



Retiree Health Care Trust Fund Board

CALENDAR

Special Meeting

Monday, September 30, 2013

1:30 PM

City and County of San Francisco
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94103

RETIREE HEALTH CARE TRUST FUND BOARD MEMBERS

President

Pauline Marx

Vice President

Ed Walsh

Members

Carol Cypert

Leo Levenson

Clare Murphy

Disability Access

The meeting will be held at SFERS Office, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94103. The Retirement Health Care Trust Fund Board Meeting Room is wheelchair accessible. Accessible seating is available for persons with disabilities or wheelchairs. The following services are available upon request:

- American Sign Language interpreters will be available upon request.
- A sound enhancement system will be available upon request at the meeting.
- Minutes of the meeting are available in alternative formats.

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Sunshine Ordinance Task Force
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(415) 554-7724
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CALENDAR

□ Call to Order

□ Roll Call:

**Commissioner Carol Cypert
Commissioner Leo Levenson
Commissioner Pauline Marx
Commissioner Clare Murphy
Commissioner Ed Walsh**

□ 09302013-01

Action item

Approval of the Minutes of the February 14, 2013 and April 22, 2013 Board Meetings.

Documents provided to the Board prior to meeting:

Minutes of the February 14, 2013 and April 22, 2013 Board Meetings

Public comments:

Action: Approve Minutes of Special Board Meeting of February 14, 2013 and Regular Meeting of April 22, 2013.

□ 09302013-02

Discussion

Presentation by Cheiron and Controller Ben Rosenfield regarding the RHCTF Charter Amendment to be submitted to San Francisco Voters on November 5, 2013.

Documents provided to the Board prior to meeting:

Modeling a Pre-Funding Strategy presentation

Public comments:

Action: This is a discussion item only.

□ 09302013-03

Action item

Discussion and possible action regarding City Controller Ben Rosenfield's September 10, 2013 letter request to the RHCTFB and whether to request that the San Francisco Employees' Retirement System (SFERS) provide the RHCTF with a proposal that would allow the RHCTF to invest with SFERS.

Documents provided to the Board prior to meeting:

Controller Ben Rosenfield's September 10, 2013 letter

Public comments:

Action: This is a discussion item only.

- 09302013-04 Discussion item

Opportunity for the public to comment on any matters within the RHTCF Board's jurisdiction

Public comments:

- Adjourn



Retiree Health Care Trust Fund Board

AMENDED BOARD MEETING MINUTES

Continued Special Meeting from

Tuesday, February 12, 2013 to

Thursday, February 14, 2013

1:30 PM

City and County of San Francisco
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94103

RETIREE HEALTH CARE TRUST FUND BOARD MEMBERS

President

Carol Cypert

Vice President

Pauline Marx

Members

Connie Hiatt

Leo Levenson

Edward Walsh

Disability Access

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CALENDAR

□ Call to Order

□ Roll Call: **Commissioner Carol Cypert 1:30 PM**
 Commissioner Connie Hiatt 1:30 PM
 Commissioner Pauline Marx 1:30 PM
 Commissioner Leo Levenson 1:30 PM
 Commissioner Ed Walsh 1:30 PM

□ 02142013-01 Discussion and Continued item **This item is continued from the Retiree Health Care Trust Fund Board meeting of February 12, 2013: Interview proposers for investment consulting services for the City and County of San Francisco Retiree Health Care Trust Fund RFQ#CON2012-15**

Documents provided to the Board prior to meeting:
NONE

The firms presented their proposals in response to the RFQ#CON2012-15

The Board engaged in a question and answer session.

Motion by Commissioner Hiatt to select Meketa as the investment consultant for the Retiree Health Care Trust fund, Seconded by Commissioner Walsh.

By unanimous decision the Board selected a consultant and directed Board staff to commence contract negotiations.

Action: Approved by the following vote:
Ayes: Cypert, Hiatt, Levenson, Marx, Walsh

□ 02142013-02 Discussion item **Opportunity for the public to comment on any matters within the RHTCF Board's jurisdiction**

Public comments: There were no public comments.

□ Adjournment: There being no further business, the Board adjourned the meeting at 4:16 PM



Retiree Health Care Trust Fund Board

DRAFT BOARD MEETING MINUTES

Regular Meeting

Monday, April 22, 2013

3:00 PM

City and County of San Francisco
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94103

RETIREE HEALTH CARE TRUST FUND BOARD MEMBERS

President

Carol Cypert

Vice President

Pauline Marx

Members

Leo Levenson

Edward Walsh

Disability Access

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CALENDAR

□ Call to Order

□ Roll Call:

**Commissioner Carol Cypert
Commissioner Leo Levenson
Commissioner Pauline Marx
Commissioner Ed Walsh
Commissioner – Vacant position**

□ 04222013-01

Action item

Approval of the Minutes of the January 28, 2013, Board Meeting; February 12, 2013, Special Board Meeting; and, February 14, 2013 Continued Special Board Meeting.

Documents provided to the Board prior to meeting:

Draft Minutes of the January 28, 2013, Board Meeting; February 12, 2013, Special Board Meeting; February 14, 2013, Continued Special Board Meeting

Moved by Commissioner Walsh, Seconded by Commissioner Levenson to approve the Minutes of January 28, 2013, Board Meeting; February 12, 2013, Special Board Meeting; February 14, 2013, Continued Special Board Meeting.

Action: Approved by the following vote:
Ayes: Cypert, Levenson, Marx, Walsh

□ 04222013-02

Discussion item

Report on current funding status of RHCTF.

Documents provided to the Board prior to meeting:

Retiree Health Trust Fund Status and Budget as of April 04, 2013

Commissioner Levenson provided an oral and written report summarizing the current funding status of the RHCTF.

□ 04222013-03

Discussion item

Report on current investment status of RHCTF.

Documents provided to the Board prior to meeting:

Investment Report for the Month of March 2013

Commissioner Marx gave an oral and written report summarizing the current investment status of the RHCTF.

- 04222013-04 Action item **Approval of the Budget for FY13-14.**

Documents provided to the Board prior to meeting:
Proposed Budget Report for FY13-14

Commissioner Levenson provided an oral and written report regarding the RHCTF FY 13-14 budget.

Moved by Commissioner Cypert, Seconded by Commissioner Walsh to approve the FY 2013-14 budget.

Action: Approved by the Following Vote:
Ayes: Cypert, Levinson, Marx, Walsh

- 04222013-05 Action item **Approval of FY12-13 Quarterly Billing.**

Documents provided to the Board prior to meeting:
Quarterly Billings for January 1, 2013 to March 31, 2013

Rosanne Torre provided an oral and written report regarding the FY12-13 quarterly billing.

Moved by Commissioner Walsh, Seconded by Commissioner Marx to approve the Quarterly Billings for January 1, 2013 to March 31, 2013.

Action: Approved by the Following Vote:
Ayes: Cypert, Levinson, Marx, Walsh

- 04222013-06 Discussion item **Discussion regarding the next election for two RHCTF Board members in 2014.**

Rosanne Torre gave a brief oral report regarding the RHCTF 2014 election.

Erik Rapoport said he would contact the Health Service System to discuss the possibility of coordinating elections and consolidating costs.

- 04222013-07 Discussion item **Discussion regarding resignation of Commissioner Constance Hiatt on March 13, 2013.**

Board engaged in a brief discussion and decided to create a commendation for Constance Hiatt's services. Commissioner Cypert to circulate language and Rosanne Torre to produce the commendation and circulate it for Commissioners' signatures.

□ 04222013-08 Action item

Discussion and possible action regarding the San Francisco Community College District's Decision to Join the Retiree Health Care Trust Fund for their Employees.

Documents provided to the Board prior to meeting:

- 1) Retiree Health Care Trust Fund (RHCTF) Board-Resolution NO. 2013-01 - authorization to transfer \$500,000 to the San Francisco City and County Retiree Health Care Trust Fund for employees of the San Francisco Community College District
- 2) San Francisco City College Resolution No. 120223-B2A - County Retiree Health Care Trust Fund for post-retirement health benefits for employees of the San Francisco Community College District

Erik Rapoport gave an oral report summarizing the San Francisco Community College District's participation on the RHCTF to date.

The Board requested that San Francisco City College attend next Board meeting.

Moved by Commissioner Cypert to approve Resolution NO. 2013-01 - authorization to transfer \$500,000 to the San Francisco City and County Retiree Health Care Trust Fund for employees of the San Francisco Community College District, Seconded by Commissioner Walsh.

Action: Approved by the Following Vote:
Ayes: Cypert, Levenson, Marx, Walsh

□ 04222013-09 Action item

Adoption of RHCTF Governance Policies.

Documents provided to Board prior to meeting:

Draft Governance Policies

Erik Rapoport gave a brief oral report on this item stating that the RHCTF should look for and hire an administrative staff person to help finalize the governance policies.

The Board reviewed and suggested changes to the draft policies and engaged in a question and answer session.

The item was continued to the next Board Meeting.

- 04222013-10 Discussion item **Discussion of Draft Fiduciary policy.**

Documents provided to Board prior to meeting:
Draft Fiduciary Policy

Erik Rapoport gave an oral report on this item.

- 04222013-11 Discussion item **Discussion regarding current status of contract negotiations for the investment consultant Meketa Investment Group.**

Documents provided to Board prior to meeting:
None

Erik Rapoport gave an oral report summarizing the current status of contract negotiations with Meketa.

- 04222013-12 Action item **Opportunity to place items on future Board agendas.**

The Board discussed the following items to be placed on future agendas:

 1. Board Resolution to commend Connie Hiatt for her service to the Retiree Health Care Trust Fund Board.
 2. Board policies including fiduciary policy.
 3. Assign staff position.
 4. Discussion regarding what Board can do with respect to active legislation, and specifically what Board members can do regarding charter amendments.
 5. Current list of educational opportunities - emailed and brought in.
 6. Possible coordination of Health Services Agency and RHCTF Board elections. Find out term end date.
 7. Standing new agenda item to discuss on-going legislation to be approved by the Board of Supervisors that may affect the Trust Fund.
 8. San Francisco City College to attend next meeting.
 9. Erik Rapoport to contact Department of Elections to obtain a schedule for next year's election.
 10. The Board requested information on educational opportunities. Rosanne Torre

to compile a list and send information to the Board.

- 04222013-13 Discussion item **Opportunity for the public to comment on any matters within the Board's jurisdiction**

Public comments: None

- Adjournment: There being no further business, the Board adjourned the meeting at 4:31 pm.

City and County of San Francisco Retiree Health Care Trust Fund Board

Modeling a Pre-Funding Strategy



Bill Hallmark, ASA, FCA
September 30, 2013



Overview

- Introduction
- Current Funding Requirements
- Proposed Pre-Funding Strategy
- Pre-Funding Strategy Projection
- Sensitivity Testing Overview
- Questions



Introduction

- Historically, post-retirement health care benefits had been funded strictly on a pay-as-you-go basis
 - Annual contributions equaled annual benefit payments
- Propositions B and C began to establish a pre-funding strategy, but the strategy is limited and to a large extent undefined after 2020
- Cheiron has worked with the City and County to develop a more robust pre-funding strategy



Introduction

- Transition to pre-funding requires a strategy to fund the benefits earned in prior years
- The strategy is largely a policy decision reflecting the City and County's view of generational equity
 - Under a **pay-as-you-go strategy**, the current generation of workers and taxpayers pays for the previous generation's benefits
 - Under a **pre-funding strategy**, the current generation of workers and taxpayers pays the estimated cost for the current generation's benefits
- In the transition from pay-as-you-go to pre-funding, how much should the current generation of taxpayers pay for the prior generation in addition to the estimated cost of the current generation?
 - Must ensure that promised benefits can be paid
 - Policy affects how much future generations of taxpayers will be expected to pay for prior generations



Current Funding Requirements

- For Prop B employees (hired on or after 1/10/2009), contributions to the Retiree Health Care Trust Fund (RHCTF) take effect immediately upon employment:
 - 2% of pay is contributed by the employee
 - 1% of pay is contributed by the City
- For Pre-Prop B employees, contributions to the RHCTF take effect beginning July 1, 2016:
 - 0.25% of pay is contributed by the employee in 2016, increasing 0.25% per year until the contribution level reaches 1% of pay in 2019
 - City contributions are equal to the employee contributions for pre-Prop B employees
- Contribution levels described above are minimum levels, additional contributions may also be made to the RHCTF
- No benefits will be paid from the RHCTF prior to January 1, 2020



Proposed Pre-Funding Strategy

- Proposed pre-funding strategy was developed based on:
 - 60-year projections of the estimated liability for post-retirement health care benefits, projected contributions and benefit payments, and projected assets in the Retiree Health Care Trust Fund (RHCTF)
 - Stress tests of the projections by varying key assumptions
- A variety of strategies were modeled balancing the issues of generational equity, affordability, and sustainability

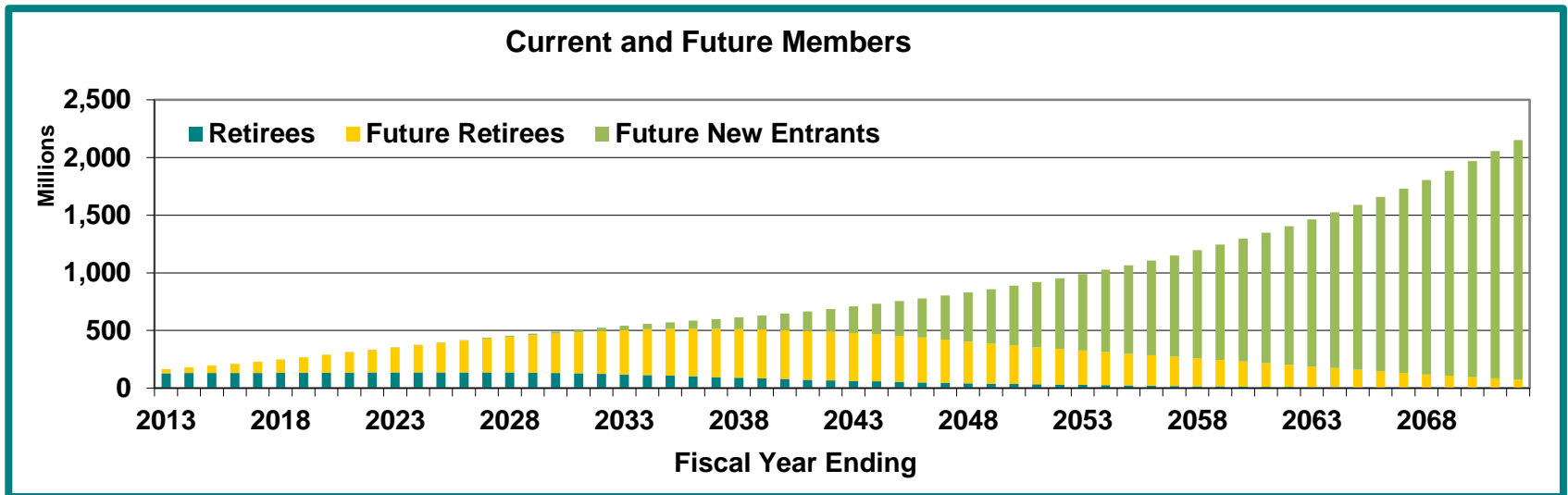
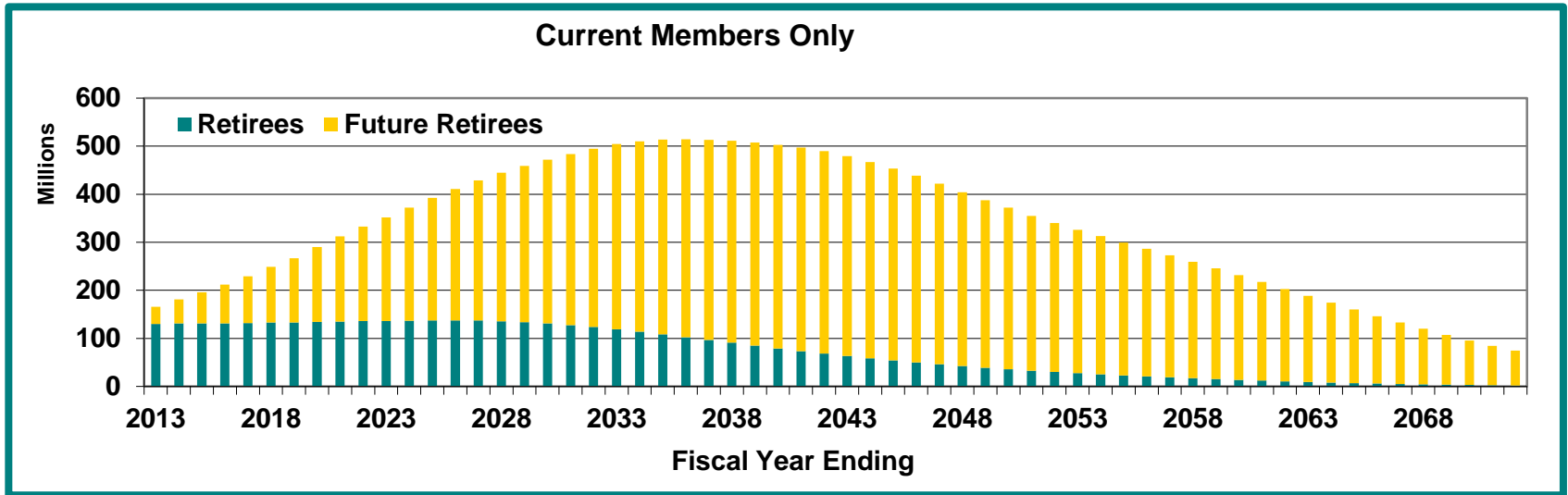


Proposed Pre-Funding Strategy

- Employee contributions required by Propositions B and C continue
- City contributions are as follows:
 - While the Plan is less than 100% funded:
 - City contributes amounts required by Propositions B and C plus pay-go costs up to a maximum total contribution of 10% of payroll
 - Pay-go costs in excess of the City's additional contribution are paid from RHCTF subject to a withdrawal limit of 10% of prior year RHCTF ending balance
 - Any pay-go costs above the withdrawal limit are paid by the City
 - While the Plan is at least 100% funded:
 - City contributes amounts described by Prop B/C to RHCTF
 - RHCTF pays benefit and administration costs
- It is possible RHCTF may pay some benefits prior to 2020



Estimated Future Pay-Go Costs



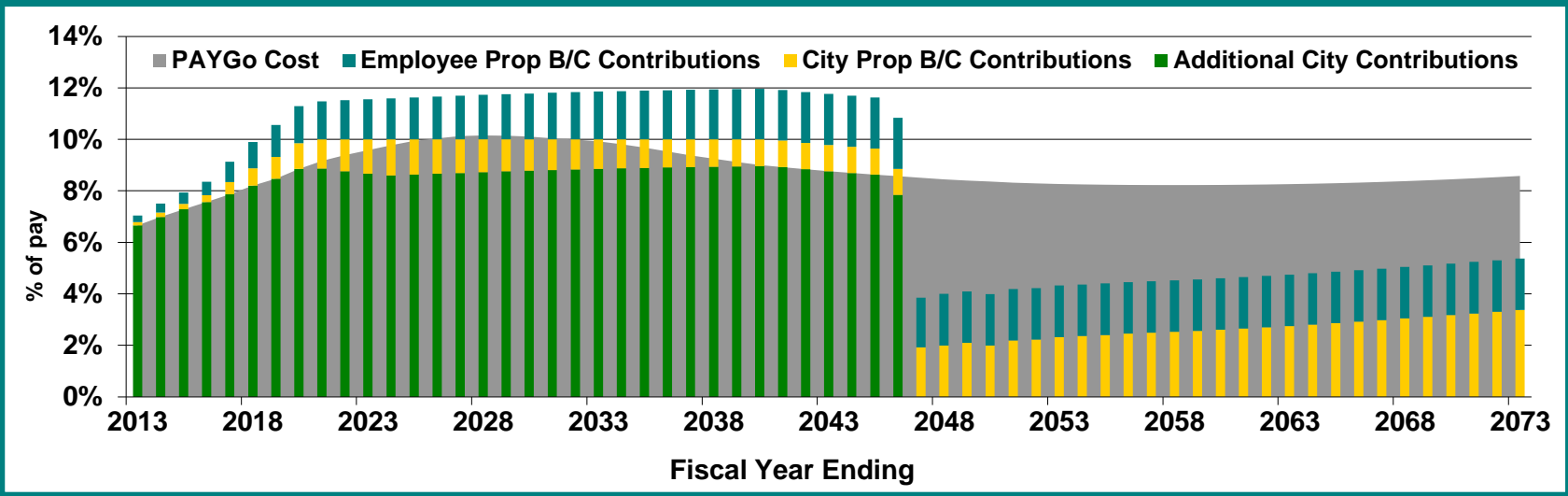
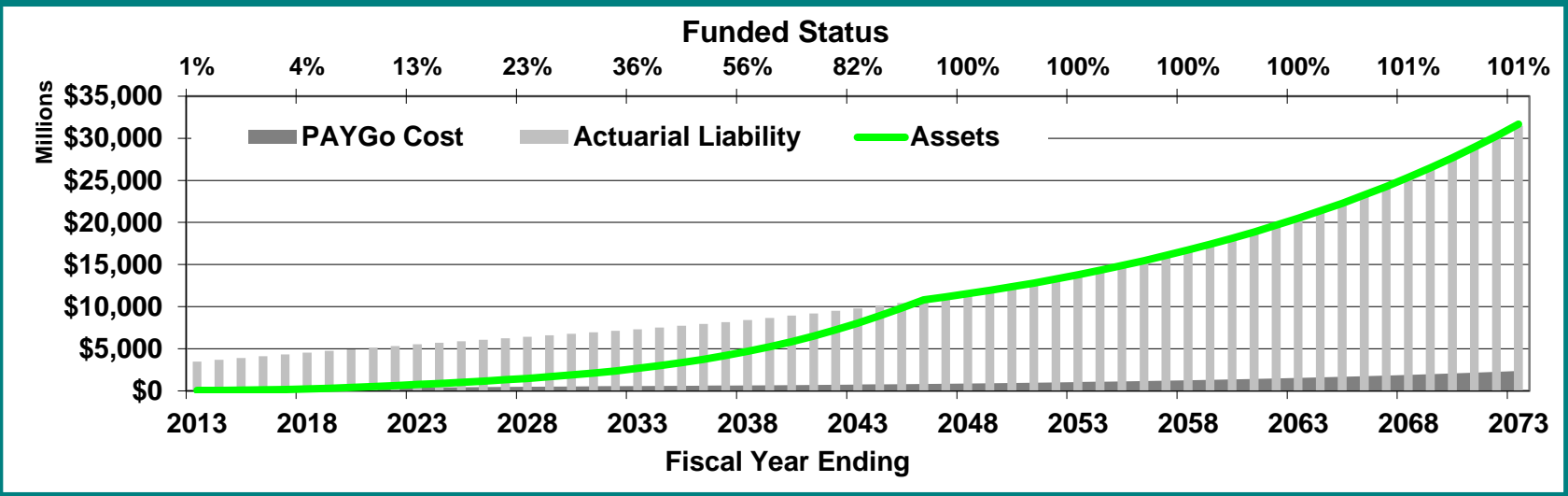


Projections – Key Assumptions

- All projections are shown using a discount rate equal to the long-term return on assets assumption (7.5%).
- Assets are assumed to return 4.25% per year until the RHCTF reaches \$25 million in total assets, and 7.5% after
- All other assumptions are the same as the July 1, 2010 valuation. Please see the full valuation report for a summary of the plan provisions, methods, assumptions and data used
- For projection purposes:
 - The active population is assumed to remain stable (i.e., same count and same demographic characteristics)
 - Payroll is assumed to grow 4.0% annually
 - No future gains or losses are assumed



Pre-Funding Strategy Projection





Pre-Funding Strategy Observations

- The RHCTF is projected to first reach 100% funding in 2046
- City contributions are expected to reach the 10% maximum limit in 2021 and remain at the limit until 2040
- During these years, some pay-as-you-go costs are funded by RHCTF disbursements, but the 10% withdrawal limit is not reached in any year
- City contribution rate drops significantly when plan becomes 100% funded



Sensitivity Testing

- The following variances for key assumptions were tested to assess the sensitivity of the projections:
 - Investment return: 6.5% actual versus assumed 7.5%
 - Retirement rates: double currently assumed rates for two years versus assumed rates
 - Payroll growth: 3.25% actual vs. 4.00% assumed
 - Medical trend: parallel shift of 1% increase and decrease versus currently assumed rates
- The stress tests did not reflect any change in the assumptions used in each future valuation, but only a change in the projected experience of the plan



Sensitivity Testing

- In addition, we developed and tested two scenarios that illustrate the combined effects of several key assumptions:
 - Short-Term Shock Scenario
 - Initial 2-year spike in medical trend approximately reflecting highest historical 2-years since 2000 (13% for non-Medicare, 9% for Medicare-eligible)
 - Double retirement rates for first two years of projection
 - 0% payroll growth for first two years of projection
 - Long-Term Pessimistic Scenario
 - 6.5% actual investment return
 - 3.25% payroll growth
 - Current medical trend +1%



Sensitivity Testing Observations

- As expected, medical trends have the largest impact on projected results:
 - Shifting the trends +1% in all years results in the 10% cap on RHCTF disbursements being exceeded from 2020 to 2033 and the plan was 43% funded at the end of the projection period
 - If all trends are shifted -1%, the plan becomes 100% funded in 2039, 7 years earlier than the base case
- Payroll growth is also a key assumption:
 - If actual payroll growth is 3.25% instead of 4% each year, the projected date to be 100% funded is pushed back 14 years to 2060
- The projected results are less sensitive to retirement rate and investment return assumptions
- Short-term shock scenario would result in some payments from the RHCTF prior to 2020
- Given the sensitivity, any pre-funding strategy should have the flexibility to make necessary adjustments in the future



Questions





Required Disclosures

- The purpose of this presentation is to present the proposed pre-funding strategy to the Retiree Health Care Trust Fund Board for the City and County of San Francisco's Retiree Health Care Plan.
- This presentation is for the use of the City and County of San Francisco. Any other user is not an intended user and is considered a third party. This presentation is not intended to benefit any third party and Cheiron assumes no duty or liability to any such party.
- In projecting the pre-funding strategy, we relied without audit, on information (some oral and some written) supplied by the City and County of San Francisco, the Health Services System, and the San Francisco Employees' Retirement System. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23. Please refer to the full July 1, 2010 actuarial valuation report for a complete description of the plan provisions, assumptions, methods and a summary of the data used in the actuarial valuation.
- We hereby certify that, to the best of our knowledge, this presentation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

William R. Hallmark, ASA

Bethany Axtman, FSA

Michael Schionning, FSA



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

Ms. Pauline Marx, Chief Assistant Treasurer
Office of the Treasurer and Tax Collector
City Hall, Room 140
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102


September 10, 2013

RE: Retiree HealthCare Trust Fund

Dear Ms. Marx:

In my role as the Trust Administrator, I respectfully request that the Retiree Healthcare Trust Fund Board consider the procurement of various investment, custodial banking, and other required support services from the San Francisco Employee Retirement System (SFERS), which has well-established financial, banking, and investment functions established for comparable support of the SFERS Trust Fund. I believe evaluation of these services prior to establishing new and additional contractual relationships to support the Retiree Healthcare Trust is warranted in your continued efforts to secure cost-effective, administratively-efficient, and low-risk services in support of the Trust and its beneficiaries.

Sincerely,


Ben Rosenfield
Controller
City and County of San Francisco
(415) 554-7500

cc: Jay Huish, Executive Director – San Francisco Employee Retirement System
Erik Rapaport, Deputy City Attorney