Via Electronic Mail

June 15, 2022

Ms. Alison Romano
Chief Executive and Investment Officer
San Francisco Employees' Retirement System
1145 Market Street, 6th Floor
San Francisco, CA 94103

Re: Estimated Cost for Charter Amendment File No. 220640 – Supplemental COLA provisions for Pre96 Retirees

Dear Alison:

The purpose of this letter is to estimate the cost impact of the Charter Amendment that would eliminate the full funding requirement for the Supplemental COLA benefits for members who retired before November 6, 1996, or their qualified survivors or beneficiaries, subject to a monthly monetary cap in years that the Retirement System is not fully funded.

Background

Proposition C amended Charter Section A8.526-3 to require, beginning on July 1, 2012, that no Supplemental COLA would be payable "*unless the Retirement System was also fully funded based on the market value of assets for the previous year*." In 2016, the State Appeals Court determined that the full funding requirement was unconstitutional as applied to members who worked after November 6, 1996, and before Proposition C passed. This decision left the full funding requirement to apply only to members who retired before November 6, 1996 (Pre '96 Retirees) or who were hired after Proposition C passed.

Charter Amendment

It is our understanding that the Charter Amendment will be effective January 1, 2023, and contains the following provisions:

- The base retirement allowance of members who retired before November 6, 1996, or their qualified survivors and beneficiaries, will be adjusted to account for Supplemental COLAs not received in 2013, 2014, 2017, 2018, and 2019 due to the full funding requirement in the current Charter.
- The aggregate adjustment will be capped at $200 per month for those members who have a total monthly benefit greater than $4,167 per month.
- There will be no retroactive payments for past Supplemental COLAs not received.
- If there are sufficient excess earnings in the previous fiscal year, a Supplemental COLA is payable as of July1 to members who retired before November 6, 1996, or their qualified survivors and beneficiaries, regardless of the funded status of the Retirement System.

- If the Retirement System is not fully funded on the market value of assets, the Supplemental COLA payable to members who retired before November 6, 1996, or their qualified survivors and beneficiaries, is limited to $200 per month, if their monthly retirement benefit exceeds $4,167 per month.

Impact on the Retirement System

Before any future Supplemental COLAs are granted, the liability of the Retirement System would increase for the value of the aggregate adjustment to the base retirement allowance for past Supplemental COLAs not received. This adjustment increases the Retirement System's Actuarial Liability by approximately $59.7 million.

In addition to the higher base retirement allowances, there are potential future costs for Supplemental COLAs that would be granted to the Pre96 Retirees when the Retirement System is not fully funded on a market value basis. Because the Retirement System is currently fully funded and the affected retirees average over 85 years in age, we estimate additional future Supplemental COLAs under the Charter amendment would only add approximately $5.3 million to the present value of future benefits.

Increases in the Retirement System's Actuarial Liability affect the employer contribution rate before cost-sharing provisions are applied. The estimated impact on the employer contribution rate is shown in the table below. We anticipate that the Charter amendment would be first reflected in the July 1, 2022 actuarial valuation, so it would affect contribution rates beginning in FYE 2024.

Employer Contribution Rate Impact			
FYE	Baseline	Charter Amendment	Increase
2023	21.4%	21.4%	0.0%
2024	16.7%	17.0%	0.3%
2025	13.7%	14.1%	0.4%
2026	11.6%	12.0%	0.4%
2027	9.9%	10.3%	0.4%
2028	10.0%	10.4%	0.4%
2029	10.3%	10.4%	0.1%
2030	8.3%	8.3%	0.0%

Actuarial Assumptions and Methods

This cost study is based on the July 1, 2021 actuarial valuation and the June 30, 2021 GASB 67/68 report with the following additional assumptions:

- Based on reported returns through May 2022, the baseline projections assume a -1.7% return for FYE 2022.
- The future Supplemental COLA assumptions for the Pre96 Retirees from the 2021 GASB 67/68 were updated based on the reduction in discount rate to 7.2% and the estimated returns of -1.7% return through May 2022.
- Estimated July 1, 2022 monthly benefits were used as the criteria for capping the aggregate Supplemental COLA adjustment at $200 per month. The July 1, 2021 monthly benefits were increased by the assumed Basic COLAs of 1.9% for Pre-1975 retirees, 2.0% for Miscellaneous and New Safety retirees, and 3.6% for Old Safety retirees under Charters 8.559 and 8.585.
- To be consistent with the Retirement System's valuation dates, the effective date of the Charter was assumed to be July 1, 2022, instead of January 1, 2023. This simplification results in a slight overstatement of the cost impact.
- The increase in the Actuarial Liability of $59.7 million for the aggregate adjustment to the monthly benefits (i.e., past Supplemental COLAs) is amortized over a 5-year period, the current policy for funding Supplemental COLAs.
- The $200 per month cap on future Supplemental COLAs when the Retirement System is not fully funded was not applied since the limit would currently only affect three retirees and would have a de minimis impact on the cost estimates.

    - **Old Safety Charters 8.559 and 8.585:** 1,016 retirees are assumed to receive a 3.6% Basic COLA each year and thus have no assumed future Supplemental COLAs.

    - **Old Safety Pre-1975:** 132 retirees are assumed to receive a 1.9% Basic COLA each year and thus are assumed to receive a 1.6% Supplemental COLA when granted. For these retirees' future Supplemental COLAs to be capped at $200, they would have to have a monthly benefit in excess of $12,500. As of July 1, 2021, the highest monthly benefit in this Charter group is $5,100.

    - **Miscellaneous and New Safety Charters:** 3,418 retirees are assumed to receive a 2.0% Basic COLA each year and thus are assumed to receive a 1.5% Supplemental COLA when granted. For these retirees' future Supplemental COLAs to be capped at $200 per month, they would have to have a benefit in excess of $13,333. As of July 1, 2021, there are only three retirees whose benefits exceed this amount.

In preparing our estimate, 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 more detailed summary of the plan provisions, assumptions, and methods, please refer to the July 1, 2021 actuarial valuation report and June 30, 2021 GASB 67/68 report for SFERS.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We have relied on WinTech as the developer of ProVal. We have a basic understanding of ProVal and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

Deterministic projections were developed using P-scan, a proprietary tool used to illustrate the impact of changes in assumptions, methods, plan provisions, or actual experience (particularly investment experience) on the future financial status of the System. P-scan uses standard roll-forward techniques that implicitly assume a stable active population. Assumed Supplemental COLAs are included in these projections.

Stochastic projections in this presentation were developed using R-scan, our proprietary tool for assessing the probability of different outcomes based on the range of potential investment returns. We relied on Cheiron colleagues for the development of the model. The stochastic projections of investment returns assume that each future year's investment return is independent from all other years and is identically distributed according to a lognormal distribution. The standard deviation used in the stochastic projection of investment returns was provided by the System's investment consultant.

Future results may differ significantly from the current projections presented in this report due to such factors as the following: plan experience different from that anticipated by the assumptions; changes in assumptions; and, changes in plan provisions or applicable law.

This estimate has 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 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 SFERS 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.

Sincerely,
Cheiron

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

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

Attachment

cc: Caryn Bortnick
Janet Brazelton

Pre 96 Retiree Data Statistics As of July 1, 2021	
Number in Pay Status	4,566
Avearge Age	85.1
Average Monthly Benefit	
Prior to Past Supp COLAs	$3,540
After Past Supp COLAs	$3,692

Supplemental COLA Assumptions

	June 30, 2021 GASB		May 2022 Full Funding Required		May 2022 No Full Funding Requirement	
July 1,	Miscellaneous and New Safety Plans	Old Police & Fire, pre 7/1/75 Retirements	Miscellaneous and New Safety Plans	Old Police & Fire, pre 7/1/75 Retirements	Miscellaneous and New Safety Plans	Old Police & Fire, pre 7/1/75 Retirements
2021	1.50%	1.60%	N/A	N/A	N/A	N/A
2022	0.80%	0.80%	0.00%	0.00%	0.00%	0.00%
2023	0.70%	0.80%	0.80%	0.80%	0.80%	0.80%
2024	0.70%	0.70%	0.60%	0.70%	0.75%	0.80%
2025	0.70%	0.70%	0.60%	0.60%	0.75%	0.80%
2026	0.60%	0.70%	0.50%	0.60%	0.75%	0.80%
2027	0.60%	0.70%	0.50%	0.60%	0.75%	0.80%
2028	0.60%	0.60%	0.50%	0.50%	0.75%	0.80%
2029	0.60%	0.60%	0.50%	0.50%	0.75%	0.80%
2030	0.60%	0.60%	0.50%	0.50%	0.75%	0.80%
2031	0.60%	0.60%	0.50%	0.50%	0.75%	0.80%
2032+	0.50%	0.60%	0.50%	0.50%	0.75%	0.80%

There are no Pre96 Retirees under Charters A8.595 and A8.596

Assumption for Old Safety Charters A8.559 and A8.585 is 0% since their Basic COLA Assumption is 3.6%