



## MINUTES

**Board Members Present:** Councilmember Nick Licata, Chair; Lou Walter (joined meeting at 9:10am by conference call); Robert Harvey; Susan Coskey; Glen Lee (joined the meeting at 9:10am); Sherri Crawford

**Board Members Absent:** Jean Becker

**SCERS Staff Present:** Ken Nakatsu; Jeff Davis; Claire Foster; Tim Morrison

**Others Present:** Mike Monaco, Song Mondress Law Firm; Carlton Seu, Seattle City Attorney's Office; Tom Kirn, FAS; George Emerson, FAS; Erik Sund, Council Central Staff; Cynthia Scheiderer, SCERS Consultant

Councilmember Nick Licata called the meeting to order at 9:04am.

**Public Comment:**

No public comment.

**Administrative Consent Agenda**

**Minutes:**

Provided in the Retirement Board packet was the minutes from the April 10, 2014 Retirement Board regular meeting.

**Ratification of Retired Payroll, Office Payroll, Other Payments and Withdrawals**

<b>Service</b>	\$11,427,103.85
<b>Beneficiary</b>	\$926,614.33
<b>Disability</b>	\$73,048.39
<b>Pension Payroll – PPE April 2014</b>	<b>\$12,426,766.57</b>
 <b>Office Payroll – PPE April 8 and 22, 2014</b>	 <b>\$110,076.50</b>
 <b>Vouchers Processed –April 30, 2014</b>	 <b>\$301,109.18</b>
*Expert and Consultant Services – \$ 143,577.33	
*Investment Management Fees – \$26,855.00	
*Interdepartmental Charges - \$103,322.75	
*Miscellaneous - \$27,354.10	

**Immediate Withdrawals of Contributions for the month of April 2014:**

Member Name	Department Name	Position
Allen, Michaela I	City Light	Personnel Spec.Asst
Barnes, Andrew P	SPU	Util Act Rep Trne
Brazeau, Leslie E	City Light	Manager 2
Chappell, Paul J	Parks	Rec Attendant
DosSantos, Andrea L	Parks	Public Edu Prgm Supv
Gogola, Marta I	Muni Court	Court Clerk
Gu,Yi	SDOT	Student Engr Intern
<b>Jackson, Camlin L</b>	<b>Parks</b>	<b>Rec Attendant</b>
Jeffrey, Stefani R	City Light	Equal Emp Coord
Jenkins, Justin J	Dolt	Info Tech Prof C
Kelsey, Tonya C	Muni Court	Prob Counslr I
Kettel, Aaron B	City Light	Lnwkr
Kim, Jerome J	SDOT	Fin Anlyst Sr
Kroll, Charles R	Parks	Lifeguard, Sr
Landsdaal, Peter N	Parks	Lifeguard, Sr
Lau, Beverly L	Seattle Center	Usher

**Immediate Withdrawals (continued)**

Member Name	Department Name	Position
Malone, Stephen M	Seattle Center	Sound Op
Secrest, Paul J	Library	Library Assoc II
Sydnese, Troy E	City Light	Strucl Pntr
Wallace, John C	SPU	Util Act Rep Trne
Weissman, Jesse D	DoIT	Manager 2

Bold entries above indicate refund payout made to beneficiary of a member dying while in active status.

**Withdrawals for a total of: \$476,318.48**

**Ratification of Service Retirements for April 2014:**

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Baker, Donald M	3/4/2014	58	13	349	FAS	Vested
<b>Barber, David L</b>	<b>3/26/2014</b>	<b>69</b>	<b>40</b>	<b>11</b>	<b>City Light</b>	<b>Manager 2</b>
Bartleson, Peggy R	4/9/2014	57	28	80	Parks Dept	Assoc Civil Engr Spec
Behar, David S	4/1/2014	57	9	206	City Light	Vested
Bernstein, Margaret K	4/3/2014	62	9	57	Parks Dept	Vested
Bohlman, Alice L	4/1/2014	66	17	119	Human Svcs	Vested
Braxton, Robert W	4/2/2014	68	29	162	Muni Court	Admin Spec II
Burk, Sharon R	3/26/2014	69	24	215	Police	Dispatch Supvr
<b>Buskirk, Kenneth L</b>	<b>3/5/2014</b>	<b>62</b>	<b>32</b>	<b>315</b>	<b>PublicUtil</b>	<b>Equip Maint CC</b>
Cetinkaya, Nancy J	4/2/2014	64	26	308	Muni Court	Admin Spec II
Chan, Paul Wah B	3/4/2014	65	4	19	FAS	Vested
<b>Chavez, Theodore D</b>	<b>4/9/2014</b>	<b>66</b>	<b>32</b>	<b>352</b>	<b>Police</b>	<b>Manager 2</b>
Claxton, Addison M	4/2/2014	57	27	194	PublicUtil	IT Prof B
Dokes, Annette L	3/6/2014	54	30	343	City Light	Manager 3
Donnelly, Sheila B	4/9/2014	60	9	127	FAS	Carpenter
<b>Frazier, Betty J</b>	<b>4/2/2014</b>	<b>66</b>	<b>36</b>	<b>118</b>	<b>Police</b>	<b>Admin Spec II -BU</b>
Harris, Peter K	3/12/2014	65	29	60	LegCtyCncl	Legist Strat Advr
Hassinger, Virginia E	3/4/2014	58	29	342	Parks Dept	Sr Capital Proj Coord
Hogan, Janet G	4/9/2014	63	25	116	Library	Librarian
Holloway, Lloyd E	3/3/2014	57	18	169	FAS	Vested
Hume, Judith A	4/9/2014	59	15	236	City Light	Vested
Johnson, Larry D	4/4/2014	64	13	300	City Light	Senior Personnel Specialist
Justad, Alan J	4/2/2014	66	31	51	DPD	Exec 3
Knechtel, Steven B	4/2/2014	66	15	337	Sea Center	Security Officer
Kongaika, Alisi A	4/2/2014	62	17	230	SDOT	Constr & Maint Equip Op
Lush, Janis K	4/5/2014	62	20	62	City Light	Strat Advr II
Maehara, Gary A	4/4/2014	62	5	266	City Light	Vested

**Ratification of Service Retirements (continued)**

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Manning, Armie L	4/9/2014	62	6	267	FAS	Customer Service Rep
McCready, Phillip K	4/9/2014	58	23	259	DPD	Info Tech Prof A
Mellinger, Edward H	4/9/2014	63	16	103	Parks Dept	Admin Spec I -BU
Nucum, Miriam P	4/9/2014	59	30	135	FAS	Info Tech Prof B -BU
Oakes, George W	4/3/2014	54	26	192	City Light	Elect Power Sys Engr
O'Connor, John M	4/8/2014	63	13	125	Library	Public Service Tech
<b>Olson, John E</b>	<b>4/9/2014</b>	<b>58</b>	<b>32</b>	<b>122</b>	<b>SDOT</b>	<b>Constr &amp; Maint Equipmt Op</b>
Ortiz, William P	4/9/2014	62	20	232	FAS	Plumber
Owens, Gary W	3/4/2014	69	24	179	NeighbDept	Plng&Dev Spec II
Page, Phillip L	4/4/2014	57	10	253	Human Svcs	Vested
Pettis, Tim L	3/6/2014	60	26	230	City Light	Power Struct Mech Crew Chief
Picken, Melissa J	4/3/2014	54	36	312	City Light	Supvr Elect Svr Rep
Plank, Darrell M	3/4/2014	65	17	149	City Light	Line CC
Ramsey, Charlotte M	4/9/2014	62	9	99	Muni Court	Admin Spec II
Raynes, Loren R	4/9/2014	59	30	102	SDOT	Manager 2
Scott, Anne M	4/9/2014	64	21	141	InfoTech	Info Tech Prof B
Sinner, Robin L	3/6/2014	52	24	228	Police	Vested
Stevenson, Joseph E	3/12/2014	61	23	102	SDOT	Truck Driver
Stotler, Randall L	4/3/2014	54	33	102	City Light	Line C CC
Takeuchi, Terrance B	3/12/2014	58	31	205	City Light	Asst Energy Mgmt Anlyst
Thomas, Jesse W	4/2/2014	63	28	33	Parks Dept	Maint Laborer
Valerio, Maria C	3/26/2014	58	30	217	InfoTech	Senior Exec Asst
Walek, Heather	3/7/2014	60	17	271	Parks Dept	Vested
<b>Ware, Alice M</b>	<b>3/12/2014</b>	<b>59</b>	<b>35</b>	<b>21</b>	<b>Parks Dept</b>	<b>Rec Center Coordinator</b>
Weiland, Lila I	4/9/2014	60	30	267	City Light	Util Manager I
Welton, Nancy R	3/4/2014	62	8	246	VarDept	Vested
Williams, Daniel H	3/3/2014	65	5	342	City Light	Vested
<b>Wong, Tony H</b>	<b>4/5/2014</b>	<b>56</b>	<b>32</b>	<b>95</b>	<b>FAS</b>	<b>Acct Tech II -BU</b>
Wright, Tanafriti	3/5/2014	75	14	5	PublicUtil	Admin Spec I -BU
<b>Young, Bruce C</b>	<b>4/4/2014</b>	<b>64</b>	<b>33</b>	<b>204</b>	<b>City Light</b>	<b>Mat Supp Elect</b>
	<b>Average</b>	<b>62</b>	<b>22</b>			
	<b>Median</b>	<b>62</b>	<b>24</b>			

For the month of April 2014: 63 new Members entered the System, 37 terminations, 57 Members retired in the System, 16 Members removed (\$21,851.43), 1 D/E Option, 4 F Option, and 8 over 60% benefit (in bold).

Mr. Nakatsu reported there was nothing out of the ordinary to report on the ratification of retirement payroll, office payroll and or other payments and withdrawals.

**Motion:** Upon motion by Bob Harvey, seconded by Sherri Crawford the Retirement Board of Administration approved the Administrative Consent Agenda.

- Minutes of the April 10, 2014, Board Meeting
- Ratification of Retirement Payroll, Office Payroll, Other Payments and Withdrawals
- Ratification of Service Retirements for the month of April 2014

The motion carried unanimously.

#### **Investment Accounting Summary Report – March 2014**

Mr. Ken Nakatsu gave a brief overview of the Investment Accounting Summary for March 2014. The changes in the market value of asset classes were in line with the movements of the financial markets for the month. The change in fund value in March was 0.39%, and the year-to-date change through March was 1.64%. The total portfolio had a market value of \$2.253 billion. The funding ratio is estimated at 69.85%. Mr. Nakatsu pointed out that in its second month, the returns from the asset overlay service exceeded \$300,000.

#### **Board Election**

Lou Walter was the sole nomination for the Retirement System Board of Administration position to be occupied by a retired member. Mr. Carlton Seu explained that a notice was posted to the SCERS web site, stating the board's intention to waive the election and appoint Mr. Walter to the position.

**Motion:** Upon motion by Councilmember Nick Licata, seconded by Bob Harvey the Retirement Board of Administration waives the scheduled board election and seats Lou Walter as a member of the Board for the term July 1, 2014 – June 30, 2017.

The motion carried unanimously (Lou Walter abstaining).

#### **Experience Study**

Jennifer Senta from Milliman, SCERS' pension actuary, presented the results of Milliman's 2010 - 2013 Experience Study. The study uses data from the previous four years to make recommendations for updated assumptions that will be used in the upcoming actuarial valuation. There are two categories of assumptions: demographic assumptions about member behavior such as salary increases, retirement rates and member mortality; and economic assumptions concerning inflation, real wage growth, long-term investment returns, membership growth and member account credit interest rate.

Milliman's complete report was distributed at the meeting. It has been posted to the SCERS web site, and can be accessed from the page:

[http://www.seattle.gov/retirement/Actuarial\\_Reports.htm](http://www.seattle.gov/retirement/Actuarial_Reports.htm)

The study found several areas where recent experience indicates that assumptions should be changed relative to what was recommended in the last experience study, which covered 2007-2010. Recommended assumption changes that would have a material impact on the valuation include:

- A lower investment return - recommend lowering from 7.75% to 7.5%
- Lower price and wage inflation - recommend lowering from 3.5% to 3.25%
- Lower active membership growth - recommend lowering from 1.0% to 0.0%
- Increase life expectancies for healthy males - recommend changing the setback from 1 year to 2 years

The combined impact of the recommended changes on the total contribution required to amortize the system's unfunded actuarial accrued liability is an estimated increase from 25.54% to 26.90%. This estimate is based on underlying data from the January 1, 2013 valuation. This should provide a reasonable estimate, but does not account for changes such as the fund's actual rate of return in 2013.

Mr. Harvey asked whether the experience study accounted for the City's recent adoption of the \$15 per hour minimum wage for all City employees. Ms. Senta replied that the new minimum is not anticipated in the current study, and that any increases in wages resulting from the change would be recognized as they appear in the actual wages. This could be accounted for as early as the first valuation after the changes have been implemented.

Councilmember Licata asked about the "two times match" method for calculating the basic pension benefit. Mr. Nakatsu replied that SCERS practice in the late 90's was to provide the higher of the formula benefit (based on years of service and final salary) and the two times match benefit (based on the annuity that can be purchased with the employee's accumulated contributions matched by the City). This practice was codified in the early 2000s. Mr. Lee added that the

impact on the fund was predicted to be minimal at the time the code was changed, but since that time it has become significant, particularly because of higher contribution rates. Ms. Senta stated that an increased life expectancy assumption and a decrease in the assumed rate of investment return will both reduce the liability from two times match pensions.

Mr. Harvey asked about the change in the inflation and investment return assumptions. Ms. Senta responded that the All Urban Consumers Price Index (CPI-U) is the main indicator of inflation used in evaluating the assumption. The recommended decrease in the inflation assumption of 0.25% reflects a downward trend in the CPI-U spanning many years. The investment return assumption is made up of two additive “building blocks”: inflation and “real return”, i.e. the excess of actual investment returns over inflation. Because of the building block approach, the decrease in the inflation assumption results in a 0.25% decrease in the investment return assumption. The real return component of the investment return assumption is unchanged.

Ms. Senta explained that the recommended membership growth rate of 0.0% represents standard actuarial practice to not pre-account for expected growth. Under this approach, growth in the member population is recognized as it happens, but is not anticipated. Mr. Glen Lee stated that, unlike cities like Pittsburgh and Detroit with stable or declining citizen populations, it is generally accepted that Seattle’s near and long-term outlook calls for population and commercial growth, and a more populous City will require a larger City work force to provide services. Mr. Lee said he respectfully disagrees with the actuarial practice of not anticipating growth in the assumptions.

Mr. Tom Kirn and Mr. George Emerson of the City’s Finance and Administrative Services (FAS) Department presented their research on payroll growth and long-run investment returns. Mr. Kirn noted that Seattle population and total city covered payroll have been highly correlated to SCERS membership growth over the past 20 years. According to forecasts from the Puget Sound Regional Council (PSRC) both population and covered payroll are expected to continue to grow at rates similar to the 20 year historical rates. Mr. Kirn also noted that over the past 30 years membership growth has been 0.8%, and inflation – as measured by the CPI-U – has been 2.9%. Mr. Kirn stated that a group consisting of FAS staff, Council central staff and SCERS staff reviewed this data and agreed that an recommended a growth rate of 0.5% and a real wage growth rate of 0.75% as an alternative to the recommendations in the Milliman study.

[at 10:25 AM, Board Member Susan Coskey left the meeting]

Mr. Emerson explained another staff recommended alternative to the Milliman recommendation: reducing the inflation assumption to 3.0% and increasing the real investment return assumption to 4.5%. This would maintain the assumed investment return rate at 7.5% and reflect an inflation assumption that is more in line with thirty year experience. Mr. Emerson stated that an investment return assumption of 7.5% would be equal to or less than the assumed return rate for other pension systems including CAPERS (7.5%), WA DRS (7.9%) and Spokane (7.5%).

Ms. Senta stated Milliman would be comfortable with a 0.5% membership growth rate and that this was included as an alternative assumption in the experience study. Ms. Senta pointed out that both Milliman and NEPC, SCERS investment consultant, have recommended an inflation rate of 3.25% and a real return rate of 4.25%. Milliman’s report does include an alternative option with an inflation rate of 3.0%, but under this recommendation the real return rate would not be increased.

Mr. Nakatsu suggested that the Board consider the Milliman/NEPC recommendation for inflation and real return, and the staff recommendation for membership and real wage growth. The different assumption scenarios are summarized in the table below.

**Investment, Inflation and Wage Assumption Alternatives**

	Inflation	Real Investment Return	Total Investment Return	Membership Growth	Real Wage Growth	Estimated Required Contribution Rate
Milliman	3.25%	4.25%	7.5%	0.0%	0.50%	26.90%
Staff	3.00%	4.00%	7.5%	0.5%	0.75%	26.01%
Proposed	3.25%	4.25%	7.5%	0.5%	0.75%	26.21%

**Motion:** Upon motion by Nick Licata, seconded by Bob Harvey, the Retirement Board of Administration accepted the assumption recommendations in Milliman’s 2010 – 2013

Investigation of Experience, with the following modifications: the real wage growth assumption is changed to 0.75% and the membership growth assumption is changed to 0.5%.  
The motion carried unanimously

### **Executive Director Report**

Mr. Nakatsu referred the Board to the updated SCERS work plan in their meeting packet.

Mr. Nakatsu stated that the process for selecting a private equity investment manager is nearing its conclusion and presentations by the finalists will be made at the Investment Committee meeting on May 29. To make enough time for the presentations, Committee deliberations, and other committee business, and to accommodate members' schedules, the meeting time has been changed to 9:00am to 1:00 pm. Lunch will be provided. Members of the SCERS Investment Advisory Committee have been invited to attend.

Mr. Nakatsu called the Board's attention to a memo written by member Greg Hill titled "Reconciling the Retirement System's Fiduciary Responsibilities with the City's Commitment to 'Democracy, Equality, and Justice'". In the memo, Mr. Hill refers to the Board's Environmental, Social and Governance (ESG) policy and requests that the portion of the fund currently allocated to private equity be shifted to small cap index funds or ETFs. Mr. Nakatsu suggested that the Board refer the memo to the Investment Committee for consideration on May 29 and ask SCERS' investment consultant, NEPC, to submit a review of Mr. Hill's request to the Investment Committee, as allowed by the ESG policy.

**Motion:** Upon motion by Nick Licata, seconded by Glen Lee, the Retirement Board of Administration refers Greg Hill's memo to the Investment Committee.  
The motion carried unanimously

The committee will consider the memo at its May 29 meeting.

The Board of Administration entered into Executive Session at 10:50am for 10 minutes to discuss a Disability Retirement Application. Executive session ended and the meeting resumed to public session at 10:55 am.

**Motion:** Upon motion by Glen Lee, seconded by Bob Harvey, the Retirement Board of Administration denied Mr. David Lizotte's temporary disability retirement application.  
The motion carried unanimously (Nick Licata abstaining)

### **Adjournment**

The meeting adjourned at 11:10am.

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Susan Coskey, Secretary