



**SFERS**

San Francisco Employees' Retirement System

## San Francisco City and County Employees' Retirement System

July 25, 2019

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

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

**Re: File No. 190680 – Ordinance amending the Administrative Code to amend heart trouble and pneumonia presumptions for firefighter and police officer industrial disability and death as a result of duty retirement benefits**

Dear Ms. Calvillo and Mr. Young,

The Retirement System acknowledges receipt of your referral of the above referenced proposed amendment to the Administrative Code and request for our actuarial review and a cost and effect report under Charter Section A8.500.

### **Effect of the Proposed Amendment to the Administrative Code**

This proposed ordinance will amend the Administrative Code to amend heart trouble and pneumonia presumptions for San Francisco police officer and firefighter industrial disability and death as a result of duty retirement benefits. Under the proposed amendment, for safety members who become incapacitated due to heart trouble or pneumonia, the illness would be presumed to be related to their employment as a police officer or firefighter. This presumption can be rebutted, but cannot be attributed to any prior illness or disease. The current presumptions can be rebutted by medical evidence attributed to a prior illness or disease or as otherwise specified in the ordinance. These presumptions also apply to qualified survivors who apply for death as a result of duty survivor benefits.

## **Cost of the Proposed Amendment to the Administrative Code**

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. I have summarized Cheiron's analysis below. The full Cheiron report is attached.

The proposed change in presumptions may result in an increase in the number of disabilities and deaths that are classified as industrial for police officers and firefighters. As a result, additional benefits may be payable for certain retirees and their beneficiaries. In particular, for a SFERS industrial disability, a) benefits payable to qualified survivors are higher than those paid for service pensions and b) the minimum industrial disability benefit of 50% of final compensation may be higher than for a service retirement benefit for the same member.

Cheiron has determined, based on its analysis of SFERS historical data, that the additional costs associated with the proposed ordinance would be minor.

There have been 190 industrial disabilities granted for SFERS safety members since July 2013. Within that same period of time, between five and eight industrial disability applications related to heart trouble or pneumonia were denied, but could have potentially been granted under the proposed amendment to the ordinance. Cheiron estimated the potential cost impact of the proposed ordinance by increasing the rate of disability incidence during this period to calculate the increase in SFERS' liabilities based on two scenarios: a) an additional five industrial disabilities granted during this period (low-end adjustment) and b) an additional eight industrial disabilities granted during this period. All other assumptions, methods, and data used to calculate the cost impact are based on the July 1, 2018 actuarial valuation.

Since the proposed amendment to the ordinance will not be applied retroactively to grant previously denied applications, the proposed amendment should only impact the cost of benefits accruing in the future, or the SFERS normal cost rate. Cheiron estimates that the cost impact of the proposed amendment to the ordinance will be in the range of a 1 to 2 bps increase in the SFERS total normal cost rate or \$350,000 (low-end with five additional industrial disabilities granted) to \$700,000 (high-end with eight additional industrial disabilities granted) per year. These amounts compare to an actuarial liability for the SFERS retirement system of over \$27 billion as of July 1, 2018.

Representatives of the Retirement System will appear at the Rules Committee hearing on this subject and address questions of the Committee members.

Best regards,



Jay Huish  
Executive Director  
San Francisco Employees' Retirement System

Attachment: Cheiron report dated July 23, 2019

cc: **President Norman Yee**  
**Board of Supervisors**  
**Room 244, City Hall**  
**1 Dr. Carlton B. Goodlett Pl.**  
**San Francisco, CA 94102**

**Monica Balanoff**  
**Budget and Legislative Analyst's Office**  
**Board of Supervisors**  
**Room 244, City Hall**  
**1 Dr. Carlton B. Goodlett Pl.**  
**San Francisco, CA 94102**

*Via Electronic Mail*

July 23, 2019

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

**Re: *Heart Trouble and Pneumonia Presumptions for granting Industrial Disability and Death Ordinance No. 190680***

Dear Jay:

As requested, we have analyzed the effect of implementing Ordinance No. 190680, which would amend heart trouble and pneumonia presumptions for San Francisco police officer and firefighter industrial disability and death as a result of duty retirement benefits. For members who become incapacitated due to heart trouble or pneumonia, the illness would be presumed to be employment related. This presumption can be disputed, but cannot be attributed to any prior disease. Under the current presumptions, evidence to the contrary can eliminate the presumption and the heart trouble or pneumonia can be attributed to a prior disease. We understand this change is to align the presumptions with the standards used for workers compensation claims.

The change in presumptions may result in an increase in the number of disabilities and deaths that are classified as industrial for police officers and firefighters. As a result, additional benefits may be payable for certain retirees and their beneficiaries. In particular, under an industrial disability, benefits payable to qualified survivors are higher and the minimum industrial disability benefit of 50% of final compensation may be higher than the service retirement benefit.

Based on historical data provided by SFERS staff, there have been 190 industrial disabilities granted since July 2013. Within that same time period, it is our understanding that between five and eight industrial disabilities related to heart trouble or pneumonia were denied, but could have potentially been considered an industrial disability under the proposed ordinance. We estimated the potential cost impact of the ordinance by increasing the rate of industrial disability incidence to calculate the SFERS' liabilities based on this disability experience. The potential disability rate increases were based on five additional disabilities granted (low-end adjustment) and eight additional disabilities (high-end adjustment) per 190 granted during this time period. All other assumptions, methods, and data are based on the July 1, 2018 actuarial valuation and can be found in our report dated February 2019.

Since we understand the ordinance will not grant any previously denied applications, it should only impact the cost of benefits accruing in the future, or the SFERS normal cost rate. The summary of the results is shown in the table on the following page.

City and County of San Francisco Employees' Retirement System Cost Impact of Heart Trouble or Pneumonia Presumption Ordinance			
	Based on July 1, 2018 Valuation	Disability Rate Adjustment	
		Low <sup>1</sup>	High <sup>2</sup>
<b><u>Police Officers</u></b>			
Total Normal Cost Rate	31.56%	31.60%	31.62%
Rate Increase		0.04%	0.06%
Dollar Increase		<b>\$128,000</b>	<b>\$191,000</b>
Projected FYE 2020 Payroll	318,936,000		
<b><u>Firefighters</u></b>			
Total Normal Cost Rate	32.63%	32.70%	32.74%
Rate Increase		0.07%	0.11%
Dollar Increase		<b>\$162,000</b>	<b>\$254,000</b>
Projected FYE 2020 Payroll	231,101,000		
<b><u>Total SFERS</u></b>			
Total Normal Cost Rate	17.71%	17.72%	17.73%
Rate Increase		0.01%	0.02%
Dollar Increase		<b>\$350,000</b>	<b>\$701,000</b>
Projected FYE 2020 Payroll	3,504,010,000		

<sup>1</sup> Assumes 5 additional disabilities per 190 granted, a 2.6% increase in the industrial disability rates.

<sup>2</sup> Assumes 8 additional disabilities per 190 granted, a 4.2% increase in the industrial disability rates.

Contributions for SFERS are set as an aggregate rate of pay, rounded to the nearest basis point, and then applied to actual total payroll. As a result, the increase on SFERS' total contribution rate for any given year may be 0.00%, 0.01%, or 0.02%, depending on the rounded impact on the aggregate normal cost rate. Assuming the change had been made for the 2018 valuation, the impact on SFERS' total contribution is estimated to be an increase of \$0, \$350,000, or \$701,000 for FYE 2020. These amounts would increase each year as payroll increases. Over time, the rounding is likely to fluctuate such that the annual increase would approximately average closer to \$300,000 under the low cost estimate to approximately \$450,000 under the high cost estimate, ignoring any growth in payroll.

Depending on how the new presumption is administered compared to the prior presumption, it is possible that the actual number of additional disabilities granted will be fewer than our low-end estimate of five such that the cost impact would be smaller than estimated above. It is also possible that experience could change such that the cost is higher than our high-cost estimate above.

Mr. Jay Huish  
July 23, 2019  
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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, employee data, and financial information. 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, assumptions and methods, please refer to the July 1, 2018 actuarial valuation report for SFERS.

This letter 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 letter. This letter does not address any contractual or legal issues. We are not attorneys 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. This letter is not intended to benefit any other party, and Cheiron assumes no duty or liability to any such party.

If you have any questions, please let us know.

Sincerely,  
Cheiron



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



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

cc: Janet Brazelton