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.

Budget Snapshot

	2018 Actuals	2019 Adopted	2020 Endorsed	2020 Proposed
Department Support				
Other Funding - Operating	24,805,592	20,947,909	20,765,506	21,000,778
Total Operations	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**
Total Appropriations	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**
Full-Time Equivalents Total*	21.00	23.00	23.00	23.00

* 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, 2019, SCERS net assets are valued at $2.88 billion with a 68.2% funded status. This is a decrease from 69.9% in 2018, but still higher than the low of 62% in 2010. Prior to 2018, SCERS funding status had increased steadily since 2010 due to changes SCERS has made to positively impact the funding status over the long-term. The

Employees' Retirement System

2018 decrease was due to adopted changes in assumptions related to long-term investment returns and lower than expected investment returns in 2018.

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 2020 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 will decrease 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.

SCERS I and SCERS II have the following key differences:

Key differences	SCERS I	SCERS II
Monthly Pension Benefit Calculation	2.00% multiplied by total years of service multiplied by the final average salary during 24 consecutive months	1.75% multiplied by total years of service multiplied by the final average salary during 60 consecutive months
Employee Contribution Rate	10.03% of salary	7.00% of salary
2020 Employer Contribution Rate	16.20% of salary	15.76% of salary
Normal Retirement Age	"Rule of 80" - lesser of 65 or when an employee's age plus service equals 80	"Rule of 85" - lesser of 65 or when an employee's age plus service equals 85
Minimum Retirement Age	52 years	55 years

The 2020 Proposed Budget includes appropriation increases of $235,272 for centrally adjusted administrative and labor costs, but is otherwise unchanged from the 2019 Adopted and 2020 Endorsed Budget.

Employees' Retirement System

Incremental Budget Changes

Employees' Retirement System

	2020 Budget	FTE
Total 2020 Endorsed Budget	**20,765,506**	**23.00**
Baseline		
2020 Coalition and Non-Rep Annual Wage Increase Base Budget	253,316	-
2020 State Paid Family Medical Leave Increase Base Budget	5,018	-
Citywide Adjustments for Standard Cost Changes	(23,062)	-
Total Incremental Changes	**$235,272**	**-**
Total 2020 Proposed Budget	**$21,000,778**	**23.00**

Description of Incremental Budget Changes

Baseline

2020 Coalition and Non-Rep Annual Wage Increase Base Budget

Expenditures $253,316

This centrally administered change adjusts appropriations to reflect the Annual Wage Increase, as outlined in the tentative agreement between the City and the Coalition of Unions, for personnel costs included in this department's baseline budget. This includes increases to salary, FICA, Medicare, retirement, overtime and temporary labor.

2020 State Paid Family Medical Leave Increase Base Budget

Expenditures $5,018

Starting in January 2020, Washington State will offer paid family and medical leave benefits to all workers in the State of Washington, including City of Seattle employees. In 2020, the tentative agreement with the Coalition of Unions moves a portion of the cost responsibility to the employee in 2020, with the City paying the remainder. This item increases appropriations to account for the City's obligation for all employees.

Citywide Adjustments for Standard Cost Changes

Expenditures $(23,062)

Citywide technical adjustments made in the baseline phase reflect changes to internal services costs, including the Department of Finance & Administrative Services rates, Information Technology rates and Human Resources rates, health care, retirement and industrial insurance charges for the department. This adjustment also includes a transfer of resources from the department to the Human Resources Investigations Unit (HRIU) as part of the City's efforts to improve investigative processes and practices across the City departments. While the internal service rates are final for 2020, some of the other adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Employees' Retirement System

Expenditure Overview

Appropriations	2018 Actuals	2019 Adopted	2020 Endorsed	2020 Proposed
RET - BO-RE-R1E00 - Employee Benefit Management				
61030 - Employees' Retirement Fund	24,805,592	20,947,909	20,765,506	21,000,778
Total for BSL: BO-RE-R1E00	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**
Department Total	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**
Department Full-Time Equivalents Total*	**21.00**	**23.00**	**23.00**	**23.00**

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Budget Summary by Fund Employees' Retirement System

	2018 Actuals	2019 Adopted	2020 Endorsed	2020 Proposed
61030 - Employees' Retirement Fund	24,805,592	20,947,909	20,765,506	21,000,778
Budget Totals for RET	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**

Revenue Overview

2020 Estimated Revenues

Account Code	Account Name	2018 Actuals	2019 Adopted	2020 Endorsed	2020 Proposed
360430	Employr Pnsn Contributions	14,831,659	12,630,112	12,520,137	12,833,356
360450	Emplyee Pnsn Contribution	9,767,665	8,317,796	8,245,369	8,167,422
Total Revenues for: 61030 - Employees' Retirement Fund		**24,599,324**	**20,947,908**	**20,765,506**	**21,000,778**
Total RET Resources		**24,599,324**	**20,947,908**	**20,765,506**	**21,000,778**

Employees' Retirement System

Appropriations by Budget Summary Level and Program

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	2018 Actuals	2019 Adopted	2020 Endorsed	2020 Proposed
Employee Benefit Management	24,805,592	20,947,909	20,765,506	21,000,778
Total	**24,805,592**	**20,947,909**	**20,765,506**	**21,000,778**
Full-time Equivalents Total*	21.00	23.00	23.00	23.00

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