

Employees' Retirement System

Ken Nakatsu, Interim Executive Director

(206) 386-1293

<http://www.seattle.gov/retirement/>

Department Overview

The Employees' Retirement System has two major functions: administration of retirement benefits and management of the assets of the Retirement Fund. Employee and employer contributions, as well as investment earnings, provide funding for the system. Approximately 8,600 active employee members, 2,000 vested terminated employee members and 5,900 retired employee members participate in the plan. The provisions of the plan are set forth in Chapter 4.36 of the Seattle Municipal Code. The plan is a "defined benefit plan," which means an employee's salary, years of service, and age at the time of retirement are used to determine the amount of retirement benefits. At retirement, members are given a choice of several payment options to collect their retirement benefit. The Retirement System is led by a seven-member Board of Administration and an Executive Director appointed by the Board.

Please note that the appropriations detailed in the following tables reflect only the costs to administer the system and do not reflect payment of retiree benefits. For additional details on retiree benefit payments, please visit the Retirement website: <http://www.seattle.gov/retirement/>

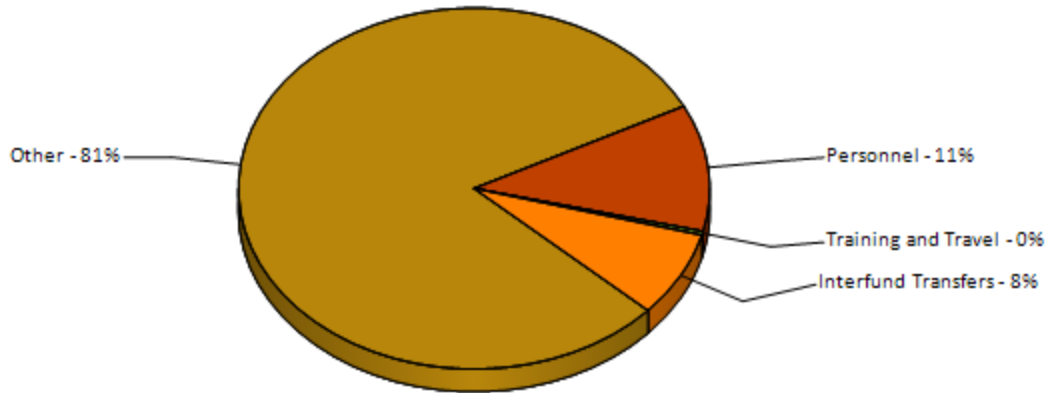
Budget Snapshot

Department Support	2013 Actual	2014 Adopted	2015 Adopted	2016 Endorsed
Other Funding - Operating	\$13,446,283	\$13,425,378	\$22,023,422	\$19,507,601
Total Operations	\$13,446,283	\$13,425,378	\$22,023,422	\$19,507,601
Total Appropriations	\$13,446,283	\$13,425,378	\$22,023,422	\$19,507,601
Full-time Equivalent Total*	18.00	20.00	20.00	20.00

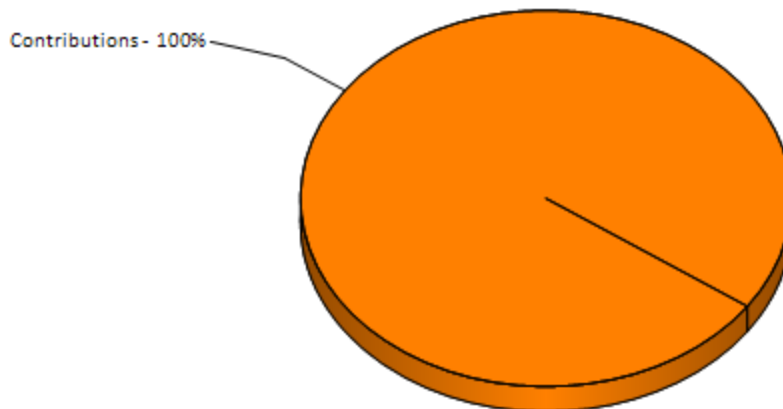
* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Human Resources Director actions outside of the budget process may not be detailed here.

Employees' Retirement System

2015 Adopted Budget - Expenditure by Category



2015 Adopted Budget - Revenue by Category



Employees' Retirement System

Budget Overview

The Seattle City Employees Retirement System (SCERS) relies on the health of its investment earnings to sustain its on-going financial obligations. In years when the economy falters, investment earnings may not meet anticipated levels, creating a financial strain on the system. During severe downturns the SCERS asset portfolio, as with most other retirement portfolios, may experience investment losses instead of gains. This was the case in 2008. The annual funded status of the SCERS at January 1 represents the value of the asset portfolio over the reserves needed to pay all promised retirement benefits. At the beginning of 2008, SCERS held net assets worth \$2.1 billion, which amounted to a 92% funded status, a level considered healthy by most standards.

By 2010, following sharp, worldwide financial market losses, SCERS net assets fell to \$1.6 billion which amounted to only a 62% funded status. By January 1, 2014, the performance of SCERS investment portfolio improved slightly to 68% of the reserves need to pay promised retirement benefits. However, the 68% is based on the market value of assets (MVA). As described further below, the City began using a five-year asset smoothing policy in 2011 to determine the actuarial value of assets (AVA) which are now used to determine the annual funded status. The smoothing policy reduces year-to-year volatility by delaying the full impact of both gains and losses in the asset portfolio. SCERS actual funded status at January 1, 2014 based on the AVA is 64%.

While the funding level at January 1, 2014 is not nearly as healthy as 2008, SCERS has ample resources on hand, combined with future contributions, needed to pay all near-term obligations to retirees, given the total size of the SCERS portfolio. However, SCERS must identify mechanisms to make up the decline in asset value over time in order to ensure full funding of retiree benefits in the long-term.

SCERS can recover from these shortfalls in different ways. The easiest way to make up revenue shortfalls is to have a better-than-anticipated investment returns on the SCERS portfolio. This was the case experienced in 2011, 2013 and 2014, but not in 2012 due to the slow recovery from the economic downturn, and the portfolio may experience investment losses. As experienced in the last four years, SCERS cannot rely on better-than-anticipated investment returns every year, as some future years will again yield a lower return.

Another way to address shortfalls, and even prevent possible losses in returns is to modify revenue assumptions and system spending in advance. To follow this approach, the SCERS Board of Administration agreed in 2014 to decrease the long-term investment return assumption for planning purposes. The investment return decreased from 7.75% to 7.50% starting in 2014.

A third way to proactively address the system shortfall is to change administrative policies regarding how the retirement fund is managed. In 2011, the City adopted a policy to fully fund the actuary-recommended rate each year. By meeting the annual contribution into the SCERS retirement fund, the fund can expect a rate of return on the full projected fund balance.

A fourth way to address system shortfalls is to adjust the amount paid into the fund by the City, the amount paid by the employee members, or both. In 2010, employees agreed to contribute more into the fund, which increased the employee rate from 8.03% to 10.03% by 2012 where it now remains, per current City labor contract agreements. On the other side of this contribution equation, the employer rate has risen each year since 2010 and will be 15.73% in 2015. The total combined rate in each year is the rate determined by the City's actuary to fully fund obligations.

A final way to address system shortfalls is to more carefully manage the investment portfolio choices. Since 2011, SCERS has employed a common five-year asset smoothing policy to determine the actuarial value of assets (AVA) under which portfolio gains or losses occurring in each year are recognized evenly over a five-year period, thereby smoothing out volatile year-to-year swings in asset values. This policy results in gradual changes in actuarially recommended contribution rates each year.

Given projected future increases in City costs for retirement, in 2012 an interdepartmental team developed a report summarizing possible changes to SCERS that would enhance its fiscal sustainability over the long run. These

Employees' Retirement System

options are currently under consideration and the City will continue to analyze the costs, benefits and feasibility of these and other changes to SCERS in the coming biennium. More details on this report can be found online: http://www.seattle.gov/council/issues/retirement_system.htm.

Other Employees' Retirement System Improvements

SCERS continues to update and improve its internal operations and benefits administration functions. One area of focus is to replace outdated Information Technology (IT) systems. The current system is not fully automated with Personnel records, requiring manual inputs. Additionally, a 2013 audit by the City Auditor found a high error rate in several aspects of the benefit calculation process. The audit also observed long processing times for retirement benefit calculations. This can lead to delays in members' retirements because they rely on SCERS to provide retirement benefit estimates, and may delay their retirement after receiving their benefit calculation more than a month from their request to SCERS. The 2015 Adopted and 2016 Endorsed Budget includes the funding of a new software system in 2015 to improve record keeping and administrative data systems, reduce the amount of time to receive retirement benefit estimates and final benefit calculations, and therefore, increase members' ability to plan for retirement.

The 2015 Adopted and 2016 Endorsed Budget also includes funding in 2015 to support SCERS plan to add a Chief Investment Officer by the end of 2014. The Chief Investment Officer will strengthen SCERS priorities in portfolio management, fund investment, and help ensure full funding of member benefits.

City Council Changes to the Proposed Budget

The Council made no changes to the 2015-2016 Proposed Budget.

Incremental Budget Changes

Employees' Retirement System

	2015		2016	
	Budget	FTE	Budget	FTE
Total 2014 Adopted Budget	\$ 13,425,378	20.00	\$ 13,425,378	20.00
Baseline Changes				
Citywide Adjustments for Standard Cost Changes	\$ 37,292	0.00	\$ 80,631	0.00
Proposed Changes				
Position Reclassifications	\$ 191,197	0.00	\$ 191,197	0.00
Pension Administration System	\$ 6,205,550	0.00	\$ 3,359,150	0.00
Investment Managers	\$ 1,384,164	0.00	\$ 1,384,164	0.00
Proposed Technical Changes				
Final Citywide Adjustments for Standard Cost Changes	\$ 779,841	0.00	\$ 1,067,081	0.00

Employees' Retirement System

Total Incremental Changes	\$ 8,598,044	0.00	\$ 6,082,223	0.00
2015 Adopted/2016 Endorsed Budget	\$ 22,023,422	20.00	\$ 19,507,601	20.00

Descriptions of Incremental Budget Changes

Baseline Changes

Citywide Adjustments for Standard Cost Changes - \$37,292

Citywide technical adjustments made in the "Baseline Phase" reflect changes due to inflation, central cost allocations, retirement, healthcare, workers' compensation, and unemployment costs. These adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Proposed Changes

Position Reclassifications - \$191,197

This item increases funding for the reclassification of two positions in order to support a higher level of analytical capacity and investment oversight.

Pension Administration System - \$6,205,550

This item increases appropriations for a new benefits administration software system to improve record keeping and administrative processes. This is a one-time cost in 2015 for the system upgrade, which will be fully implemented in 2017.

Investment Managers - \$1,384,164

This item increases funding to pay for an ongoing increase in investment management contract fees, which are based on future projections of SCERS' current investments.

Proposed Technical Changes

Final Citywide Adjustments for Standard Cost Changes - \$779,841

Citywide technical adjustments made in the "Proposed Phase" reflect changes due to inflation, central cost allocation, retirement, healthcare, workers' compensation, and unemployment costs. These adjustments reflect updates to preliminary cost assumptions established in the "Baseline Phase."

City Council Provisos

There are no Council provisos.

Employees' Retirement System

Expenditure Overview

Appropriations	Summit Code	2013 Actual	2014 Adopted	2015 Adopted	2016 Endorsed
Personnel, Maintenance, and Operations Budget Control Level	R1E10	13,446,283	13,425,378	22,023,422	19,507,601
Department Total		13,446,283	13,425,378	22,023,422	19,507,601
Department Full-time Equivalents Total*		18.00	20.00	20.00	20.00

* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Human Resources Director actions outside of the budget process may not be detailed here.

Revenue Overview

2015 Estimated Revenues

Summit Code	Source	2013 Actual	2014 Adopted	2015 Adopted	2016 Endorsed
469610	Employee Contributions	5,884,215	5,532,598	8,575,113	7,730,590
569510	Employer Contributions	7,562,068	7,892,779	13,448,309	11,777,011
	Total Contributions	13,446,283	13,425,377	22,023,422	19,507,601
	Total Revenues	13,446,283	13,425,377	22,023,422	19,507,601
	Total Resources	13,446,283	13,425,377	22,023,422	19,507,601

Appropriations By Budget Control Level (BCL) and Program

Personnel, Maintenance, and Operations Budget Control Level

The purpose of the Employees' Retirement Budget Control Level is to manage and administer retirement assets and benefits.

Program Expenditures	2013 Actual	2014 Adopted	2015 Adopted	2016 Endorsed
Employees' Retirement	13,446,283	13,425,378	22,023,422	19,507,601
Total	13,446,283	13,425,378	22,023,422	19,507,601
Full-time Equivalents Total*	18.00	20.00	20.00	20.00

* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Human Resources Director actions outside of the budget process may not be detailed here.