July 3, 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. 240544 (ver1)

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to establish minimum staffing levels for sworn officers of the Police Department for the period from July 2025 through 2028; requiring the Police Commission to set the minimum staffing level, based on a report from the Chief of Police, at least every three years thereafter; requiring the Police Commission to approve and submit to the Board of Supervisors a budget for the Police Department that accounts for the minimum staffing level of sworn officers' and establishing a new voluntary deferred retirement option program ("DROP") for the period from July 2025 through July 2030, for eligible members of the Police Department that allows those members to earn additional deferred compensation in the Retirement System for up to 60 months in exchange for agreeing to perform patrol or investigative work; 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.

The Charter proposal incorporates many elements. The Retirement System's review and analysis is limited to the changes to the pension provisions only.

Effect of the Proposed Charter Amendment

The Charter proposal creates a Deferred Retirement Option Program ("DROP") for an initial five year period. At the conclusion of the initial five years, the Board of Supervisors will evaluate the program to determine whether it should be continued.

The DROP will be available to all sworn members of the Police Department who have attained at least 50 years of age and have completed at least 25 years of service in the Police Department including other specified service, in the following police ranks for up to 60 months:

1. Police Officer (Q2, Q3, Q4)
2. Police Inspector (0380, 0381, 0382)
3. Police Sergeant (Q50, Q51, Q52)

Officers can also meet the requirement to have 25 years of service with the Police Department through service with the San Francisco Airport Police and "service credit granted through a lateral transfer." The Retirement System recognizes police service with reciprocal retirement plans within the State of California.

Qualified officers who elect to enter the DROP will continue to work and receive wages and benefits. However, the calculation of their retirement benefit will be frozen based on their retirement calculation at the beginning of their DROP enrollment. The initial monthly calculation will be equal to the service retirement allowance applicable at the date the officer enters the DROP. During the period of an officer's employment while in the DROP, the Retirement System benefits will be credited to the DROP account. COLAs and Supplemental COLAs will be credited where applicable. Interest on the account will accrue monthly at an annual effective rate of 4%. At the end of the DROP participation period, the officer will leave City employment and the DROP account will be distributed.

A DROP participant who suffers a work-related injury may apply for a disability retirement. If the application is granted, DROP participation ends and the officer will receive an industrial disability allowance as if the officer never entered the DROP. In other words, the disability allowance will be calculated based on the service and compensation earned through the date of disability. Police officers who are temporarily disabled will be ineligible to continue to participate in the DROP and the payments to their accounts will be suspended while they receive a temporary disability benefit. Once the temporary disability has ended, the officer's DROP participation will be extended for the period they were receiving disability benefits, but the extension cannot exceed 30 months.

DROP participation will end when any of the following first occurs: (1) The officer's DROP participation period ends; (2) Involuntary termination of employment; (3) the officer's death; (4) approval of a disability retirement benefit; or (5) The officer's voluntary exit at any time prior to completion of the DROP participation period.

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. The Cheiron report is attached and its analysis is summarized below. 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/. Cheiron estimated 444 Police Officers, Sergeants and Inspectors will be eligible for the DROP during the five year period. The actuary also looked at the actual experience from the prior DROP. That experienced showed that once eligible officers reached their maximum benefit level (90% of final compensation), nearly all entered the DROP. Cheiron assumed nearly all eligible officers will make the same decision to cost the current proposal.

The actual cost impact of the proposed Charter amendment will depend on many factors, including, but not limited to, when eligible members elect to retire, how many elect to participate in the DROP, and how long they remain in the DROP. Cheiron developed low and high-cost estimates for the DROP. The low-cost estimates assume there will be greater DROP participation at the earlier retirement ages and that all participants remain in the DROP for the full five years. Once a police officer enters the DROP, it is less expensive if they remain in the program for the full five years because the Retirement System is collecting employee contributions and the credited interest rate on the DROP account is lower than the Retirement System's expected rate of return on its assets. The high-cost estimates assume only three years of participation.

The actuary estimates that the Charter proposal will increase the unfunded actuarial liability (UAL) by $5.4 million for the low-cost assumptions and $19 million for the high-cost assumptions in FYE 2026. The increase in the UAL will be amortized over 5 years with the annual payments rising by 3.25% of payroll each year. After 5 years, there will be no further payments. If the DROP is extended after the initial five year period, the actuary will cost the DROP going forward.

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 July 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

July 3, 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 – DROP Program for Police

Dear Alison:

As requested, we have estimated the cost impact of the proposed Charter amendment that would establish a temporary Deferred Retirement Option Program (DROP) for certain ranks in the Police Department. A summary of the DROP provisions is attached.

The cost impact of a DROP is difficult to measure because it depends on how the DROP affects member retirement decisions. In general, if members enter DROP when they would have otherwise retired and continue to work, the DROP will reduce costs. If, on the other hand, DROP does not affect when members actually leave employment and retire, the addition of DROP will increase costs. Actual DROP participation is likely to fall somewhere in between.

To estimate the cost impact of the proposed DROP, we developed low-cost and high-cost sets of assumptions. While these sets of assumptions do not capture the full range of potential cost impacts, they provide a sense of how variations in retirement and DROP participation rates are likely to affect costs. The table below summarizes the estimated cost under these two sets of assumptions assuming the cost is first reflected in contribution rates on July 1, 2025.

Estimated Increase Due to Proposed Charter Change		
	Low-Cost Assumptions	**High-Cost Assumptions**
Actuarial Liability	$ 5.4	$ 19.0
Expected Employer Contribution Increases or (Decreases)		
FYE 2026	$ 0.6	$ 3.0
FYE 2027	(0.2)	2.6
FYE 2028	(0.4)	2.6
FYE 2029	(0.4)	2.8
FYE 2030	(0.3)	3.0

Dollar Amounts in Millions

The increase in the Actuarial Liability is amortized over five years with annual payments increasing 3.25% each year. After five years, there are no further payments. This five-year amortization matches the temporary period in which DROP is effective and any additional costs are incurred.

When a member enters DROP, the member remains an active employee, but there are no longer any employer contributions based on the member's pay. Consequently, during the five-year projection period, there are lower employer normal cost payments due to the DROP. When the member exits DROP, we assume a new member is hired to replace the member who retired and the employer makes normal cost payments on the new member's pay. So, if the DROP expires on July 1, 2030, the employer normal cost would return to its normal level as DROP members exit.

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 Police members under the various Charter sections. 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.

In the 2023 actuarial valuation data, we identified 441 Police Officers, Sergeants, and Inspectors who would be eligible for DROP sometime before DROP expires if it is not reauthorized. We used these members as the basis for our cost analysis, assuming none of them are promoted to a non-DROP eligible position.

The DROP assumptions were developed based on professional judgment and with reference to SFERS' experience under its prior DROP that was available from July 1, 2008 through June 30, 2011.

From a member's perspective, DROP offers some advantages. Most significantly, when a member's combination of age and service reaches the point where their service retirement benefit would be 90% of final compensation, the maximum percentage allowed in SFERS, DROP allows the member to effectively commence their retirement benefits while continuing to work and receive a salary. Without the DROP, they would need to retire to commence these benefits and the longer they wait to commence the benefits, the less expensive it is to fund. Under the prior DROP, once a member had reached the maximum benefit level, nearly all of them retired or entered DROP, with 58% to 64% of them entering DROP. Consequently, we expect a very high percentage of members to enter DROP as soon as they reach the 90% of final compensation benefit level.

DROP also offers a lump sum payment at retirement in addition to the ongoing monthly benefits. For members who have not reached the 90% of final compensation benefit level, entering DROP locks in the level of benefits at DROP entry, foregoing any increases that could have been earned for additional years of service, higher compensation, and the higher benefit multipliers at older retirement ages (up to age 55). For some members, accepting a lower lifetime retirement benefit in exchange for the lump sum payout of the DROP Account may be desirable even if the actuarial value of the benefits is lower under the assumptions used in the actuarial valuation. Under the prior DROP, many members entered DROP before reaching the maximum 90% multiplier.

With these dynamics in mind, we developed low-cost and high-cost assumptions for the DROP. The low-cost retirement rates assume greater DROP participation at the earlier retirement ages and less participation at the older retirement ages than the higher-cost assumptions. The low-cost assumptions assume all DROP members remain in DROP for the full five years while the high-cost assumptions assume only three years of DROP participation. Once a member enters DROP, it is less expensive if they remain the full five years as the System collects member contributions while they remain in DROP and credits the DROP account with a lower interest rate than it expects to earn on its assets. The tables in the attachment compare the current retirement assumptions without DROP to the low-cost and high-cost retirement and DROP participation assumptions with DROP.

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

Deferred Retirement Option Program	
Effective Date	July 1, 2025 to July 1, 2030. Board of Supervisors can reauthorize DROP for additional five-year periods, but failure to act results in the expiration of DROP.

Eligibility to Enter DROP	• Police Officers, Sergeants, and Inspectors. Must be either a "Full-Duty Sworn Officer" or assigned to the San Francisco International Airport.
	• Age 50 or older with at least 25 years of service
	• Member must agree to:
	  o Be assigned to a district station within the Field Operations Bureau to perform patrol work, or to the Investigative Bureau to conduct investigations,
	  o No promotion during DROP participation
	  o Retire at end of DROP participation

Maximum period in DROP	Five Years
DROP Account Balance	The service pension calculated based on age, compensation, and service as of entry into DROP is credited monthly into a DROP Account. The monthly credit is adjusted for any Basic or Supplemental Cost-of-Living Adjustments. The DROP Account is also credited monthly with interest at an annual effective rate of 4.0%. Upon retirement, the DROP Account is paid to the member as a lump sum.
Service Retirement Benefit	At the end of DROP participation, a monthly retirement benefit will be paid equal to the continuation of the monthly credit to the DROP Account with continued Basic and Supplemental Cost-of-Living Adjustments.
Employee Contributions While in DROP	While in DROP, member contributions continue as if the member was an active employee except that the contributions are not credited to the member's account. The contributions are deemed general assets of SFERS.
Disability While in DROP	Industrial Disability: Member receives an industrial disability benefit as if they had never entered the DROP. Non-Industrial Disability: Member's participation in DROP is terminated, the DROP Account is paid to the member, and monthly

Deferred Retirement Option Program	
	retirement benefits, including applicable cost-of-living adjustments, are paid as if the member had retired. Temporary Disability: While the member receives disability benefits, the member's monthly credits to DROP are suspended and the DROP enrollment period is extended for up to 30 months. Unresolved Disability: Member must leave DROP when the participation period concludes but is permitted to continue on disability status until their application is determined. The DROP Account cannot be distributed until the disability retirement status is determined. Members who receive distribution of their DROP Account waive any right to apply for a disability pension.
Death While in DROP	Duty Death: Member's beneficiaries receive duty death benefits as if the member had never entered the DROP. Non-Duty Death: Member's DROP Account is paid to the member's beneficiary, and any monthly survivor benefits, including applicable cost-of-living adjustments, are paid based on the form of benefit elected at the time of entry into DROP.

Retirement and DROP Assumptions

With DROP, there are three assumptions related to retirement. The retirement rate represents the percentage of members who will either retire or enter DROP. The DROP percentage is the percentage of the retiring members who enter DROP. For example, a 10% retirement rate combined with a 50% DROP participation rate means that 5% of members are assumed to retire and 5% of members are assumed to enter DROP. The third assumption is how long members who enter DROP choose to remain in DROP. For the low-cost assumptions, we assume members remain in DROP the full five years, and for the high-cost assumptions, we assume members remain in DROP for three years.

Other Than Prop C Members

	25 to 29 Years of Service					30 or More Years of Service				
	Current	Low-Cost		High-Cost		Current	Low-Cost		High-Cost	
Age	Ret Rate	Ret Rate	DROP Pct	Ret Rate	DROP Pct	Ret Rate	Ret Rate	DROP Pct	Ret Rate	DROP Pct
50	5%	10%	50%	5%	0%	5%	20%	75%	5%	0%
51	5%	10%	50%	5%	0%	15%	60%	75%	15%	0%
52	7.5%	15%	50%	7.5%	0%	20%	60%	75%	25%	20%
53	20%	30%	50%	25%	0%	40%	60%	75%	55%	25%
54	22%	30%	67%	35%	20%	50%	80%	75%	80%	50%
55	35%	45%	67%	60%	35%	50%	75%	80%	100%	75%
56	26%	36%	67%	60%	50%	40%	75%	80%	100%	75%
57	28%	36%	67%	65%	55%	45%	75%	70%	100%	65%
58	30%	36%	67%	70%	55%	45%	75%	70%	100%	65%
59	25%	36%	67%	70%	70%	45%	75%	65%	100%	60%
60	34%	40%	50%	70%	70%	45%	75%	65%	100%	60%
61	36%	40%	50%	70%	60%	40%	75%	60%	100%	60%
62	36%	40%	50%	70%	50%	40%	75%	60%	100%	60%
63	36%	40%	50%	70%	50%	40%	75%	50%	100%	60%
64	36%	40%	50%	70%	50%	40%	75%	50%	100%	60%
65+	100%	100%	0%	100%	0%	100%	100%	0%	100%	0%