

Employees' Retirement System

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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 8,600 active employee members and 5,400 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 from which 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/>

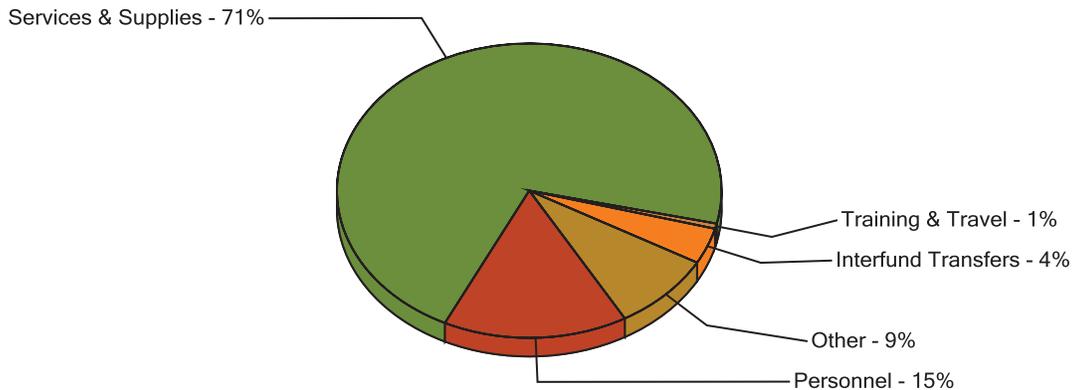
Budget Snapshot

Department Support	2011 Actual	2012 Adopted	2013 Proposed	2014 Proposed
Other Funding - Operating	\$10,912,532	\$12,257,008	\$13,283,749	\$13,395,784
Total Operations	\$10,912,532	\$12,257,008	\$13,283,749	\$13,395,784
Total Appropriations	\$10,912,532	\$12,257,008	\$13,283,749	\$13,395,784
Full-time Equivalent Total*	15.50	18.00	18.00	18.00

* 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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2013 Proposed Budget - Expenditure by Category



Budget Overview

Like many other state and local pension funds, the Seattle City Employees' Retirement System (SCERS) faces significant financial challenges. Each year, SCERS receives contributions from the City and active members, and distributes benefits to retirees. For example, in 2011 SCERS received contributions from the City and covered City employees totaling \$101 million, while paying out \$141 million in benefits and refunds. The difference between contributions coming into the System and benefits and refunds paid out of the System must be covered by investment earnings or existing asset balances.

In years when the economy falters, investment earnings may not meet anticipated levels. During severe downturns the SCERS asset portfolio, as with most other retirement portfolios, may experience investment losses instead of gains. This was the case in 2008. At the beginning of 2008, SCERS held net assets worth \$2.1 billion, which amounted to 92% of the reserves needed to pay all promised retirement benefits. This is considered to be a relatively healthy funding level. In 2010, following sharp, worldwide financial market losses, SCERS net assets fell to \$1.6 billion which amounted to only 62% of the reserves necessary to pay promised future benefits. Performance over 2011 and 2012 leaves SCERS net assets at 68% of the reserves need to pay promised retirement benefits. This is an improvement from 2010 levels, but a significant gap remains and the City is taking steps to address the gap.

Given the total size of the SCERS portfolio, the System has ample resources on hand, combined with future contributions, needed to pay all near-term obligations to retirees. However, the decline in asset value described above must be made up over time in order to ensure full funding of retiree benefits in the long-term.

This shortfall can be made up in different ways. The easiest way to make up the gap is to have a better-than-anticipated investment returns on the SCERS portfolio. This was the case experienced in 2011 but not in 2012. SCERS cannot rely on better-than-anticipated investment returns every year, as some future years will again yield a lower return.

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Therefore, in order to proactively address the system shortfall, the Mayor, City Council, and Retirement Board, working with the City's labor unions, have taken important steps to increase the level of contributions paid into the Retirement System.

- First, beginning in 2011, the combined contribution rate paid by the City and by City employees enrolled in the retirement system increased from 16.06% (of covered salaries) to 18.06%, which increased total contributions to the Retirement System by an additional \$10 million in 2011 relative to 2010.
- Second, under the same legislation, passed in 2010, both the City and City employee contribution rates were scheduled to increase from 9.03% to 10.03% in 2012. However, after further actuarial analysis, the Mayor and City Council decided to increase the City's contribution rate from 9.03% to 11.01%, while raising the City employee contribution rate from 9.03% to 10.03% as originally planned.
- Third, in 2013, the total actuarial contribution rate is 22.92%. The City contribution rate will increase from 11.01% to 12.89% while the City employee contribution rate will remain at 10.03%. The employee contribution rate is capped under current labor agreements at 10.03%, so all increases required above this level must be covered solely by the City. The 2014 total contribution rate is expected to reach 24.31%. Therefore, the City contribution rate will increase to 14.28% and the employee contribution rate will remain at 10.03%. These changes will increase contribution levels by \$12 million in 2013 and \$22 million in 2014, relative to 2012 levels. The annual total contribution rates are the full actuarially determined contribution rates recommended to meet Retirement System obligations for 2013 and 2014, and is designed to fully fund the System over 30 years.

The System employs a common five-year asset smoothing policy 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. Current projections indicate that contribution rates will likely continue to increase in 2015, and the City's six-year financial planning practices incorporate these changes into financial projections of future years.

Given projected future increases in City costs for retirement, in 2012 an interdepartmental team developed a report summarizing possible changes to the Retirement System 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 the Retirement System in the coming biennium. More details on this report can be found online: http://www.seattle.gov/council/issues/retirement_system.htm

The 2013-2014 Proposed Budget includes a scheduled rent increase for the SCERS offices. The Budget will also include a consultant to assist in the upgrade of SCERS' recordkeeping and administrative data systems.

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Incremental Budget Changes

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	2013		2014	
	Budget	FTE	Budget	FTE
Total 2012 Adopted Budget	\$ 12,257,008	18.00	\$ 12,257,008	18.00
Baseline Changes				
Citywide Adjustments for Standard Cost Changes	\$ 311,545	0.00	\$ 621,815	0.00
Proposed Policy Changes				
Retirement Recordkeeping Upgrade	\$ 260,000	0.00	\$ 0	0.00
Proposed Technical Changes				
Final Citywide Adjustments for Standard Cost Changes	\$ 335,196	0.00	\$ 393,961	0.00
Rent Increase	\$ 120,000	0.00	\$ 123,000	0.00
Total Incremental Changes	\$ 1,026,741	0.00	\$ 1,138,776	0.00
2013 - 2014 Proposed Budget	\$ 13,283,749	18.00	\$ 13,395,784	18.00

Description of Incremental Budget Changes

Baseline Changes

Citywide Adjustments for Standard Cost Changes - \$311,545

Citywide technical adjustments made in the "Baseline Phase" reflect changes due to inflation, central cost allocations, retirement, health care, workers' compensation, and employment costs. These adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Proposed Policy Changes

Retirement Recordkeeping Upgrade - \$260,000

The 2013-2014 Proposed Budget includes one-time funding for 2013 for a consultant to review the existing Retirement Department's recordkeeping data system.

Proposed Technical Changes

Final Citywide Adjustments for Standard Cost Changes - \$335,196

Citywide technical adjustments made in the "Proposed Phase" reflect changes due to inflation, central cost allocations, retirement, health care, workers' compensation, and unemployment costs. These adjustments typically reflect updates to preliminary cost assumptions established in the "Baseline Phase."

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Rent Increase - \$120,000

The 2013-2014 Proposed Budget includes funding for scheduled rent increases for the Retirement Department following rent breaks in 2011 and 2012.

Expenditure Overview

Appropriations	Summit Code	2011 Actual	2012 Adopted	2013 Proposed	2014 Proposed
Personnel, Maintenance, and Operations Budget Control Level	R1E10	10,912,532	12,257,008	13,283,749	13,395,784
Department Total		10,912,532	12,257,008	13,283,749	13,395,784
Department Full-time Equivalents Total*		15.50	18.00	18.00	18.00

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Appropriations By Budget Control Level (BCL) and Program

Personnel, Maintenance, and Operations Budget Control Level

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

Program Expenditures	2011 Actual	2012 Adopted	2013 Proposed	2014 Proposed
Employees' Retirement	10,912,532	12,257,008	13,283,749	13,395,784
Total	10,912,532	12,257,008	13,283,749	13,395,784
Full-time Equivalents Total*	15.50	18.00	18.00	18.00

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