

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



THE SAN FRANCISCO RETIREMENT SYSTEM
INCREASING UNDERSTANDING AND
ADDING VOTER OVERSIGHT



JUNE 2017

THE CIVIL GRAND JURY

The Civil Grand Jury is a government oversight panel of volunteers who serve for one year. It makes findings and recommendations resulting from its investigations.

Reports of the Civil Grand Jury do not identify individuals by name. Disclosure of information about individuals interviewed by the jury is prohibited.

California Penal Code, section 929.

STATE LAW REQUIREMENT

Each published report includes a list of those public entities that are required to respond to the Presiding Judge of the Superior Court within 60 to 90 days as specified.

A copy must be sent to the Board of Supervisors. All responses are made available to the public.

For each finding, the response must:

- 1) agree with the finding, or
- 2) disagree with it, wholly or partially, and explain why.

As to each recommendation the responding party must report that:

- 1) the recommendation has been implemented, with a summary explanation; or
- 2) the recommendation has not been implemented but will be within a set timeframe as provided; or
- 3) the recommendation requires further analysis. The officer or agency head must define what additional study is needed. The Grand Jury expects a progress report within six months; or
- 4) the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

California Penal Code, Section 933.05

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EXECUTIVE SUMMARY

The fiscal status of San Francisco’s Retirement System threatens the financial future of the City. As of June 30, 2016, the City and County of San Francisco (City) owes its Retirement System \$5.81 billion; this is more than half of the City’s entire 2016 budget (\$8.94 billion). The Retirement System is 77.6% funded. This means that there are not enough funds to pay the benefits to current and future retirees. In Fiscal Year 2015-2016, the City’s annual contribution to the Retirement System was \$526.8 million, \$377.1 million of which was amortization payments on the unfunded pension liability. Where does the money come from to finance the underfunding? From the City’s General Fund.

The General Fund pays for the City’s services (such as public works, MUNI, police, and fire), and employee salaries and benefits. When more of the General Fund is spent on the underfunding of the Retirement System, City services and staff must be reduced to ensure a balanced budget.

There are several causes for the underfunding of the Retirement System, but the main underlying cause is the retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008. These retroactive increases were very expensive gifts to employees and retirees from taxpayers, paid for with money borrowed at a high interest rate from the Retirement System, and paid back over 20 years by taxpayers. The financial details of these retroactive increases were not disclosed to voters. As Warren Buffett stated:

There probably is more managerial ignorance on pension costs than any other cost item of remotely similar magnitude. And, as will become so expensively clear to citizens in future decades, there has been even greater electorate ignorance of governmental pension costs.

The 2016-17 Civil Grand Jury investigated the Retirement Board, the Retirement System, Retirement System-related Propositions, and the public pension industry. Our purpose was to assess the effects of the costs of the current Retirement System, including the unfunded liability, on the City’s financial health. Additionally, our purpose was to evaluate the ability of residents and voters to understand the financial ramifications of pension-related propositions based on information provided by the City. We conducted interviews with City staff and reviewed City and other documents. Our analysis led us to two major findings and four recommendations:

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.

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.

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.

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.

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. (Details about the recommended committee are presented in the [Findings and Recommendations](#) section of this report.)

Recommendation R2.2: That 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.



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BACKGROUND & METHODOLOGY

BACKGROUND

The City’s Retirement Board and Retirement System is defined in the San Francisco (SF) Charter¹ and can only be changed by voter-approved propositions. The Retirement System is also known as the SF Employees’ Retirement System (SFERS); this report will use Retirement System. The Retirement Board appoints an executive director, who in turn administers the Retirement System. The Retirement Board administers the Retirement Fund and makes all the investment decisions.

In the past decade, several attempts, some successful and others not, have been made to change the Retirement System. There have been two Civil Grand Jury (CGJ) reports and five significant propositions placed before the voters. Each of these reports and propositions are summarized below in chronological order.

2000 Proposition C²

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It retroactively increased the retirement benefits for miscellaneous employees. The description of the proposed Charter Amendment from the Voter Pamphlet said that:

Proposition C is a Charter amendment that would increase retirement benefits for miscellaneous employees hired after 1976. An employee could get a pension of up to 75 percent of final salary. The pension amount would be based on years of service and a multiplier ranging from 1% per year of service at age 50 to 2% at age 60. The employee’s “final salary” would mean the average monthly salary during a one-year period when the employee earned the highest salary.

The City Controller provided the following statement on the fiscal impact of Proposition C in the Voter Pamphlet:

Should the proposed Charter amendment be adopted, in my opinion, it would increase the cost of government by an amount, estimated by the Retirement System Actuary, of \$34 million per year for 20 years and then dropping to \$17 million per year.

Even with this proposal, the City does not expect to have to make a contribution to the Retirement System for at least the next 15 years.

(Bolding added)

“During the next decade, you will read a lot of news - bad news - about public pension plans.”

[Warren Buffett 2014](#)

2002 Proposition H³

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It retroactively increased the retirement benefits for police officers and firefighters by increasing the amount of pensions to 2.4 percent of salary for each year they served if they retired at age 50 and 3 percent of salary for each year served if they retired at age 55. The description of the proposed Charter Amendment from the Voter Pamphlet said that:

Proposition H is a Charter amendment that would change the formula for police and firefighter retirement benefits. Police and firefighters who retire at age 50 would receive, for each year of service, 2.4 percent of the salary earned at the time of retirement. Police and firefighters who retire at age 55 would receive, for each year of service, 3 percent of the salary earned at the time of retirement. The maximum retirement benefit police and firefighters could receive would be 90 percent of the salary at the time of retirement. Police and firefighters who retire before January 1, 2003 would not be eligible for this increase.

The City Controller provided the following statement on the fiscal impact of Proposition H in the Voter Pamphlet:

*Should the proposed amendment be adopted, in my opinion, the cost to the City and County would increase, as estimated by the Retirement System Actuary, by about \$28 million per year for the next 20 years, dropping after 20 years to an ongoing cost of approximately \$8.2 million per year. However, no cash would be required since the City's Retirement System currently has a large surplus. While the cost of this proposal would reduce that surplus, **the City nonetheless should not be required to make employer contributions to the Retirement System for at least the next ten years.** The Amendment also provides that if the City is required to make employer contributions to the Retirement System, **the City will negotiate a cost-sharing agreement with the police officers and firefighters to cover all or part of the cost of providing the additional retirement benefits through employee contributions.***

(Bolding added.)

Notwithstanding the Controller's statement with respect to both the 2000 Proposition C and the 2002 Proposition H, the City had to commence contributions to the Retirement System in 2005⁴, and for FY 2016 the City had to make a \$526.8 million contribution, \$377.1 million of which was payment towards the unfunded pension liability.

June 2008 Proposition B⁵

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. The June 2008 Proposition B included Pension Benefits and Retiree Health Benefits; this report addresses only the Pension Benefits. The Voter Information Pamphlet described the changes to the Retirement System as follows:

In addition, Proposition B would make the following changes to retirement benefits and COLAs for miscellaneous City employees who retire on or after January 10, 2009:

- *The age factor for employees who retire at age 60 would increase to 2.1% and rise to 2.3% at age 62. Thus, employees with 20 years of service would receive 42% of their highest annual salary if they retire at age 60 or 46% if they retire at age 62.*
- *The basic COLA benefit would be compounded annually based on the retirement benefits payable on June 30th of the prior year.*
- *The supplemental COLA, which is paid when there is enough excess investment earnings, also would increase for a total adjustment of retirement benefits up to 3-1/2%.*

The City would freeze wages and other economic benefits for miscellaneous City employees from July 1, 2009 through June 30, 2010.

This proposition is described in more detail under [Proposition Costs & Disclosures](#).

As a result of the propositions increasing retirement benefits, the declining investment returns experienced by the Retirement System and the increasing cost to the City of the Retirement System, two Civil Grand Juries investigated the Retirement System:

2008-2009 CGJ Report: “Pensions Beyond Our Ability to Pay”⁶

This CGJ investigated both health care and pension benefits for City employees and focused much attention on pension spiking and a Deferred Retirement Option Program. In response to the findings they made regarding spiraling pension costs, the CGJ recommended:

A task force should be established to evaluate a change to a defined-contribution (DC) plan for all new employees of the City and County of San Francisco. By adopting a DC, the Mayor, the [Board of Supervisors], and [San Francisco Employee Retirement System] can do more to restore credibility to the public Retirement Systems than any other action they can take.

The Mayor’s Office responded⁷ to the 2008-2009 CGJ report in general and also specifically to the recommendation listed above. The general comment from the

Mayor's office was that the Mayor did not believe that San Francisco was experiencing a pension crisis and that the Retirement System was among the most well-funded retirement systems in the country with a strong record of superior returns on its investments. Specifically, the Mayor disagreed with the recommendation to convert to a DC plan because he believed that the Retirement System's defined benefit (DB) plan offered a more secure investment strategy.

2009-2010 CGJ Report: Pension Tsunami: The Billion Dollar Bubble⁸

This CGJ investigated the ever-increasing Retirement System unfunded liability and its effects on City services since the City is financially responsible for the unfunded liability, as well as "pension-spiking." The investigation concluded, among other issues, that the current DB plan is financially unsustainable without cutbacks in jobs and City services. The investigation report recommended that the City consider a hybrid DB and DC plan for future employees and that no cost-of-living increases accrue to retirees unless the plan is fully funded. The Mayor's Office responded⁹ to the finding of the CGJ report regarding the unsustainability of the Retirement System that:

San Francisco's Defined Benefit Plan is one of the most soundly funded and managed public retirement plans in the United States; the system itself is sustainable, despite the impact of the severe economic downturn. The City has faced economic downturns before, and, as it has in the past, our system will recover and remain financially sound.

The Mayor's Office also disagreed with the recommendation that a hybrid DB and DC plan should be considered because of the risks associated with a DC plan.

2010 Proposition D¹⁰

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It changed the formula for determining the highest salary on which the pension benefits would be based from the highest average monthly salary within one year to the average salary in two consecutive fiscal years or 24 months prior to retirement. This proposition also changed the formula for City contributions to the Retirement System depending on the Retirement System's investment earnings. Specifically, the Voter Pamphlet said that:

For employees hired on and after July 1, 2010, "final compensation" would be calculated using a two-year formula. An employee's final compensation would be determined by averaging monthly compensation during:

- *any two consecutive fiscal years of earnings, or*
- *the 24 months immediately before retirement.*

"Pension reform can be hard to talk about. In the long run, reform now means fewer demands for layoffs and less draconian measures in the future. It's in the best interest of all Californians to fix this system now."

[Jerry Brown](#)

The final basis for retirement benefits would be the higher of the two figures. For safety employees and CalPERS members hired on and after July 1, 2010, the employee contribution to SFERS or CalPERS would increase to 9.0% of compensation. In years when the City's contribution to SFERS is less than expected because of large investment earnings, the amount saved would be deposited into the Retiree Health Care Trust Fund. The participating employers could choose to have this rule apply to them.

The City Controller provided the following statement on Proposition D:

Taken together, the change in the SFERS safety and CalPERS employee contribution rates from 7.5% to 9.0%, and the two year final compensation calculation, are expected to reduce the employer long-term cost (called the 'normal' cost) of pension funding by approximately 0.7% over the 25 year period between fiscal year 2011- 2012 and fiscal year 2035-2036. Cumulatively, the savings for that same 25 year period is estimated to range between \$300 and \$500 million depending on future wage and benefit rates for employees, and other factors.

2011 Proposition C¹¹

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It changed the pension benefits by increasing the age requirement for obtaining maximum retirement benefits and also required that retirement benefits be based on an average of the last three years of service, as well as limiting certain cost-of-living increases. Specifically, the Voter Information Pamphlet said that:

Proposition C is a Charter amendment that would change the way the City and current and future employees share in funding SFERS pension benefits. The base employee contribution rate would remain the same—7.5% for most employees—when the City contribution rate is between 11% and 12% of City payroll. Employees making at least \$50,000 would pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions would be decreased proportionately.

Proposition C would also create new retirement plans for employees hired on or after January 7, 2012, that would:

- *For miscellaneous employees, increase the minimum retirement age to 53 with 20 years of service or 65 with 10 years;*
- *For safety employees, the minimum retirement age would remain at 50 with five years of service, but the age for maximum benefits would increase to 58;*
- *For all employees, limit covered compensation, calculate final compensation from a three-year average, and change the multipliers used to calculate pension benefits, and*
- *For miscellaneous employees, raise the age of eligibility to receive vesting allowances to 53 and reduce by half the City's contribution to vesting allowances.*

The Voter Information Pamphlet also stated that:

Proposition C would limit cost-of-living adjustments for SFERS retirees.

The City Controller provided the following statement on the fiscal impact of Proposition C:

Should the proposed Charter amendment be approved by the voters and implemented, in my opinion, the City's costs to fund employee retirement benefits will be reduced by approximately \$40 to \$50 million in fiscal year (FY) 2012–13. City costs will be reduced by approximately \$1 billion to \$1.3 billion cumulatively over the ten years between FY 2012–13 and FY 2021– 22, of which \$85 million is attributable to retiree health benefit savings, and the balance to pension contribution savings.

Unfortunately, much of the predicted City savings from Proposition C have not materialized as a result of litigation between Protect Our Benefits¹² and the City regarding the interpretation of Proposition C's provisions limiting cost-of-living adjustments.

The California Rule

In the 1955 case of *Allen v City of Long Beach*¹³, the California Supreme Court established what became known as “The California Rule” for public employee pensions which has been interpreted as constitutionally prohibiting any reduction of pension benefits for current employees and retirees as an infringement of the right of contract. The Great Recession of 2008-09 drastically diminished the market value of pension funds and, along with demographic factors such as longer life expectancy, resulted in a nationwide increase in the underfunding of pension plans. Although lowering benefits for *prospective* employees is allowed under the California Rule such a lowering of future pension obligations is insufficient to solve the underfunding which has been variously estimated nationwide as between two to over four trillion dollars and, as a California Court of Appeals sardonically noted, “*As so often occurs California was in first place.*” Under the City’s Charter the City is obligated to contribute to the Retirement System to compensate for underfunding, but actuarial predictions show that only lowering benefits for current employees can bring the system to full funded status¹⁴.

As that Court of Appeals’ decision (which is presently before the California Supreme Court) held, a current public employee’s pension may be reduced so long as such reduction does not “*deprive the employee of a ‘reasonable’ pension.*” The final determination of the scope of the California Rule remains to be determined by the California Supreme Court, but if it upholds the lower court’s decision there may be an opportunity to begin the process of bringing pension plans in California, including the City’s Retirement System, into a fully funded condition.

Financial Economics and Public Pension Plans

Financial Economics and its use with public pension plans is a topic we came across late in our investigation. We have not been able to study it in detail, but wanted to point it out as an important, and controversial, topic. Currently, public pension plans use the long-term investment return of assets to value liabilities. This is challenged by those who say public pension plan liabilities should be valued using risk-free interest rates. Below are some helpful links on this topic:

Pensions & Investments 8/3/2016 article:

[Actuarial leaders disband task force, object to paper on public plan liabilities](#)

The paper mentioned in the article:

[Financial Economics Principles Applied to Public Pension Plans](#)

Joint AAA (American Academy of Actuaries)/SOA (Society of Actuaries) Task Force on Financial Economics and the Actuarial Model:

[Pension Actuary's Guide to Financial Economics, 2006](#)

Hoover Institution essay: [Hidden Debt, Hidden Deficits: 2017 Edition, How Pension Promises Are Consuming State and Local Budgets](#)

METHODOLOGY

During our investigation, we reviewed numerous reports and studies, and interviewed City staff regarding the Retirement System. A list of our sources is included in [Appendix A](#).

We reviewed:

- Prior CGJ reports on the Retirement System;
- Prior propositions dealing with the Retirement System;
- Retirement System Annual Reports, Actuarial Valuation Reports, Government Accounting Standards Board (GASB) 67/68 Reports, and Financial Reports
- San Francisco Comprehensive Annual Financial Reports (CAFR)
- Press articles, academic articles and studies dealing with pension reform throughout the United States.
- Reform efforts by other public retirement systems.

We interviewed:

- Present and former staff of the Controller's Office;
- Present and former staff of the Retirement System;
- Present and former staff of the Mayor's Office;
- Members of the Retirement Board.

We consulted with outside experts familiar with retirement systems.

DISCUSSION & ANALYSIS

The Retirement System is a defined-benefit pension plan which provides a specified retirement benefit that is based on the member’s retirement age, service length, and final salary. The Retirement System is governed by a seven-member Retirement Board; three are employees or retirees elected by all employees and retirees, three are Mayoral appointees, and one is a Board of Supervisors (BOS) member appointed by the BOS President. Elected officials, including the Mayor, the Board of Supervisors, and the Controller, are members of the Retirement System.

The Retirement Board appoints the Retirement System’s Executive Director and an Actuary. The Executive Director administers the Retirement System; the Actuary advises the Retirement Board on actuarial matters and monitors an independent consulting actuarial firm, Cheiron, which prepares the Retirement System’s annual Actuarial Valuation and GASB 67/68¹⁵ Reports, and other actuarial analyses. The Retirement System publishes an Annual Report, an annual Financial Statements and Required Supplementary Information Report, and the Retirement Systems’ CPA, MGO Certified Public Accountants, performs an audit of the Financial Statements and produces an audit report.

The Retirement Board receives advice from the Retirement System’s Chief Investment Office (CIO) and the investment staff, and it makes all the investment decisions for the Retirement Fund.

Health care for the City’s employees and retirees is a significant portion of benefits, but it is not in the scope of this report. The SF Deferred Compensation Plan is also not within this report’s scope.

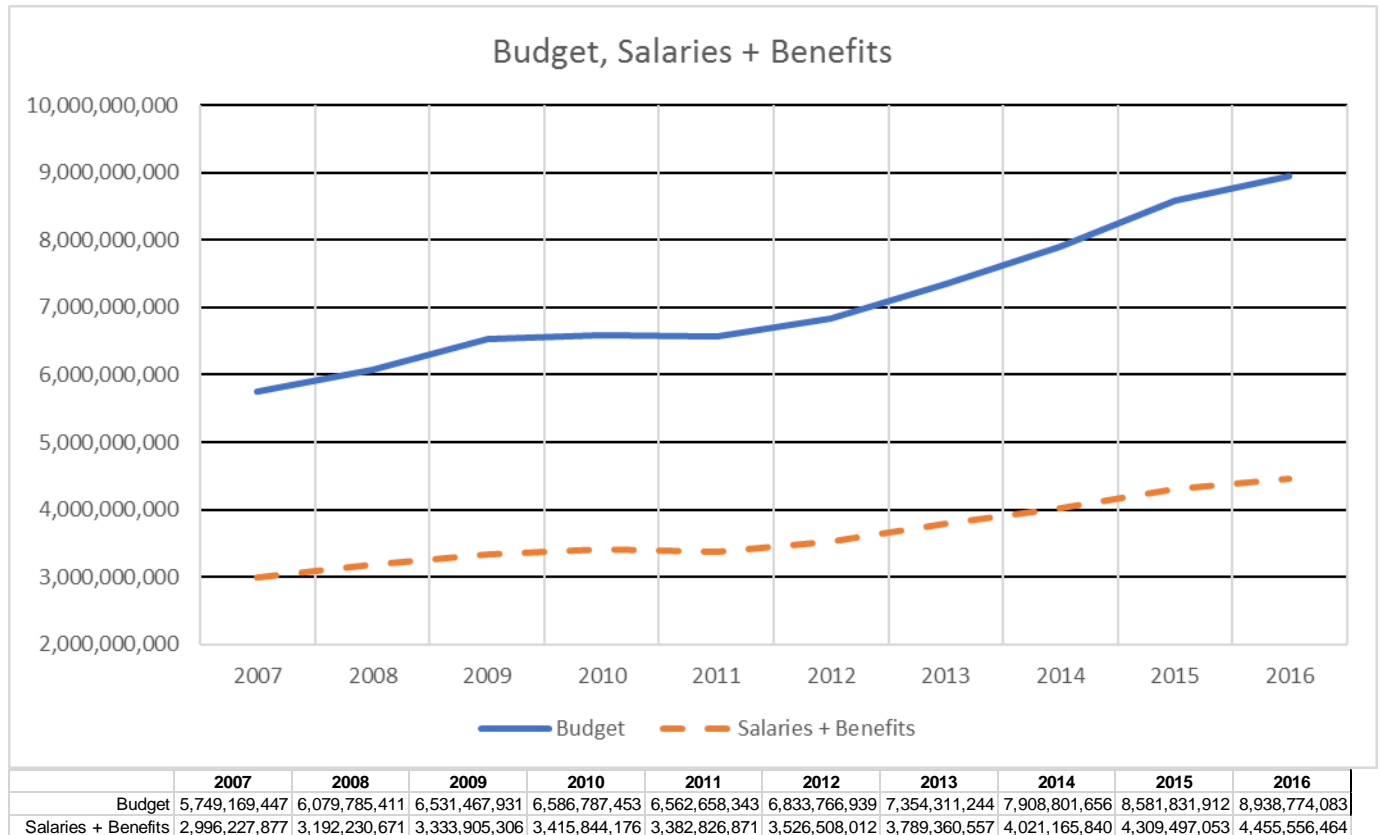
Any defined-benefit pension plan is hard for the average person to understand. A mortgage covers 30 years and is complex; a pension plan can cover 60 years or more, and is very complex. Predicting how much an individual makes each year, if or when they quit, if they’re married or have kids, if they become disabled, when they retire, or when they die – is impossible. But for a large group of people, actuaries can, and do, make reasonably accurate predictions about these events. Predicting what investments will do in the future is far more uncertain. The Great Recession of 10 years ago is a prime example.

A pension plan must take the long view, at least 60 years. Making decisions based on a shorter view almost always turns out badly. The stock market booms in the late 1990s and the 2000s led to some short-term pension decisions, and we are currently facing the results. Any solution to the current situation needs to take the long view.

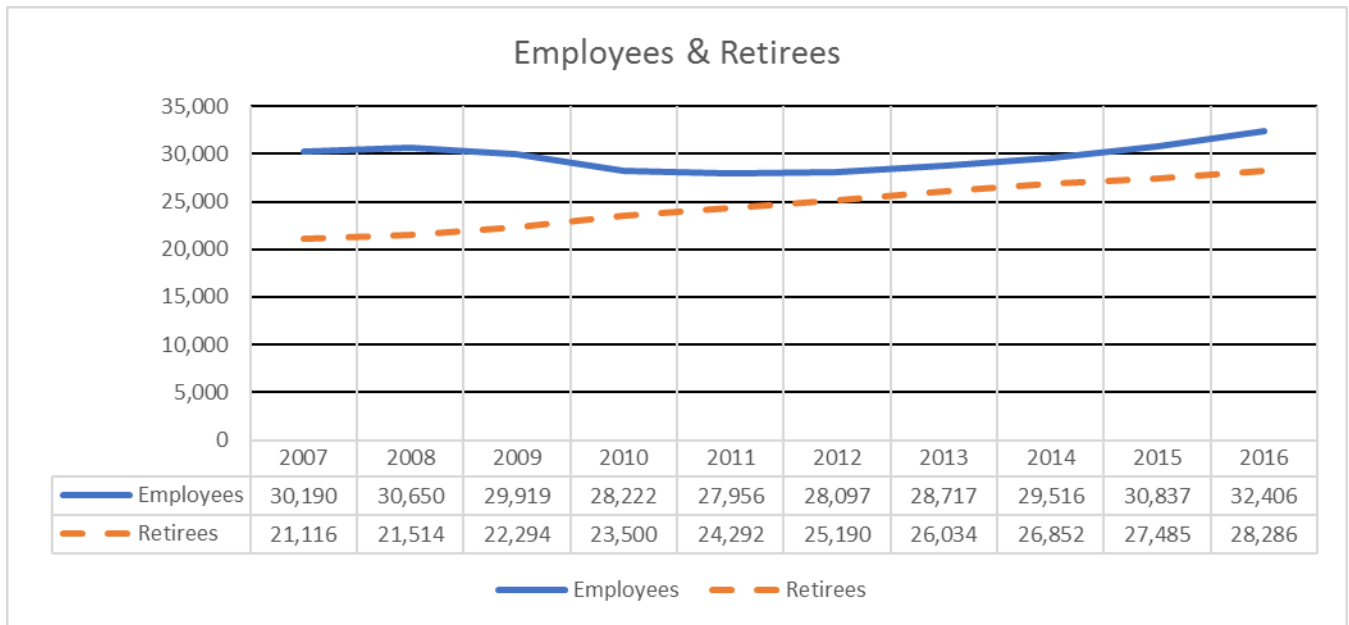
“We cannot continue. Our pension costs and health care costs for our employees are going to bankrupt this city.”
[Michael Bloomberg](#)

THE CITY & ITS EMPLOYEES

The chart below provides a 10-year overview of the City’s Budget and employees’ Salaries and Benefits¹⁶. After adjusting for inflation¹⁷, the Budget has increased by 40%, and Salaries and Benefits by 33%, in the last 10 years. Salaries and Benefits have been 50-53% of the Budget in each of the last 10 years. Keep in mind that inflation has been very low for the last 10 years, but it will likely pick up in the future. The 3/23/17 update of the City’s Five-Year Financial Plan for FY 2017-18 through FY 2021-22¹⁸ estimates Salaries and Benefits increasing by 51% over the next five years.



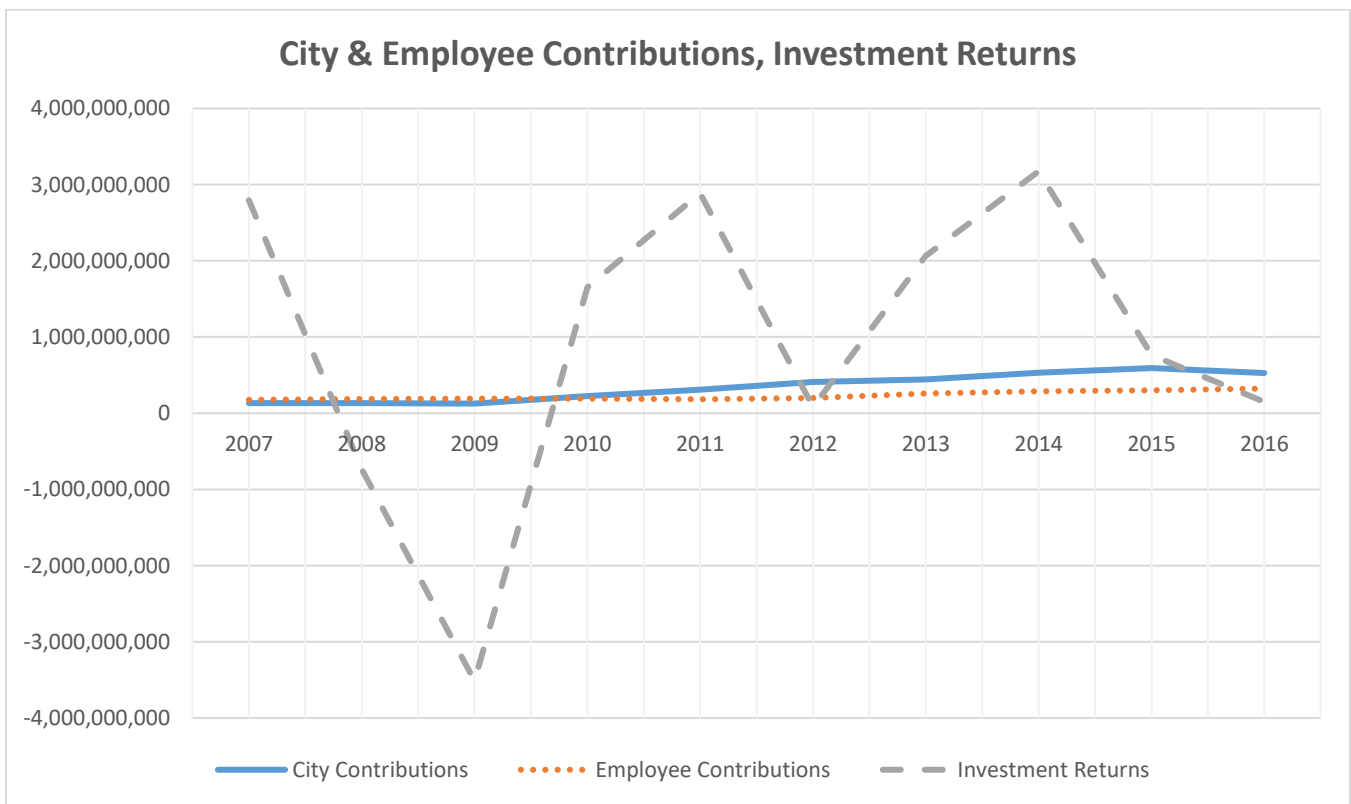
The chart below provides a FY 2007 through FY 2016 overview of the number of City Employees and Retirees¹⁹. Employees have increased by 7.3%, and Retirees by 34.0%, over the last 10 years. As the Baby-Boomers continue to retire, it is possible there will be more Retirees than Employees in the future.



RETIREMENT SYSTEM – FUNDING

The Retirement System is funded by contributions from the City and its employees, and by investment returns²⁰. The City’s contributions include amortization payments on the unfunded liability debt. The chart below shows these funding sources between FY 2007 and FY 2016. The table below the chart shows the amounts. The wide swings in Investment Returns, and their size in relation to City and Employee Contributions, illustrate the market’s risks and rewards. For example, during the Great Recession in FY 2008 and FY 2009 the Retirement System lost more than \$4.2 billion, in FY 2014 it made \$3.2 billion, and in FY 2016 made only \$150 million.

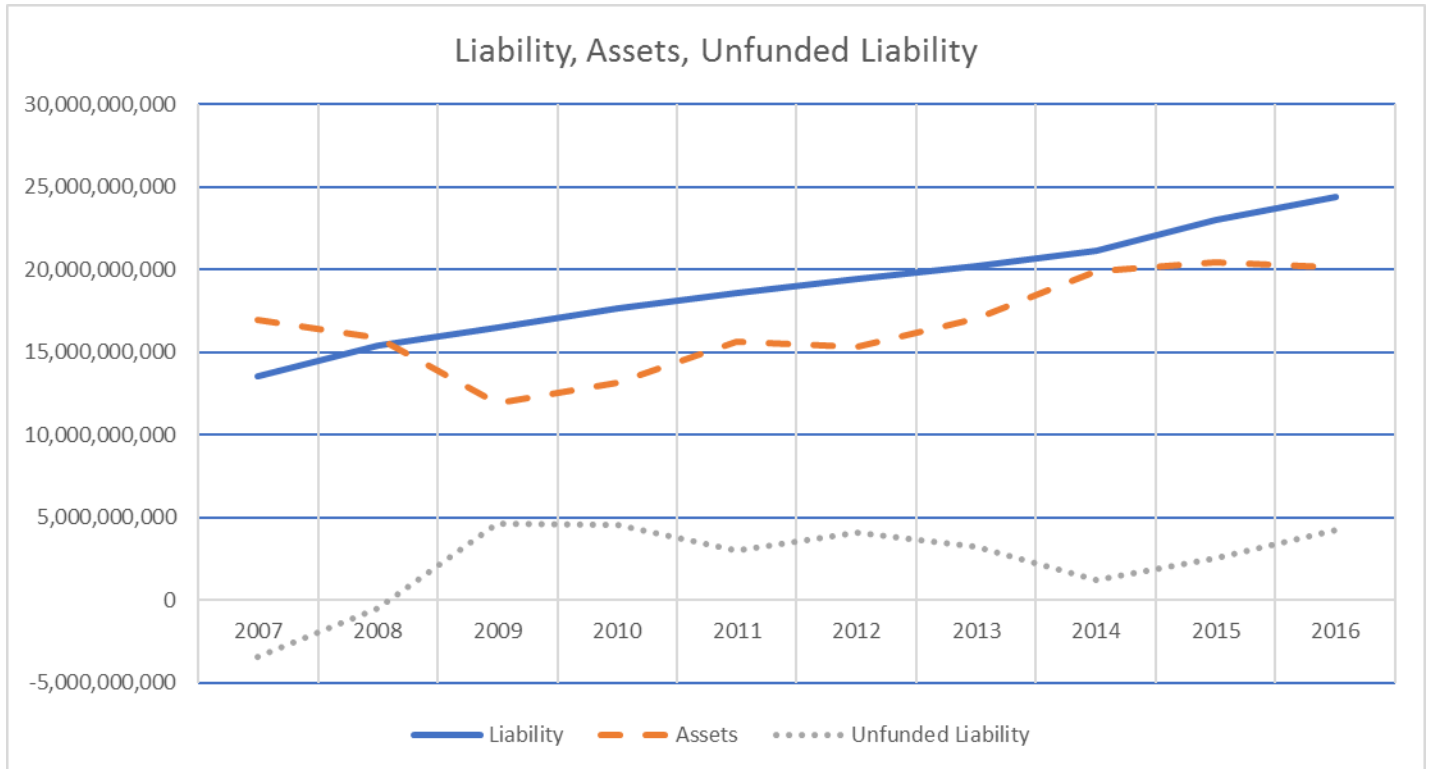
After adjusting for inflation²¹, the City’s Contributions have increased by 71%, and the Employee Contributions by 37%, in the last 10 years.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City Contributions	132,601,000	134,060,000	126,101,000	223,614,000	308,823,000	410,797,000	442,870,000	532,882,000	592,643,000	526,805,000
Employee Contributions	175,747,000	185,123,000	192,964,000	189,948,000	181,755,000	198,160,000	258,726,000	289,020,000	301,682,000	322,764,000
Investment Returns	2,796,839,000	(735,432,000)	(3,512,850,000)	1,655,101,000	2,887,575,000	80,402,000	2,064,550,000	3,175,431,000	763,429,000	150,190,000

RETIREMENT SYSTEM – LIABILITY, ASSETS, UNFUNDED LIABILITY

The chart below shows the Retirement System’s Liability, Assets, and Unfunded Liability for FY 2007 to FY 2016²². Unfunded Liability = Liability – Assets. After adjusting for inflation²³, Liability has increased by 35%, and Assets by 3%, over the last 10 years. Between FY 2007 and FY 2009, the Retirement System went from being \$3.4 billion overfunded to \$4.6 billion underfunded, an \$8.0 billion swing in three years. Between FY 2009 and FY 2014, Assets almost caught up with Liability, but since then Liability has continued to increase while Assets have been relatively flat.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liability	13,541,388,000	15,358,823,000	16,498,649,000	17,643,394,000	18,598,728,000	19,393,854,000	20,224,776,000	21,122,567,000	22,970,892,000	24,403,882,000
Assets	16,952,043,000	15,832,521,000	11,886,729,000	13,136,786,000	15,598,839,000	15,293,724,000	17,011,500,000	19,920,607,000	20,428,100,000	20,154,503,000
Unfunded Liability	-3,410,655,000	-473,697,000	4,611,920,000	4,506,608,000	2,999,888,000	4,100,130,000	3,213,232,000	1,201,960,000	2,542,823,000	4,249,379,000

PROPOSITION COSTS & DISCLOSURES

For most pension retirement benefits, the City and its employees make payments each pay period during the employees' time of service. Those payments are invested and earn money over time. Retroactive pension increases do not work the same. The total projected future costs of a proposition's retroactive pension increase are calculated for all employees and retirees for their lifetime; this is usually a large amount. When the proposition's pension increase goes into effect, that total becomes a proposition debt owed by the City to the Retirement System – employees and retirees owe nothing. The proposition debt is added to the Unfunded Actuarial Liability²⁴ of the Retirement System. The proposition debt is expressed as a percentage of the City's payroll, so it increases each year based upon the Salary Increase Rate²⁵ percentage (3.75% - 4.50%), and increases or decreases in the number of employees. The proposition debt is paid back over 20 years at the Discount Rate (7.50% – 8.00%).

“Local and state financial problems are accelerating, in large part because public entities promised pensions they couldn't afford.”

[Warren Buffet](#)

A list of retroactive retirement benefit increase propositions from 1996 – 2008 can be found in [Appendix B](#).

The Little Hoover Commission is an independent state oversight agency that was created in 1962. The Commission's mission is to investigate state government operations and – through reports, recommendations and legislative proposals – promote efficiency, economy and improved service. The Commission published a report, “Public Pensions for Retirement Security”²⁶ on February 24, 2011. The report's cover letter starts with:

California's pension plans are dangerously underfunded, the result of overly generous benefit promises, wishful thinking and an unwillingness to plan prudently. Unless aggressive reforms are implemented now, the problem will get far worse, forcing counties and cities to severely reduce services and layoff employees to meet pension obligations.

As part of the report's Recommendations 3 and 4, it states:

To minimize risk to taxpayers, the responsibility for funding a sustainable pension system must be spread more equally among parties.

- *The Legislature must prohibit retroactive pension increases.*

To improve transparency and accountability, more information about pension costs must be provided regularly to the public.

- *The Legislature must require government retirement boards to restructure their boards to add a majority or a substantial minority of independent, public members to ensure greater representation of taxpayer interests.*
- *All proposed pension increases must be submitted to voters in their respective jurisdictions. The ballot measures must be accompanied by sound actuarial information, written in a clear and concise format.*

Governor Brown published a “Twelve Point Pension Reform Plan” on October 27, 2011²⁷. One of the points was to “Prohibit Retroactive Pension Increases.” It states:

*In the past, a number of public employers applied pension benefit enhancements like earlier retirement and increased benefit amounts to work already performed by current employees and retirees. Of course, neither employee nor employer pension contributions for those past years of work accounted for those increased benefits. As a result, billions of dollars in unfunded liabilities continue to plague the system. **My plan will ban this irresponsible practice.***

(Bolding added)

June 2008 Proposition B - Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund²⁸

The June 2008 Proposition B includes Pension Benefits and Retiree Health Benefits; this report addresses only the Pension Benefits. The Voter Information Pamphlet for the June 2008 Proposition B includes the standard Controller’s statement on the fiscal impact of Proposition B:

Should the proposed charter amendment be approved by the voters, in my opinion, the City will have both significant added costs in the near and medium term for the cost of employee pension benefits and significant savings in the near term under its labor contracts and in the long term for the cost of retiree health benefits.

Pension Benefits: *The Charter amendment would increase the maximum retirement benefit available to City miscellaneous employees from the current 2% of final pay at 60 years of age, up to 2.3% of final pay at age 62 and enhance cost of living increases for pension recipients. These changes would add approximately 3.5% of salary to the cost of funding an average employee’s retirement benefits, or an ongoing annual cost to the City of approximately \$84 million for the next 20 years, dropping after 20 years to an ongoing annual cost of 1.1% of salary or approximately \$27 million at current rates.*

To partially pay for this increased retirement benefit, the amendment freezes wages for the 2009-2010 fiscal year. This provision is estimated to save the City approximately 2.1% of salary or an estimated \$35 million on an annual basis. These savings estimates are based on an assumption that the City would otherwise have provided wage increases at percentage rates at or near the projected consumer price index for that period and is consistent with the City’s historical experience in negotiated labor contracts. Finally, the Charter amendment specifies that the City’s ongoing expenditures for improved retirement benefits under this proposal must be considered the equivalent of wages in future labor arbitration proceedings. Note that these provisions do not apply to the labor contracts for police, firefighters, sheriffs, nurses and transit operators.

The actuary’s analysis of Proposition B²⁹ prior to the election shows an estimated increase in Unfunded Liability of \$674 million. When Proposition B came into effect,

the Unfunded Liability was increased by \$750 million, a debt that 8 years later the City has paid \$595 million on, \$542 million in interest and \$53 million in principal. The debt will not be paid off until 2028.

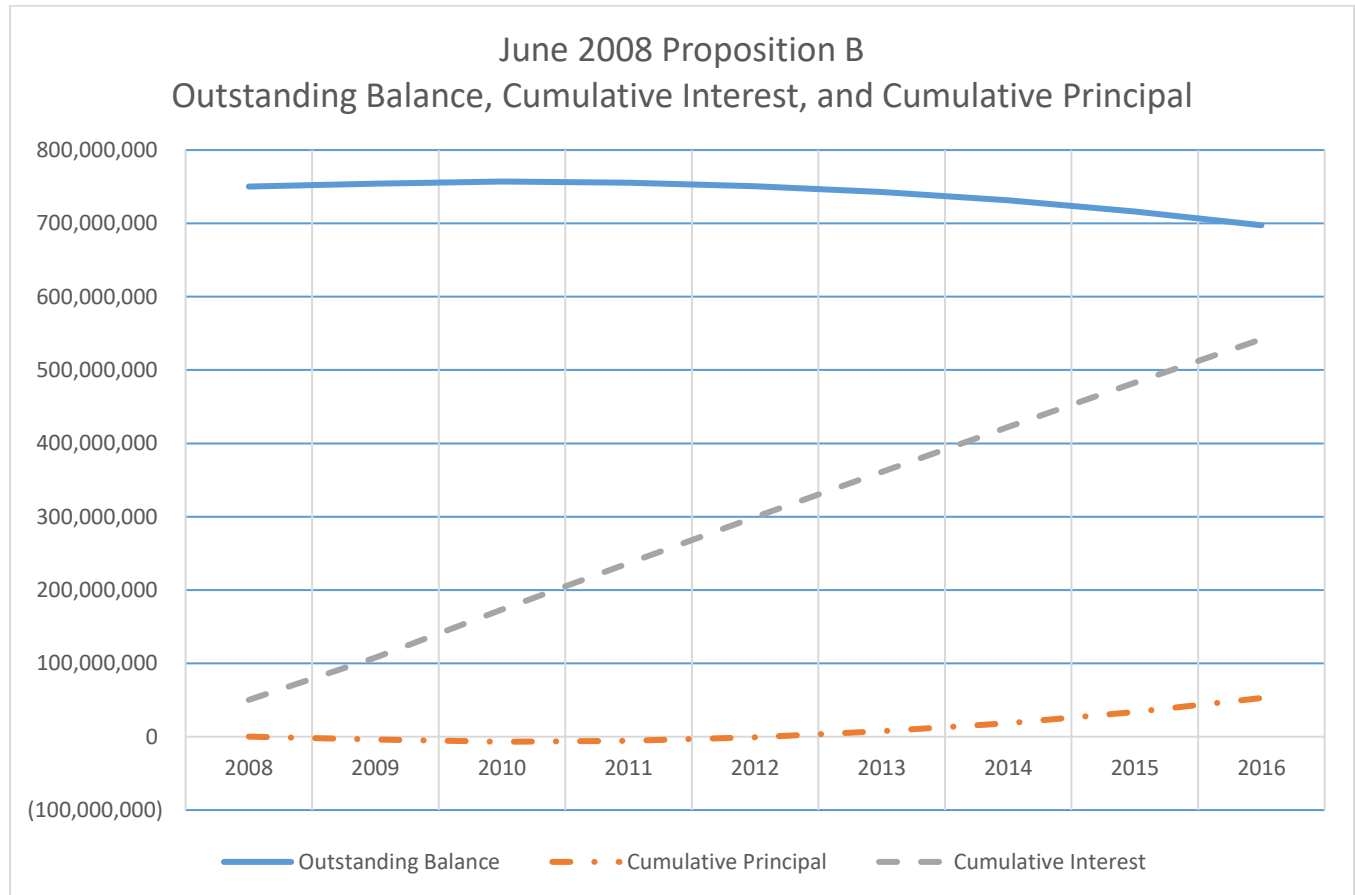
Reviewing the Voter Information Pamphlet's arguments for and against Proposition B, it's clear that they focused on the Retiree Health Benefits and the Retiree Health Care Trust Fund, and considered the Pension Benefits to be a minor change. Several of the proponents stated that it would save \$1.4 billion in healthcare costs over 30 years. No one noted that the pension increases would cost \$1.68 billion over 20 years. Some quotes from the arguments:

Increases Cost of Living Adjustments (COLA) for retirees and modestly improves pensions for employees who retire at or after age 60

Proposition B is just the latest minor proposal to appear on the ballot in a City Charter election, costing taxpayers a mountain of money for a molehill of municipal employee law change.

The June 2008 Proposition B chart below shows the Outstanding Balance due to be paid by the City to the Retirement System, the Cumulative Interest paid, and the Cumulative Principal paid³⁰. Note that after eight years the City has paid \$542 million in Interest, \$53 million in Principal, and has an Outstanding Balance of \$697 million. The Outstanding Balance increased during the first four years, and over the next twelve years it will be paid down to zero.

All retroactive pension increase propositions will have a similar pattern of interest and principal costs over time.



Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Balance	750,222,000	754,222,000	757,112,000	755,565,000	750,849,000	742,760,000	731,568,000	716,399,000	697,465,000
Cumulative Interest	50,248,000	107,775,000	173,178,000	236,577,000	299,283,000	361,198,000	422,622,000	482,792,000	542,022,000
Cumulative Principal	0	(4,000,000)	(6,890,000)	(5,343,000)	(627,000)	7,462,000	18,654,000	33,823,000	52,757,000

RETIREMENT SYSTEM REPORTS

Each fiscal year there are five financial documents published by the Controller and SFERS that describe the City’s Retirement System: 1) the Controller’s Comprehensive Annual Financial Report (CAFR); 2) the SFERS Annual Report; 3) the SFERS Financial Statements; 4) the SFERS Actuarial Valuation Report; and 5) the SFERS GASB 67/68 Report. These reports are described below.

An actuarial report was produced by the SFERS Actuary and sent to the Board of Supervisors, the Mayor, and the Controller for each proposition that retroactively increased retirement benefits. Each actuarial report estimated the detailed costs of the proposition and was the basis of the Controller’s estimate provided in the Voter Information Pamphlet. These actuarial reports could not be found online.

For the most part, these reports are not meant for the average City taxpayer, employee, or retiree. There are no other readily available sources of information about the Retirement System’s finances. This results in there being little transparency or accountability to the public for the Retirement System’s finances. Taxpayers have not had the information needed to make an informed decision about the retroactive retirement benefit increase propositions. However, the Mayor, the Board of Supervisors, and the Controller understood these reports, but failed to communicate it to voters in a clear and complete manner.

“Unfortunately, pension mathematics today remain a mystery to most Americans.”

[Warren Buffet](#)

Comprehensive Annual Financial Report

Produced by: Controller’s Office

Audience: Accountants, auditors

Complexity: Very High

Size: 235 pages, ~25 pages on the Retirement System

Notes:

This report describes all the finances for the City.

SFERS Annual Report

Produced by: SFERS

Audience: Employees, retirees, public

Complexity: Medium/High

Size: 79 pages

Notes:

Its Financial, Investment, Statistical, and Deferred Compensation Plan Sections are clear, and much of the Actuarial Section is as well, but 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 Financial Statements

Produced by: SFERS
Audited by: MGO Certified Public Accountants
Audience: Accountants, auditors
Complexity: High
Size: 52 pages

SFERS Actuarial Valuation Report

Produced by: Cheiron, the SFERS’ Actuary
Audience: SFERS, actuaries, auditors
Complexity: Extremely High
Size: 94 pages
Notes:
This report is for funding purposes, i.e., to determine the City’s annual contribution. It contains many tables, most of which are clear and understandable, but there are many that have no description of the tables or the data they contain.

SFERS GASB 67/68 Report

Produced by: Cheiron, the SFERS’ Actuary
Audience: SFERS, actuaries, auditors
Complexity: Very High
Size: 35 pages
Notes:
This report is for financial reporting purposes. It is required by the Government Accounting Standards Board (GASB) Statement No. 67, “Financial Reporting for Retirement Systems”, and Statement No. 68, “Accounting and Financial Reporting for Pensions.”

FINDINGS & RECOMMENDATIONS

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)³¹. However, the principal underlying cause is the estimated \$3.5 billion³² in retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008.

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.

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.

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.

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.
 - 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.

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.

FINDING F3: 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.

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.

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.

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.

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.

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.

REQUEST FOR RESPONSES

<p>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.</p>	<p>RESPONDERS</p> <p>Mayor Board of Supervisors Retirement Board</p>
<p>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.</p>	
<p>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.</p>	
<p>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.</p>	<p>RESPONDERS</p> <p>Mayor Board of Supervisors Retirement Board Controller</p>
<p>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:</p> <ol style="list-style-type: none"> 1. Name: Retirement System Oversight Committee 2. Purpose <ol style="list-style-type: none"> 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.
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4. Membership
- a. Two-thirds of the members will be Public members and one-third will be Representative members.
 - 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.

<ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> 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 <ul style="list-style-type: none"> a. The Board of Supervisors will decide how best to fund the Committee. 	
<p>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.</p>	

<p>FINDING F3 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 style="text-align: center;">RESPONDERS</p> <p style="text-align: center;">Elections Commission Department of Elections Controller</p>
<p>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.</p>	
<p>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.</p>	

<p>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.</p>	<p>RESPONDERS Retirement Board Controller</p>
<p>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.</p>	
<p>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.</p>	

Appendix A: Sources

CITY AND COUNTY OF SAN FRANCISCO

San Francisco Charter (http://www.amlegal.com/codes/client/san-francisco_ca/)

Article XII: Employee Retirement and Health Service Systems

Appendix A: Employment Provisions

San Francisco Employees' Retirement System

Website Home Page: <http://mysfers.org>

Agendas & Minutes: <http://mysfers.org/about-sfers/agendas-minutes/>

Publications – Annual Reports: <http://mysfers.org/resources/publications/annual-reports/>

Publications – Actuarial Valuation Reports:
<http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

Publications – Audited Financial Statements:
<http://mysfers.org/resources/publications/sfers-audited-financial-statements/>

Office of the Controller

Comprehensive Annual Financial Reports (CAFR):
<http://openbook.sfgov.org/webreports/search.aspx?searchString=&year=1986&year2=2017&type=CAFR&index=0&index2=4&index3=0>

City Budgets & Reports:
<http://openbook.sfgov.org/webreports/search.aspx?searchString=&year=1986&year2=2017&type=CityBudgets&index=0&index2=3&index3=0>

SF OpenBook: <http://openbook.sfgov.org/>

Proposed Five-Year Financial Plan, FY 2017-18 – 2021-22, 12/16/2016:
<http://sfcontroller.org/sites/default/files/Documents/Budget/Five%20Year%20Financial%20Plan%20FY17-18%20through%20FY21-22%20%28Proposed%29%20FINAL.pdf>

The City's Five Year Financial Plan Update, 3/23/2017:
<http://sfcontroller.org/sites/default/files/Documents/Budget/FY17-18%20Five%20Year%20Plan%20Update%20FINAL%203.23.pdf>

San Francisco Civil Grand Jury

2008-09 Pensions Beyond Our Ability to Pay: http://civilgrandjury.sfgov.org/2008_2009.html

2009-10 Pension Tsunami: The Billion Dollar Bubble: http://civilgrandjury.sfgov.org/2009_2010.html

OTHER RESOURCES

California Actuarial Advisory Panel (CAAP): <http://www.sco.ca.gov/caap.html>

Calpensions: <https://calpensions.com/>

Hoover Institution, Hidden Debt, Hidden Deficits: 2017 Edition, How Pension Promises Are Consuming State and Local Budgets:

http://www.hoover.org/sites/default/files/research/docs/rauh_hiddendebt2017_final_webreadypdf1.pdf

Joint AAA (American Academy of Actuaries)/SOA (Society of Actuaries) Task Force on Financial Economics and the Actuarial Model, Pension Actuary's Guide to Financial Economics, 2006:

<https://www.soa.org/Files/Sections/actuary-journal-final.pdf>

League of California Cities – Pension Information Center:

<http://www.cacities.org/Policy-Advocacy/Hot-Issues/Pension-Information-Center>

Little Hoover Commission – Public Pensions for Retirement Security:

<http://www.lhc.ca.gov/studies/204/report204.html>

Los Angeles Times – The Pension Gap:

<http://www.latimes.com/projects/la-me-pension-crisis-davis-deal/>

Pension Finance Institute, Financial Economics Principles Applied to Public Pension Plans:

www.pensionfinance.org/papers/PubPrin.pdf

Rockefeller Institute of Government – Government Finance – Pension Reform:

http://www.rockinst.org/government_finance/pension.aspx

Appendix B: Retirement System Propositions

These are the retroactive retirement benefit increase propositions placed on the ballot by the Board of Supervisors between 1996 and 2008. The dollar amounts are the City Controller estimates from the Voter Information Pamphlet for each proposition. The actual costs for the propositions are not reported by the Retirement Board or by the Controller’s Office.

Year-Mon	Ltr	Title	\$/Year 20 Years	Total 20 Years	\$/Year after 20
1996 Nov	C	Retired Employee Benefits	n/a	n/a	n/a
1996 Nov	D	Firefighters Retirement Benefits	3,500,000	70,000,000	1,750,000
1998 Nov	A	Police Retirement Benefits	3,900,000	78,000,000	2,300,000
1998 Nov	C	Paramedic Retirement Benefits	485,000	9,700,000	
2000 Nov	C	City Worker Retirement Benefits (Misc)	34,000,000	680,000,000	17,000,000
2002 Mar	B	Cost of Living Benefits	19,100,000	382,000,000	7,400,000
2002 Nov	H	Police & Firefighter Retirement Benefits	28,000,000	560,000,000	8,200,000
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 1 of 3)	n/a	n/a	n/a
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 2 of 3)	n/a	n/a	n/a
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 3 of 3)	n/a	n/a	n/a
2004 Nov	E	Police and Fire Survivor Benefits	1,000,000	20,000,000	
2008 June	B	New Misc Ret Bfts and Compound COLA	84,000,000	1,680,000,000	27,000,000
		Totals:		3,479,700,000	63,650,000

Year-Mon	Ltr	Title	Voter Information Pamphlet
1996 Nov	C	Retired Employee Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/November5_1996short.pdf
1996 Nov	D	Firefighters Retirement Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/November5_1996short.pdf
1998 Nov	A	Police Retirement Benefits	https://sfpl.org/pdf/main/gic/elections/November3_1998short.pdf
1998 Nov	C	Paramedic Retirement Benefits	https://sfpl.org/pdf/main/gic/elections/November3_1998short.pdf
2000 Nov	C	City Worker Retirement Benefits (Misc)	https://sfpl.org/pdf/main/gic/elections/November7_2000.pdf
2002 Mar	B	Cost of Living Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/March5_2002.pdf
2002 Nov	H	Police & Firefighter Retirement Benefits	http://sfpl.org/pdf/main/gic/elections/November5_2002.pdf
2003 Nov	F	Targeted Early Retirement	https://sfpl.org/pdf/main/gic/elections/November4_2003.pdf
2004 Nov	E	Police and Fire Survivor Benefits	http://sfpl.org/pdf/main/gic/elections/November2_2004.pdf
2008 June	B	New Misc Ret Bfts and Compound COLA	https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

ENDNOTES

¹ San Francisco Charter, Article XII: Employee Retirement and Health Service Systems, and Appendix A: Employment Provisions. http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

² 2000 Proposition C, Voter Information Pamphlet: https://sfpl.org/pdf/main/gic/elections/November7_2000.pdf

³ 2002 Proposition H, Voter Information Pamphlet: http://sfpl.org/pdf/main/gic/elections/November5_2002.pdf

⁴ SFERS Audited Financial Statements 2006, page 8. “In order to maintain the fiscal soundness of the Plan, employer contributions were required from the City and County during the year ended June 30, 2005. This was the first year since the year ended June 30, 1997 in which employer contributions were required.

⁵ June 2008 Proposition B, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

⁶ SF CGJ 2008-2009 Report: Pensions, Beyond Our Ability to Pay: http://civilgrandjury.sfgov.org/2008_2009/Pensions_Beyond.pdf

⁷ Office of the Controller, Status of the Recommendations by the Civil Grand Jury 2008-09, 2010 Department Responses, page 11: http://civilgrandjury.sfgov.org/2008_2009/ControllersAudit_2008-2009_Report.pdf

⁸ SF CGJ 2009-2010 Report: Pension Tsunami, The Billion Dollar Bubble: http://civilgrandjury.sfgov.org/2009_2010/Pension_Tsunami.pdf

⁹ Office of the Controller, Status of the Recommendations by the Civil Grand Jury 2008-09, 2010 Department Responses, page 15: http://civilgrandjury.sfgov.org/2009_2010/Controllers_Audit_2009-2010_Reports.pdf

¹⁰ 2010 Proposition D, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June8_2010.pdf

¹¹ 2011 Proposition C, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/november8_2011.pdf

¹² Protect Our Benefits, <http://www.protectourbenefits.org/>

¹³ *Allen v. City of Long Beach* (1955) 45 Cal.2d 128, 131

¹⁴ Little Hoover Commission, Public Pensions for Retirement Security, page v, <http://www.lhc.ca.gov/studies/204/report204.html>

¹⁵ GASB 67/68 is the Government Accounting Standards Board Statement No. 67, “Financial Reporting for Retirement Systems”, and Statement No. 68, “Accounting and Financial Reporting for Pensions.”

¹⁶ Budget, Salaries and Benefits data is from SF OpenBook: http://openbook.sfgov.org/openbooks/cgi-bin/cognosisapi.dll?b_action=cognosViewer&ui.action=run&ui.object=/content/folder%5B%40name%3D%27Reports%27%5D/report%5B%40name%3D%27Budget%27%5D&ui.name=20Budget&run.outputFormat=&run.prompt=false

¹⁷ The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

¹⁸ The City’s Five Year Financial Plan Update, 3/23/2017, page 2:
<http://sfcontroller.org/sites/default/files/Documents/Budget/FY17-18%20Five%20Year%20Plan%20Update%20FINAL%203.23.pdf>

¹⁹ Employee and Retiree counts are from the 2007-2016 SFERS Actuarial Valuation Reports.
<http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

²⁰ City and Employee Contributions, and Investment Returns are from the 2007-2016 SFERS Actuarial Valuation Reports.
<http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

²¹ The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

²² Liability, Assets, and Unfunded amounts are from the 2007-2016 SFERS Actuarial Valuation Reports.
<http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

²³ The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

²⁴ Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the “accrued liability” or “actuarial accrued liability.” Unfunded Actuarial Liability represents the difference between Actuarial Liability and valuation assets. This value is sometimes referred to as “unfunded actuarial accrued liability.”

²⁵ The Salary Increase Rate is a combination of the Wage Inflation and Merit Increase percentages; these are Actuarial Assumptions. All Actuarial Assumptions are reviewed and set by the Retirement Board each year.

²⁶ Little Hoover Commission – Public Pensions for Retirement Security: <http://www.lhc.ca.gov/studies/204/report204.html>

²⁷ [http://gov.ca.gov/docs/Twelve Point Pension Reform 10.27.11.pdf](http://gov.ca.gov/docs/Twelve_Point_Pension_Reform_10.27.11.pdf)

²⁸ June 2008 Proposition B, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

²⁹ SFERS letter from the Executive Director and Acting Actuary to the Clerk of the Board, 2/11/2008, Re: File No. 071663, with attached letter from Towers Perrin, “Estimated Costs of Potential Changes to SFERS Plan Provisions.” File name: “20080211_ActuarialAnalysis.pdf.” Could not find it online. Request it from the Retirement Board’s Secretary.

³⁰ The Outstanding Balance, Cumulative Interest, and Cumulative Principal are from the 2007-2016 SFERS Actuarial Valuation Reports. <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

³¹ SFERS FY 2016 GASB 67/68 Report, page 2.

³² See [Appendix B: Retirement System Propositions](#).