

File No. 220640

Committee Item No. 5

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Rules Committee

Date June 29, 2022

Board of Supervisors Meeting

Date _____

Cmte Board

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Completed by: Victor Young Date June 22, 2022

Completed by: _____ Date _____

1 [Charter Amendment - Retiree Supplemental Cost of Living Adjustment; Retirement Board
2 Contract with Executive Director]

3 **Describing and setting forth a proposal to the voters at an election to be held on November**
4 **8, 2022, to amend the Charter of the City and County of San Francisco to eliminate the full**
5 **funding requirement for supplemental cost of living benefit payments to members of the**
6 **San Francisco Employees’ Retirement System who retired before November 6, 1996,**
7 **subject to a monthly monetary cap for retirees and their qualified survivors and**
8 **beneficiaries in years that the Retirement System is not fully funded; adjust the base**
9 **retirement allowance for these retirees, or their qualified survivors and beneficiaries, to**
10 **account for supplemental cost of living adjustments not received in the years 2013, 2014,**
11 **2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual**
12 **contract with any Retirement System executive director hired on or after January 1, 2023.**

13
14 Section 1. The Board of Supervisors hereby submits to the qualified voters of the City
15 and County, at an election to be held on November 8, 2022, a proposal to amend the Charter of
16 the City and County by revising Sections A8.526-3 and 12.100, to read as follows:

17 NOTE: **Unchanged Charter text and uncodified text** are in plain font.
18 **Additions** are *single-underline italics Times New Roman font*.
19 **Deletions** are ~~*strike-through italics Times New Roman font*~~.
20 **Asterisks (* * * *)** indicate the omission of unchanged Charter
21 subsections.

22 **A8.526-3 SUPPLEMENTAL COST OF LIVING BENEFIT ON AND AFTER**
23 **JANUARY 10, 2009**

24 (a) Notwithstanding the provisions of Section A8.526-1 or any other provision of this
25 Charter to the contrary, effective January 10, 2009, all supplemental cost of living benefits
adjustments payable, including retirement allowances subject to change when the salary rate of a

1 member is changed, shall be determined pursuant to the provisions of this Section A8.526-3 and
2 not Section A8.526-1.

3 (b)(1) On July 1, 2009 and July 1 of each succeeding year, the retirement board shall
4 determine whether, in the previous fiscal year, there were earnings in excess of the expected
5 earnings on the actuarial value of the assets. In those years when the previous year's earnings
6 exceeded the expected earnings on the actuarial value of the assets, then on July 1 each
7 retirement allowance or death allowance payable on account of a member who died, including
8 retirement allowances subject to change when the salary rate of a member is changed, shall be
9 increased by an amount equal to three and one-half percent (3.5%) of the allowance as of June
10 30, less the amount of any cost of living adjustment provided pursuant to Section A8.526-2 and
11 less the amount of any cost of living adjustment, payable in that fiscal year, which is the result of
12 a change in the salary of the member.

13 (b)(2) If on July 1, 2009 and July 1 of each succeeding year, the previous fiscal year's
14 earnings exceeded the expected earnings on the actuarial value of the assets, but they were
15 insufficient to increase said allowances by three and one-half percent (3.5%) as provided in
16 Subsection (b)(1), then to the extent of excess earning, said allowances shall be increased in
17 increments of one-half percent (0.5%) up to the maximum three and one-half percent (3.5%) of
18 the allowance as of June 30, less the amount of any cost of living adjustment provided pursuant
19 to Section A8.526-2 and less the amount of any cost of living adjustment, payable in that fiscal
20 year, which is the result of a change in the salary of the member.

21 (c) When the previous fiscal year's earnings exceeded the expected earnings on the
22 actuarial value of the assets but were not sufficient to fund any supplemental cost of living
23 benefit adjustment pursuant to either Subsection (b)(1) or (b)(2), the Retirement Board shall
24 reserve the excess earnings for that year. Said reserved earnings shall accumulate only until such
25 time that said reserved earnings, plus the next year's earnings in excess of the expected earnings

1 on the actuarial value of the assets, are sufficient to fund one fiscal year's increase in the
2 supplemental cost of living benefit adjustment, at which time the earnings in reserve shall be
3 withdrawn and used to fund a supplemental cost of living benefit adjustment as provided in
4 either Subsection (b)(1) or (b)(2).

5 (d) ~~To clarify the intent of the voters when originally enacting this Section in 2008,~~
6 ~~Beginning on July 1, 2012 and July 1 of each succeeding year, no supplemental cost of living~~
7 ~~benefit adjustment shall be payable unless the Retirement System was also fully funded based on~~
8 ~~the market value of the assets for the previous year. Except as qualified in subsection (g), this~~
9 ~~subsection (d) shall apply only to employees and retirees hired on or after January 7, 2012.~~

10 (e) Any supplemental cost of living benefit adjustment, once paid to a member, shall
11 not be reduced thereafter.

12 (f) Any Section or part of any Section in this Charter, insofar as it should conflict with
13 the provisions of Section A8.526-3 or with any part thereof shall be superseded by the contents
14 of Section A8.526-3. Section A8.526-3 shall be interpreted to be consistent with all federal and
15 state laws, rules, and regulations. If any words, phrases, clauses, sentences, subsections,
16 provisions or portions of Section A8.526-3 are held to be invalid or unconstitutional by a final
17 judgment of a court, such decision shall not affect the validity of the remaining words, phrases,
18 clauses, sentences, subsections, provisions or portions of Section A8.526-3. If any words,
19 phrases, clauses, sentences, subsections, provisions or portions of Section A8.526-3 are held
20 invalid as applied to any person, circumstance, employee or category of employee, such
21 invalidity shall not affect any application of Section A8.526-3 which can be given effect. Section
22 A8.526-3 shall be broadly construed to achieve its stated purposes.

23 (g) Effective January 1, 2023, subsection (d) shall not apply to any members who
24 retired before November 6, 1996, or their qualified survivors and beneficiaries. But in any year
25 that the Retirement System is not fully funded based on the market value of the assets for the

1 previous year, the supplemental cost of living adjustment for these retirees, their qualified
2 survivors, and beneficiaries shall be limited to \$200 per month if their monthly gross pension
3 allowance exceeds \$4,167.

4 The Retirement System shall adjust the base retirement allowance of members who
5 retired before November 6, 1996, or their qualified survivors and beneficiaries, to account for
6 supplemental cost of living adjustments not received in 2013, 2014, 2017, 2018 and 2019, due to
7 the full funding requirement in subsection (d). This aggregate base allowance adjustment shall
8 not exceed \$200 per month for those receiving a monthly gross pension allowance over \$4,167.
9 This subsection (g) does not entitle these retirees, their qualified survivors, or beneficiaries to
10 any retroactive supplemental cost of living adjustment payments.

11 **SEC. 12.100. RETIREMENT BOARD.**

12 (a) The Retirement Board shall consist of seven members as follows: one member of
13 the Board of Supervisors appointed by the President, three public members to be appointed by
14 the Mayor pursuant to Section 3.100, and three members elected by the active members and
15 retired persons of the Retirement System from among their number. The public members
16 appointed by the Mayor shall be experienced in life insurance, actuarial science, employee
17 pension planning or investment portfolio management, or hold a degree of doctor of medicine.
18 There shall not be, at any one time, more than one retired person on the Board. The term of the
19 members, other than the Board of Supervisors member, shall be five years, one term expiring on
20 February 20~~th~~ of each year. The three elected members need not be residents of the City and
21 County. Vacancies on the Board shall be filled by the Mayor for the remainder of the unexpired
22 term, except that in the case of elected employee members, a vacancy shall be filled by a special
23 election within 120 days after the vacancy occurs unless the next regularly scheduled employee
24
25

1 member election is to be held within six months after such vacancy occurred. Elections shall be
2 conducted by the Director of Elections in a manner prescribed by ordinance.

3 (b) The Board shall appoint and may remove an executive director and an actuary. The
4 executive director may be a joint Chief Executive Officer-Chief Investment Officer, or a Chief
5 Executive Officer only. The Board may employ a consulting actuary.

6 Any executive director hired on or after January 1, 2023, shall be employed under an
7 individual contract. Under the contract, the executive director's compensation shall be
8 comparable to the compensation of executive directors of public retirement systems in the United
9 States who perform similar functions and that the Board, after an independent survey,
10 determines most closely resemble the Retirement System in size, mission, and complexity. In
11 addition, the Board may provide an incentive compensation bonus plan for the executive director
12 based on performance goals established by the Board. For purposes of approving the executive
13 director's individual employment contracts, the Board may exercise all powers of the City and
14 County, the Board of Supervisors, the Mayor, and the Director of Human Resources under
15 Article XI of this Charter. The executive director's individual employment contract shall not
16 alter or interfere with the Retirement or Vacation provisions of this Charter or the Health Plans
17 established by the City's Health Service Board; provided however, that the Board may contribute
18 toward defraying the cost of the executive director's health premiums and retirement pick-up.

19 (c) In accordance with Article XVI, Section 17, of the California Constitution, the
20 Retirement Board shall have plenary authority and fiduciary responsibility for investment of
21 monies and administration of the Retirement System.

22 The Board shall be the sole authority and judge, consistent with this Charter and
23 ordinances, as to the conditions under which members of the Retirement System may receive and
24 may continue to receive benefits under the Retirement System, and shall have exclusive control
25 of the administration and investment of such funds as may be established.

1 The Retirement Board shall discharge its duties with respect to the system with the
2 care, skill, prudence and diligence under the circumstances then prevailing that a prudent person
3 acting in a like capacity and familiar with these matters would use in the conduct of an enterprise
4 of a like character and with like aims.

5 The Board shall determine City and County and District contributions on the basis of a
6 normal contribution rate which shall be computed as a level percentage of compensation which,
7 when applied to the future compensation of the average new member entering the System,
8 together with the required member contribution, will be sufficient to provide for the payment of
9 all prospective benefits of such member. The portion of liability not provided by the normal
10 contribution rate shall be amortized over a period not to exceed twenty years.

11 (d) The Board may act by a majority of the members present at a meeting so long as a
12 quorum is in attendance.

13
14 APPROVED AS TO FORM:
15 DAVID CHIU, City Attorney

16 By: /s/ _____
17 KELLY COLLINS
18 Deputy City Attorney

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LEGISLATIVE DIGEST

(First Draft, 5/24/2022)

[Charter Amendment - Retiree Supplemental Cost of Living Adjustment; Retirement Board Contract with Executive Director]

Describing and setting forth a proposal to the voters at an election to be held on November 8, 2022, to amend the Charter of the City and County of San Francisco to eliminate the full funding requirement for supplemental cost of living benefit payments to members of the San Francisco Employees' Retirement System who retired before November 6, 1996, subject to a monthly monetary cap for retirees and their qualified survivors and beneficiaries in years that the Retirement System is not fully funded; adjust the base retirement allowance for these retirees, or their qualified survivors and beneficiaries, to account for supplemental cost of living adjustments not received in the years 2013, 2014, 2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual contract with any Retirement System executive director hired on or after January 1, 2023.

Existing Law

1. Supplemental Cost of Living Benefits for Members who Retired Before November 6, 1996. Charter Section A8.526-3 sets forth how supplemental cost of living benefits are determined. As a condition for payment of the supplemental cost benefit to members who retired before November 6, 1996 (and their qualified survivors and beneficiaries), SFERS must be fully funded based on the market value of the assets for the previous year.

2. SFERS Executive Director Contract. The Retirement Board does not have authority to enter into an individual contract with the executive director of the San Francisco Employees' Retirement System (SFERS) but rather must follow employment terms set out in Civil Service Commission Rules, the San Francisco Charter and Administrative Code, and the Memorandum of Understanding with the Municipal Executives Association.

Amendments to Current Law

1. Supplemental Cost of Living Benefits for Members who Retired Before November 6, 1996.

The amendment:

- eliminates the full-funding requirement for members who retired before November 6, 1996 (and their qualified survivors and beneficiaries);
- provides that SFERS will adjust the base retirement allowance to account for the supplemental cost of living adjustment payments not received by this group in 2013, 2014, 2017, 2018, and 2019 due to the full funding requirement; and

- caps the monthly supplemental cost of living adjustment payments at \$200 for members who retired before November 6, 1996 whose gross monthly retirement allowance exceeds \$4,167 per month.

The amendment does not provide for retroactive supplemental cost of living adjustment payments.

2. SFERS Executive Director Contract. The amendment allows the Retirement Board to enter into an individual contract with executive directors hired on or after January 1, 2023. The amendment does not apply to the current executive director.

Background Information

1. Supplemental Cost of Living Benefits for Members who Retired Before November 6, 1996. For many years, retirees have been entitled to a “basic” cost of living adjustment. At the November 6, 1996 election, the voters adopted a “supplemental” cost of living benefit for retirees. At the November 8, 2011 election, the voters added a “full funding” requirement to the supplemental benefit, meaning that, to pay supplemental cost of living benefits, SFERS had to be fully funded based on the market value of the previous year’s assets. That requirement was challenged as an unconstitutional impairment of a vested contractual right. In *Protect Our Benefits v. City and County of San Francisco* (2015) 235 Cal.App.4th 619, the Court of Appeal held that the full funding requirement could not be applied to current employees or to those who retired on or after November 6, 1996, but could be applied to those who retired before November 6, 1996.

This amendment in essence overrides the *Protect Our Benefits* decision as to members who retired before November 6, 1996, allowing them to receive supplemental cost of living benefits even if the full funding requirement is not satisfied – except that in years when that requirement is not satisfied, the supplemental cost of living benefit is capped at \$200 per month for this group of retirees (and their qualified survivors and beneficiaries) if their gross monthly pension allowance exceeds \$4,167 (the equivalent of \$50,000 yearly). And SFERS will adjust the base allowance for this group to account for supplemental cost of living adjustment payments not received in 2013, 2014, 2017, 2018 and 2019, as a result of the full funding requirement (subject to a \$200 monthly cap for those receiving a gross monthly pension allowance over \$4,167).

2. SFERS Executive Director Contract. Due to the complexity of the executive director job and the expertise/experience required, as well as the desire to recruit the highest quality candidates, the amendment authorizes the Retirement Board in the future to enter into individual contracts with executive directors.

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. (415) 554-5184
Fax No. (415) 554-5163
TDD/TTY No. (415) 554-5227

May 31, 2022

File No. 220640

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Suite 400
San Francisco, CA 94103

Dear Ms. Gibson:

The following proposed Charter Amendment for the November 8, 2022, Election was received by the Board of Supervisors' Rules Committee:

File No. 220640 Charter Amendment - Retiree Supplemental Cost of Living Adjustment; Retirement Board Contract with Executive Director

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to eliminate the full funding requirement for supplemental cost of living benefit payments to members of the San Francisco Employees' Retirement System who retired before November 6, 1996, subject to a monthly monetary cap for retirees and their qualified survivors and beneficiaries in years that the Retirement System is not fully funded; adjust the base retirement allowance for these retirees, or their qualified survivors and beneficiaries, to account for supplemental cost of living adjustments not received in the years 2013, 2014, 2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual contract with any Retirement System executive director hired on or after January 1, 2023; at an election to be held on November 8, 2022.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

A handwritten signature in black ink that reads "Victor Young".

By: Victor Young, Assistant Clerk
Rules Committee

Attachment

- c: Devyani Jain, Deputy Environmental Review Officer
Joy Navarrete, Environmental Planning
Don Lewis, Environmental Planning
Laura Lynch, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it would not result in a direct or indirect physical change in the environment.

June 6, 2022

Joy Navarrete

BOARD of SUPERVISORS



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San Francisco 94102-4689
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TDD/TTY No. (415) 554-5227

MEMORANDUM

TO: Ben Rosenfield, City Controller, Office of the Controller

FROM: Victor Young, Assistant Clerk, Rules Committee
Board of Supervisors

A handwritten signature in black ink that reads "Victor Young".

DATE: May 31, 2022

SUBJECT: CHARTER AMENDMENT INTRODUCED
November 8, 2022, Election

The Board of Supervisors' Rules Committee has received the following Charter Amendment for the November 8, 2022, Election. This matter is being **referred** to you in accordance with Rules of Order 2.22.3.

File No. 220640 Charter Amendment - Retiree Supplemental Cost of Living Adjustment; Retirement Board Contract with Executive Director

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to eliminate the full funding requirement for supplemental cost of living benefit payments to members of the San Francisco Employees' Retirement System who retired before November 6, 1996, subject to a monthly monetary cap for retirees and their qualified survivors and beneficiaries in years that the Retirement System is not fully funded; adjust the base retirement allowance for these retirees, or their qualified survivors and beneficiaries, to account for supplemental cost of living adjustments not received in the years 2013, 2014, 2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual contract with any Retirement System executive director hired on or after January 1, 2023; at an election to be held on November 8, 2022.

Please review and prepare a financial analysis of the proposed measure prior to the first Rules Committee hearing.

If you have any questions or concerns, please call me at (415) 554-7723 or email: victor.young@sfgov.org. To submit documentation, please email or forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Todd Rydstrom, Deputy City Controller

Peg Stevenson, City Performance Director
Natasha Mihal, City Services Auditor

BOARD of SUPERVISORS



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MEMORANDUM

TO: Tom Paulino, Liaison to the Board of Supervisors, Mayor's Office
Anne Pearson, Deputy City Attorney, Office of the City Attorney
John Arntz, Director, Department of Elections
LeeAnn Pelham, Executive Director, Ethics Commission
Jay Huish, Executive Director, Retirement Board

FROM: Victor Young, Assistant Clerk, Rules Committee *Victor Young*
Board of Supervisors

DATE: May 31, 2022

SUBJECT: CHARTER AMENDMENT INTRODUCED
November 8, 2022 Election

The Board of Supervisors' Rules Committee has received following Charter Amendment for the November 8, 2022, Election. This matter is being **referred** to you in accordance with Rules of Order 2.22.4.

File No. 220640 Charter Amendment - Retiree Supplemental Cost of Living Adjustment; Retirement Board Contract with Executive Director

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to eliminate the full funding requirement for supplemental cost of living benefit payments to members of the San Francisco Employees' Retirement System who retired before November 6, 1996, subject to a monthly monetary cap for retirees and their qualified survivors and beneficiaries in years that the Retirement System is not fully funded; adjust the base retirement allowance for these retirees, or their qualified survivors and beneficiaries, to account for supplemental cost of living adjustments not received in the years 2013, 2014, 2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual contract with any Retirement System executive director hired on or after January 1, 2023; at an election to be held on November 8, 2022.

Please review and submit any reports or comments you wish to be included with the legislative file.

If you have any questions or concerns, please call me at (415) 554-7723 or email: victor.young@sfgov.org. To submit documentation, please forward to me at the Board

of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Andres Power, Mayor's Office
 Patrick Ford, Ethics Commission
 Michael Canning, Ethics Commission
 Darlene Armanino, Retirement Board

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 July 1 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.

Ms. Alison Ramono

June 15, 2022

Page 4

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.

Ms. Alison Ramono

June 15, 2022

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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 |
| Average Age | 85.1 |
| Average Monthly Benefit | |
| Prior to Past Supp COLAs | \$3,540 |
| After Past Supp COLAs | \$3,692 |

| Supplemental COLA Assumptions | | | | | | |
|-------------------------------|------------------------------------|---|------------------------------------|---|------------------------------------|---|
| May 2022 | | | | | | |
| July 1, | June 30, 2021 GASB | | Full Funding Required | | No Full Funding Requirement | |
| | 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%



June 23, 2022

Supervisor Aaron Peskin, Chair
Supervisor Rafael Mandelman
Supervisor Connie Chan
San Francisco Board of Supervisors, Rules Committee
City Hall, Room 244
1 Dr. Carlton B. Goodlett Plaza
San Francisco, CA 94102

RE: File No. 220640

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to eliminate the full funding requirement for supplemental cost of living benefit payments to members of the San Francisco Employees' Retirement System who retired before November 6, 1996, subject to a monthly monetary cap for retirees and their qualified survivors and beneficiaries in years that the Retirement System is not fully funded; adjust the base retirement allowance for these retirees, or their qualified survivors and beneficiaries, to account for supplemental cost of living adjustments not received in the years 2013, 2014, 2017, 2018 and 2019; and authorize the Retirement Board to enter into an individual contract with any Retirement System executive director hired on or after January 1, 2023. (Supervisors Safai, Melgar and Peskin)

Dear Supervisors Peskin, Mandelman and Chan:

The San Francisco Employees' Retirement System submits its cost report pursuant to Charter Section A8.500 as follows:

1. Adjusting the Supplemental Cost of Living Benefits for SFERS Members Retired Before November 6, 1996

The proposed Charter Amendment will remedy a portion of the Appellate Court's decision in *Protect our Benefits v. City and County of San Francisco* (2015) that held that the full funding requirement to be eligible to receive a Supplemental Cost of Living Adjustment ("Supplemental COLA") could be applied to persons who retired before November 6, 1996. Under the proposed Charter Amendment, members who retired before November 6, 1996, including their qualified survivors and beneficiaries, will receive a Supplemental COLA when SFERS exceeds its assumed rate of return but is not fully funded. However, in those years, the amount of the Supplemental COLA payable will be capped at \$200/month for any retiree with a monthly retirement allowance that exceeds \$4,167. The base retirement allowance will be adjusted to account for Supplemental COLAs that were paid to other retirees in 2013, 2014, 2017, 2018 and 2019, but not to these retirees because the full funding requirement was not met, subject to the \$200/month cap in the aggregate for retirees with a monthly allowance that exceeds \$4,167.

SFERS' Actuary, Cheiron, has estimated that the increase to SFERS' Actuarial Liability will be approximately \$59.7 million for the retirement allowance adjustments set forth in the proposal. In addition, Cheiron estimates there will be an approximate additional \$5.3 million increase to SFERS' Actuarial Liability, representing potential future costs for Supplemental COLAs that may be payable to this group when SFERS has earnings in excess of the expected earnings on the actuarial value of the assets, but the Plan is not fully funded. Cheiron's report is enclosed.

June 23, 2022

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2. Hiring an Executive Director for SFERS

This Proposed Charter Amendment will authorize the Retirement Board to hire any Executive Director by contract. The proposed amendment applies to any Executive Director hired on or after January 1, 2023.

This proposed Charter Amendment may have a slight cost impact on SFERS in the event that a contract amount exceeds what the Retirement Board would otherwise pay an Executive Director. The Retirement System is unable to estimate these potential costs.

Representatives of the Retirement System will attend the Rules Committee hearing on this matter on June 27, 2022.

Very truly yours,



Caryn Bortnick
SFERS Chief Operating Officer

cc Victor Young, Asst. Clerk
Rules Committee

Enc.: Cheiron report dated June 15, 2022