



July 14, 2011

The Honorable Katherine Feinstein
 Presiding Judge
 Superior Court for the County of San Francisco
 400 McAllister Street, Room 205
 San Francisco, CA 94102

RE: 2010-2011 SAN FRANCISCO CIVIL GRAND JURY RESPONSE

Dear Judge Feinstein:

This is in response to the Civil Grand Jury's letter dated July 11, 2011 requiring a response to the above-referenced report. Specifically, the San Francisco Employees' Retirement System ["SFERS"] is directed to respond to Pension Report Finding 2 and Pension Report Recommendation 2, detailed on page 11 of the report, and reproduced below.

RESPONSE MATRIX		
FINDING	RECOMMENDATION	RESPONSE
Finding 2 A number of employees in the Fire Department and to a lesser extent the Police and other departments continue to receive annual salary increases in excess of 10% in at least one of the three years before they retire. This leads to a deficit in the City's retirement system account, which is calculated on an anticipated 4.5% annual salary increase. It also unfairly spreads the costs of pension spiking to other departments that do not engage in this practice.	Recommendation 2 The City should implement changes as to how salary increases are currently granted to employees within at least three years of their retirement. Changes would include a review of all salary increases in excess of actuarial estimates (currently 4.5%) within 3 years of full retirement age, including temporary assignments. This review should be performed by the Office of the Controller and the San Francisco Employee Retirement System's Actuarial and would identify the additional funds needed by the pension system to support the higher salary. The employees' department would then transfer the additional pension liability arising from the promotion to the Retirement System.	Mayor Office of the Controller Board of Supervisors San Francisco Employee Retirement System

RESPONSE: FINDING 2 – SFERS disagrees partially with the finding. The SFERS actuary already takes safety salary increases in the last working year into account in preparing the annual valuation reports and in determining the liability associated with these increases. In the fiscal year ended 6/30/11 the actuary's assumptions provided for a 9% increase for fire and police officers [4.5%-inflation, 1.5%-merit, & 3% extra covered wages] in their final year of employment before retirement. The allocation of costs between departments is not an issue that SFERS is responsible for analyzing or administering.

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RESPONSE: RECOMMENDATION 2 – The recommendation will not be implemented because, as noted in the Response to Finding 2, the actuary already takes final year safety salary increases into account when determining actuarial liability and funding. There are no “additional funds needed by the pension system to support the higher salary.”

Very truly yours,



Gary A. Amelio

cc: Linda A. Clardy
San Francisco Civil Grand Jury