SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System
Office of the Executive Director

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of September 8, 2021

To: Retirement Board

Through: Jay Huish
Executive Director

From: Janet Brazelton
Actuarial Services Coordinator

Date: September 8, 2021

Agenda Item:

Review and acceptance of *Supplemental COLA Analysis as of July 1, 2021*.

Background

San Francisco Charter Section A8.526-3 provides in part that supplemental cost of living benefits could be payable if "in the previous fiscal year, there were earnings in excess of the expected earnings on the actuarial value of the assets". For members retired prior to November 6, 1996, A8.526-3(d) adds an additional restriction that the Retirement System be fully funded based on the market value of the assets.

San Francisco Charter Section A8.526-4 provides in part that supplemental cost of living benefits could be payable for persons hired on and after January 7, 2012 if "in the previous fiscal year, there were earnings in excess of the expected earnings on the actuarial value of the assets". In those years, a supplemental COLA is payable if the Retirement System was fully funded on the market value of the assets.

At its August 11, 2021 meeting, the Board confirmed that as the Retirement System is fully funded as of June 30, 2021, members retired prior to November 6, 1996 and retired members hired on and after January 7, 2012 would be eligible for a July 1, 2021 supplemental cost of living benefit.

The attached analysis by Cheiron has determined that there are excess earnings as defined by A8.526-3 and A8.526-4, and that a supplemental cost of living benefit is payable to all retired members and their beneficiaries, who were retired as of July 1, 2021. The amount of the supplemental COLA will be the maximum 3.5% of the benefit payable prior to July 1 less the amount of any Basic COLA otherwise payable.

Recommendation

Accept Cheiron's *Supplemental COLA Analysis as of July 1, 2021* and direct Retirement staff to calculate and process the Supplemental COLA payable effective July 1, 2021.

Attachments
Supplemental COLA Analysis as of July 1, 2021

Via Electronic Mail

August 31, 2021

Retirement Board of the City and County of
San Francisco Employees' Retirement System
c/o Mr. Jay Huish, Executive Director
1145 Market Street, 6th Floor
San Francisco, CA 94103

Re: Supplemental COLA Analysis as of July 1, 2021

Dear Members of the Board:

The purpose of this analysis is:

- To determine if the supplemental cost-of-living benefit adjustment (Supplemental COLA) is payable effective July 1, 2021,
- To calculate the amount of excess earnings for the fiscal year ending June 30, 2021 available to provide for a Supplemental COLA, and
- To estimate the additional cost due to the Supplemental COLA, if it is payable.

We have determined that a Supplemental COLA is payable effective July 1, 2021 to all retired members, and their beneficiaries, who were retired as of July 1, 2021.

Eligibility for Supplemental COLA

For members hired prior to January 7, 2012 and who retire on or after November 6, 1996, the Supplemental COLA is payable if there are excess earnings as determined below. For other members, the Supplemental COLA is only payable if the System is also fully funded. We understand, based on guidance provided by the Board, that the measurement of whether or not the System is fully funded is as of the June 30th immediately preceding the effective date of the Supplemental COLA. Based on the preliminary Market Value of Assets of $34.5 billion provided in the July CIO report and a projection of System liabilities from the July 1, 2020 actuarial valuation, the System is estimated to be 113% funded based on the Market Value of Assets as of June 30, 2021. Consequently, a Supplemental COLA is payable to members who retired before November 6, 1996 (Pre '97 Retirees) and to retired members who were hired on or after January 7, 2012 (Prop C Retirees) provided there are excess earnings.

Earnings in Excess of Expected Earnings

Charter Section A8.526-3 requires that *"the retirement board shall determine whether, in the previous fiscal year, there were earnings in excess of the expected earnings on the Actuarial Value of Assets."* The preliminary Market Value of Assets of $34.5 billion provided in the CIO report presented at the July 14, 2021 SFERS Board Meeting was used in the calculations. We have determined that there were investment earnings in excess of the expected earnings on the Actuarial

Value of Assets for the fiscal year ending June 30, 2021 of approximately $6.4 billion, based on the calculations below.

Calculation of Earnings in Excess of Expected Earnings as of June 30, 2021 (in thousands)		
1)	Actuarial Value of Assets as of 7/1/2020	$26,696,000
2)	Net Cash Flows	
	Contributions	1,245,926
	Benefits and expenses	(1,650,944)
	Total	(405,018)
3)	Expected return from 7/1/2020 to 6/30/2021	1,930,000
4)	Estimated Earnings on the Market Value of Assets from 7/1/2020 to 6/30/2021	8,354,000
5)	Estimated Excess investment return [(4) - (3), not less than $0]	$ 6,424,000

Preliminary contributions, benefit payments and administrative expenses for Plan Year ending June 30, 2021 were provided by SFERS.

Estimated Cost of the Supplemental COLA for 2021

In general, Charter Section A8.526-3 requires the payment of a Supplemental COLA when there are sufficient excess investment returns beginning July 1 equal to 3.5% of the benefit payable prior to July 1 less the amount of any Basic COLA otherwise payable. The estimated cost for the Supplemental COLA payable effective July 1, 2021 is approximately $315 million. This estimate assumes all retirees and beneficiaries receive the Supplemental COLA for their lifetime with a continuance for their beneficiary's lifetimes and all actuarial assumptions as described in our July 1, 2020 actuarial valuation report are met.

- All Miscellaneous and New Safety payees received a 2% Basic COLA (pursuant to Section A8.526-2) effective July 1, 2021. Consequently, the Supplemental COLA provides an additional increase of 1.5%.

- Old Police and Old Fire payees receive a Basic COLA based upon the increase in pay for the position from which they retired. While we understand that the Police and Fire active members received a pay increase of approximately 3.0% effective July 1, 2021, we do not have the full information necessary to calculate the increase for the payees. To be conservative, we have assumed that the Old Safety payees' Basic COLA will be 0%. Thus, our estimate includes a full 3.5% increase for the Supplemental COLA. The actual Supplemental COLA for this group will be less when the actual amount of the Basic COLA is calculated.

In preparing our calculations, we relied on information (some oral and some written) supplied by the City and County of San Francisco Employees' Retirement System (SFERS). This information includes, but is not limited to, the plan provisions, retiree data, and financial information as of June 30, 2021.

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.

This letter and its contents have 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 letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared exclusively for SFERS for the purpose described herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions or need any additional information, please let us know.

Sincerely,
Cheiron

William R. Hallmark

Anne Harper

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

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

cc: Jay Huish, Executive Director
Caryn Bortnick, Deputy Executive Director
Janet Brazelton, Actuarial Services Coordinator