

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**Report of Independent Auditors**  
**and Financial Statements with**  
**Required Supplementary Information**  
**and Additional Information**

**December 31, 2012 and 2011**

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## INDEPENDENT AUDITORS' REPORT

Board of Administration  
Seattle City Employees' Retirement System  
Seattle, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), which comprise the statement of plan net position as of December 31, 2012, and the related statement of changes in plan net position for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of SCERS as of December 31, 2012, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

The financial statements include real estate and other alternative investments valued at \$397 million (20% percent of net assets), as explained in note 2, their fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

**Other Matter**

The 2011 financial statements were audited by other auditors, whose report dated June 28, 2012, expressed an unmodified opinion on those statements.

**Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Report on Other Information**

Our audit was conducted for the purpose of forming an opinion on the 2012 financial statements as a whole. The 2012 additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The 2011 additional information, as listed in the table of contents, was subjected to the auditing procedures applied in the 2011 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2011 financial statements as a whole.

**CliftonLarsonAllen LLP**



Baltimore, Maryland  
June 10, 2013

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

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This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the years ended December 31, 2012 and 2011. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the funding status of the System.

**This report contains the following information:**

- 1. Basic Financial Statements** including:
  - a. Statements of Plan Net Position
  - b. Statements of Changes in Plan Net Position
  - c. Notes to the Financial Statements
  
- 2. Required Supplementary Information** including:
  - a. Schedule of Funding Progress
  - b. Schedule of Employer Contributions
  
- 3. Additional Information** including:
  - a. Schedule of Administrative Expenses
  - b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statement of Plan Net Position shows the account balances at year-end and includes the net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Funding Progress that is included in the Required Supplementary Information.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

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- The Statement of Changes in Plan Net Position shows the sources and uses of funds during the year and illustrates the change in net position from the previous year.
- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Funding Progress contains actuarial information about the status of the plan.
- The Schedule of Employer Contributions contains historical trend information regarding the value of the total annual contributions the employer must pay and the actual contributions by employers in meeting this requirement.

#### **Financial Highlights**

- SCERS assets that are held in trust for the payment of future benefits do not exceed the estimate of actuarially accrued liabilities as of December 31, 2012.
- Net position increased by \$198 million (11.3%) during 2012. The primary driver was a \$281 million increase in investment assets. Net position decreased by \$59 million (3.3%) during 2011. The primary drivers were a \$134 million decrease in investment assets and a 9.2% increase in retiree benefits.
- Revenue additions to net position for 2012 were \$350 million which includes member and employer contributions of \$119.6 million and revenue from investment activity totaling \$230.7 million. Revenue additions to net position for 2011 were \$85 million which includes member and employer contributions of \$100.7 million and a loss from investment activity totaling \$15.8 million.
- Expenses (deductions from net position) for 2012 increased by \$8.2 million (5.7%) from 2011. This can be primarily attributed to a \$10.1 million increase in retiree benefits offset by a \$1.8 million reduction in contribution refunds compared to 2011. In 2012, the net increase in the number of retirees receiving benefits was 2.4%. Expenses for 2011 increased by \$12.6 million (9.5%) from 2010. This can be primarily attributed to a \$10.4 million increase in retiree benefits and a \$1.9 million increase in contribution refunds compared to 2010. In 2011, the net increase in the number of retirees receiving benefits was 2.8%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

**Plan Net Position**

The table below provides a summary of assets and current liabilities for the years ended December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash, short-term investments and receivables	\$ 96,200,481	\$ 200,138,765	\$ 60,329,299
Investments at fair value	1,914,325,374	1,633,584,958	1,767,204,462
Securities lending collateral	<u>10,154,781</u>	<u>3,489,721</u>	<u>33,896,148</u>
Total assets	<u>2,020,680,636</u>	<u>1,837,213,444</u>	<u>1,861,429,909</u>
Securities lending payable	13,404,350	6,911,249	37,295,301
Other payables	<u>55,841,012</u>	<u>76,777,981</u>	<u>11,380,120</u>
Total liabilities	<u>69,245,362</u>	<u>83,689,230</u>	<u>48,675,421</u>
<b>Total net assets</b>	<u>\$ 1,951,435,274</u>	<u>\$ 1,753,524,214</u>	<u>\$ 1,812,754,488</u>

**Changes in Plan Net Position**

The table below provides a summary of the changes in plan net assets and reflects the activities of the fund for the years ended December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Additions:</b>			
Employer contributions	\$ 62,515,432	\$ 50,301,263	\$ 45,224,787
Member contributions	57,086,346	50,415,119	45,364,624
Net investment and other	<u>230,702,333</u>	<u>(15,740,371)</u>	<u>208,528,529</u>
Total additions	<u>350,304,111</u>	<u>84,976,011</u>	<u>299,117,940</u>
<b>Deductions:</b>			
Retiree benefits	134,135,553	124,061,630	113,650,795
Refunds of contributions	14,913,574	16,677,021	14,715,000
Administrative expenses	<u>3,343,924</u>	<u>3,467,634</u>	<u>3,295,006</u>
Total deductions	<u>152,393,051</u>	<u>144,206,285</u>	<u>131,660,801</u>
<b>Net increase (decrease)</b>	<u>\$ 197,911,060</u>	<u>\$ (59,230,274)</u>	<u>\$ 167,457,139</u>

**Revenues - Additions to Net Plan Assets**

- In 2012, employer contributions increased by \$12.2 million (24.3%) compared to 2011. In 2011, employer contributions increased by \$5.1 million (11.2%) compared to 2010.
- Member contributions increased by \$6.7 million (13.2%) compared to 2011. In 2011, member contributions increased by \$5.1 million (11.1%) compared to 2010.
- Net investment change and other income was a gain of \$230.7 million in 2012 compared to a loss of \$15.7 million in 2011 and a gain of \$208.5 million in 2010.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

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**Expenses - Deductions from Net Plan Assets**

- Retiree benefits increased in 2012 by \$10.1 million (8.1%) compared to 2011, primarily due to the increased number of members making application for retirement and a mandatory 1.5% COLA (Cost of Living Adjustment). As a comparison, retiree benefits increased \$10.4 million (9.2%) in 2011.
- Refunds of contributions decreased in 2012 by \$1.8 million (10.6%) compared to amounts paid in 2011. In 2011, refunds increased \$1.9 million (13.3%) compared to amounts paid in 2010.

**Changes in Plan Membership**

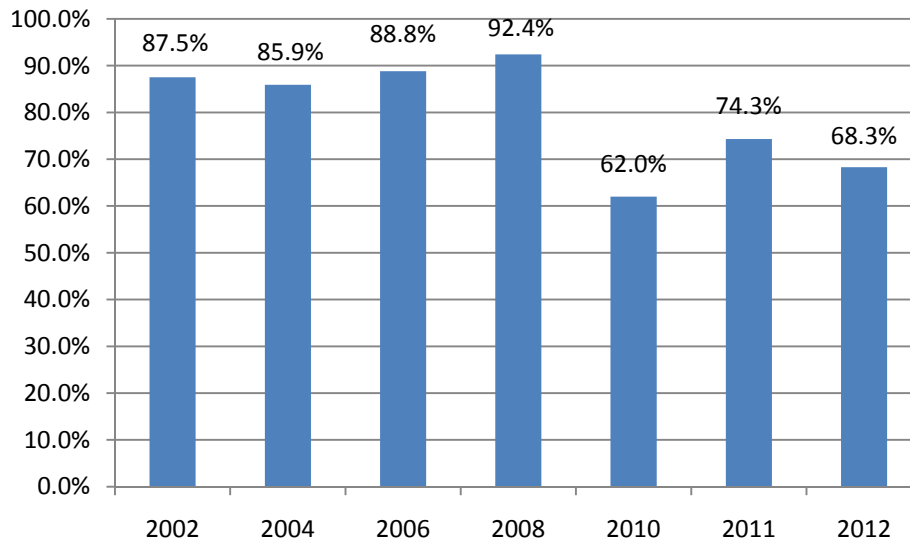
The table below reflects the active membership and retiree changes for the years ended December 31:

	<b>2012</b>	<b>2011</b>	<b>Change</b>
Retirees and beneficiaries receiving benefits	<u>\$ 5,714</u>	<u>\$ 5,580</u>	2.4%
Current and terminated employees:			
Current employee members	\$ 8,465	\$ 8,426	0.5%
Terminated members entitled to, but not yet receiving benefits, Vested	1,121	977	14.7%
Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested	<u>842</u>	<u>1,061</u>	-20.6%
<b>Total</b>	<u>\$ 10,428</u>	<u>\$ 10,464</u>	-0.3%



Funding Status

Schedule of Funding Progress  
Funding Ratio  
As of January 1<sup>st</sup> Valuation Date



With the January 1, 2011 Valuation and the 2007-2010 Experience Study; the Board of Administration adopted a policy of asset smoothing over a 5-year period. The reported funding ratio as of January 1, 2012 reflects that change. Prior to January 1, 2011, all funding ratios were reported on a marked-to-market basis.

Funds are accumulated from employer and employee contributions, and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. We continue to make a constant effort to achieve a fully funded status, thereby assuring the participants of a financially sound retirement system. In 2012, most active members contributed 10.03% of their salaries to the retirement fund and the City contributed 11.01%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

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**Investment Activities**

One-year returns on asset classes and comparative benchmarks are presented in the table below for the years ended December 31:

**2012 Investment Performance**

Total Portfolio	14.0%
Domestic Equities	15.9%
Benchmark: U.S. Equities Custom Index	15.6%
International Equities	18.5%
Benchmark: MSCI ACWI ex US IM/ND	17.7%
Fixed Income	8.9%
Benchmark: Barclays U.S. Universal Index	5.5%
Real Return	7.5%
Benchmark: CPI + 3%	4.8%
Private Equity	19.4%
Benchmark: Russell 3000 + 3%	34.0%
Real Estate	13.3%
Benchmark: Russell NCREIF Property Index	11.6%
Cash	1.1%
Benchmark: Citigroup 3-Month T-Bills	0.1%

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2012**

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**2011 Investment Performance**

Total Portfolio	0.0%
Domestic Equities	0.4%
Benchmark: Russell 3000 Index	1.0%
International Equities	(12.8%)
Benchmark: MSCI EAFE Index ND	(12.1%)
Fixed Income	7.0%
Benchmark: Barclays U.S. Universal Index	7.4%
Real Return	0.7%
Benchmark: CPI + 3%	6.3%
Private Equity	12.3%
Benchmark: Russell 3000 + 3%	3.6%
Real Estate	11.9%
Benchmark: Russell NCREIF Property Index	18.3%
Cash	1.0%
Benchmark: 91-Day T-Bills	0.1%

The investments of the System are governed primarily by the prudent investor rule. The prudent investor rule, as set forth by the Revised Code of Washington, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System invests retirement funds for the long-term, anticipating both good and poor performing financial markets. The overall investment portfolio is positioned in a diversified manner to maximize return given the System's risk tolerance.

**Contacting the Seattle City Employees' Retirement System**

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: [city.retirement@seattle.gov](mailto:city.retirement@seattle.gov) or you may mail your questions to:

Seattle City Employees' Retirement System  
720 Third Avenue, Suite 900  
Seattle, WA 98104

**FINANCIAL STATEMENTS**

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**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET POSITION**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets:</b>		
Cash	\$ 3,443,999	\$ 1,775,988
Short-term investments	47,638,868	112,927,551
Total cash and short-term investments	51,082,867	114,703,539
<b>Receivables:</b>		
Members	2,452,509	2,110,074
Employer	2,230,401	1,536,698
Interest and dividends	2,324,732	2,281,373
Sales proceeds receivable	3,086,954	79,507,081
Foreign currency contracts	35,023,018	-
	45,117,614	85,435,226
<b>Investments, at fair value:</b>		
Fixed income:		
U.S. government obligations	97,032,271	87,699,524
Domestic Corporate bonds	150,551,988	138,742,103
Mortgage-backed	113,394,160	130,049,800
Foreign sovereign	20,592,643	16,150,802
Domestic stocks	581,330,209	503,957,527
International stocks	554,959,429	416,713,116
Real estate	216,761,221	207,713,900
Alternative	179,703,453	132,558,186
Total investments, at fair value	1,914,325,374	1,633,584,958
Securities lending collateral	10,154,781	3,489,721
Total assets	2,020,680,636	1,837,213,444
<b>Liabilities:</b>		
Pensions payable and other	1,667,979	1,501,302
Obligations under securities lending	13,404,350	6,911,249
Investment commitments payable	19,150,015	75,276,679
Foreign currency contracts	35,023,018	-
Total liabilities	69,245,362	83,689,230
<b>Net position held in trust for pension benefits</b>	<b>\$ 1,951,435,274</b>	<b>\$ 1,753,524,214</b>

The accompanying notes are an integral part of these financial statements.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
Additions:		
Contributions:		
Employer	\$ 62,515,432	\$ 50,301,263
Member	<u>57,086,346</u>	<u>50,415,119</u>
Total contributions	<u>119,601,778</u>	<u>100,716,382</u>
Investment activities:		
Investment income (loss):		
Net change in fair value of investments	204,254,962	(36,063,232)
Interest	9,781,842	8,585,693
Dividends	<u>23,654,327</u>	<u>19,183,795</u>
Net investment income (loss)	<u>237,691,131</u>	<u>(8,293,744)</u>
Securities lending activities:		
Securities lending income	16,045	17,484
Borrowing rebates	<u>82,493</u>	<u>43,110</u>
Total securities lending income	98,538	60,594
Securities lending management fees	<u>(24,467)</u>	<u>(15,134)</u>
Net income from securities lending	<u>74,071</u>	<u>45,460</u>
Investment activity expenses:		
Investment management fees	(6,313,848)	(6,983,854)
Investment consultant fees	(499,140)	(364,140)
Investment custodial fees	<u>(249,881)</u>	<u>(144,093)</u>
Total investment activity expenses	<u>(7,062,869)</u>	<u>(7,492,087)</u>
Net income (loss) from investment activities	<u>230,702,333</u>	<u>(15,740,371)</u>
Total additions	<u>350,304,111</u>	<u>84,976,011</u>
Deductions:		
Benefits	134,135,553	124,061,630
Refunds of contributions	14,913,574	16,677,021
Administrative expenses	<u>3,343,924</u>	<u>3,467,634</u>
Total deductions	<u>152,393,051</u>	<u>144,206,285</u>
Net change	197,911,060	(59,230,274)
Net position held in trust for pension benefits		
Beginning of year	<u>1,753,524,214</u>	<u>1,812,754,488</u>
<b>End of year</b>	<u><u>\$ 1,951,435,274</u></u>	<u><u>\$ 1,753,524,214</u></u>

The accompanying notes are an integral part of these financial statements.

**Note 1 - Plan Description**

The Seattle City Employees' Retirement System (the System) is a single-employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active and one retired members of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 90 members in this category). There are currently 5,714 retirees and beneficiaries receiving benefits, and 8,465 active members of the System. There are 1,121 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement.

**Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters**

**Basis of Accounting** - The financial statements were prepared using the accrual basis of accounting.

*GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, introduces and defines these elements as a consumption or acquisition of net assets that is applicable to a future reporting period. These transactions are distinct from assets and liabilities, and result in the redefinition of Net Assets to the concept of Net Position. GASB 63 was implemented for the year ended December 31, 2012.

**Use of Estimates in Preparing Financial Statements** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

**Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters (Continued)**

**Cash and Short Term Investments** - The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities with an original maturity of three months or less as short-term investments.

**Method Used to Value Investments** - Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. All investments, with the exception of real estate and private equity, are valued based on closing market prices or broker quotes. Securities not having a quoted market price have been valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investments is based on estimated current values and independent appraisals. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis. Investments are made in accordance with the Prudent Person Rule as defined by the State of Washington RCW 35.39.060.

**Federal Income Tax Status** - The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

**Contributions** - Employee and employer contributions are reported in the period and for the calendar year in which the contributions are due.

**Benefits and Refunds of Contributions** - Benefits and refunds of contributions are recognized when due and are payable in accordance with the System's policy.

**Reclassifications** - Certain 2011 amounts have been reclassified in conformity with the 2012 presentation. These reclassifications had no effect on net assets or changes therein.



**Note 3 - Contributions**

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Actuarially determined contribution rates were 10.03% for most members and 11.01% for the employer. There are no long-term contracts for contributions outstanding and currently no legally required reserves. See Note 8 for additional information on assumptions used in calculating the actuarially determined contribution rates.

**Note 4 - Cash**

The Federal Deposit Insurance Corporation (FDIC) insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the Washington Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The bank balances of deposits of a FDIC institution as of the balance sheet date are insured.

**Note 5 - Investments**

The System's investments include investments that are insured or registered or securities and interests held by the System or its agents in the System's name.

Short-term Investment Funds (STIF) is a collective trust that may include certificates of deposit, treasury bills, and mutual funds. The Alternative Investments category currently includes private equity, hedge funds and real estate funds.

**Custodial Credit Risk** - Custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and the investments are registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian, and invested in a vehicle managed by the custodian. Additionally, the System keeps on hand with the City of Seattle such cash dollar amounts to support at least one month equivalent of pension payments and other administrative expenses.

**Note 5 – Investments (Continued)**

**Credit Risk** - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that at least 70 percent of the net asset value of a manager's portfolio be invested in investment-grade securities. Managers do not have authority to depart from their guidelines. A summary of the credit ratings of the System's fixed income investments is provided on pages 19 and 20.

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that investments in any one issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from their guidelines.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. In accordance with the System's Investment Policy, the Retirement Board provides each of the System's investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that the weighted average duration of the security holdings of a manager's portfolio not vary from that of the applicable benchmark by more than 20 percent. Managers do not have authority to depart from their guidelines. A summary of the maturities of the System's fixed income investments is provided on pages 17 and 18.

The fixed income portfolio is primarily managed by four external money management firms, hired through a competitive bid process, to manage a diversified portfolio of fixed income securities. Managers have agreed to a set of guidelines that provide ranges and limits for varying types of securities that may be held within the portfolio. A consultant is hired to measure performance and monitor the investment style. The Investment Committee reviews the consultant's results quarterly.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the non-U.S. equity and fixed income investment holdings. The System expects these managers to maintain adequately diversified portfolios to limit foreign currency and security risk.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**Note 5 – Investments (Continued)**

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2012, is summarized in the following table.

<u>Currency Type</u>	<u>Fixed Income</u>	<u>Derivatives</u>	<u>Cash</u>	<u>Total</u>
Australian Dollar	\$ 1,824,997	\$ (1,822,131)	\$ 7,769	\$ 10,635
Brazil Real	-	286,869	-	286,869
Canadian Dollar	3,973,380	(3,896,383)	937	77,934
Danish Krone	1,566,702	(1,561,024)	-	5,678
Euro Currency Unit	7,787,261	(7,542,026)	39,631	284,866
Mexican New Peso	1,953,642	-	48,346	2,001,988
New Zealand Dollar	443,626	(431,271)	2,388	14,743
Pound Sterling	15,840,517	(15,440,639)	913	400,791
Swedish Krona	<u>1,522,771</u>	<u>(1,531,829)</u>	<u>16,909</u>	<u>7,851</u>
<b>Total</b>	<u>\$ 34,912,896</u>	<u>\$ (31,938,434)</u>	<u>\$ 116,893</u>	<u>\$ 3,091,355</u>

**Derivatives** - Foreign exchange forward contracts are periodically employed by the System to hedge currency risk of investments in foreign currencies. Generally, derivatives are subject both to market and to counterparty risk. The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System's pending derivative transactions as of December 31, 2012 are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ 1,815,177	\$ (6,954)	\$ -	\$ -	\$ (6,954)
Brazil Real	-	-	285,758	1,112	1,112
Canadian Dollar	3,933,059	36,676	-	-	36,676
Danish Krone	1,562,110	1,085	-	-	1,085
Euro Currency Unit	8,887,143	(70,991)	1,422,749	(6,642)	(77,633)
New Zealand Dollar	426,551	(4,720)	-	-	(4,720)
Pound Sterling	15,216,298	(224,341)	-	-	(224,341)
Swedish Krona	<u>1,474,173</u>	<u>(57,655)</u>	<u>-</u>	<u>-</u>	<u>(57,655)</u>
<b>Total</b>	<u>\$ 33,314,511</u>	<u>\$ (326,900)</u>	<u>\$ 1,708,507</u>	<u>\$ (5,530)</u>	<u>\$ (332,430)</u>

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**Note 5 - Investments (Continued)**

As of December 31, 2012, the fixed income portfolio of the System had the following investment maturities:

	Investment	Fair Value	Investment Maturities (in years)			
			<1	1 - 5	6 - 10	>10
Fixed income						
U.S. Government:						
	Treasury Notes and Bonds	\$ 68,868,656	\$ 7,234	\$ 29,206,153	\$ 17,094,617	\$ 22,560,652
	Treasury Inflation-Protected Securities	18,968,308	-	-	17,799,234	1,169,074
	Agencies	5,071,948	99,750	592,196	2,554,747	1,825,255
	Municipal	4,123,359	428,515	976,482	1,337,179	1,381,183
Mortgage-Backed:						
	Government Pass Through	87,333,467	6,224,144	33,482,512	2,201,433	45,425,378
	Corporate Pass Through	11,384,925	-	390,562	-	10,994,363
	Government CMO's	14,675,768	5,667,861	218,226	350,899	8,438,782
Corporate:						
	Bonds	103,922,816	10,117,851	39,933,472	41,381,595	12,489,898
	Asset-Backed	19,926,911	6,173,324	10,164,801	1,943,035	1,645,751
	Private Placement	21,154,256	1,913,313	10,419,493	4,664,611	4,156,839
	Other	5,548,005	450,229	3,964,948	62,589	1,070,239
Foreign Sovereign:						
	Bonds	20,592,643	-	8,253,630	12,113,090	225,923
<b>Total Fixed Income</b>		<b>\$ 381,571,062</b>	<b>\$ 31,082,221</b>	<b>\$ 137,602,475</b>	<b>\$ 101,503,029</b>	<b>\$ 111,383,337</b>

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**Note 5 - Investments (Continued)**

As of December 31, 2011, the fixed income portfolio of the System had the following investment maturities:

	Investment	Fair Value	Investment Maturities (in years)			
			<1	1 - 5	6 - 10	>10
Fixed income						
U.S. Government:						
	Treasury Notes and Bonds	\$ 53,835,379	\$ 12,578,673	\$ 13,747,836	\$ 1,633,357	\$ 25,875,513
	Treasury Inflation-Protected Securities	14,966,305	686,532	-	14,279,773	-
	Agencies	13,846,925	6,038,432	3,470,347	3,079,654	1,258,492
	Municipal	5,050,915	388,738	298,214	1,015,477	3,348,486
Mortgage-Backed:						
	Government Pass Through	102,253,385	-	32,067,788	7,563,747	62,621,850
	Corporate Pass Through	10,216,034	943,657	-	-	9,272,377
	Government CMO's	17,580,381	4,423,168	473,156	585,593	12,098,464
Corporate:						
	Bonds	103,505,124	1,115,698	16,560,939	71,330,651	14,497,836
	Asset-Backed	33,535,103	10,699,036	10,516,455	6,447,022	5,872,590
	Private Placement	1,599,704	531,732	696,522	356,014	15,436
	Other	102,172	68,945	-	-	33,227
Foreign Sovereign:						
	Bonds	16,150,802	794,472	-	-	15,356,330
<b>Total Fixed Income</b>		<b>\$ 372,642,229</b>	<b>\$ 38,269,083</b>	<b>\$ 77,831,257</b>	<b>\$ 106,291,288</b>	<b>\$ 150,250,601</b>

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**Note 5 - Investments (Continued)**

As of December 31, 2012, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings											
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated				
Fixed income													
U.S. Government:													
Treasury Notes and Bonds	\$ 68,862,656	\$ -	\$ 68,862,656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,000
Treasury Inflation-Protected Securities	18,968,308	17,799,234	1,169,074	-	-	-	-	-	-	-	-	-	-
Agencies	5,071,948	-	3,565,125	1,506,823	-	-	-	-	-	-	-	-	-
Municipal	4,123,359	-	238,333	3,289,916	-	-	-	-	-	-	-	-	595,110
Mortgage-Backed:													
Government Pass Through	87,333,467	-	87,333,467	-	-	-	-	-	-	-	-	-	-
Corporate Pass Through	11,384,925	3,380,517	644,955	1,244,480	2,352,685	84,924	-	-	-	-	-	-	3,677,364
Government CMO's	14,675,768	624,825	11,364,286	397,843	761,178	-	179,186	-	-	-	930,164	-	418,286
Corporate:													
Bonds	103,922,816	-	6,912,314	34,169,261	45,205,773	5,297,360	12,338,108	-	-	-	-	-	-
Asset-Backed	19,926,911	12,155,739	2,311,508	156,174	3,144,104	244,958	377,253	754,628	-	-	-	-	782,547
Private Placement	21,154,256	3,061,581	2,870,973	3,896,186	6,892,169	42,837	21,231	424,374	-	-	-	-	3,944,905
Other	5,548,005	-	1,621,105	3,803,693	-	123,207	-	-	-	-	-	-	-
Foreign Sovereign:													
Bonds	20,592,643	296,763	1,014,670	12,371,549	6,909,661	-	-	-	-	-	-	-	-
<b>Total Fixed Income</b>	<b>\$ 381,571,062</b>	<b>\$ 37,318,659</b>	<b>\$ 187,908,466</b>	<b>\$ 60,835,925</b>	<b>\$ 65,265,570</b>	<b>\$ 5,793,286</b>	<b>\$ 12,915,778</b>	<b>\$ 2,109,166</b>	<b>\$ 9,424,212</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Fixed income portfolio investments are included in U.S. Government obligations and corporate bonds on the Statements of Plan Net Assets as of December 31, 2012 and 2011 along with related investments held in other federal and corporate securities, mutual funds and short-term investments.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2012 and 2011

**Note 5 - Investments (Continued)**

As of December 31, 2011, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings											
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated				
Fixed income													
U.S. Government:													
Treasury Notes and Bonds	\$ 53,835,379	\$ -	\$ 53,835,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Treasury Inflation-Protected Securities	14,966,305	13,708,618	1,257,687	-	-	-	-	-	-	-	-	-	-
Agencies	13,846,925	-	12,785,884	1,061,041	-	-	-	-	-	-	-	-	-
Municipal	5,050,915	-	827,747	4,223,168	-	-	-	-	-	-	-	-	-
Mortgage-Backed:													
Government Pass Through	102,253,385	32,067,787	35,347,995	-	-	-	-	-	-	-	-	-	34,837,603
Corporate Pass Through	10,216,034	7,407,662	55,562	2,015,255	88,482	-	-	-	-	-	-	-	-
Government CMO's	17,580,381	2,340,672	12,305,934	201,689	380,037	145,390	1,702,699	-	-	-	-	-	139,322
Corporate:													
Bonds	103,505,124	30,446	8,890,865	33,028,035	46,266,916	13,739,557	1,549,305	-	-	-	-	-	-
Asset-Backed	33,535,103	16,952,519	3,729,708	4,259,021	4,608,230	890,745	481,598	1,252,152	1,361,130	-	-	-	-
Private Placement	1,599,704	1,546,605	-	-	-	-	-	53,099	-	-	-	-	-
Other	102,172	-	-	-	-	95,528	-	-	-	-	-	-	6,644
Foreign Sovereign:													
Bonds	16,150,802	-	9,613,193	794,472	-	-	5,743,137	-	-	-	-	-	-
<b>Total Fixed Income</b>	<b>\$ 372,642,229</b>	<b>\$ 74,054,309</b>	<b>\$ 138,649,954</b>	<b>\$ 45,582,681</b>	<b>\$ 51,888,857</b>	<b>\$ 15,194,349</b>	<b>\$ 7,919,430</b>	<b>\$ 3,007,950</b>	<b>\$ 36,344,699</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Fixed income portfolio investments are included in U.S. Government obligations and corporate bonds on the Statements of Plan Net Assets as of December 31, 2012 and 2011 along with related investments held in other federal and corporate securities, mutual funds and short-term investments.

**Note 6 - Securities Lending Transactions**

Under the authority of State of Washington RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, the System participates in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral, and is limited to a volume of less than \$75 million. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2012, the fair value of securities on loan was \$13,083,695. Associated cash collateral totaling \$13,404,350 was received. The fair market value of the reinvested collateral was \$10,154,781 at December 31, 2012, which includes an unrealized loss totaling \$3,249,570.

As of December 31, 2011, the fair value of securities on loan was \$6,730,410. Associated cash collateral totaling \$6,911,249 was received. The fair market value of the reinvested collateral was \$3,489,721 at December 31, 2011, which includes an unrealized loss totaling \$3,421,528.

**Note 7 - Commitments**

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2012, the System has unfunded commitments of \$24,612,919 to these partnerships.



**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012 and 2011**

**Note 8 - Actuarial Information**

The funded status of the System as of January 1, 2012, the most recent valuation date, is as follows (dollars in millions):

Actuarial Valuation Date January 1	Actuarial Value of Assets (a)	Actuarial Liabilities [AAL] - Entry Age (b)	Unfunded AAL [UAAL] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%

Fiscal year employer contributions required and contributions made are as follows (dollars in millions):

Year Ended December 31	Annual Required Contribution	Percent Contributed
2012	\$ 67.2	93%

The calculation of the actuarial value of assets includes a smoothing of investment gains and losses over a five-year period. For the year ended December 31, 2012, the System experienced an investment gain of 14.0%. The difference between these investment gains and the assumed rate of 7.75% will be recognized over the next five years and will have an impact on the funding ratio in the future.

See Required Supplementary Information (RSI) on page 24 for a six-year schedule of employer contributions.

The funding progress and employer contribution information presented above and the employer contribution information in the RSI schedule were determined as part of the actuarial valuations at the date indicated. The following is additional information for the System as of the valuation date:

Valuation date	January 1, 2012
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	Does not amortize at current rate
Asset valuation method	Five-year asset smoothing applied retroactively, effective January 1, 2011
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases*	4.00%
Post-retirement benefit increases	1.50% annual COLA and 65% Restoration of Purchasing Power

\* Includes inflation as a cost-of-living adjustment at 3.5%.

This information is an integral part of the accompanying financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**  
(Dollar Amounts in Millions)

Actuarial Valuation Date January 1	Actuarial Value of Assets <sup>4</sup> (a)	Actuarial Accrued Liabilities [AAL] – Entry Age <sup>1</sup> (b)	Unfunded AAL [UAAL] <sup>2</sup> (b-a)	Funded Ratio (a/b)	Covered Payroll <sup>3</sup> (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2004	\$ 1,527.5	\$ 1,778.9	\$ 251.4	85.9%	\$ 424.7	59.2%
2006	\$ 1,791.8	\$ 2,017.5	\$ 225.7	88.8%	\$ 447.0	50.5%
2008	\$ 2,119.4	\$ 2,294.6	\$ 175.2	92.4%	\$ 501.9	34.9%
2010	\$ 1,645.3	\$ 2,653.8	\$ 1,008.5	62.0%	\$ 580.9	173.6%
2011	\$ 2,013.7	\$ 2,709.0	\$ 695.4	74.3%	\$ 563.2	123.5%
2012	\$ 1,954.3	\$ 2,859.3	\$ 905.0	68.3%	\$ 557.0	162.5%

Note that valuations are performed annually as of 2010.

<sup>1</sup> Actuarial present value of benefits less actuarial present value of future normal cost based on Entry Age Actuarial Cost Method.

<sup>2</sup> Actuarial accrued liabilities less actuarial value of assets.

<sup>3</sup> Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

<sup>4</sup> Beginning with the January 1, 2011 Actuarial Valuation and 2007 – 2010 Experience Study, SCERS has adopted five-year asset smoothing.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**(Dollar Amounts in Millions)**

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<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
2007	\$ 40.3	100%
2008	\$ 46.0	100%
2009	\$ 46.6	100%
2010	\$ 95.7	47%
2011	\$ 73.0	69%
2012	\$ 67.2	93%

For additional information regarding employer contributions, see the notes to the financial statements.

**ADDITIONAL INFORMATION**

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**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF ADMINISTRATIVE EXPENSES**  
**Years Ended December 31, 2012 and 2011**

	Budget	Actual Expense	
	2012	2012	2011
Personnel Services			
Salaries	\$ 1,494,632	\$ 1,181,010	\$ 1,144,068
Benefits	<u>449,587</u>	<u>418,027</u>	<u>391,299</u>
Total Personnel Services	<u>1,944,219</u>	<u>1,599,037</u>	<u>1,535,367</u>
Maintenance and Operations			
Professional Services	542,000	580,853	784,138
Office rent	91,000	115,926	89,278
Data processing	859,333	751,549	796,481
Office supplies and other expenses	254,007	171,810	147,078
Postage	53,183	43,280	48,622
Telephone	20,585	28,181	37,966
Travel	61,460	39,660	22,461
Training	<u>18,000</u>	<u>13,628</u>	<u>6,243</u>
Total Maintenance and Operations	<u>1,899,568</u>	<u>1,744,887</u>	<u>1,932,267</u>
<b>Total Administrative Expenses</b>	<u>\$ 3,843,787</u>	<u>\$ 3,343,924</u>	<u>\$ 3,467,634</u>

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM**  
**SCHEDULE OF INVESTMENT EXPENSES**  
**Year December 31, 2012**

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Investment Services:	
American Core Realty Fund	\$ 81,393
Attalus	23,523
Attucks Cap	799,978
Babson Tower Square Partners II	69,338
BakcRock	307,913
Bison Capital Equity Partners II	35,015
Capri	2,327
Capital	16,130
Carlyle Mezzanine Partners	327,545
Dimensional	492,289
Eaton Vance	57,973
Fisher Investments	370,874
JP Morgan Real Estate Funds	1,721,724
Nogales Investors Fund II	45,614
Oaktree Capital Mezzanine Fund II	81,070
Pacific Investment	347,564
PCCP	111,427
PIMCO	38,485
Pugh Capital	98,821
Reams Asset Management	128,774
Rhumbine	86,099
Russell	99,800
Smith Whiley Pelham Fund III	152,463
TA Associates	393,037
TCW Crescent Mazzanine Partners IV	51,233
Vote Net	19,200
Washington Capital Management	116,696
Western Asset Management	<u>237,544</u>
Total Investment Services	6,313,849
Performance Measurement:	
Pension Consulting Alliance	499,140
Custodial Services:	
Bank of New York Mellon	249,881
Securities Lending Services:	
Bank of New York Mellon	<u>24,467</u>
<b>Total Investment Expenses</b>	<b><u><u>\$ 7,087,337</u></u></b>

**Seattle City Employees' Retirement System  
Actuarial Valuation**

**Inactive Lives**

**Table C-3 Members Receiving Disability Retirement Benefits as of January 1, 2012**

	<50	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90+	Totals
<b>Number of Persons</b>											
Male	0	2	5	3	6	5	4	3	4	2	34
Female	2	5	10	5	2	3	3	0	0	1	31
<b>Total</b>	<b>2</b>	<b>7</b>	<b>15</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>65</b>
<b>Annual Benefits in Thousands</b>											
Male \$	0	28	85	44	81	64	43	36	45	18	444
Female	40	79	164	81	22	27	34	0	0	*	447
<b>Total</b>	<b>40</b>	<b>107</b>	<b>249</b>	<b>125</b>	<b>103</b>	<b>91</b>	<b>77</b>	<b>36</b>	<b>45</b>	<b>18</b>	<b>891</b>
<b>Average Annual Benefits</b>											
Male \$	0	\$ 14,000	\$ 17,000	\$ 14,667	\$ 13,500	\$ 12,800	\$ 10,750	\$ 12,000	\$ 11,250	\$ 9,000	\$ 13,059
Female	20,000	15,800	16,400	16,200	11,000	9,000	11,333	0	0	*	14,419
<b>Total</b>	<b>20,000</b>	<b>15,286</b>	<b>16,600</b>	<b>15,625</b>	<b>12,875</b>	<b>11,375</b>	<b>11,000</b>	<b>12,000</b>	<b>11,250</b>	<b>6,000</b>	<b>13,694</b>

\* Benefit amounts for groups with only one member not shown.



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**Seattle City Employees' Retirement System  
Actuarial Valuation**

**Inactive Lives**

**Table C-4 Survivors Receiving Retirement Benefits as of January 1, 2012\***

	<50	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90+	Totals
<b>Number of Persons</b>											
Male	0	3	6	5	6	7	3	7	2	4	43
Female	11	7	22	43	54	58	66	103	168	182	714
<b>Total</b>	<b>11</b>	<b>10</b>	<b>28</b>	<b>48</b>	<b>60</b>	<b>65</b>	<b>69</b>	<b>110</b>	<b>170</b>	<b>186</b>	<b>757</b>
<b>Annual Benefits in Thousands</b>											
Male \$	0	47	79	41	116	59	22	57	9	17	447
Female	136	79	386	717	858	875	961	1,609	2,316	2,283	10,220
<b>Total</b>	<b>136</b>	<b>126</b>	<b>465</b>	<b>758</b>	<b>974</b>	<b>934</b>	<b>983</b>	<b>1,666</b>	<b>2,325</b>	<b>2,300</b>	<b>10,667</b>
<b>Average Annual Benefits</b>											
Male \$	0	15,667	13,167	8,200	19,333	8,429	7,333	8,143	4,500	4,250	10,395
Female	12,364	11,286	17,545	16,674	15,889	15,086	14,561	15,621	13,786	12,544	14,314
<b>Total</b>	<b>12,364</b>	<b>12,600</b>	<b>16,607</b>	<b>15,792</b>	<b>16,233</b>	<b>14,369</b>	<b>14,246</b>	<b>15,145</b>	<b>13,676</b>	<b>12,366</b>	<b>14,091</b>

\* In addition, 31 male survivors are receiving \$385,415 and 54 female survivors are receiving \$894,069 in Option B or Option C benefits for a certain period only.



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## Seattle City Employees' Retirement System Actuarial Valuation

### Active Lives

**Table C-5 Distribution of Employees and Salaries as of January 1, 2012**

Nearest Year of Service	Number of Employees - By Age Group - Males											Totals	
	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69		70+
0		8	14	16	16	16	12	12	6	3	1	1	105
1	1	9	15	12	23	13	18	7	15	7	2	2	124
2	2	8	21	21	18	23	24	18	12	9	3	3	159
3-4		11	70	105	97	97	83	87	49	29	9	1	638
5-9		4	55	143	169	171	141	151	132	76	22	5	1,069
10-14			2	33	93	151	184	176	152	107	33	12	943
15-19					8	70	89	102	84	57	20	4	434
20-24						19	83	122	126	83	23	5	461
25-29							15	73	107	81	23	6	305
30-34						2	2	49	94	65	22	1	233
35-39							1	27	44	44	10	3	85
40+		40	177	330	424	560	651	798	804	573	183	46	4,589
Totals	3	40	177	330	424	560	651	798	804	573	183	46	4,589

**Monthly Salaries in Thousands - By Age Group - Males**

Nearest Year of Service	Monthly Salaries in Thousands - By Age Group - Males											Totals	
	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69		70+
0	\$	22 \$	64 \$	82 \$	92 \$	78 \$	62 \$	61 \$	41 \$	11 \$	6 \$	1 \$	520
1	1	25	59	61	124	91	108	43	68	58	17	2	657
2	3	15	85	93	104	139	117	110	62	33	24	2	785
3-4		32	302	554	578	496	487	490	285	163	45	3	3,435
5-9		20	224	732	927	982	775	880	706	410	118	13	5,787
10-14			4	148	533	883	1,113	1,078	863	639	197	58	5,516
15-19					41	427	528	609	487	359	126	29	2,606
20-24						119	527	756	795	523	139	31	2,890
25-29							96	486	690	523	150	32	1,977
30-34							17	329	639	433	129	8	1,555
35-39								6	170	305	61	14	556
40+		114	738	1,670	2,399	3,215	3,830	4,848	4,806	3,537	1,102	225	26,488
Totals	4	114	738	1,670	2,399	3,215	3,830	4,848	4,806	3,537	1,102	225	26,488



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Seattle City Employees' Retirement System  
Actuarial Valuation

Active Lives

Table C-5 Distribution of Employees and Salaries as of January 1, 2012

Average Monthly Salaries - By Age Group - Males

Nearest Year of Service	Average Monthly Salaries - By Age Group - Males											Totals	
	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69		70+
0	\$ 1,000	\$ 2,750	\$ 4,571	\$ 5,125	\$ 5,750	\$ 4,875	\$ 5,167	\$ 5,083	\$ 6,833	\$ 3,667	\$ 6,000	\$ 1,000	4,952
1	1,500	2,778	3,933	5,083	5,391	7,000	6,000	6,143	4,533	8,286	8,500	1,000	5,298
2		1,875	4,048	4,429	5,778	6,043	4,875	6,111	5,167	3,667	8,000		4,937
3-4		2,909	4,314	5,276	5,959	5,113	5,867	5,632	5,816	5,621	5,000	3,000	5,384
5-9		5,000	4,073	5,119	5,485	5,743	5,496	5,828	5,348	5,395	5,364	2,600	5,413
10-14			2,000	4,485	5,731	5,848	6,049	6,125	5,678	5,972	5,970	4,833	5,849
15-19					5,125	6,100	5,933	5,971	5,798	6,298	6,300	7,250	6,005
20-24						6,263	6,349	6,197	6,310	6,301	6,043	6,200	6,269
25-29							6,400	6,658	6,449	6,457	6,522	5,333	6,482
30-34							8,500	6,714	6,798	6,662	5,864	8,000	6,674
35-39								6,000	6,296	6,932	6,100	4,667	6,541
40+										6,667	6,000	5,667	6,182
Totals	1,333	2,850	4,169	5,061	5,658	5,741	5,883	6,075	5,978	6,173	6,022	4,891	5,772



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Seattle City Employees' Retirement System  
Actuarial Valuation

Active Lives

Table C-5 Distribution of Employees and Salaries as of January 1, 2012

Nearest Year of Service	Number of Employees - By Age Group - Females										Totals		
	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64		65-69	70+
0	1	5	10	16	13	6	7	6	4	1	1	70	
1		8	12	20	15	13	13	11	9	2		102	
2	1	7	18	17	19	16	10	7	10	8	1	115	
3-4		7	51	93	75	52	72	50	40	24	4	469	
5-9		2	48	109	138	144	127	103	85	59	24	844	
10-14			3	31	86	127	136	138	113	71	28	742	
15-19					13	62	62	71	72	48	14	350	
20-24					2	24	108	132	128	109	33	537	
25-29						17		101	91	82	18	310	
30-34								45	84	70	13	213	
35-39								2	26	39	7	76	
40+										6	7	13	
Totals	2	29	142	278	366	446	552	666	662	519	150	29	3,841

Monthly Salaries in Thousands - By Age Group - Females

Nearest Year of Service	Monthly Salaries in Thousands - By Age Group - Females										Totals		
	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64		65-69	70+
0	\$ 1	\$ 9	\$ 43	\$ 70	\$ 83	\$ 32	\$ 35	\$ 32	\$ 28	\$ 12	\$ 7	\$	\$ 352
1		14	52	51	93	71	62	73	41	8			465
2		15	70	69	69	99	58	47	49	32	1	1	511
3-4		15	202	414	399	256	362	277	243	105	13	10	2,296
5-9		8	169	481	721	781	656	538	461	295	116	12	4,238
10-14			9	118	453	696	780	782	621	352	111	16	3,938
15-19					69	315	332	390	410	245	76	27	1,864
20-24					10	114	620	719	776	588	177	7	3,011
25-29						88		611	553	479	103	4	1,838
30-34								268	469	401	74	9	1,221
35-39								13	127	218	44	8	410
40+										31	38	69	69
Totals	2	61	545	1,203	1,897	2,364	2,993	3,750	3,778	2,766	760	94	20,213



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Seattle City Employees' Retirement System  
Actuarial Valuation

Active Lives

Table C-5 Distribution of Employees and Salaries as of January 1, 2012

Average Monthly Salaries - By Age Group - Females

Nearest Year of Service	<20	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70+	Totals
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
0	1,000	1,800	4,300	4,375	6,385	5,333	5,000	5,333	7,000	12,000	7,000		5,029
1		1,750	4,333	4,250	4,650	4,733	4,769	6,636	4,556	4,000	1,000	1,000	4,559
2	1,000	2,143	3,889	4,059	3,632	6,188	5,800	6,714	4,900	4,000	1,000	1,000	4,443
3-4		2,143	3,961	4,452	5,320	4,923	5,028	5,540	6,075	4,375	3,250	10,000	4,896
5-9		4,000	3,521	4,413	5,225	5,424	5,165	5,223	5,424	5,000	4,833	2,400	5,021
10-14			3,000	3,806	5,267	5,480	5,735	5,667	5,496	4,958	3,964	1,778	5,307
15-19					5,308	5,081	5,355	5,493	5,694	5,104	5,429	3,375	5,326
20-24					5,000	4,750	5,741	5,447	6,063	5,394	5,364	7,000	5,607
25-29							5,176	6,050	6,077	5,841	5,722	4,000	5,929
30-34								5,956	5,583	5,729	5,692	9,000	5,732
35-39								6,500	4,885	5,590	6,286	4,000	5,395
40+										5,167	5,429		5,308
Totals	1,000	2,103	3,838	4,327	5,183	5,300	5,422	5,631	5,707	5,329	5,067	3,241	5,262

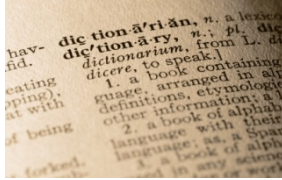


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# Seattle City Employees' Retirement System Special Actuarial Valuation

## Appendix D Glossary

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The following definitions are largely excerpts from a list adopted in 1981 by the major actuarial organizations in the United States. In some cases the definitions have been modified for specific applicability to the Seattle City Employees' Retirement System. Defined terms are capitalized throughout this Appendix.

**Accrued Benefit**

The amount of an individual's benefit (whether or not vested) as of a specific date, determined in accordance with the terms of a pension plan and based on compensation and service to that date.

**Actuarial Accrued Liability**

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

**Actuarial Assumptions**

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; changes in compensation, rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items.

**Actuarial Cost Method**

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

**Actuarial Gain (Loss)**

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

**Actuarial Present Value**

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

**Actuarial Valuation**

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

**Actuarial Value of Assets**

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

<b>Actuarially Equivalent</b>	Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.
<b>Amortization Payment</b>	That portion of the pension plan contribution that is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or (UAAL).
<b>Entry Age Actuarial Cost Method</b>	A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.
<b>Normal Cost</b>	That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.
<b>Projected Benefits</b>	Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.
<b>Surplus Funding</b>	The excess of the Actuarial Value of Assets over the Actuarial Accrued Liability.
<b>Unaccrued Benefit</b>	The excess of an individual's Projected Benefits over the Accrued Benefits as of a specified date.
<b>Unfunded Actuarial Accrued Liability</b>	The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.