

Employees' Retirement System

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

Department Overview

The Employees' Retirement System has two major functions: administration of retirement benefits and management of the assets of the Retirement Fund. Employee and employer contributions, as well as investment earnings, provide funding for the system. Approximately 8,750 active employee members, 2,100 vested terminated employee members and 6,000 retired employee members participate in the plan. The provisions of the plan are set forth in Chapter 4.36 of the Seattle Municipal Code. The plan is a "defined benefit plan," which means an employee's salary, years of service, and age at the time of retirement are used to determine the amount of retirement benefits. At retirement, members are given a choice of several payment options to collect their retirement benefit. The Retirement System is led by a seven-member Board of Administration and an Executive Director appointed by the Board.

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

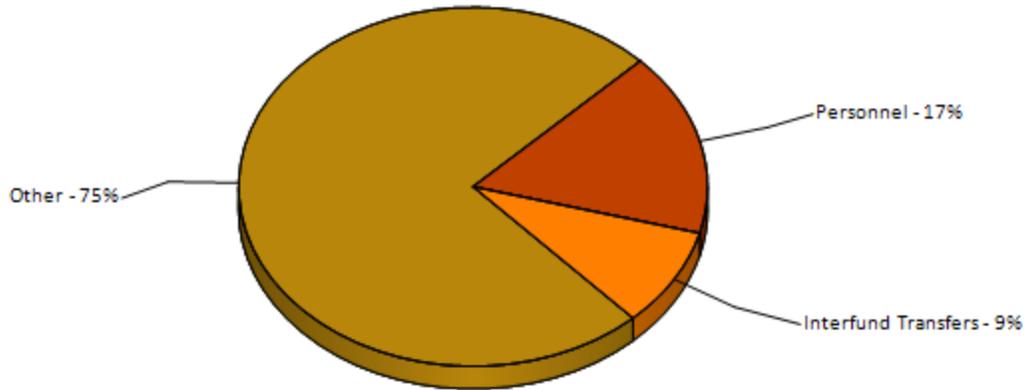
Budget Snapshot

Department Support	2014 Actuals	2015 Adopted	2016 Endorsed	2016 Adopted
Other Funding - Operating	\$13,812,446	\$22,023,422	\$19,507,601	\$20,490,002
Total Operations	\$13,812,446	\$22,023,422	\$19,507,601	\$20,490,002
Total Appropriations	\$13,812,446	\$22,023,422	\$19,507,601	\$20,490,002
Full-time Equivalent Total*	20.00	20.00	20.00	20.00

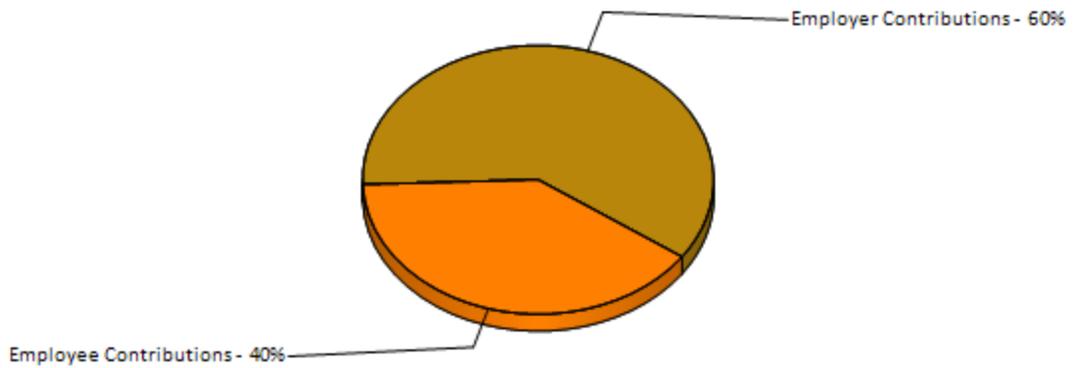
* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Human Resources Director actions outside of the budget process may not be detailed here.

Employees' Retirement System

2016 Adopted Budget - Expenditure by Category



2016 Adopted Budget - Revenue by Category



Employees' Retirement System

Budget Overview

The Seattle City Employees Retirement System (SCERS) relies on the health of its investment earnings to sustain its on-going financial obligations. In years when the economy falters, investment earnings may not meet anticipated levels, creating a financial strain on the system. During severe downturns the SCERS asset portfolio, as with most other retirement portfolios, may experience investment losses instead of gains.

The annual funded status of SCERS at January 1 represents the value of the asset portfolio over the reserves needed to pay all promised retirement benefits. In 2008, SCERS held net assets worth \$2.1 billion, which amounted to a 92% funded status, a level considered healthy by most standards. However, by 2010, following sharp, worldwide financial market losses, SCERS net assets fell to \$1.6 billion which amounted to only a 62% funded status. By 2015, the funded status had increased to 66%.

While the funding level at January 1, 2015 is not nearly as healthy as 2008, SCERS can recover from the shortfall in different ways to ensure full funding of retiree benefits in the long term. While the easiest way to make up revenue shortfalls is to have a better-than-anticipated investment returns on the SCERS portfolio, SCERS cannot rely on better-than-anticipated investment returns every year, as some future years will again yield a lower return. In fact, to be sure that the SCERS was not relying on an unrealistic assumption of investment returns, the SCERS Board of Administration decreased the system's investment return assumption from 7.75% to 7.50%, as of January 2014.

The most direct way to address system shortfalls is to adjust the amount paid into the fund by the City, the amount paid by the employee members, or both. In 2010, employees agreed to contribute more into the fund, which increased the employee rate from 8.03% to 10.03% by 2012 where it now remains, per current City labor contract agreements. On the other side of this contribution equation, the employer rate has risen most years since 2010. These recent increases have been driven by the City's adopted a policy to fully fund the actuary-determined "annual required contribution" (ARC) each year. The ARC is calculated so that the system will achieve a fully-funded status after a fixed 30-year period beginning January 1, 2013 and ending January 1, 2043. The employer rate peaked in 2015 with a rate of 15.73%, decreased to 15.23% in 2016, and is expected to continue slowly decrease after 2016.

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

Given projected future increases in City costs for retirement, in 2012 an interdepartmental team developed a report summarizing possible changes to SCERS that would enhance its fiscal sustainability over the long run. These options are currently under consideration and the City will continue to analyze the costs, benefits and feasibility of these and other changes to SCERS in the coming biennium. More details on this report can be found online: http://www.seattle.gov/council/issues/retirement_system.htm

In addition to improving the funded status, SCERS has also been committed to updating and improving its internal operations and benefits administration functions. In 2015, SCERS added a Chief Investment Officer to strengthen SCERS' priorities in portfolio management and fund investment. SCERS also began implementing a new software system to improve record keeping and benefit calculations.

The 2016 Adopted Budget includes the addition of four temporary positions at SCERS for the next three years to support the implementation of the new software system as well as adding capacity to the investment team to re-structure the investment portfolio. Additionally, the 2016 Adopted Budget aligns labor costs to actual levels.

Employees' Retirement System

City Council Changes to the Proposed Budget

The Council made no changes to the 2016 Proposed Budget.

Incremental Budget Changes

Employees' Retirement System

	2016	
	Budget	FTE
Total 2016 Endorsed Budget	\$ 19,507,601	20.00
Baseline Changes		
Citywide Adjustments for Standard Cost Changes	\$ 374,722	0.00
Proposed Changes		
Labor Costs	\$ 607,679	0.00
Total Incremental Changes	\$ 982,401	0.00
2016 Adopted Budget	\$ 20,490,002	20.00

Descriptions of Incremental Budget Changes

Baseline Changes

Citywide Adjustments for Standard Cost Changes - \$374,722

Citywide technical adjustments made in the initial planning phase reflect changes in the internal services costs, health care rate reduction, retirement contribution rate reduction, and updates to unemployment and industrial insurance charges. There was also an adjustment made to the 2016 base to recoup savings from a higher-than-expected inflation provided in the 2015 Adopted Budget for non-labor expenses. These adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Proposed Changes

Labor Costs - \$607,679

This item increases appropriation by \$204,000 to reflect actual levels of labor costs including salary, benefits, and payroll tax contributions. This adjustment also includes \$403,000 to provide four temporary staff members dedicated to improving the internal operations and benefits administration functions with the new software system and investment portfolio management.

Employees' Retirement System

City Council Provisos

There are no Council provisos.

Expenditure Overview

Appropriations	Summit Code	2014 Actuals	2015 Adopted	2016 Endorsed	2016 Adopted
Employee Benefit Management Budget Control Level	R1E00	13,812,446	22,023,422	19,507,601	20,490,002
Department Total		13,812,446	22,023,422	19,507,601	20,490,002

Department Full-time Equivalents Total*	20.00	20.00	20.00	20.00
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Revenue Overview

2016 Estimated Revenues

Summit Code	Source	2014 Actuals	2015 Adopted	2016 Endorsed	2016 Adopted
469610	Employee Contributions	5,691,817	8,575,113	7,730,590	8,135,975
	Total Employee Contributions	5,691,817	8,575,113	7,730,590	8,135,975
569510	Employer Contributions	8,120,629	13,448,309	11,777,011	12,354,027
	Total Employer Contributions	8,120,629	13,448,309	11,777,011	12,354,027
	Total Revenues	13,812,446	22,023,422	19,507,601	20,490,002
	Total Resources	13,812,446	22,023,422	19,507,601	20,490,002

Employees' Retirement System

Appropriations By Budget Control Level (BCL) and Program

Employee Benefit Management Budget Control Level

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

	2014	2015	2016	2016
Program Expenditures	Actuals	Adopted	Endorsed	Adopted
Employees' Retirement	13,812,446	22,023,422	19,507,601	20,490,002
Total	13,812,446	22,023,422	19,507,601	20,490,002
Full-time Equivalents Total*	20.00	20.00	20.00	20.00

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