposed Provisions
Final Compensation	Average monthly compensation **earned** during any year of service (A8.587) or the higher of any **two** consecutive fiscal years or the 24 months immediately prior to retirement (A8.600).	Average monthly compensation **earned** during the higher of any **three** consecutive fiscal years or the 36 months immediately prior to retirement. Compensation in any fiscal year is capped at **85%** of the IRC 401(a)(17) compensation limit.	Average monthly compensation **earnable** during the higher of any **three** consecutive fiscal years or the 36 months immediately prior to retirement. Compensation in any fiscal year is capped at **75%** of the IRC 401(a)(17) compensation limit.
Member Contributions	7.5%	7.5%	9.0%
Retirement Eligibility	Age 50 with 20 years of service or age 60 with 10 years of service	Age 53 with 20 years of service or age 60 with 10 years of service or age 65	Age 50 with 5 years of service
Benefit Multiplier			
Age at Retirement	Percent for Each Year of Credited Service		
50	1.000%	N/A	1.800%
51	1.100%	N/A	1.912%
52	1.200%	N/A	2.020%
53	1.300%	1.000%	2.132%
54	1.400%	1.108%	2.244%
55	1.500%	1.216%	2.356%
56	1.600%	1.324%	2.468%
57	1.700%	1.432%	2.590%
58	1.800%	1.540%	2.700%
59	1.900%	1.648%	2.700%

ATTACHMENT

Benefit Provision	Current Charter Section Provisions A8.587 and A8.600	Current Charter Section Provisions A8.603	Proposed Provisions
60	2.100%	1.756%	2.700%
61	2.200%	1.864%	2.700%
62	2.300%	1.972%	2.700%
63	2.300%	2.080%	2.700%
64	2.300%	2.188%	2.700%
65 or older	2.300%	2.300%	2.700%