



**Seattle City Employees' Retirement System
Board of Administration Meeting
Seattle City Hall, Boards and Commissions Room, 600 Fourth Avenue, Seattle
(206) 386-1293**

Minutes, Thursday, July 14, 2016

BOARD MEMBERS PRESENT: Tim Burgess (Chair), Glen Lee, Jean Becker, Lou Walter, Sherri Crawford

SCERS STAFF PRESENT: Ken Nakatsu, Jeff Davis, Jason Malinowski, Tony Smith, Cecelia Chen, Deontrae Sherrard, Nina Melencio

OTHERS PRESENT: Gavin Parr (Song Mondress Law Firm), Carlton Seu, (Seattle City Attorney's Office), Kevin Clark (ARSCE Board), George Emerson (FAS), Nate Van Duzer (LEG), James Warren, Nick Collier (Milliman), Thomas Rey (CliftonLarsonAllen)

Call to Order:

Tim Burgess, Board Chair, called the meeting to order at 9:03 a.m.

Mr. Burgess asked if there was anyone present who wanted to make a public comment.

Public Comment:

Kevin Clark stated that he has been a member of the retirement system since 1978 and has been retired for 10 years. Mr. Clark said he is on the board of Active and Retired Seattle City Employees (ARSCE). At the July 13, 2016 ARSCE board meeting, they discussed the City's proposed ordinance that clarifies and makes technical corrections to SMC 4.36, and creates a new retirement plan for employees hired after January 1, 2017. ARSCE does not have a position about the proposed Plan 2. They are concerned about the cleanup part of the ordinance, specifically SMC 4.36.550.B.

Mr. Clark stated that the current language guarantees that the City cannot change retirement benefits for retirees and employees who are eligible to retire. He said there should be some sort of process required before a change can be made, perhaps some sort of fiscal note review to ensure that members are not adversely affected, and which forces the City to review any proposed benefit changes publicly. Mr. Clark stated this proposed ordinance shifts the burden onto members to oppose any potential changes rather than requiring the City disclose and defend any proposed changes, and doesn't give members any reassurance that their benefits are protected.

Administrative Consent Agenda

Minutes

Provided in the Retirement Board packet was the minutes from the June 9, 2016 Retirement Board regular meeting.

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

Service Beneficiary Disability	\$13,011,166.88 935,516.13 <u>74,295.91</u>
Pension Payroll – PPE June 2016	\$14,020,978.92
Office Payroll – PPE June 14 and 28, 2016	\$ 202,133.25
Vouchers Processed – June 2016	

- Expert and Consultant Services \$ 10,227.04
- Investment Management Fees \$ 315,790.04
- Interdepartmental Charges \$ 124,669.60
- Miscellaneous \$ 54,821.80

Immediate Withdrawals of Contributions for the month of June 2016:

MEMBER	RET #	DEPT	POSITION
Aben Jr, Lope V	40429	Retired	Retired
Adams, Brunye R	53771	Human Resources	Admin Spec II
Bricker, Danielle L	51928	City Light	Capital Prjts Coord, Sr
Brown, David W	53414	SeaTech	Human Resources
Campbell, Tessa R	46892	Library	Library Assoc II
Clark, Alex T	44815	Human Svcs	Counslr *
Collier, Tonya M	52525	Public Util	Fin Anlyst, Sr
Crisanto, Cyrus G	54272	FAS	Auto Mechanic
Davidson, Billie J	49557	Police	Pol Comms Dispatcher II
Drangsholt, Steven H	51643	Public Util	Manager3, Exempt
Eastey Jr, Richard F	47996	Human Svcs	Personnel Spec, Asst *
Ison, Brooke A	52965	Police	Parking Enf Ofcr
Kendall III, David A	53354	Library	Systs Anlyst 2, Sr-Libr
Lai, Chaocheng J	53437	FAS	Info Technol Prof B-BU
Martin, Tracy A	48721	SDCI	Civil Engrng Spec, Sr
Moore, Patrick J	52114	Police	Pol Ofcr
Nelson, Travis T	53765	Police	Evidence Warehouse
Raschke, Timothy D	49673	City Light	Lnwkr
Ruiz, Yemaya H	52671	FAS	Contract Anlyst, Sr
Warner, Melissa M	52298	FAS	Admin Spec III-BU

Withdrawals for a total of: \$319,435.78

Bold entries (if any) above indicate refund payment made to beneficiary of a member dying while in active status

c. Ratification of Service Retirements

The following list represents the retirements that have been processed since the last Retirement Board meeting.

Retiree	RetireDt	Age	Years	Days	DeptName	Position
Adams, Darlene M	5/28/2016	62	34	308.88	FAS	Admin Support Asst-BU
Addington, Ruby A	5/18/2016	71	17	349.83	City Light	Actg Tech II-BU
Adler, Robert J	6/1/2016	64	15	30.24	Library	Bldg Maint Wkr
Berry, Susan J	6/1/2016	59	9	0.5	Vested	
Goldman, Herbert O	5/6/2016	65	15	109.88	Vested	Rights-Of-Way Maint Lead Wkr
Gravemaker, Jan E	5/31/2016	65	1	362.2	Vested	
Kukahiko, Edward N	5/25/2016	61	30	116.49	PublicUtil	Wtr Pipe Wkr, Sr
Monaghan, Suellen	5/11/2016	71	11	135.65	FAS	Actg Tech I-BU
Schmidt, David B	5/13/2016	58	20	96.5	Parks Dept	Carpenter
Smith, James W	5/11/2016	62	27	242.72	PublicUtil	Actg Tech II-BU
Whiteford, Marylou	5/5/2016	69	24	76.64	Parks Dept	Real Property Agent, Sr

For the month of June 2016: 82 new Members entered the System, 31 terminations, 11 Members retired in the System, 8 Members removed (\$17,336.32), 4 D/E Option, 3 F Option, and 0 over 60% benefit.

Motion: Upon motion by Tim Burgess seconded by Glen Lee, the Board of Administration accepts and approved the Administrative Consent Agenda. The motion passed unanimously (5-0).

Final Report Audit

Thomas Rey of CliftonLarsonAllen presented SCERS's 2015 Year-End Audited Financial Statements.

Mr. Rey stated this was the fourth year CliftonLarsonAllen (CLA) had performed the SCERS audit. He said that from year to year CLA has observed steady progress and improvements, that there were no significant findings, and they were providing an unqualified opinion.

Mr. Rey highlighted a few items from the audit and stated that the plan's net position, expressed as percentage of the total pension liability, was 64%. Mr. Rey also discussed the sensitivity of the net pension liability to changes in the discount rate used.

Mr. Walter stated that we should be proud of the audit and that no significant deficiencies or material weaknesses were found.

Mr. Burgess congratulated the staff for achieving good results on the audit.

Mr. Davis introduced Deontrae Sherrard SCERS's Accounting Services Supervisor, and thanked her for her team's work.

Motion: Upon motion of Tim Burgess seconded by Lou Walter, the Board of Administration accepted the 2015 Year-End Audited Financial Statements as presented by SCERS Staff and CliftonLarsonAllen, LLP. The motion passed unanimously (5-0).

Valuation Study and 2017 Actuarial Contribution Rate (ARC)

Nick Collier from Milliman presented the 2017 Actuarial Valuation Study.

Mr. Collier stated that there is no bad news, which is good news from an actuary. He said the funding ratio has increased marginally from 66.0% to 66.5%. SCERS also had a small increase in the unfunded actuarial accrued liability from \$1.165B to \$1.2B.

There was an increase in average annual members' salaries of 4%. Active membership increased by 1.6% which helped with system funding. A new actuarial "experience study" will be done in 2018.

If all of the study's assumptions are met, SCERS is projected to achieve full funded status in 2043. There are fairly small increases of projected future contribution rates, shown at 90% confidence interval.

Mr. Walter asked if the investment rate of return is the biggest factor for the actuarial valuation. He also asked if SCERS is not achieving its assumed 7.5% rate of investment return, whether it should be lowered to 7.0%. He asked whether it is better to wait to make an adjustment or whether it is better to be more conservative and make an adjustment now?

Mr. Collier responded that 7.5% assumed rate of investment return is still on the low side, although some pensions do have lower assumed rates of return. Milliman's philosophy is if the rate of return is not realistic, they will recommend adjusting it but for now, SCERS is still within the norm. Mr. Collier acknowledged that if you wait too long, funding problems are harder to address but one does not want to be too reactionary either.

Mr. Burgess acknowledged that waiting too long will create a bigger problem but reacting prematurely puts pressure on the other side of City government which, together with employees, provides about \$180M funding every year.

Mr. Collier stated that for now, they did not take into consideration the new retirement tier. If a new tier is adopted, it will show up on SCERS's future normal cost. Benefit costs should gradually decrease, but there will not be a huge impact, certainly not in the short term.

Motion: Upon motion of Tim Burgess, seconded by Sherri Crawford, the Board of Administration accepted the January 1, 2016 Actuarial Valuation Report as presented by Milliman, and sets the 2017 Actuarial Contribution Rate (ARC) at 25.32%. The motion passed unanimously (5-0).

Credit Interest

Mr. Davis stated that the revised Credit Interest Policy for Member Contributions was adopted at the June 9, 2016 Board meeting. The proposed board motion follows the adopted policy and sets the 2017 variable credit interest rate at 2.86% based on the average rate for the 30 year U.S. Treasury Bond from June 1, 2015 – May 31, 2016.

Motion: Upon motion of Tim Burgess, seconded by Sherri Crawford, the Board of Administration set the 2017 credit interest on all employee contribution received into the pension trust after December 31, 2011 at 2.86%. The motion passed 4-1 with Lou Walter voting no.

Administrative Committee Report – June 30, 2016

Resolution 99-1 (Funding Policy)

Mr. Nakatsu stated that the Administrative Committee recommended that the Board repeal the funding policy from 1999. He stated that the policy is not relevant today and won't be relevant for many years.

Motion: Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Administration Committee's recommendation to repeal Resolution 99-1 (Funding Policy). The motion passed unanimously (5-0).

Investment Committee Charter

Mr. Nakatsu said the main change to the Investment Committee (IC) Charter was to change the quorum requirement from four to three members. The language for committee membership is also simplified. Rather than naming each of the members, the revised charter reflects that the committee will consist of six members named by the board

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Administration Committee's recommendation to adopt the revised Investment Committee Charter. The motion passed unanimously (5-0).

Administrative Committee Charter

Mr. Nakatsu stated that there are a few changes to the Administrative Committee Charter.

One change is to remove the responsibility for legal/litigation matters. That responsibility should involve the entire Board rather than just the Administrative Committee.

The wording has also been revised for the committee's responsibility for an Executive Director (ED) Search. Previously it said that the Administrative Committee would conduct the search. The language is revised to say that the Administrative Committee will "direct" the search. The SCERS staff will be doing the legwork.

Mr. Nakatsu said that he has discussed the ED search process with Ms. Becker and some other Board members. While they are weary from the previous recruitment, we do not have much time before having to begin a new recruitment. We

have been working with FAS Contracting Services to begin looking at consultants to consider as recruiters. He said that it is hoped to have a recruiter on board by September 2016.

Mr. Burgess wanted to confirm that we will have a different recruiter than used with the previous search begun in 2015.

Mr. Nakatsu confirmed that the recruiter would be different.

Mr. Walter stated that he appreciated the work done extending Mr. Nakatsu's contract, and is pleased that Mr. Nakatsu has agreed to stay longer.

Mr. Walter said he wants to be more comfortable with any future recruitment process, particularly regarding greater involvement of all Board members in the process and greater transparency for them about the status of the recruitment. He believes the revised Administrative Committee Charter gets the board to where we want to be.

Mr. Nakatsu stated that Executive Director interviews would be after Thanksgiving and that we hope to have a new ED on-board after the first of the year. He emphasized the need to begin the process of getting a new recruiter started quickly.

Ms. Becker said that Mr. Nakatsu will begin searching for recruiters and will be drafting a schedule and presenting it at the July 28th Administrative Committee meeting.

Mr. Walter stated that this revised charter is the first step.

Motion: Upon motion of Jean Becker, seconded by Lou Walter, the Board of Administration accepted the Administration Committee's recommendation to adopt the revised Administrative Committee Charter. The motion passed unanimously (5-0).

Investment Committee Report – June 30, 2016

PIMCO Total Return

Mr. Smith stated that staff and NEPC have sufficient comfort to take PIMCO off watch. PIMCO has stabilized as an organization following the departure of Mr. Gross, which was the reason for the firm being placed on watch.

Motion: Upon motion of Lou Walter, seconded by Glen Lee, the Board of Administration accepted the Investment Committee's recommendation to remove the PIMCO Total Return strategy from watch status. The motion passed unanimously (5-0).

Diversifying Strategies

Mr. Malinowski stated that George Emerson, Don Stracke and he presented the Investment Committee with information on the Diversifying Strategies asset class which has a 5% target allocation. He said that the goal of the asset class is to reduce sensitivity to economic growth and public equity markets, but not forego returns. SCERS staff and NEPC will be providing additional information on Diversifying Strategies and a manager recommendation at the July 28th Investment Committee.

Mr. Malinowski said that SCERS recently redeemed from a fund of hedge funds strategy managed by BlackRock. Mr. Malinowski stated that BlackRock had been SCERS's only allocation in Diversifying Strategies asset class. The motion in front of the Board today will lower the permissible range for the asset class and allow SCERS to remain in compliance with its adopted Investment Policy. The lower bound will be moved from 2% to 0% and by doing so enable staff to explore alternatives which, as noted earlier, will be presented at the next Investment Committee meeting.

Motion: Upon motion of Lou Walter, seconded by Jean Becker, the Board of Administration accepted the Investment Committee's recommendation to revise the lower bound of the rebalancing range for the Diversifying Strategies asset class from 2% to 0%. The motion passed unanimously (5-0).

Executive Director Report

Mr. Nakatsu said that he wanted to address the statement that Mr. Kevin Clark brought up in public comments earlier in the meeting. He said the draft Plan 2/Cleanup ordinance has been reviewed by labor.

Mr. Burgess stated that the draft ordinance will be introduced by Council on Monday, July 18, 2016, and his committee will review it first on Wednesday, July 20, 2016.

Mr. Nakatsu said that relative to ARSCE's concern about SMC 4.36.550.B, staff deleted language that is confusing and inconsistent with law. The preceding section (SMC 4.36.545) requires the City to provide the moneys necessary to guarantee benefits payable to members, and we must otherwise comply with laws which have changes since 1949 when most of SMC 4.36 was adopted.

Mr. Seu stated that aside from the Plan 2 changes for future employees, which were negotiated by the City with Labor, that there are no substantive changes resulting from the proposed ordinance. Other than implementing Plan 2 for future employees, the proposed ordinance merely clarifies provisions and makes technical corrections.

Mr. Walter said that he would like a recital to clarify further the ordinance's intent and the no substantive changes are intended. He stated that when we are all gone the recital would be there to provide security to labor.

Mr. Burgess was agreeable and asked Mr. Seu to submit a revised recital prior to introducing the ordinance on July 18th.

Operations/Finance Report

Mr. Davis reported that the Pension Administration System (PAS) implementation continues to go well. The Member Services group was half way through a six week training learning how to use the new tools and "soft" skills in customer service.

Mr. Davis introduced Deontrae Sherrard who is the Principal Accountant and Accounting Supervisor for SCERS. Ms. Sherrard stated that she has been with SCERS for four years. In the four years she has been with SCERS, the accounting department has instituted a lock box process, has implemented active payroll reconciliation, and partnered with the Investment Team.

(10:21 a.m. - Tim Burgess left)

Adjourn Meeting – 10:22 a.m.

Motion: Upon motion by Jean Becker, seconded by Glen Lee, the Board of Administration votes to adjourn the meeting. The motion passed unanimously (4-0)

Susan Coskey, Board Secretary