

# 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/>

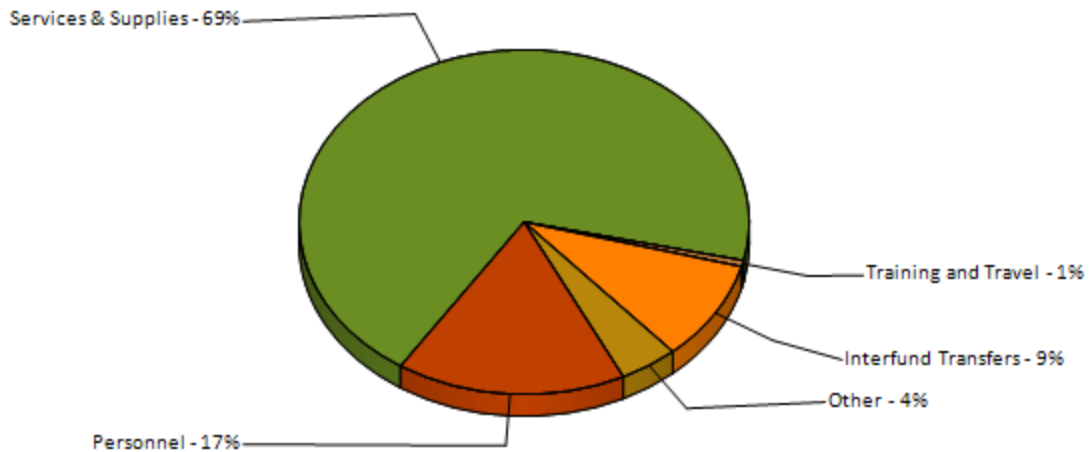
## Budget Snapshot

Department Support	2012 Actuals	2013 Adopted	2014 Endorsed	2014 Proposed
Other Funding - Operating	\$10,417,266	\$13,940,683	\$14,133,643	\$13,425,377
<b>Total Operations</b>	<b>\$10,417,266</b>	<b>\$13,940,683</b>	<b>\$14,133,643</b>	<b>\$13,425,377</b>
<b>Total Appropriations</b>	<b>\$10,417,266</b>	<b>\$13,940,683</b>	<b>\$14,133,643</b>	<b>\$13,425,377</b>
Full-time Equivalent Total*	18.00	18.00	18.00	20.00

*\* 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.*

# Employees' Retirement System

## 2014 Proposed Budget - Expenditure by Category



## Budget Overview

As is the case with other pension funds, 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. 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, a level considered healthy by most standards. By 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. By January 1, 2013, the performance of SCERS investment portfolio improved slightly to 64% of the reserves need to pay promised retirement benefits.

While these levels are not nearly as healthy as 2008, the System has ample resources on hand, combined with future contributions, needed to pay all near-term obligations to retirees, given the total size of the SCERS portfolio. However, SCERS must identify mechanisms to make up the decline in asset value described above over time in order to ensure full funding of retiree benefits in the long-term.

SCERS can recover from these shortfalls 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 and 2013, 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.

In order to proactively address the system shortfall, the City adopted a policy to fully fund the actuary-recommended rate each year. Employees also agreed to contribute more into the fund. In 2010 both the employer and employee contribution rates were 8.03%. Under new policies, the employee rate rose to 10.03% by

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2012 where it remains per labor contract agreements. The employer rate has risen each year since 2010 and will be 14.31% in 2014. The total combined rate in each year is the rate determined by the City's actuary to fully fund obligations.

Since 2011, the System has employed 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.

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](http://www.seattle.gov/council/issues/retirement_system.htm).

## **Other Employees' Retirement System Improvements**

In addition to strengthening funding policies for the retirement system, SCERS also is updating and improving its internal operations and benefits administration functions. One area of focus is to replace outdated IT systems.

In 2013, an Information Technology (IT) specialist joined SCERS to lead the changes in benefits administration. The 2014 Proposed Budget includes the addition of two IT staff positions which will support ongoing SCERS upgrades to improve recordkeeping and administrative data systems.

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## Incremental Budget Changes

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	2014	
	Budget	FTE
<b>Total 2014 Endorsed Budget</b>	<b>\$ 14,133,643</b>	<b>18.00</b>
<b>Proposed Changes</b>		
Add IT Analysts	\$ 0	2.00
<b>Proposed Technical Changes</b>		
Correct Allocated Costs	-\$ 717,367	0.00
Citywide Adjustments for Standard Cost Changes	\$ 9,101	0.00
<b>Total Incremental Changes</b>	<b>-\$ 708,266</b>	<b>2.00</b>
<b>2014 Proposed Budget</b>	<b>\$ 13,425,377</b>	<b>20.00</b>

## Descriptions of Incremental Budget Changes

### Proposed Changes

#### **Add IT Analysts/2.00 FTE**

SCERS will receive two 2-year term-limited Information Technology positions to perform systems analysis and developer functions to support an on-going systems upgrade.

### Proposed Technical Changes

#### **Correct Allocated Costs - (\$717,367)**

This adjustment makes a correction from the 2014 Endorsed Budget for over-allocated administrative costs.

#### **Citywide Adjustments for Standard Cost Changes - \$9,101**

Citywide technical adjustments reflect changes due to inflation, central cost allocations, retirement, healthcare, workers' compensation, and unemployment costs. These adjustments typically reflect updates to preliminary cost assumptions established in the 2014 Endorsed Budget.

# Employees' Retirement System

## Expenditure Overview

<b>Appropriations</b>	<b>Summit Code</b>	<b>2012 Actuals</b>	<b>2013 Adopted</b>	<b>2014 Endorsed</b>	<b>2014 Proposed</b>
Personnel, Maintenance, and Operations Budget Control Level	R1E10	10,417,266	13,940,683	14,133,643	13,425,377
<b>Department Total</b>		<b>10,417,266</b>	<b>13,940,683</b>	<b>14,133,643</b>	<b>13,425,377</b>
<b>Department Full-time Equivalents Total*</b>		<b>18.00</b>	<b>18.00</b>	<b>18.00</b>	<b>20.00</b>

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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.

<b>Program Expenditures</b>	<b>2012 Actuals</b>	<b>2013 Adopted</b>	<b>2014 Endorsed</b>	<b>2014 Proposed</b>
Employees' Retirement	10,417,266	13,940,683	14,133,643	13,425,377
<b>Total</b>	<b>10,417,266</b>	<b>13,940,683</b>	<b>14,133,643</b>	<b>13,425,377</b>
Full-time Equivalents Total*	18.00	18.00	18.00	20.00

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