City and County of San Francisco

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

October 26, 2007

Mr. John Amhtz
Director of Elections
City Hall, Room 48
1 Dr. Carlton B. Goodlett Place,
San Francisco, CA 94102

Dear Mr. Amhtz:

In response to your letter of September 6, 2007 regarding a proposed initiative Charter Amendment for the February 2008 ballot the Retirement System has prepared the following analysis.

The initiative Charter amendment entitled "Deferred Retirement Option Program" (DROP) will require the Retirement System to work with the Board of Supervisors to enact the legislation required by the initiative and then to educate, counsel and implement the decisions of qualified police officers regarding DROP.

The DROP will be available to all San Francisco police officers who have attained 50 years of age and have completed at least 25 years of service in the following police officer ranks:

1. Police Officer (Q2, Q3, Q4) for up to 36 months;
2. Police Inspector (0380, 0381, 0382) and Police Sergeant (Q50, Q51, Q52) for up to 24 months; and
3. Police Lieutenant (Q60, Q61, Q62) and Police Captain (Q80, Q81, Q82) for up to 12 months.

Qualified officers will have the individual choice to freeze the calculation of their retirement SFERS benefit and to continue to work with full wages and all benefits (with the exception of enhancing their frozen retirement benefits). During the period of an officer's employment while in DROP, the Retirement System will accrue the officer's retirement benefit in a tax deferred account for distribution at the conclusion of the officer's chosen DROP period.

Under the provisions of the DROP, the Retirement System will be required to develop new benefit calculation and accounting systems to administer the program as well as significant policies and procedures to address the consequences of the death, disability or termination of employment of police officers in the DROP program. This will require a significant dedication of time and resources by senior management staff, as well as the development of appropriate accounting, counseling and educational systems and materials at a cost that cannot be estimated at this time. Further the Retirement System will be required to track the benefits which would have been payable, but for the DROP, and the costs of administration in order to conduct the cost analysis defined in Section A8.909 of the initiative.

The following table identifies the number of police officers who are or will be meet the age and service requirements of the DROP based on data as of June 30, 2007:

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While the initiative states that the program shall be cost neutral, no cost analysis is to be conducted until April 15, 2011. If the Board of Supervisors determines not to extend the DROP based on this cost analysis, no further DROP elections will be allowed; however, police officers who have elected DROP prior to the non-renewal are allowed to complete the DROP as it existed at the time of their election. The impact of this provision is that the DROP if enacted will extend for Group 1 officers until June 2014 and for Group 2 until June 2013 and Group 3 until June 2012.

The Retirement System will be required to resolve tax compliance questions raised by the proposed initiative, establish forms, rules and regulations and assist in the drafting of required ordinances to be presented to the Board of Supervisors as a result of the enactment of this proposal.

The cost of DROP to the Retirement System cannot be determined at this time due to the voluntary nature of the individual choices which may be made by up to 580 police officers regarding electing to DROP and the duration of DROP as well as the uncertainty of death, disability and termination events and impacts and unknown future salaries.

The proposed DROP initiative does enact provisions that are not consistent with a basic principle of San Francisco’s retirement plans; namely, police officers will be active employees (while not accruing increased retirement benefits) at the same time a retirement allowances will be accruing for distribution, effectively making the member both active and retired at the same time.

The Retirement System staff will attend the Ballot Simplification Committee meeting scheduled to be held at 9:00 AM on October 26, 2007, as we were notified yesterday. However, I will also need to attend a previously scheduled meeting at 10:00 AM that morning.

Very truly yours,

Clare M. Murphy,
Executive Director