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 8,900 active employee members, 2,200 terminated employee members and 6,200 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

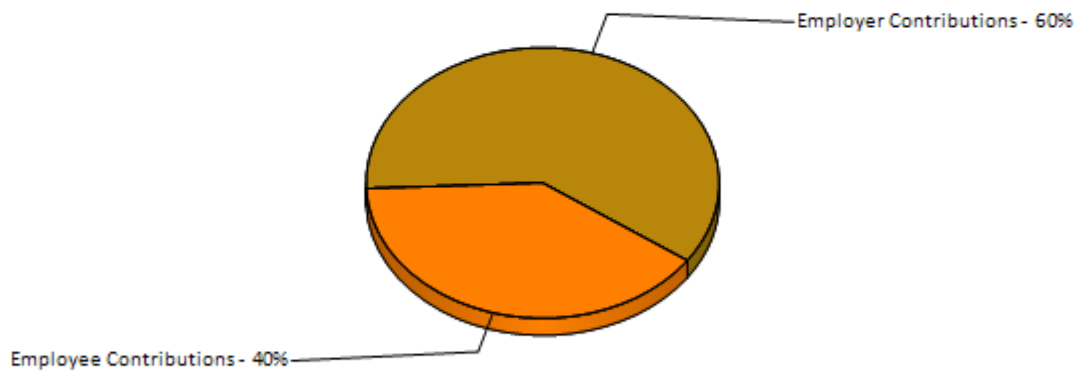| Department Support	2015 Actual	2016 Adopted	2017 Adopted	2018 Endorsed
Other Funding - Operating	$16,166,238	$20,490,002	$20,445,962	$19,473,544
Total Operations	**$16,166,238**	**$20,490,002**	**$20,445,962**	**$19,473,544**
Total Appropriations	**$16,166,238**	**$20,490,002**	**$20,445,962**	**$19,473,544**
Full-time Equivalent Total*	20.00	20.00	21.00	21.00

* 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.

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2017 Adopted Budget - Expenditure by Category

Personnel - 18%

Other - 72%

Interfund Transfers - 11%
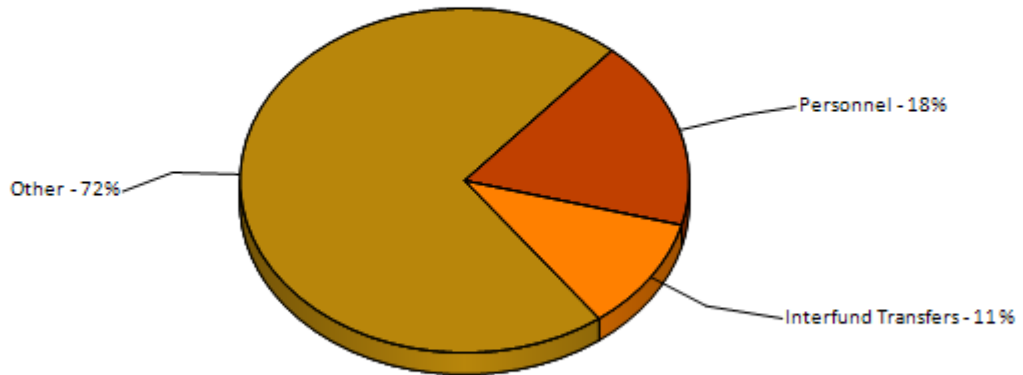
2017 Adopted Budget - Revenue by Category

Employer Contributions - 60%

Employee Contributions - 40%

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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 2008, SCERS held net assets worth $2.1 billion with a 92% funded status, a level considered healthy by most standards. However, SCERS experienced large investment losses in the 2008 economic downturn and its net assets fell to $1.6 billion by 2010 with a 62% funded status. In 2016, the funded status has increased to 66.5%. Although the current level remains lower than the 2008 funded status, SCERS has made several changes over the last several years to positively impact the funding status over the long-term.

Changes to Impact SCERS Funding Status

Employee and Employer Contributions: The plan's actuaries determine an "annual required contribution" (ARC) into SCERS so that its assets grow in tandem with the pension costs that rise as new employees join SCERS and salaries increase. Employee contribute 10.03% of their salary into SCERS, per City labor contract agreements. The City agrees to pay the remaining ARC beyond 10.03%. The 2017 ARC is 25.32%; therefore, employee contribution rate is 10.03% and employer contribution rate is 15.29%.

SCERS enhanced the plan in 2013 by revising its ARC calculation so that SCERS will be fully funded after a fixed 30-year period beginning January 1, 2013 and ending January 1, 2043.

Investment Return Assumption: SCERS decreased its long-term investment return assumption from 7.75% to 7.50% in January 2014. The updated investment return assumption anticipates a slower asset growth. However, it raises the ARC so that 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.

Building Capacity at SCERS: SCERS has made operational changes to support better overall management of its benefits and assets. SCERS is currently in the process of implementing a new pension administration system (PAS) to improve its record keeping and benefit calculations. The 2017 Adopted and 2018 Endorsed Budget includes updated PAS project costs in 2017 and 2018.

A Chief Investment Officer was added in 2015 to strengthen SCERS' priorities in asset management. The 2017 Adopted and 2018 Endorsed Budget adds an investment analyst to further enhance the investment team.

Pension Plan for New Employees

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 a 3.9% 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 that is somewhat less generous than the current benefit, but consistent with the design of the current SCERS I plan, it will still

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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
- 2017 Employer Contribution Rate
  - SCERS I: 15.29% 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

SCERS will use existing resources to support the implementation and management of SCERS II so the 2017 Adopted and 2018 Endorsed Budget does not include any changes related to SCERS II.

City Council Changes to the Proposed Budget

The Council made no changes to the 2017-2018 Proposed Budget.

Incremental Budget Changes

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	2017 Budget	FTE	2018 Budget	FTE
Total 2016 Adopted Budget	$ 20,490,002	20.00	$ 20,490,002	20.00
Baseline Changes				
Adjustment for Information Technology Changes	$ 673,292	0.00	$ 969,369	0.00
Citywide Adjustments for Standard Cost Changes	-$ 73,932	0.00	$ 50,673	0.00
Proposed Changes				
Investment Analyst	$ 0	1.00	$ 0	1.00
Pension Administration System	-$ 643,400	0.00	-$ 2,036,500	0.00
Total Incremental Changes	**-$ 44,040**	**1.00**	**-$ 1,016,458**	**1.00**
2017 Adopted/2018 Endorsed Budget	**$ 20,445,962**	**21.00**	**$ 19,473,544**	**21.00**

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Descriptions of Incremental Budget Changes

Baseline Changes

Adjustment for Information Technology Changes - $673,292

In 2016, the City consolidated information technology functions in a new central department, the Seattle Information Technology Department (Seattle IT). However, the budgets for information technology remained in the departments. The 2017 budget completes the consolidation by transferring budget authority from departments to Seattle IT. This adjustment reflects updated central rates for information technology costs charged by Seattle IT to the department.

Citywide Adjustments for Standard Cost Changes - ($73,932)

Citywide technical adjustments made in the initial planning phase reflect changes in the health care rate, retirement contribution rate, and unemployment insurance charges with a net increase of $32,000 in 2017 and $48,000 in 2018, as compared to the 2016 Adopted Budget.

These increases are offset by a reduction in the cost allocations from the Department of Finance and Administrative Services (FAS) which totaled $325,000 in 2017 and $307,000 in 2018, as compared to the 2016 Adopted Budget. These adjustments reflect initial assumptions about these costs and inflators early in the budget process.

Finally, this adjustment includes various wage adjustments for labor related costs, including the Annual Wage Increases (AWI) from 2015 through 2018 and a one-time 2015 3.5% Recruitment and Retention wage increase which totaled $218,000 in 2017 and $310,000 for 2018 above the 2016 Adopted Budget.

Proposed Changes

Investment Analyst/1.00 FTE

In 2015, SCERS added an investment analyst as a term-limited position to the investment team. This item in the 2017 Adopted and 2018 Endorsed Budget adds 1.0 FTE for a Strategic Advisor 2 to serve as a permanent investment analyst. The investment analyst supports a range of responsibilities to contribute to strong long-term investment performance including quantitative analysis, asset and portfolio monitoring, and due diligence. SCERS will use existing budget appropriation to fund the position.

Pension Administration System - ($643,400)

In 2015, the Retirement Department began the process of implementing its Pension Administration System (PAS), the new benefits administration software system to improve record keeping and administrative processes. PAS is expected to be fully implemented in 2018. This adjustment reflects the updated project costs in 2017 and 2018 as larger costs associated with the development of the software and data transfer from the old system than were reflected in the 2015 and 2016 budgets. Once PAS goes live, total project costs will decrease from current levels and be replaced by on-going support costs to maintain the new system.

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City Council Provisos

There are no Council provisos.

Expenditure Overview

Appropriations	Summit Code	2015 Actual	2016 Adopted	2017 Adopted	2018 Endorsed
Employee Benefit Management Budget Control Level	R1E00	16,166,238	20,490,002	20,445,962	19,473,544
Department Total		16,166,238	20,490,002	20,445,962	19,473,544
Department Full-time Equivalents Total*		20.00	20.00	21.00	21.00

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Revenue Overview

2017 Estimated Revenues

Summit Code	Source	2015 Actual	2016 Adopted	2017 Adopted	2018 Endorsed
469610	Employee Contributions	6,294,541	8,135,975	8,099,250	7,726,252
	Total Employee Contributions	6,294,541	8,135,975	8,099,250	7,726,252
569510	Employer Contributions	9,871,697	12,354,027	12,346,712	11,747,292
	Total Employer Contributions	9,871,697	12,354,027	12,346,712	11,747,292
	Total Revenues	16,166,238	20,490,002	20,445,962	19,473,544
	Total Resources	16,166,238	20,490,002	20,445,962	19,473,544

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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.

Program Expenditures	2015 Actual	2016 Adopted	2017 Adopted	2018 Endorsed
Employees' Retirement	16,166,238	20,490,002	20,445,962	19,473,544
Total	**16,166,238**	**20,490,002**	**20,445,962**	**19,473,544**
Full-time Equivalents Total*	20.00	20.00	21.00	21.00

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