



City and County of San Francisco
Employees' Retirement System
Office of the Executive Director

June 24, 2014

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

Alisa Miller
Clerk, Government Audit and Oversight Committee
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Re: Actuarial Cost and Effect Report regarding File No. 140455 – Ordinance amending the Administrative Code to create a cancer presumption for firefighter and police officer industrial disability and death as a result of duty retirement benefits

Dear Ms. Calvillo and Ms. Miller,

The Retirement System acknowledges receipt of your referral of the above referenced proposed ordinance amending the Retirement System provisions of the Administrative Code and your request for an actuarial cost and effect report of the proposed ordinance under Charter Section A8.500.

Terms of the Proposed Ordinance

If adopted by the Board of Supervisors, the proposed ordinance would amend the Administrative Code to create a cancer presumption for firefighters and police officers who apply for industrial disability retirement benefits and for qualified survivors of firefighters and police officers who apply for death as a result of duty retirement benefits. Under the proposed ordinance, if a firefighter or police officer who applies for an industrial disability retirement based on cancer can demonstrate work exposure to a carcinogen as defined by the International Agency for Research on Cancer, then the cancer is presumed industrial. The presumption would also apply when a qualified survivor applies for a death as a result of duty retirement benefit based on cancer and can demonstrate the required work exposure of the member to a carcinogen. The presumption in the proposed ordinance is rebuttable. The rebuttal standard mirrors the rebuttal standard in the California workers' compensation cancer presumption.

Cost and Effect of the Proposed Ordinance

The Retirement System's consulting actuary, Cheiron, conducted an analysis of the cost and effect of the proposed ordinance. I have summarized Cheiron's analysis below. The full Cheiron report is attached.

Under the proposed ordinance, for firefighters and police officers who become incapacitated from the performance of their duties due to cancer and can demonstrate the requisite work exposure to a carcinogen, the cancer will be presumed industrially caused. The same would be true for death as a result of duty applications. While the presumption is rebuttable, it is likely to result in an increase in the number of firefighter and police officer industrial disability retirement and death as a result of duty applications where the cancer is found to be industrial. As a result, additional benefits are likely to be payable for certain firefighter and police officer retirees and their beneficiaries. In particular, (a) benefits payable to qualified survivors of firefighter and police officer members granted industrial disability retirements are higher than those paid for service pensions and (b) the minimum industrial disability retirement benefit of 50% of final compensation may be higher in certain cases than the service pension benefit for the same member.

Cheiron has determined, based on its analysis of the Retirement System's data regarding industrial disability retirement applications involving cancer (as described below), that the additional costs associated with the proposed ordinance would be minor. Specifically, as explained further below, Cheiron estimated that assuming the cancer presumption applied to historical and pending industrial disability retirement applications where cancer was identified as a basis for disability, so that the cancer was found industrial, and assuming the application was granted, then the increase in the System's actuarial liability would be approximately \$3.0 million. This estimated increase is a 0.015% increase in the \$20 billion actuarial liability for the retirement system as of July 1, 2013.

SFERS staff reviewed the medical bases for all denied firefighter and police officer industrial disability retirement applications filed since 1998. They found ten industrial disability retirement applications that listed cancer as one of the medical bases for industrial disability where the application was denied industrial disability benefits. Additionally, staff identified ten pending industrial disability retirement applications that list cancer as one of the medical bases for industrial disability. The results of Cheiron's analysis of these two groups are as follows:

Ten historical industrial disability retirement applications that listed cancer as one of the medical bases for industrial disability that were denied. Cheiron estimates that if all ten of these denied applications were instead granted industrial disability retirement benefits, the estimated increase in the present value of the retirees' benefits as of July 1, 2014 would be approximately \$0.9 million. This increase is primarily due to the increased benefits that would be provided to qualified survivors if the benefit was for an industrial disability. It is not certain that the proposed cancer presumption, had it been in effect when these applications were decided, would have changed the outcomes of any or all of the applications.

Ten pending industrial disability retirement applications that list cancer as one of the medical bases for industrial disability. Cheiron estimates that if the ten pending industrial disability retirement applications that list cancer as one of the medical bases for industrial disability are all determined to involve industrial disabilities and are granted, the estimated increase in the present value of the members' benefits as of July 1, 2104 would be approximately \$2.1 million. Cheiron reports that most of this increase (\$1.4 million) would be due to two applicants who would receive substantially larger benefits when they reach their Qualified Service Retirement dates. The remaining increases are primarily due to the increased benefits that

would be provided to qualified survivors. At this time, the outcomes of these pending applications are unknown, including whether a cancer presumption would impact the outcome.

The Retirement System will appear at the Government Audit and Oversight Committee hearing on this subject and be available to address any questions of the Committee members.

Best regards,

A handwritten signature in blue ink that reads "Jay Huih".

Jay Huih
Executive Director
San Francisco Employees' Retirement System

Attachment: Cheiron report dated June 11, 2014

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

Supervisor Scott Wiener
Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

June 11, 2014

VIA ELECTRONIC MAIL

Mr. Jay Huish, Executive Director
San Francisco Employees Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, California 94102

Re: Cancer Presumption for Firefighter and Police Officer Industrial Disability and Death

Dear Jay:

As requested, we have analyzed the effect of the implementation of Ordinance No. 140455, which states that for firefighters and police officers who become incapacitated due to cancer, the cancer shall be presumed to be duty related.

While the presumption is disputable under the proposed ordinance, it is likely to result in an increase in the number of disabilities and deaths that are classified as industrial. As a result, additional benefits are likely to 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. In addition, members who have not yet reached their qualified service retirement (QSR) date (age 50 with 25 years of service) will be eligible for an increased benefit when they do reach this date. Consequently, we cannot certify that the proposed legislation would not increase costs at all.

However, based on historical data provided, we believe the additional costs would be minor. It is our understanding that since 1998, there were 10 cancer cases that were denied industrial disability, and there are 10 pending industrial disability cases with cancer. If the 10 cancer cases that were denied industrial disability were instead granted industrial disability, the estimated increase in the present value of their benefits as of July 1, 2014 would be approximately \$0.9 million. This increase is primarily due to the increased benefits that would be provided to qualified survivors if the benefit had been classified as an industrial disability.

If the 10 cancer cases that are pending were all determined to be industrial disabilities, the estimated increase in the present value of their benefits as of July 1, 2014 would be approximately \$2.1 million. Most of this increase (\$1.4 million) would be due to the two members who would receive substantially larger benefits when they reach their Qualified Service Retirement dates. The remaining increases are primarily due to the increased benefits that would be provided to qualified survivors.

It is not clear if the proposed cancer presumption would affect the determination of industrial disability in the pending cases or if it would have changed all 10 cases that were previously



Mr. Jay Huish
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denied. However, if all 20 of these cases were decided to be industrial disability due to the proposed cancer presumption, the increase in the System's actuarial liability would be about \$3.0 million. This amount compares to an actuarial liability for the retirement system of over \$20 billion as of July 1, 2013, or a 0.015% increase

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 #23. For a summary of the plan provisions, assumptions and methods, please refer to the July 1, 2013 actuarial valuation report for SFERS.

To the best of my knowledge, this letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I 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. I am not an attorney 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 third 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, FCA, EA, MAAA
Consulting Actuary

cc: Ken Kent
Anne Harper
Janet Brazelton

Data Summary

City and County of San Francisco Employees' Retirement System Cancer Presumption for Firefighter and Police Officer Industrial Disability and Death Data Summary				
	<u>Denied Cases</u>		<u>Pending Cases</u>	
	Service Retirement	Industrial Disability	Service Retirement	Industrial Disability
Count	10		10	
Sum of Benefits Paid to Members	\$ 74,099	\$ 74,195	\$ 69,583	\$ 71,541
Sum of Increase in Benefit at QSR Date	N/A	N/A	N/A	\$ 13,395
Sum of Benefits Paid to Beneficiaries	\$ 6,468	\$ 8,574	\$ 4,280	\$ 4,877
Present Value of Benefits as of 7/1/2014	\$ 14,492,549	\$ 15,404,699	\$ 13,128,353	\$ 15,258,235