

CIVIL GRAND JURY | 2016-2017
CITY AND COUNTY OF SAN FRANCISCO



**THE SAN FRANCISCO RETIREMENT SYSTEM
INCREASING UNDERSTANDING AND
ADDING VOTER OVERSIGHT**

**Findings, Recommendations, Responses,
& SF CGJ Notes**

SEPTEMBER 20, 2017

THE SAN FRANCISCO RETIREMENT SYSTEM

INCREASING UNDERSTANDING AND ADDING VOTER OVERSIGHT

Finding 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.

Mayor's Office Response to Finding F1

Disagree with it, partially.

We agree that there are multiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. We are confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all active and retired SFERS members. Each year, the Retirement Board receives an actuarial valuation - a snapshot of the long-term progress of the fund toward full funding of all promised benefits - from which they review and adjust, if prudent and appropriate, existing funding policies to ensure the long-term financial strength of the SFERS Trust. 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 Retirement System unfunded liability is not a "debt", but rather a funding gap that will be made up over the very long term, not only by the City, but also by City employees as a result of the employee cost sharing provisions approved by the City voters in 2011 (Proposition C) and long term investment gains. As reflected in the past investment performance of the Retirement System – relative to U.S. public fund peers, SFERS' investment results ranked in the first quartile for the 3 year, 5 year and 10 year time periods, investment gains will also contribute a significant amount towards reducing the unfunded liabilities of the Retirement System.

SF CGJ Notes

The Mayor's Office's cover letter states that "The System is currently 85% funded, versus an average of 72% funded amongst peer jurisdictions."

The 7/1/16 Actuarial Valuation Report (page 1) shows two funded ratios: 82.6% based on Market Value of Assets, and 84.6% based on Actuarial Value of Assets.

http://mysfers.org/wp-content/uploads/SFERS-2016-AVR_2017-02-01s.pdf

The 6/30/16 GASB 67/68 Report (page 9) shows the "Plan fiduciary net position as a percentage of the total pension liability" as 77.61%.

<http://mysfers.org/wp-content/uploads/11092016-board-meeting-11-gasb.pdf>

The 6/30/16 SFERS Annual Report (page 3) states "At the June 30, 2016 fiscal year-end measurement date, the plan net position as a percentage of total pension liability is 77.6% based on total pension liability of \$26.0 billion and plan net position of \$20.2 billion."

http://mysfers.org/wp-content/uploads/SFERS_AnnualReport_FY16_web.pdf

None of the reports explain the differences between the Actuarial Valuation Report's funded percentages and the funded percentage in the GASB 67/68 and SFERS Annual Reports.

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The Retirement System unfunded liability has an outstanding balance, an annual interest rate of 7.5%, and annual payments for interest and principal, so it strongly resembles a debt. The City's employees do not pay for this debt.

The unfunded liability is part of employees' compensation for services rendered during a year for the benefit of the City's residents. By amortizing the unfunded liability over up to 20 years, we are making future residents pay for services received by current residents. This is called intergenerational inequity.

Retirement Board Response to Finding F1

Disagree with it, wholly.

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.

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.

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.

SF CGJ Notes

The Retirement System's unfunded liability has an outstanding balance, an annual interest rate of 7.5%, and annual payments for interest and principal, so it strongly resembles a debt. The City's employees do not pay for this debt.

The unfunded liability is part of employees' compensation for services rendered during a year for the benefit of the City's residents. By amortizing the unfunded liability over up to 20 years, we are making future residents pay for services received by current residents. This is intergenerational inequity.

The 6/30/16 GASB 67/68 Report (page 2) states "The Net Pension Liability (NPL) increased significantly by about \$3,517 million since the prior measurement date, primarily due to investment losses (\$1,384 million), **the Appeal Court's elimination of the full funding requirement for certain members (\$1,294 million)**, and the impact of the revised demographic assumptions and change in discount rate (\$1,087 million)."

(bolding added)

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Recommendation 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.

Mayor's Office Response to Recommendation R1.1

The recommendation has been implemented.

The financial impact of major changes that impact benefit structure are already fully disclosed to the voters via the ballot (see below). Day to day decisions taken by the Retirement Board are also already disclosed to the public. Board meetings are public; agendas and minutes are posted online. Any action taken by the board is publicly posted.

All changes in SFERS benefit provisions must be approved by the City's voters. For items on the ballot we are required by charter to provide actuarial reports detailing the costs of the proposition, which are disclosed on the ballot. The Retirement System and the Controller's Office prepare extensive analyses of any pension-related measure placed on the ballot. By necessity, these cost analyses are brief written statements, with more detailed files maintained and available for inspection by members of the public interested in exploring the issues in more depth.

SF CGJ Notes

The Voter Information Pamphlets for retroactive retirement benefit increases have not included the actuarial reports, the debt's principal amount, the debt's interest rate, or the debt's amortization schedule.

In the June 2008 Voter Information Pamphlet, the "Information on Local Ballot Measures" page, the Proposition B pages, and the Proposition B Legal Text make no mention of "more detailed files maintained and available for inspection by members of the public."

Retirement Board Response to Recommendation R1.1

The recommendation has been implemented.

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.

SF CGJ Notes

The actuarial cost reports for retroactive benefit increase propositions were not mentioned in the Voter Information Pamphlets.

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Recommendation 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.

Mayor's Office Response to Recommendation R1.2

The recommendation has been implemented.

The Retirement System provides extensive reports detailing financial, actuarial and administrative matters 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 details of the breakout for each component of unfunded liability related to the City's retirement plan are contained in the annual actuarial valuation report. There is a description of the calculation method in the appendix of the report. The Retirement System maintains five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the five years available on the website are available by request to the Retirement System.

SF CGJ Notes

The 7/1/16 SFERS Actuarial Valuation Report, page 26, "Section V – Contributions" table, shows the values for only a single year. It does not show the full amortization schedule for each proposition.

"There is a description of the calculation method in the appendix of the report."

Appendix B – Actuarial Assumptions and Methods, pages 67-68, 3. Amortization Method contains high level descriptions such as "Any Charter change prior to 7/1/2014 has been amortized over 20 years from the date it was first recognized in the valuation." It does not describe the calculation method for these elements of the "Section V – Contributions" table:

Outstanding Balance, Amortization Payment, Payment as % of Pay.

Retirement Board Response to Recommendation R1.2

The recommendation has been implemented.

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.

SF CGJ Notes

The 7/1/16 SFERS Actuarial Valuation Report, page 26, "Section V – Contributions" table, shows the values for only a single year. It does not show the full amortization schedule for each proposition.

The calculations are not described: See above SF CGJ Notes on Appendix B.

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Finding 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.

Mayor's Office Response to Finding F2

Disagree with it, partially.

We are in agreement that the City's Retirement System diligently protects the retirement interests of the City's employees and Retirees (item 1). We also agree about the composition of the retirement board (item 2).

However, we disagree with finding (3). Cost analyses prepared by the Controller and the Retirement System were based upon the best available information, and were in line with actuarial and economic assumptions in use at the time. As noted in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of economic assumptions, several of which were not met in the years following the changes approved by voters.

In addition, we disagree with finding 4). Future pension liabilities are a great concern for the city, and are carefully tracked and analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System and the Board of Supervisors' Budget and Legislative analyst. Projected costs are forecast and incorporated into our 5-year financial planning process which is jointly developed by the Mayor's Budget Office, the Controller's Office and the Board of Supervisors' Budget and Legislative analyst.

We have also made significant strides in enacting policy to reduce our pension liability and continue to look for ways to reduce our long-term pension liabilities. The SFERS retirement system is 85% funded. While still not fully funded, it is important to consider that relative to comparable systems, San Francisco's SFERS is faring very well, and is among the top-performing and well-funded public pension plans in the United States. A recent report by the City Services Auditor found that the peer average for city employee pension plans as of FY 15 was 72% funded (compared with SFERS at 85%). For instance, CALPERS is currently funded at 69% and Los Angeles is funded at 83%. As of FY 15, Seattle was funded at 66% and Portland at 46%.

SF CGJ Notes

Information provided in the Voter Information Pamphlets for retroactive retirement benefit increase propositions was not enough for voters to make a well-informed decision.

The City Services Auditor report mentioned is for Fiscal Year 2015, so it is not current. As stated in our report, the current funding level is 77.6% as of 6/30/2016 (GASB 67/68 Report for 6/30/16)

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Measurement Date).

CALPERS recently changed their expected return on investments from 7.5% to 7.0% in steps over the last few years. If the Retirement System did the same, the funding level would be significantly lowered.

Retirement Board Response to Finding F2

Disagree with it, partially.

SFERS is among the top performing and well-funded public pension 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.

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.

The Retirement Board also strongly disagrees with the finding “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.” 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 Francisco Charter, to administer the SFERS Trust solely for the benefit of active and retired members of the Retirement System, and their survivors and beneficiaries. 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.

For each proposition related to changes in SFERS benefits that was presented to City voters during the period from 1996 to 2008, the Retirement Board's consulting actuary prepared and presented a cost-effect report to the Board of Supervisors as required under the City Charter. Each report was 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, to provide an expert's projection of the overall cost and increase in liability for each proposition upon which the Board of Supervisors and the City's voters can make their determination regarding each proposition. These reports accurately measured the cost/effect impact of the propositions at the time they were prepared and presented to the Board of Supervisors and the City's voters. Certainly, these measurements may differ into the future due to changes in fund investment performance (e.g. 2007-08 Global Financial Crisis), changes in economic and demographic assumptions (e.g., people living longer than previously expected), and changes in plan provisions which are beyond the Retirement Board's control. The Retirement Board fulfilled its fiduciary responsibility, as required by law,

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for each of the Retirement System-related propositions presented to the City's voters between 1996 and 2008.

SF CGJ Notes

The unfunded liabilities may not be a “debt” that must be paid today, but the \$435,750,000 interest payment must be paid today (\$5.81 billion at 7.5%).

The 6/30/16 GASB 67/68 Report (page 31) shows the “UAL Contribution” going to zero in 2083 (UAL = Unfunded Actuarial Liability).

The actuarial reports for retroactive benefit increases were not presented to the voters.

Controller’s Office Response to Finding F2

Disagree with it, partially.

While the Controller's Office finds the Civil Grand Jury's statement regarding the health of the Retirement Fund to be overstated, we do share the general concern regarding the increase in the system's net pension liability in recent years and its implications for future City costs. We have presented discussion and analysis in the City's recent Comprehensive Annual Financial Reports (CAFR) and in the City's Five-Year Financial Plan on this topic. We believe that the health of the system needs to be closely monitored and that it is likely to create financial pressure for the City in the years ahead absent changes to benefits. The Controller's Office disagrees with the finding that our office, the Mayor, and the Board of Supervisors did not fulfill our responsibilities to watch out for the interest of the City and its residents regarding benefit changes on the ballot between 1996 and 2008. Cost analyses prepared by our office and the Retirement System were based upon the best available information, and were in line with actuarial and economic assumptions in use at the time. As noted in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of economic assumptions, several of which were not met in the years following the changes approved by voters.

SF CGJ Notes

“We believe that the health of the system needs to be closely monitored and that it is likely to create financial pressure for the City in the years ahead absent changes to benefits.”

This is a reason for creating a Retirement System Oversight Committee, or a similar body.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the “California Rule”. If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City’s benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Recommendation 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 listed at the end of this document due to its length.

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Mayor's Office Response to Recommendation R2.1

The recommendation will not be implemented because it is not warranted or reasonable.

The City already has a Retirement Board which functions as oversight to the Retirement System, and the Mayor's Office has no authority to establish or empanel a new Board committee. Mayor Lee worked to pass major pension reform legislation in 2011 and the City's long-term pension obligations would be much worse if it was not for these measures. Lastly, the City closely monitors pension costs in our long range financial planning- through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continue to seek to reduce projected deficits over time.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Mayor's Office; we apologize for our error.

The Retirement Board governs and controls the Retirement System, but does not have an oversight function.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the "California Rule". If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City's benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Controller's Office Response to Recommendation R2.1

The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Mayor and Board of Supervisors, and not the Controller's Office. In our role as financial advisor, the Controller's Office will support whatever efforts policymakers put in place to study the health of the Retirement Fund and to consider changes to manage future financial costs for the City. We note, however, that the City has rigorous ongoing practices built in to its financial management to review changes in the funded status of the Retirement Fund and their implications for the City's finances. Further, the Controller's Office has supported five different efforts in the last eight years to model financial and actuarial projections and make changes to pension benefits to better manage future costs. Many of these efforts have resulted in proposals moved forward by the Mayor and Board of Supervisors and ultimately adopted by City voters.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Controller's Office; we apologize for our error.

Retirement Board Response to Recommendation R2.1

The recommendation will not be implemented because it is not warranted or reasonable.

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.

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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.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Retirement Board; we apologize for our error.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the “California Rule”. If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City’s benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Recommendation 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.

Mayor’s Office Response to Recommendation R2.2

The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation is intended to add individuals to the retirement system board who are not beneficiaries of the trust fund, and who will therefore presumably act as guardians of the public interest. However, trustees are always obligated to act only in the fiduciary interests of the beneficiaries. Therefore, this recommendation would not accomplish its intended goals, and for that reason will not be pursued. The City closely monitors pension costs in our long range financial planning - through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long-term deficit and will continue to seek to reduce projected deficits over time. The Mayor will continue to consider any and all mechanisms within his purview to ensure fiscal sustainability.

SF CGJ Notes

The current Retirement Board members fulfill their fiduciary responsibilities regardless of whether or not they are beneficiaries; three additional public members should be expected to do the same.

The Retirement Board members’ duties include “minimizing employer contributions thereto”.

The San Francisco Charter, Article XII: Employee Retirement and Health Service Systems, Sec. 12.100. Retirement Board, includes this statement:

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

An excerpt from the CA Constitution, Article XVI, Section 17:

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*(b) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, **minimizing employer contributions thereto**, and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.*

Controller's Office Response to Recommendation R2.2

The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Mayor and Board of Supervisors, and not the Controller's Office. In our role as financial advisor, the Controller's Office will support whatever efforts policymakers request to review governance questions regarding the Retirement Board. We note, however, that Retirement Board members are fiduciaries that have a duty to the system's participants and not to "watch out for the interests of the City and its residents." This broader responsibility falls on the Mayor, Board of Supervisors and other policymakers. Under the City Charter ultimately the voters of San Francisco determine benefit levels, unlike the majority of governments where retirement benefits levels are not subject to a vote of the people.

SF CGJ Notes

We should not have directed Recommendation R2.2 to the Controller's Office; we apologize for our error.

Retirement Board Response to Recommendation R2.2

The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

We should not have directed Recommendation R2.2 to the Retirement Board; we apologize for our error.

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<p>Finding F3</p> <p>That the Voter Information Pamphlets for retroactive retirement benefit increase propositions between 1996 and 2008 did not provide voters with complete estimates of the propositions’ costs, who would pay those costs, how those costs were financed, and what the interest rates were.</p>
<p>Elections Commission Response to Finding F3</p> <p>Disagree with it, wholly.</p> <p>The Elections Commission disagrees wholly with the finding because the Commission lacks the knowledge to assess whether these specific VIPs did or did not provide voters with full and accurate information regarding these propositions.</p>
<p>SF CGJ Notes</p> <p>We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.</p>
<p>Department of Elections Response to Finding F3</p> <p>Disagree with it, wholly.</p> <p>The Department lacks sufficient knowledge to determine whether these VIPs included the information set forth in this finding.</p>
<p>SF CGJ Notes</p> <p>We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.</p>
<p>Controller’s Office Response to Finding F3</p> <p>Disagree with it, partially.</p> <p>The Controller's Office cost analyses for measures in these years included estimates based upon actuarial and financial assumptions utilized by the Retirement System at the time. Our analyses noted the sensitivity of the cost analyses to these assumptions. By necessity, these cost analyses are brief written statements for the Voter Information Pamphlet, with detailed files maintained for stakeholders or members of the public interested in exploring further. We are open to specific comments on ways to improve our ballot cost analyses, including those for future pension measures. We are open to the possibility of providing a section in the Voter Information Pamphlet with background on public pension structures and status, similar to our section regarding debt management and bond financing that is provided when bonds are on the ballot.</p>
<p>SF CGJ Notes</p> <p>The “detailed files maintained for stakeholders or members of the public interested in exploring further” are not mentioned in the Voter Information Pamphlets. The actuarial analysis report for the 2008 Prop B could not be found online.</p> <p>A “section in the Voter Information Pamphlet with background on public pension structures and status, similar to our section regarding debt management and bond financing that is provided when bonds are on</p>

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the ballot” would be helpful.

Recommendation R3.1

That the Elections Commission and the Department of Elections ensure that future Voter Information Pamphlets for Retirement System-related propositions provide voters with complete financial details.

Elections Commission Response to Recommendation R3.1

The recommendation will not be implemented because it is not warranted or reasonable.

The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Department of Elections Response to Recommendation R3.1

The recommendation will not be implemented because it is not warranted or reasonable.

The Department lacks the authority to ensure that future VIPS provide voters with complete financial details regarding Retirement System-related propositions. The Department of Elections does not determine the content of the Voter Information Pamphlet; that determination is made by ordinance, and those ordinances are included in the Municipal Elections Code. The Department's role is simply to format information and transmit it to the printer. If the City adopts an ordinance requiring the Department of Elections to include additional information regarding costs associated with retirement benefits in the Voter Information Pamphlet, the Department will do so.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Recommendation R3.2

That by the end of 2018, the Controller’s Office provide SF residents, employees, and retirees with a description of the City’s Retirement System that enables them to make informed decisions about it.

Elections Commission Response to Recommendation R3.2

The recommendation will not be implemented because it is not warranted or reasonable.

The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

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Department of Elections Response to Recommendation R3.2

The recommendation will not be implemented because it is not warranted or reasonable.

The Department lacks the authority to require that the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it. If an ordinance is adopted that requires additional content to be included in the Voter Information Pamphlet, the Department will comply with the ordinance.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Controller's Office Response to Recommendation R3.2

The recommendation has been implemented.

The Retirement System, the Controller's Office, and others already produce a wide array of public reports for various audiences on the financial health of the Retirement Fund and its implications for both beneficiaries and the City government. We have augmented this reporting in recent years with additional detailed analysis and discussion in the City's Five Year Financial Plan. We welcome specific suggestions to improve these products, but do not believe that an additional annual report will improve public knowledge of this topic. As discussed elsewhere, we are open to specific means of improving our ballot measure analysis, including the possibility of providing additional background information in the voter information pamphlet when pension measures are placed before the voters, similar to our discussion of debt financing when bond authorizations are on the ballot.

SF CGJ Notes

A "section in the Voter Information Pamphlet with background on public pension structures and status, similar to our section regarding debt management and bond financing that is provided when bonds are on the ballot" would be helpful.

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Finding 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 Response to Finding F4

Disagree with it, wholly.

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 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.

SF CGJ Notes

The Finding refers to “data in the Retirement System reports”, not “data used in preparing these reports.”

Most of the Retirement System’s reports are understandable for ‘a knowledgeable but non-expert audience’, but there are important sections that would be a challenge for even an expert audience. Some examples:

SFERS Annual Report: the “Actuarial Analysis of Financial Experience”, “Schedule of Funding Progress”, and “Actuarial Solvency Test” tables have no description of the tables, the data they contain, or why the data ends with the previous Fiscal Year.

SFERS Actuarial Valuation Report: Section VI – Actuarial Section of the CAFR, “Table VI-1 Analysis of Financial Experience”, “Table VI-2 Solvency Test”, and “Table VI-3 Schedule of Funding Progress” have minimal descriptions of the tables’ purpose or the data they contain.

GASB 67/68 Report: Section VI – GASB 68 Collective Information, “Table VI-1 Schedule of Collective Deferred Inflows and Outflows of Resources”, “Table VI-2 Calculation of Collective Pension Expense” do not describe the sources of the data, and why much of the data is different than what is in the SFERS Actuarial Valuation Report.

The items below could be done by the Retirement System and/or the Controller’s Office.

1. Create a Sankey Diagram for the Retirement System. Here’s a link to a CalMatters’ Sankey Diagram of

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the CA Budget: <https://calmatters.org/articles/california-state-budget-best-visualization-tool/>

2. Create an interactive online diagram that shows an employee's retirement fund life-cycle, from hire date through, and sometimes after, death.

3. Publish complete amortization schedules for each of the current proposition-based debts.

Controller's Office Response to Finding F4

Disagree with it, partially.

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 Controller's Office, in the City's Five-Year Financial Plan, reports on the expected future retirement costs to the City, and includes discussion of the health of the Retirement Fund in the City's Comprehensive Annual Financial Report (CAFR). The Controller's Office has made regular public presentations at hearings held by the Board of Supervisors on the health of the Retirement System and its implications for the financial health of the City. We welcome 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.

SF CGJ Notes

See the SF CGJ Notes above for specific report sections that would be a challenge for even an expert audience, and some suggestions for improvements.

Recommendation 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 Response to Recommendation R4.1

The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

The Retirement System data is not available on SF OpenBook (<http://openbook.sfgov.org/>) or DataSF (<https://data.sfgov.org>), and a search of the Retirement System website found no data.

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Controller's Office Response to Recommendation R4.1

The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Retirement System and not the Controller's Office.

SF CGJ Notes

We should not have directed Recommendation R4.1 to the Controller's Office; we apologize for our error.

Recommendation 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 Response to Recommendation R4.2

The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Controller's Office and not the Retirement Board.

SF CGJ Notes

We should not have directed Recommendation R4.2 to the Retirement Board; we apologize for our error.

Controller's Office Response to Recommendation R4.2

The recommendation requires further analysis (explanation of the scope of that analysis and a timeframe for discussion, not more than six months from the release of the report noted in next column)

The City's Five-Year Financial Plan includes clear discussion regarding the high-level financial status of the Retirement Fund and its implications for future City costs, including analysis of the effects of a downturn in investment returns that may occur in a recession. The City's Comprehensive Annual Financial Report also includes discussion of the health and funded status of the Retirement Fund. 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. We welcome comments on specific ways to improve these products to ensure that they are useful to a broad array of audiences interested in this complex topic.

SF CGJ Notes

The items below could be done by the Retirement System and/or the Controller's Office.

1. Create a Sankey Diagram for the Retirement System. Here's a link to a CalMatters' Sankey Diagram of the CA Budget: <https://calmatters.org/articles/california-state-budget-best-visualization-tool/>
2. Create an interactive online diagram that shows an employee's retirement fund life-cycle, from hire date through, and sometimes after, death.
3. Publish complete amortization schedules for each of the current proposition-based debts.

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Complete text of Recommendation 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 / Defined Contribution 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 (Section 6254, et seq., of the Government Code of the State of California) and the City's Sunshine Ordinance (Chapter 67 of this Code). The committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the committee and all documents received and reports issued shall be a matter of public record and be made available on the Board's website.
4. Membership
 - a. Two-thirds of the members will be Public members and one-third will be Representative members.

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- b.** Public members.
 - i.** Public members must be voters.
 - ii.** Public members cannot be members of the Retirement System.
 - iii.** Each Supervisor will appoint a single Public member.
 - iv.** The Mayor will appoint all other Public members.
 - v.** Public members can only be removed for cause.
 - vi.** Public members shall be experienced in life insurance, actuarial science, employee pension planning, investment portfolio management, labor negotiations, accounting, mathematics, statistics, economics, or finance.
 - vii.** Public members will receive no compensation.
 - viii.** Four-year term, staggered so that one-fourth of the Public members' terms expire each year.
 - ix.** No more than two consecutive terms.
 - c.** Representative members
 - i.** Mayor's Office representative.
 - ii.** Board of Supervisors' representative.
 - iii.** Controller's Office representative.
 - iv.** Human Resources Department representative.
 - v.** Safety Unions' representative.
 - vi.** Miscellaneous Unions' representative.
- 5.** Committee Costs
- a.** The Board of Supervisors will decide how best to fund the Committee.