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City and County of San Francisco

San Francisco City and County
Employees' Retirement System

February 17, 2010

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BOARD OF SUPERVISORS
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Angela Calvillo
Clerk of the Board
Board of Supervisors
Room 208, City Hall
San Francisco, CA 94102

RE: **File No. 100156**

Proposal to amend the Charter of the City and County of San Francisco on June 8, 2010 by amending Sections A8.432, A8.506, A8.506-2, A8.506-3, A8.510, A8.590-4 and A8.590-5 and by adding Sections A8.432-1, A8.600 to A8.600-14, A8.601 to A8.601-16 and A8.602 to A8.602-16 to:

- Create a new SFERS plan for miscellaneous officers and employees hired after July 1, 2010, in which "final compensation" is calculated based on a two-year average formula instead of the current one-year formula,

- Create a new SFERS plan for safety police and fire employees hired after July 1, 2010, in which "final compensation" is calculated based on a two-year average formula instead of the current one-year formula, and in which the required employee contribution is 9.00% of covered compensation instead of the current 7.50% of compensation,

- To the extent possible under the City's agreement with CalPERS, create new CalPERS plans for miscellaneous and safety employees hired after July 1, 2010, who are covered by CalPERS, in which "final compensation" is calculated based on a two-year average formula instead of the current one-year formula and in which the required employee contribution is 9.00% of compensation,

- Require that all contracts and contract amendments for CalPERS members who are employees of the sheriff's department and the housing authority police entered into on and after July 1, 2010, be cost-neutral to the City and County of San Francisco,

- Prohibit the City and County of San Francisco from paying any required employee contributions to SFERS or CalPERS,

- In years when the required employer contribution to SFERS set by the Retirement Board is less than the "employer normal cost" as determined by the SFERS consulting actuary, require the City and County of San Francisco to deposit an amount equal to: the employer normal cost minus the required employer contribution, into the Retiree Health Care Trust Fund, and

- Define "participating employers" in the Retiree Health Care Trust Fund to include the Superior Court of California, County of San Francisco.

This letter is the cost and effect report required to be prepared by the San Francisco Employees' Retirement System under Charter Section A8.500. This proposed Charter amendment modifies various Charter sections; however, the Retirement System's review and analysis is limited to the SFERS pension provisions only.

Effect of the Proposed Amendment to Charter

Under the proposed Charter amendment,

New miscellaneous and safety employees hired after July 1, 2010 would have their retirement benefits from SFERS or CalPERS determined based on "final compensation" calculated based on a two-year average formula instead of the current one-year formula, producing slightly lower benefits.

New safety fire and police employees covered by SFERS or CalPERS, and new miscellaneous employees covered by CalPERS, who are hired after July 1, 2010, would be required to make employee contributions equal to 9.00% of compensation, an increase of 1.5% over the current rate.

The City and County of San Francisco would be prohibited from paying any required employee contributions to SFERS or CalPERS,

In each fiscal year beginning with Fiscal Year 2011-12, and in all subsequent fiscal years, in which the City and County of San Francisco's required employer contribution rate to SFERS falls below the "employer normal cost rate" as determined by the SFERS consulting actuary, the City and County of San Francisco would be required to deposit such difference into the Retiree Health Care Trust to fund future retiree health benefit costs.

Cost and Effect of the Proposed Charter Amendment

As required under Charter Section A8.500, the SFERS consulting actuary – Cheiron has prepared an analysis and supplemental valuation report to estimate the cost and effect of each component of the proposal. We have summarized that information below. The full report by the SFERS consulting actuary is attached.

The consulting actuary's analysis and supplemental valuation report addresses only the proposed change in benefits payable under SFERS, and not from CalPERS.

The employer contribution rate for SFERS is determined each fiscal year on a combined single rate basis. The resulting single employer contribution rate approved by the Retirement Board is then applied uniformly across all City and County of San Francisco departments and payrolls, regardless of whether the employees are police, fire or "miscellaneous". The cost analysis below addresses only this combined employer contribution rate.

Two-Year Final Average Pay and 9.0% SFERS Safety Employee Contributions

The table below is taken from the supplemental valuation report prepared by Cheiron and shows the estimated decrease in the employer contribution rate resulting separately from the two-year average compensation component, and the 9.00% employee contribution component, and then for both components together. All results are based on the most recent actuarial valuation as of July 1, 2009 and based on the membership and financial information used in that valuation together with the plan provisions and actuarial assumptions and methods described in the report. Copies of the July 1, 2009 actuarial valuation report are available from SFERS.

Estimated system-wide Impact on Normal Cost Rates				
	Current	2-Year Final Average Pay	9% Police & Fire Contribution	Both Provisions
Gross Normal Cost Percentage	18.2%	17.8%	18.2%	17.8%
Employee Contribution	7.5%	7.5%	7.8%	7.8%
Employer Normal Cost Percentage	10.7%	10.3%	10.4%	10.0%

The eventual impact of both components of the proposal would be an approximate 0.7% reduction in the employer contribution rate. However, since the changes would apply to employees hired after July 1, 2010, the impact will be phased in as new employees are hired. Assuming current employees leave the system as projected in the actuarial assumptions and are replaced by new employees such that the total number of employees remains constant and total payroll increases by 4.5 percent per year, the table below shows the estimated phase-in of the changes to the employer normal cost rate over time.

Projected Phase-In of Employer Normal Cost Rates						
	7/1/2010	7/1/2015	7/1/2020	7/1/2025	7/1/2030	7/1/2035
3-Year final Average Pay	10.7%	10.6%	10.5%	10.4%	10.4%	10.3%
9% Police and Fire Contributions	10.7%	10.6%	10.6%	10.5%	10.5%	10.4%
Both Provisions	10.7%	10.5%	10.4%	10.3%	10.1%	10.0%

From the current fiscal year's employer normal cost rate of 10.7% of covered pay, the phase-in reductions in SFERS employer normal cost rates by FY 2015-16 are estimated to be 0.2% of covered payroll; by FY 2020-21, 0.3% of covered pay; by FY 2025-2026, 0.4% of covered pay; by FY 2030-2031, 0.6% of covered pay; and by FY 2035-2036, 0.7% of covered pay.

If this Charter proposal is approved by the voters of the City and County of San Francisco, the aggregate employer contribution savings over the 25-year phase-in period are estimated to be in the range of $240 million (assuming no increase in covered payroll during the 25-year phase-in period) to $517 million (assuming a 4.5% annual increase in covered payroll during the 25-year phase-in period). For details of this estimate, see attached chart titled *100156 Cost and Effect Report.* After the 25-year phase-in period, the estimated employer contribution savings are 0.7% of covered payroll in each year thereafter.

Prohibiting the City from Making Employee Contributions on Behalf of Members

With respect to the provision prohibiting the City and County of San Francisco from making required employee contributions to the plan, this provision does not affect either the amount of benefits paid or the amount of contributions received. This provision impacts the "payer" of contributions by restricting the City and County of San Francisco from rendering such payments on behalf of SFERS members, and therefore necessitating that such cost be borne by the covered employees. Consequently, this provision was not analyzed by the consulting actuary.

Additional Employer Contributions to Retiree Health Care Trust

This provision will have no impact on the employer or employee contributions required to fund the SFERS Trust. Consequently, the financial impact of this provision was not analyzed by the consulting actuary.

The Retirement System will appear at the Board of Supervisors hearing on this subject and address questions of the Board.

Very truly yours,

Gary A. Amelio
SFERS Executive Director

Ray Lane
SFERS Actuarial Services Coordinator

cc: The Honorable Gavin Newsom, Mayor
The Honorable David Campos, Supervisor
The Honorable Eric Mar, Supervisor
The Honorable Sean Elsbernd, Supervisor
The Honorable Dennis Herrera, Esquire, City Attorney
Caryn Bortnick, Esquire, Deputy City Attorney

Attachments: Cheiron report dated February 18, 2010
100156 Cost and Effect Report

100156 Cost and Effect Report - Combined Two Year Average and 9% Safety Contributions
Employer Contribution Savings Projection for Period July 1, 2010 through June 30, 2036

				no payroll increase		with payroll increases entered below.		
year	fiscal year	normal cost	savings compared to 10.7%	projected payroll (**$millions**)	savings (**$millions**)	insert payroll increase from prior year	projected payroll (**$millions**)	savings (**$millions**)
	2010 to 2011	**10.70%**	0.00%	$ 2,500	-		$ 2,500	-
1	2011 to 2012	10.66%	0.04%	2,500	$ 1.00	**4.50%**	2,613	$ 1.04
2	2012 to 2013	10.62%	0.08%	2,500	2.00	**4.50%**	2,730	2.18
3	2013 to 2014	10.58%	0.12%	2,500	3.00	**4.50%**	2,853	3.42
4	2014 to 2015	10.54%	0.16%	2,500	4.00	**4.50%**	2,981	4.77
5	2015 to 2016	**10.50%**	0.20%	2,500	5.00	**4.50%**	3,115	6.23
6	2016 to 2017	10.48%	0.22%	2,500	5.50	**4.50%**	3,256	7.16
7	2017 to 2018	10.46%	0.24%	2,500	6.00	**4.50%**	3,402	8.17
8	2018 to 2019	10.44%	0.26%	2,500	6.50	**4.50%**	3,555	9.24
9	2019 to 2020	10.42%	0.28%	2,500	7.00	**4.50%**	3,715	10.40
10	2020 to 2021	**10.40%**	0.30%	2,500	7.50	**4.50%**	3,882	11.65
11	2021 to 2022	10.38%	0.32%	2,500	8.00	**4.50%**	4,057	12.98
12	2022 to 2023	10.36%	0.34%	2,500	8.50	**4.50%**	4,240	14.41
13	2023 to 2024	10.34%	0.36%	2,500	9.00	**4.50%**	4,430	15.95
14	2024 to 2025	10.32%	0.38%	2,500	9.50	**4.50%**	4,630	17.59
15	2025 to 2026	**10.30%**	0.40%	2,500	10.00	**4.50%**	4,838	19.35
16	2026 to 2027	10.26%	0.44%	2,500	11.00	**4.50%**	5,056	22.25
17	2027 to 2028	10.22%	0.48%	2,500	12.00	**4.50%**	5,283	25.36
18	2028 to 2029	10.18%	0.52%	2,500	13.00	**4.50%**	5,521	28.71
19	2029 to 2030	10.14%	0.56%	2,500	14.00	**4.50%**	5,770	32.31
20	2030 to 2031	**10.10%**	0.60%	2,500	15.00	**4.50%**	6,029	36.18
21	2031 to 2032	10.08%	0.62%	2,500	15.50	**4.50%**	6,301	39.06
22	2032 to 2033	10.06%	0.64%	2,500	16.00	**4.50%**	6,584	42.14
23	2033 to 2034	10.04%	0.66%	2,500	16.50	**4.50%**	6,880	45.41
24	2034 to 2035	10.02%	0.68%	2,500	17.00	**4.50%**	7,190	48.89
25	2035 to 2036	**10.00%**	0.70%	2,500	17.50	**4.50%**	7,514	52.60
TOTALS					**$ 240** (**$millions**)			**$ 517** (**$millions**)

100156nine%safetyandtwoyearaveragecombined.xls

February 17, 2010

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

Re: Estimated Impact of Labor Coalition's Proposed Charter Amendment

Dear Jay:

As requested, we estimated the impact of the Labor Coalition's proposed charter amendment for new employees that would calculate final average compensation over two years and require police and fire employees to contribute 9 percent of pay to the plan. Assuming the future workforce is demographically identical to the current workforce, the ultimate impact of these provisions on the plan's normal cost rates is shown in the table below.

Estimated System-wide Impact on Normal Cost Rates				
	Current	**2-Year Final Average Pay**	**9% Police & Fire Contribution**	**Both Provisions**
Gross Normal Cost Percentage	18.2%	17.8%	18.2%	17.8%
Employee Contribution	7.5%	7.5%	7.8%	7.8%
Employer Normal Cost Percentage	10.7%	10.3%	10.4%	10.0%

However, since the changes to the provisions only apply to employees hired after June 8, 2010, the impact will phase in as new employees are hired. Assuming current employees leave the system as projected and are replaced by new employees such that the total number of employees remains constant and total payroll increases by 4.5 percent per year, the table below shows the estimated phase-in of the changes to the employer normal cost rate over time.

Projected Phase-In of Employer Normal Cost Rates						
	7/1/2010	**7/1/2015**	**7/1/2020**	**7/1/2025**	**7/1/2030**	**7/1/2035**
2-Year Final Average Pay	10.7%	10.6%	10.5%	10.4%	10.4%	10.3%
9% Police & Fire Contributions	10.7%	10.6%	10.6%	10.5%	10.5%	10.4%
Both Provisions	10.7%	10.5%	10.4%	10.3%	10.1%	10.0%

In addition, the proposal would require the City to increase base wages for all SEIU members by 7% effective July 1, 2010. This change would increase the Unfunded Actuarial Liability by approximately $100 million and the City's UAL contribution by approximately $8.5 million. It would also increase the City and County's normal cost by approximately $2.7 million.

Data, Methods and Assumptions

This analysis is based on the data, methods and assumptions described in the July 1, 2009 actuarial valuation report. To estimate the ultimate impact of the changes, we compared the normal cost of the current population under the current provisions to the normal cost of the same population under the proposed provisions assuming they had always been covered under the proposed provisions. Essentially, we assume that the plan population when all active members are covered by the new provisions is the same demographic mix (age, lengths of service, etc.) as the current population.

To project the phase-in of the changes as new employees are hired, we assumed that employees as of June 30, 2009 continued in employment as projected by the assumptions in the July 1, 2009 actuarial valuation. We further assumed that total payroll increased by 4.5 percent per year and attributed the difference between the projected total payroll and projected payroll for current employees to new hires who would be covered by the new plans.

To estimate the impact of the base pay for SEIU members, we adjusted the reported pay as of July 1, 2009 for all active members reported under union code 790 or 791. There were 8,478 members affected, and their average annual expected pay increased from $71,476 to $75,799. Because some members in the data are below our minimum assumed pay of $45,000, the increase does not add up to a full 7% increase.

Analysis and Conclusions

Changing from a one-year final average compensation to two-year final average compensation reduces expected retirement and disability benefits by approximately 2.5%, but has a much smaller impact on death and termination benefits. In aggregate, the gross normal cost is reduced about 2.3%.

Changing the employee contribution rate for Police and Fire employees increases expected death and termination benefits slightly due to the increased value of the return of contributions, but has no noticeable impact on gross normal cost. However, since members pay a greater share of the gross normal cost, the employer normal cost decreases by 1.5% of payroll for Police and Fire employees.

These estimates are based on our understanding of the plan changes and the data, assumptions and methods all as described above. Differences between our assumptions and the actual future experience of the plan may produce different results.

If you have any questions, please let us know.

Sincerely,
Cheiron

William R. Hallmark

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

cc: Gene Kalwarski
Gary Amelio
Ray Lane
Anne Harper