



**City and County of San Francisco
Employees' Retirement System**

September 13, 2017

The Honorable Teri L. Jackson
Presiding Judge, Superior Court of California, County of San Francisco
400 McAllister Street, Room 008
San Francisco, CA 94102

Dear Judge Jackson:

Pursuant to Penal Code sections 933 and 933.05, the following is in reply to the 2016-17 Civil Grand Jury report, *The San Francisco Retirement System – Increasing Understanding and Adding Voter Oversight*. We would like to thank the Civil Grand Jury for their attention to this subject. The members of the Retirement Board recognize that, in performing their fiduciary duties to prudently oversee the investment and administration of the SFERS Trust, their actions impact both plan beneficiaries and the City.

The Retirement Board appreciates the Civil Grand Jury's recognition of its diligent work to protect the interests of the beneficiaries of the SFERS Trust. As a result of this work, SFERS is among the top-performing and well-funded public pension plans in the nation. The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. The City and its voters have also taken important steps to address the increase in unfunded liability. The pension reform legislation approved by City voters in 2011 (Prop. C) will significantly reduce the City's long-term pension obligations and reduce the projected unfunded liabilities over time.

The Retirement Board works continuously to improve the quality and clarity of its reporting. The reports related to the projected cost of benefit improvements referenced in the Civil Grand Jury's report accurately measure the cost/effect impact of the proposed benefit changes at the time they were prepared and presented to the Board of Supervisors and the City voters.

The Civil Grand Jury's report provided important feedback to help us understand how our reporting is received. Retirement System staff is always exploring ways to simplify the presentation of sometimes complex topics and information and is prepared to assist members of the public and City employees and retirees with any questions they might have related to the financial, actuarial and administrative information provided in our reports. The Retirement System welcomes comments on specific ways to improve these various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics.

Detailed responses by the Retirement Board to the Civil Grand Jury's findings and recommendations are attached.

Respectfully submitted,

Jay Huih, Executive Director, on behalf of the
SFERS Retirement Board

cc: Angela Calvillo, Clerk of the Board, City and County of San Francisco

CGJ Year	Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F1	That there are multiple causes for the City's \$5.81 billion debt to its Retirement System, including investment losses (\$1.4 billion), a court ruling on Supplemental Cost of Living Adjustments (COLAs) in the 2011 Proposition C (\$1.3 billion), and changes in demographic assumptions (\$1.1 billion). However, the principal underlying cause is the estimated \$3.5 billion in retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008.	Retirement Board	disagree with it, wholly (explanation in next column)	<p>The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. We emphasize the long term view because none of the figures cited as "debt" are due now. Rather, the items being called a "debt" are funding gaps (i.e., unfunded liabilities) which are designed to be paid off over the life of the SFERS Trust. Additionally, under Proposition C, City employees now pay more out of each and every paycheck into the SFERS Trust, which has reduced the City's cost.</p> <p>Despite investment shortfalls from two recent major recessions, including the Tech Bubble and the Global Financial Crisis, SFERS is closing the gap and ranked in the first quartile of all U.S. public fund peers. SFERS investment performance varies from year-to-year due to financial markets; however, SFERS invests for the long term, evidenced by its top quartile performance, over the 3 year, 5 year, and 10 year time periods. SFERS investment gains have contributed a significant amount toward reducing the unfunded liabilities.</p> <p>In accordance with the City Charter and Retirement Board policies, the cost or increase in liabilities associated with every voter-approved proposition is amortized over up to a 20-year period. The remaining cost of the benefit and COLA increases approved by City voters between 1996 and 2008 was \$1.038 billion, as of June 30, 2016. By 2028, this liability will be paid in full. The present value of the increase in the unfunded liability resulting from the court ruling on the Supplemental COLA retroactive payments of 2013 and 2014 was calculated to be \$429.3 million, as of July 2016.</p>

2016-17 Civil Grand Jury
The SF Retirement System- Increasing Understanding Adding Voter Oversight : **RESPONSES TO CGJ FINDINGS**

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2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F2	1) That the City's Retirement System diligently protects the retirement-related interests of the City's employees and retirees; 2) that the Retirement Board has a majority of members who are also members of the Retirement System (they receive, or will receive, pensions); 3) that when it came to retroactive retirement benefit increase propositions between 1996 and 2008, the Mayor, Board of Supervisors, Retirement Board, and Controller did not fulfill their responsibility to watch out for the interests of the City and its residents; and 4) that despite previous Retirement System-related propositions (2010 Proposition D and 2011 Proposition C) that reduced future pension liabilities, the Retirement System remains seriously underfunded, threatening the fiscal status of the City.	Retirement Board	disagree with it, partially (explanation)	<p>SFERS is among the top performing and well-funded public pensions plans in the United States and disagrees with the finding that the "Retirement System remains seriously underfunded." The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. The Retirement Board recognizes that unfunded liabilities are not a "debt" that must be paid today. Rather, the Retirement Board annually adopts and administers a funding policy to assure that all promised benefits will be paid over the combined lifetimes of the members and their beneficiaries.</p> <p>Each year, the Retirement Board receives an actuarial valuation - a detailed report on the long-term progress of the SFERS Trust toward reducing all pension liabilities. Existing funding policies are reviewed and adjusted, where appropriate, to ensure the long-term financial strength of the SFERS Trust. In accordance with the City Charter, Retirement Board policies, and industry best practices, any increase in the unfunded liabilities associated with every voter-approved proposition is spread out over a 20-year period, which minimizes the impact to the City budget. Based on recent actuarial projections, the Retirement Board expects a continued reduction in liabilities associated with voter-approved benefit improvements over the long-term.</p> <p>The Retirement Board also strongly disagrees with the finding "that when it came to retroactive retirement benefit increases between 1996 and 2008, the Mayor, Board of Supervisors, Retirement Board, and Controller did not fulfill their responsibility to watch out for the interest of the City and its residents." The Retirement Board does not approve plan-benefits; its fiduciary duty is to manage the SFERS Trust and pay the mandated benefits approved by City voters. As fiduciaries to the SFERS Trust, the Retirement Board is legally bound, as set forth in the California State Constitution, and in the San</p>

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2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F4	The Controller and the Retirement System provide extensive reports about the Retirement System, but they are too complex for the average citizen, employee, or retiree to understand. The data in the Retirement System reports is not available to the Retirement System or the public in a dataset, making research and analysis more difficult.	Retirement Board	disagree with it, wholly (explanation in	<p>The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, available on the SFERS website, on an annual basis. These annual reports include audited financial statements and required supplementary information, an actuarial valuation, and a department annual report which consolidates the financial and actuarial information with detailed information on the administration of the Retirement System.</p> <p>The Retirement System can neither agree nor disagree that these reports are too complex for the average citizen, employee, or retiree to understand; however, Retirement System staff is always exploring ways to simplify the presentation of sometimes complex topics and information and is prepared to assist members of the public and City employees and retirees with any questions they might have related to the financial, actuarial and administrative information provided in our reports. The Retirement System welcomes comments on specific ways to improve these various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics. The Retirement System disagrees with the finding that the data in the Retirement System reports is not available in a dataset. The Retirement System has ready access to all the data used in preparing these reports.</p>

2016-17 Civil Grand Jury
The SF Retirement System-Increasing Understanding Adding Voter Oversight: RESPONSES TO CGJ RECOMMENDATIONS

CGJ Year	Report Title	#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R1.1	That the Mayor and Board of Supervisors fully disclose the financial details of any future retirement benefit increases or decreases to the public	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement Board will continue its long-standing practice for any and all future City ordinances or City Charter amendments that impact retirement benefits. The Retirement Board's consulting actuary will prepare and present a cost-effect report to the Board of Supervisors, as required under the City Charter. Each report will be prepared in accordance with industry standards and practices, using the best available demographic information and economic information at the time, as well as the long-term demographic and economic assumptions adopted by the Retirement Board. The report is intended to assist the Board of Supervisors and/or the City's voters, by providing an expert's projection of the overall cost and increase in liability for each proposition. These reports accurately measure the cost/effect impact of the proposition at the time they are prepared. Certainly, the cost or change in liability may differ, in the future, due to changes in fund investment performance (e.g. 2007-08 Global Financial Crisis), changes in economic and demographic assumptions, and changes in plan provisions which are beyond the Retirement Board's control.
2016-17	Accelerating SF Government Performance. Taking Accountability and Transparency to the Next Level	R1.2	That by the end of 2018, the Retirement Board produce an annual report for the public showing each component of the debt owed by the City to the Retirement System, including the full history of each component and descriptions of all calculations.	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience, on an annual basis. These annual reports are available on the SFERS website and include audited financial statements and required supplementary information, an actuarial valuation, and a department annual report which consolidates the financial and actuarial information with detailed information on the administration of the Retirement System. The details of the breakout for each component of unfunded liability related to the City's retirement plan are contained in each annual actuarial valuation report. The Retirement System maintains at least five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the years available on the website are available by request to the Retirement System. The Retirement System welcomes comments on specific ways to improve these various products to ensure their ability to be useful to a broad array of audiences interested in this complex topic.

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2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R2.1	That the Board of Supervisors establish a permanent Retirement System Oversight Committee to develop a comprehensive, long-term solution for the Retirement System that is fair to both employees and taxpayers, and present it to the voters in a proposition by 2018. All options for reducing pension liabilities must be considered, including a hybrid Defined Benefit / Defined Contribution plan. The details of the committee are: 1. Name: Retirement System Oversight Committee 2. Purpose a. Develop a comprehensive, long-term solution for the Retirement System's unfunded liabilities that is fair to both employees, retirees, and taxpayers, and present it to voters in a proposition by the end of 2018. All options should be on the table, including a Hybrid Defined Benefit / DefinedContribution plan. b. Inform and educate the public concerning the finances of the Retirement System. c. As needed, develop solutions to future problems the Retirement System encounters and, if necessary, present them to voters in a proposition. All options should be on the table, including a Hybrid Defined Benefit / Defined Contribution plan. d. The Committee shall provide oversight to ensure that: (1) actions taken by the Retirement System are in the best interest of the residents of San Francisco; (2) all propositions that modify the Retirement System are adequately described to voters in the Voter Information Pamphlet. e. In furtherance of its purpose, the committee may engage in any of the following activities: i. Inquire into the actions of the Retirement System by reviewing reports, analyses, financial statements, actuarial reports, or other materials related to the Retirement System. ii. Holding public meetings to review the effect on San Francisco residents of actions taken by the Retirement System. 3. Public Meetings a. The Board of Supervisors shall provide the committee with any necessary technical assistance and shall provide administrative assistance in furtherance of its purpose and sufficient resources to publicize the conclusions of the committee. b. All committee proceedings shall be subject to the California Public Records Act	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Board of Supervisors and not the Retirement Board. Note: These considerations already have and do occur. For example, in 2011, the Mayor, the Board of Supervisors, other City officials, employee groups, and members of the public worked to pass Proposition C. Now, under Proposition C, employees pay more out of each and every paycheck into the SFERS Trust, which has reduced the City's contribution rate, as a percentage of payroll. This has reduced the City's pension liability over the long term. On an annual basis, the City's leadership reviews pension costs, contribution rates, and their financial impacts in the City budget process and in other settings. On a regular basis, SFERS provides the City with detailed information, funding and contribution projections and stress testing results from the Retirement Board's actuarial consultant, and any other requested information related to the pension liabilities and employer contributions as part of the City's overall financial planning process. All changes in SFERS benefit provisions must be approved by the City's voters. The Retirement Board cannot approve changes in SFERS benefit provisions.
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R2.2	That by the end of 2018, the Mayor and Board of Supervisors submit a Charter amendment proposition to the voters to add three additional public members who are not Retirement System members to the Retirement Board.	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Mayor's Office and Board of Supervisors and not the Retirement Board. Note: SFERS does not believe this recommendation will lead to the desired outcome of having representatives on the Retirement Board "to watch out for the interests of the City and its residents." All members of the Retirement Board, regardless of who elected or appointed them to the Board, have a fiduciary duty to SFERS participants and their beneficiaries. In accordance with the California State Constitution, this duty takes precedence over any other duty or concern. Under the State Constitution, the Retirement Board is required to discharge its duties with respect to the SFERS Trust solely in the interest of, and for the exclusive purposes of providing benefits to SFERS participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. Under trust law, the Retirement Board's duty to its participants and their beneficiaries takes precedence over any other duty, including any duty to the City or its residents.

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2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R4.1	That by the end of 2018, the Retirement System develop and maintain a dataset based on the data in its actuarial and financial reports of the last 20 years, and make that dataset available to the public.	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Retirement System produces various reports detailing financial, actuarial, and operational issues, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience. The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, available on the SFERS website, on an annual basis. These annual reports include audited financial statements and required supplementary information, an actuarial valuation, and a department annual report which consolidates the financial and actuarial information with detailed information on the administration of the Retirement System. The data used to produce these reports is available to the public to the extent it is not protected from disclosure by law. The Retirement System welcomes comments on specific ways to improve the public availability of data used in preparing the various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics.
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R4.2	That by the end of 2018, the Controller's Office develop and produce an annual Retirement System Report that clearly explains the current and projected status of the Retirement System and its effect on the City's budget.	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Controller's Office and not the Retirement Board.