

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 9,150 active employee members, 2,350 terminated employee members and 6,400 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/>

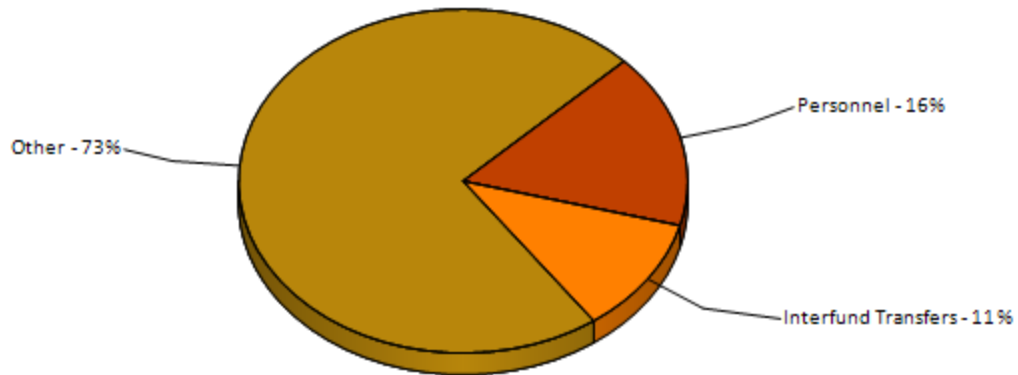
Budget Snapshot

Department Support	2018 Adopted	2019 Proposed	2020 Proposed
Other Funding - Operating	\$19,231,409	\$20,947,908	\$20,765,506
Total Operations	\$19,231,409	\$20,947,908	\$20,765,506
Total Appropriations	\$19,231,409	\$20,947,908	\$20,765,506
Full-time Equivalent Total*	21.00	23.00	23.00

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

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2019 Proposed Budget - Expenditure by Category



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.

In 2018, SCERS net assets are worth \$2.76 billion with a 69.9% funded status, an increase from 68.1% in 2017 and a low of 62% in 2010. Although significantly lower than the pre-recession (2008) peak funding percentage of 92%, SCERS funding status has increased steadily since 2010 due to changes SCERS has made to positively impact the funding status over the long-term.

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 and thereby enhance 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 the 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

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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.

SCERS I and SCERS II have the following key differences:

Monthly Pension Benefit Calculation

- SCERS I: 2.00% multiplied by total years of service multiplied by the final average salary during 24 consecutive months
- SCERS II: 1.75% multiplied by total years of service multiplied by the final average salary during 60 consecutive months

Employee Contribution Rate

- SCERS I: 10.03% of salary
- SCERS II: 7.00% of salary

2019 Employer Contribution Rate

- SCERS I: 15.23% of salary
- SCERS II: 14.42% of salary

Normal Retirement Age

- SCERS I: "Rule of 80" - lesser of 65 or when an employee's age plus service equals 80
- SCERS II: "Rule of 85" - lesser of 65 or when an employee's age plus service equals 85

Minimum Retirement Age

- SCERS I: 52 years
- SCERS II: 55 years

Additional Information

Employee Contributions: The plan's actuaries determine an "annual required contribution" (ARC) into SCERS so its assets grow in tandem with the pension costs rising as new employees join SCERS, wages increase, and retirees live longer. SCERS 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.

- SCERS I members (employees hired before January 1, 2017) contribute 10.03% of their salary into SCERS I, per City labor contract agreements. The City agrees to pay the remaining ARC beyond 10.03% for SCERS I members.
- SCERS II members (employees hired on or after January 1, 2017) contribute 7% of their salary into SCERS II, per City labor contract agreements. The City agrees to pay the remaining ARC beyond 7% for SCERS II members.

2019 Employer Contributions:

- SCERS I: The City will contribute 15.23% of salary for SCERS I members.
- SCERS II: The City will contribute 14.42% of salary for SCERS II members.

In 2020, the SCERS I contribution rate is expected to increase to 15.46%.

Investment Return Assumption: In January 2014, SCERS decreased its long-term investment return assumption from 7.75% to 7.50%. Effective January 2020, SCERS will decrease this assumption to 7.25% in anticipation

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of slower asset growth over the next 30 years. 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.

2019-2020 Proposed Budget Changes

The proposed budget includes appropriation changes due to the following operational adjustments approved by the SCERS Board of Administration.

Investment Manager Fees: Investment manager fees are generally charged as a percentage of the size of the total investment portfolio. Recent strong performance increased the portfolio size. The 2018-2020 fees are expected to surpass \$10.3 million, the previous flat budgeted amount through 2018. Therefore, the \$1.63 million increase in 2019 represents two years of cumulative fee increases for 2018 (\$950,000) and 2019 (\$675,000). The \$2.34 million increase in the 2020 fees adds the expected 2020 incremental change (\$716,000).

The fee increases in 2019 and 2020 assume a 6% annual increase, tied directly to the assumed 6% return on the investment portfolio. If returns are lower than 6%, the fees paid will be proportionately lower. Likewise, if the returns are higher than 6%, the fees will be proportionately higher.

Staffing Changes and PAS: The proposed budget adds three new positions starting in 2019. Two positions are member services representatives in the SCERS office to enhance the overall customer service experience for members. The third position is an in-house systems technical expert to manage and maintain the new Pension Administrative System (PAS) which is complete in early 2019. The \$101,000 appropriation increase in 2019 and 2020 reflects only the last position since the customer service positions were piloted using temporary staffing in 2018 using existing budget authority.

The proposed budget also includes a reduction of \$427,000 in 2019 and \$997,000 in 2020 for PAS development costs as the PAS project reaches completion.

Technical Adjustments: The 2019-2020 Proposed Budget adds \$343,000 in 2019 and \$312,000 in 2020 to cover operational costs such as rent, supplies, and consulting fees.

Citywide Costs Allocations: Finally, the 2019-2020 Proposed Budget includes an increase of \$74,000 in 2019 and a decrease of \$222,000 in 2020 due to net allocation changes from the City's central services that support the Retirement Department. The 2020 decrease is driven primarily by costs allocated by the Seattle Department of Information and Technology (ITD) following the completion of PAS.

Incremental Budget Changes

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	2019		2020	
	Budget	FTE	Budget	FTE
2018 Adopted Budget	\$ 19,231,409	21.00	\$ 19,231,409	21.00
Baseline Changes				
Citywide Adjustments for Standard Cost Changes	\$ 417,600	0.00	\$ 90,000	0.00
Proposed Changes				
Added Staff and Pension Administration System Adjustments	-\$ 326,316	2.00	-\$ 896,935	2.00
Investment Manager Fees	\$ 1,625,215	0.00	\$ 2,341,032	0.00
Total Incremental Changes	\$ 1,716,499	2.00	\$ 1,534,097	2.00
2019 - 2020 Proposed Budget	\$ 20,947,908	23.00	\$ 20,765,506	23.00

Descriptions of Incremental Budget Changes

Baseline Changes

Citywide Adjustments for Standard Cost Changes - \$417,600

Citywide technical adjustments made in the baseline phase reflect changes to internal services costs, health care, and industrial insurance charges for the department. These adjustments reflect initial assumptions about these costs and inflators early in the budget process, plus, decrease in 2020 due to net allocation changes from the City's central services that support the Retirement Department. The 2020 decrease is driven primarily by costs allocated by the Seattle Department of Information and Technology (ITD) following the completion of the Pension Administration System.

Proposed Changes

Added Staff and Pension Administration System Adjustments - (\$326,316)/2.00 FTE

The proposed budget adds two new positions starting in 2019. This adds one Member Services Representative in the SCERS office to enhance the overall customer service experience for members. The second position is an in-house systems technical expert to manage and maintain the new Pension Administrative System (PAS) which is complete in early 2019. The \$101,000 appropriation increase in 2019 and 2020 reflects only the last position since the customer service position were piloted using temporary staffing in 2018 using existing budget authority.

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The proposed budget also includes a reduction of \$427,000 in 2019 and \$997,000 in 2020 for PAS development costs as the PAS project reaches completion.

Investment Manager Fees - \$1,625,215

This adjustment increases the budget for investment manager fees. The \$1.63 million increase in 2019 represents two years of cumulative fee increases for 2018 (\$950,000) and 2019 (\$675,000), and the \$2.34 million increase in the 2020 fees adds the expected 2020 incremental change (\$716,000).

Expenditure Overview

Appropriations	2018 Adopted	2019 Proposed	2020 Proposed
Employee Benefit Management Budget Summary Level			
Employees' Retirement Fund	19,231,409	20,947,908	20,765,506
Total for BSL: BO-RE-R1E00	19,231,409	20,947,908	20,765,506
Department Total	19,231,409	20,947,908	20,765,506
Department Full-time Equivalents Total*	21.00	23.00	23.00

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

Budget Summary by Fund for Employees' Retirement

	2018 Adopted	2019 Proposed	2020 Proposed
61030 - Employees' Retirement Fund	19,231,409	20,947,908	20,765,506
Budget Totals for RET	19,231,409	20,947,908	20,765,506

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Appropriations By Budget Summary Level (BSL) and Program

<u>Employee Benefit Management Budget Summary Level</u>			
Program Expenditures	2018 Adopted	2019 Proposed	2020 Proposed
Employee Benefit Management	19,231,409	20,947,908	20,765,506
Total	19,231,409	20,947,908	20,765,506
Full-time Equivalents Total*	21.00	23.00	23.00
<i>* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Personnel Director actions outside of the budget process may not be detailed here.</i>			

