

Employees' Retirement System

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

Department Overview

The Seattle City Employees' Retirement System has two major functions: administration of retirement benefits and management of the assets of the Retirement Fund. Employee and employer contributions, as well as investment earnings, provide funding for the system. Approximately 9,400 active employee members, 2,800 terminated employee members and 7,100 retired employee members participate in the plan.

The provisions of the plan are set forth in [Chapter 4.36](#) of the Seattle Municipal Code. The plan is a "defined benefit plan" which means an employee's salary, years of service, and age at the time of retirement are used to determine the amount of retirement benefits. At retirement, members are given a choice of several payment options to collect their retirement benefit. The Retirement System is led by a seven-member Board of Administration and an Executive Director appointed by the Board.

Please note that the appropriations detailed in the following tables reflect only the costs to administer the system and do not reflect payment of retiree benefits.

Budget Snapshot

	2020 Actuals	2021 Adopted	2022 Adopted
Department Support			
Other Funding - Operating	249,331,409	8,646,345	8,685,358
Total Operations	249,331,409	8,646,345	8,685,358
Total Appropriations	249,331,409	8,646,345	8,685,358
Full-Time Equivalents Total*	23.00	28.00	27.00

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

Budget Overview

The Seattle City Employees' Retirement System (SCERS) relies on the long-term health of its assets to sustain its long-term financial obligations to SCERS members. The long-term health of SCERS is measured by the annual January 1 funding status, a percentage that represents the value of the asset portfolio over the reserves needed to pay retirement benefits to employees.

As of January 1, 2021, SCERS net assets are valued at \$3.4 billion with a 71.6% funded status. This is an increase from 68.9% in 2020, and is still higher than the low of 62% in 2010. SCERS funding status has generally increased steadily since 2010 due to changes SCERS has made to positively impact the funding status over the long-term.

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Annual Contributions: The plan's actuaries determine an "annual required contribution" (ARC) into SCERS so its assets grow in tandem with pension costs, which rise as new employees join SCERS, wages increase, and retirees live longer. In response to the drop in the value of its invested assets and its funded status coming out of the 2008-09 recession, SCERS and the City enhanced the plan in 2013 by revising its ARC calculation so SCERS will be fully funded after a fixed 30-year period beginning January 1, 2013 and ending January 1, 2043. In addition to the employee and employer annual required contributions, the City pays an additional fluctuating amount to achieve the fully funded status by 2043. These amounts are reflected in departmental budgets throughout the 2022 Proposed Budget.

Investment Return Assumption: In January 2014, SCERS decreased its long-term investment return assumption from 7.75% to 7.50% in anticipation of slower asset growth over the next 30 years. Effective January 2020, SCERS decreased this assumption further to 7.25%. This assumption raises the ARC so the plan relies more on employee and employer contributions that are based on salaries, which are less volatile than the investment returns affected by portfolio experience and the economy.

Asset Smoothing: SCERS implemented an asset smoothing policy in 2011 to protect the funded status from volatile year-to-year swings by recognizing annual investment return gains and losses evenly over five years. This policy results in gradual changes in the ARC so the City's contribution is more stable.

Pension Plan for New Employees Hired On or After January 1, 2017: The City began evaluating plan changes in 2012 to reduce the cost of the plan for employees and the City, thereby enhancing SCERS' fiscal stability over the long run, while still maintaining an adequate retirement benefit for employees. In 2016, the City and labor unions agreed, and Council approved, a new defined benefit plan (SCERS II) for new employees hired on or after January 1, 2017. SCERS II has a similar structure to the existing plan (SCERS I).

Under SCERS II, there is an estimated 3.8% combined savings for annual employer and employee contributions. Members of the new plan will contribute 7% of their salary toward their retirement benefit, compared to 10.03% under SCERS I. Given the lower contributions into the plan, the new SCERS II plan will provide a retirement benefit lower than the SCERS I plan, but consistent with the design of the current SCERS I plan. The SCERS II benefit will still provide City retirees with an adequate retirement income when combined with Social Security.

The 2022 Adopted Budget includes total appropriation decreases of \$209,332. This decrease is the result of several annual citywide cost adjustments for internal City service costs and adjustments to true-up the budget with the SCERS Board's approved 2021-2022 budget. On June 11, 2020 the SCERS Board of Administration reviewed and approved a change to make the approximately \$12.8 million annual Investment Management Fees non-appropriated beginning with the 2021 budget and going forward. This treatment will be the same as for the pension payments to member retirees, which are also non-appropriated. Investment management fees will continue to be reported to the Board, recorded in the City's financial system and detailed in the annual audited financial statements that are posted publicly on SCERS's website (see p. 32 of 2019 Annual Financials). The financial statements are reviewed and accepted annually by the SCERS Board, which is chaired by the Council Finance Committee Chair. The 2022 Adopted Budget includes a technical adjustment to reduce SCERS' positions by one. The technical adjustment completes an action taken earlier in 2021 in the second quarter supplemental ordinance to remove this unneeded position.

City Council Changes to the Proposed Budget

Council added \$248,345 in appropriations to provide continued 2022 funding for 2 positions created in the 2021 Year-end Supplemental Ordinance in response to SCERS' late request for additional retirement specialists to meet employee demand for services.

Incremental Budget Changes

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Dollars

FTE

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2021 Adopted Budget	8,646,345	28.00
Adopt Resolution 32022 - RET 2022 Credit Interest Rates Resolution	-	-
Adopt Resolution 32023 - Valuation and Actuarially Required Contribution for 2022	-	-
True-up 2022 Baseline to SCERS Board-approved	(296,010)	-
Baseline		
Baseline Adjustments for Personnel Costs	47,479	-
Citywide Adjustments for Standard Cost Changes	39,199	-
Proposed Technical		
Continuing position change from 2021 Q2 Supplemental	-	(1.00)
Council		
Add \$248,000 from the Retirement Fund to SCERS for two retirement system member services positions	248,345	-
Total Incremental Changes	\$39,013	(1.00)
Total 2022 Adopted Budget	\$8,685,358	27.00

Description of Incremental Budget Changes

Adopt Resolution 32022 - RET 2022 Credit Interest Rates Resolution

This Council Budget Action recommends adoption of Resolution 32022, which approves interest rates on member contributions as established by the Seattle City Employees Retirement System Board of Administration on August 12, 2021. The Board reviews and adjusts the interest rates annually, based on market conditions. The new interest rates for 2022 will grow member contribution balances on all contributions received after December 11, 2011 at an annual compounding rate of 1.77 percent. The annual rate prior to this change is 2.92 percent.

This change lowers the Retirement Fund's costs and incrementally lowers the system's normal cost. These impacts are estimated along with other factors in the retirement system's periodic actuarial valuations.

Adopt Resolution 32023 - Valuation and Actuarially Required Contribution for 2022

This Council Budget Action recommends adoption of Resolution 32023 that affirms the retirement contribution rate that the City will fund in 2022. As determined by an independent actuary using a set of assumption about member demographics and investment earnings, the actuarially required contribution is the annual contribution to the Retirement Fund that the City must make to meet the objective of a 100% funded retirement plan (benefits sufficient funds to pay current and future benefits) by 2042. At its July 7, 2021 meeting the city's actuary reported that the minimum required contribution was 15.33% for 2022. At the subsequent meeting on August 14, 2021 the Seattle City Employees Retirement System Board of Administration voted to recommend a higher contribution rate than actuarially required, to smooth out year to year fluctuations in the rate.

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The combined required contribution rate for 2022 is 25.56 percent, no change from the 2021 rate. The City's portion of the combined contribution rate for 2022 is 16.10 percent of regular payroll into SCERS (consistent with the 2021 rate).

The 2022 Proposed Budget includes the amounts necessary to fully fund the ARC to the Employee Retirement Fund in 2022.

True-up 2022 Baseline to SCERS Board-approved

Expenditures	\$(296,010)
Revenues	\$(209,332)

Adjust 2022 Baseline to 2022 SCERS Board-approved amounts:

In 2019, The SCERS Board of Administration approved a 2 year budget (for 2021 and 2022). The 2022 budget was approved for \$8,717,555 with the understanding that the few ISF fund amounts may change without going back to the Board for approval.

Using the 2021 Adopted budget as the baseline to compare to SCERS' 2022 Board Approved budget, the following baseline changes will need to be made (all considered technical changes given this is just a true-up to the approved budget and no new positions or projects are being started in 2022).

Baseline

Baseline Adjustments for Personnel Costs

Expenditures	\$47,479
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This centrally administered change adjusts appropriations to restore the annual wage increase for non-represented Executives, Managers and Strategic Advisors, which was forgone in 2021 due to financial constraints.

Citywide Adjustments for Standard Cost Changes

Expenditures	\$39,199
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Citywide technical adjustments made in the baseline phase reflect changes to internal services costs, including rates from the Department of Finance & Administrative Services, Seattle Information Technology Department, Seattle Department of Human Resources, and for healthcare, retirement and industrial insurance charges for the department. These adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Proposed Technical

Continuing position change from 2021 Q2 Supplemental

Position Allocation	(1.00)
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Technical change to continue in the budget system a position change made in the 2021 Q2 Supplemental Budget.

Council

Add \$248,000 from the Retirement Fund to SCERS for two retirement system member services positions

Expenditures	\$248,345
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This Council Budget Action adds \$248,345 from the Employees' Retirement Fund to the Seattle City Employees Retirement System (SCERS) for two member services FTE positions that are proposed as modifications to the 2021

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year-end supplemental budget legislation. To address member services workload increases at SCERS, at its October 14, 2021 meeting the SCERS Board of Administration approved adding two new FTE positions, which include a Senior Retirement Specialist and a Retirement Specialist. Position authority for these new positions is provided in the 2021 year-end supplemental legislation; this Council Budget Action provides 2022 funding for the new positions.

Expenditure Overview

Appropriations	2020 Actuals	2021 Adopted	2022 Adopted
RET - BO-RE-9RE00 - UNASSIGNED			
61030 - Employees' Retirement Fund	229,257,558	-	-
Total for BSL: BO-RE-9RE00	229,257,558	-	-
RET - BO-RE-R1E00 - Employee Benefit Management			
61030 - Employees' Retirement Fund	20,073,851	8,646,345	8,685,358
Total for BSL: BO-RE-R1E00	20,073,851	8,646,345	8,685,358
Department Total	249,331,409	8,646,345	8,685,358
Department Full-Time Equivalents Total*	23.00	28.00	27.00

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

Budget Summary by Fund Employees' Retirement System

	2020 Actuals	2021 Adopted	2022 Adopted
61030 - Employees' Retirement Fund	249,331,409	8,646,345	8,685,358
Budget Totals for RET	249,331,409	8,646,345	8,685,358

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Revenue Overview

2022 Estimated Revenues

Account Code	Account Name	2020 Actuals	2021 Adopted	2022 Adopted
360010	Investment Interest	15,311,661	-	-
360030	Securities Lending Revenue	(9,504)	-	-
360090	Realized Gains/Losses On Invm	100,576,389	-	-
360120	Security Lending Income Gasb 2	63,967	-	-
360230	Dividend Income	18,524,719	-	-
360240	Other Investment Income	11,816,900	-	-
360430	Employr Pnsn Contributions	141,255,626	5,283,691	5,314,394
360440	Employr Dth Ben Contribution	162,120	-	-
360450	Emplyee Pnsn Contribution	82,752,355	3,362,654	3,122,619
360460	Emplyee Dth Ben Contribution	162,120	-	-
360900	Miscellaneous Revs-Other Rev	534,562	-	-
Total Revenues for: 61030 - Employees' Retirement Fund		371,150,915	8,646,345	8,437,013
Total RET Resources		371,150,915	8,646,345	8,437,013

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Appropriations by Budget Summary Level and Program

RET - BO-RE-9RE00 - UNASSIGNED

Program Expenditures	2020 Actuals	2021 Adopted	2022 Adopted
Pension Benefits Paid	229,257,558	-	-
Total	229,257,558	-	-

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RET - BO-RE-R1E00 - Employee Benefit Management

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

Program Expenditures	2020 Actuals	2021 Adopted	2022 Adopted
Employee Benefit Management	20,073,851	8,646,345	8,685,358
Total	20,073,851	8,646,345	8,685,358
Full-time Equivalent Total*	23.00	28.00	27.00

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