



## **ACTUARIAL FUNDING METHODS POLICY**

### **Background and Purpose**

- 1) City and County of San Francisco Charter sections 12.100 and A8.510 authorize the Retirement Board to determine required City and County contributions to the Retirement System. These Charter sections restrict the selection of actuarial cost methods and amortization periods used in the determination of the required contributions but do not explicitly state the actuarial cost methods and amortization periods to be used. The Board established this policy to provide a clear statement of actuarial cost method, amortization periods, asset valuation method including smoothing methodologies, and transition methods to the extent that these items are not specified in the provisions of the Charter.

### **Policy Objectives**

- 2) The objectives of the Actuarial Funding Methods Policy are to:
  - a) Ensure that actuarial valuations, analysis and other reports are prepared in a systematic and consistent manner
  - b) Document actuarial cost method, amortization periods, asset valuation methods including smoothing methodologies as well as the effective dates
  - c) Document transition methods when required
  - d) Ensure compliance with Actuarial Standards of Practice (ASOPs)
  - e) Balance the competing goals of benefit security to members, stability of cost to the City and County, and intergenerational equity (i.e. fully funding benefits over the average future service of members in active service).

### **Roles and Responsibilities**

- 3) The Retirement Board is responsible for determining actuarial methods, amortization periods, smoothing methodology and transitions methods to the extent that these items are not specified in the provisions of the San Francisco Charter.
- 4) The Consulting Actuary is responsible for presenting potential changes to the actuarial funding methods policy when actuarial practice changes, when aspects of the policy are no longer practical, or when unintended consequences result from the policy.

- 5) The Actuarial Services Coordinator is responsible for supporting the Retirement Board and Consulting Actuary in reviewing the appropriateness of the actuarial funding methods and for recommending a review of the Policy to the Board when the Policy is no longer appropriate

### **Guidelines**

#### Actuarial cost method

- 6) The Charter specifies that the normal contribution rate “be computed as a level percentage of compensation which, when applied to the future compensation of the average new member entering the System, together with the required member contribution, will be sufficient to provide for the payment of all prospective benefits of such member.” The actuarial cost method historically used in the valuation of the System’s actuarial liabilities has been the Entry Age Normal cost method applied on an individual basis.

#### Asset valuation method (smoothing methodology)

- 7) At its September 2025 meeting, the Retirement Board adopted a revised actuarial value of assets based upon a recommendation from its actuary:
- a) Starting with the July 1, 2025 actuarial valuation, the actuarial value of assets is calculated by recognizing 20% of each of the past five years of actual investment experience relative to the expected return on the market value of assets. To transition, the experience for fiscal years ending 2021, 2022, 2023, and 2024 was based on the prior method of the expected return on the actuarial value of assets.

#### Amortization of unfunded actuarial accrued liabilities

- 8) The Charter specifies that the portion of the liability not provided by the normal cost contributions be amortized over a period not to exceed twenty years.
- 9) On August 13, 2014, the Retirement Board revised the amortization method as follows:
- a) The amortization method shall be level percent of pay. Sources of UAAL or surplus will be separated into layers and will be amortized separately over the fixed periods shown below.
  - b) UAAL due to actuarial gains or losses: Fixed 20-year periods
  - c) UAAL due to changes in actuarial assumptions or methods: Fixed 20-year periods
  - d) UAAL due to charter amendments: 1) Fixed 15-year periods for changes in UAAL due to active members except that retirement incentive programs will be amortized over fixed 5-year periods; 2) Fixed five-year periods for changes in UAAL due to non-active members

- e) UAAL due to Supplemental COLAs: Future grants of Supplemental COLAs are not included in the Actuarial Accrued Liability (AAL) for purposes of determining required City and County contributions. If a Supplemental COLA is granted, then the change in UAAL due to the granted Supplemental COLA will be amortized over a fixed five-year period. If future grants are ever included in the AAL, then this amortization should be revisited.
  - f) The equivalent single amortization period calculated at any valuation date shall not be greater than 20 years. In the case of changes in actuarial assumptions or methods, amortization schedules that are substantially a consistent level percent of pay except for an appropriately determined phase-in period of five years or less shall meet the requirements of this Policy.
  - g) The revised amortization method will first be effective for the July 1, 2014 actuarial valuation. To transition to the revised method, the remaining balance of non-Proposition UAAL existing at the July 1, 2013 actuarial valuation will be reamortized at July 1, 2014 over a fixed 19-year period, while the remaining balances of proposition UAAL layers existing at the July 1, 2013 actuarial valuation will continue to be amortized over their individual remaining periods.
- 10) On September 14, 2016, the Retirement Board adopted a funding policy for the retroactive Supplemental COLAs starting with the July 1, 2016 actuarial valuation as follows: The 2013 Supplemental COLA is amortized over a 17-year period and the 2014 Supplemental COLA is amortized over a five-year period.
- 11) On February 9, 2022, the Retirement Board added the following effective with the July 1, 2021 actuarial valuation:
- a) The 2020-2021 asset return will be smoothed into the actuarial value of assets over five years in accordance with SFERS' asset valuation method. To match this five-year smoothing, the July 1, 2021 net actuarial gain will be amortized over a fixed five-year period. In addition, each remaining balance of all assumption changes and actuarial gains and losses existing before July 1, 2021 will be reamortized over a fixed five-year period at July 1, 2021.
  - b) At valuation dates when the actuarial value of assets exceeds the actuarial liability, existing closed amortization layer balances will continue with the scheduled amortization payments and any remaining amount will be amortized over a rolling 20-year period. If the actuarial value of assets exceeded the actuarial liability in the prior valuation but does not exceed the actuarial liability in the current valuation, any prior rolling amortization layer will be combined with the current amortization layer to form a closed layer that is amortized over 20 years.
- 12) On July 14, 2022, the Retirement Board approved a 10-year amortization for Proposition A if passed by the voters on November 8, 2022.

- 13) On March 11, 2026, the Retirement Board revised the amortization method for Supplemental COLAs as follows:
- a) UAAL due to Supplemental COLAs: Future grants of Supplemental COLAs are not included in the Actuarial Accrued Liability (AAL) for purposes of determining required City and County contributions. If a Supplemental COLA is granted, then the change in UAAL due to the granted Supplemental COLA will be amortized over a fixed period between 5 and 10 years. The amortization payments will not exceed the amortization credit for the investment gain that generated the Supplemental COLA unless it would extend the amortization period beyond 10 years, in which case the amortization period will be 10 years with a 5-year phase-in that mirrors the increase in amortization credits due to the investment gain as it is fully recognized by the 5-year asset smoothing method.

#### **Policy Review**

- 14) The Retirement Board will review this policy within seven months after the completion of an actuarial audit or upon recommendation of the Actuarial Services Coordinator to ensure that it remains consistent with actuarial best practices, relevant and appropriate.

#### **Policy History**

- 15) This Policy was adopted by the SFERS Retirement Board on January 10, 2006 and amended on August 13, 2014, February 9, 2022, May 8, 2024, and March 11, 2026.