

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title: AN ORDINANCE clarifying the disability retirement benefit formula in the Seattle City Employees' Retirement System (SCERS); amending Seattle Municipal Code section 4.36.230; providing a benefit that is directly proportional to City service for members making application for disability retirement after December 31, 2012 who have less than 10 years of City service but who otherwise may qualify for a disability retirement under portability.

Summary of the Legislation: This ordinance adds a provision to the disability retirement benefit definition to address members with less than 10 years of City service who combine service in other retirement systems under portability. The goal is to establish a benefit in these cases that is directly proportional to the length of the member's actual City service.

Background: The Seattle City Employees' Retirement System (SCERS) offers its members a disability retirement benefit that replaces a share of their working income in the event that he or she becomes permanently and totally disabled. This benefit is in addition to the disability insurance benefits that are available from City personnel and the Federal Social Security program.

The Seattle Municipal Code already requires that members perform 10 years of City service before becoming eligible for a SCERS disability retirement. The benefit calculation is complex, but often results in a benefit that replaces 33% of the member's final compensation. However, under portability, service in other retirement systems may be combined when determining eligibility for a disability retirement. The SMC currently lacks any provision for determining a benefit when the member has less than 10 years of City service. As a result, a member with 10 years of service in a portable system but as little as one day of service in Seattle could be eligible for a Seattle disability retirement benefit worth 33% of salary. A case of this type recently came to light in the City of Tacoma's retirement system, which has a similar benefit formula and eligibility rules. In that case, even though the member had more far service with the State of Washington than with the City of Tacoma, the City was required to pay the vast majority of the member's disability retirement benefit under portability. The outcome is thought to be contrary to the spirit of portability as described in the Revised Code of Washington (RCW 41.54) which allows retirement systems to "[c]alculate the disability retirement allowance *based on service actually established in the current system*" [emphasis added].

To correct this oversight, this legislation would add a provision to the disability benefit definition for members making application for a disability retirement after December 31, 2012. The new piece of the benefit formula addresses members who have less than 10 years of City service but

who otherwise qualify for a disability pension under portability. It provides a benefit worth 1.5% of salary for each year of City service. This definition helps restore the proportionality that was intended when portability was enacted.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

This legislation has only small, indirect financial implications for the Retirement Fund and City pension costs. The legislation makes no appropriations or position changes and has no direct effect on City pension contributions or Retirement Fund revenues.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

This legislation would reduce the Fund's benefit costs in the event of a disability-portability retirement where the member had less than 10 years of City service. Such cases are expected to be quite rare.

b) What is the financial cost of not implementing the legislation?

The cost of not implementing the legislation is uncertain and would depend on member behavior. If this disability-portability "loophole" were to become widely known and abused, the Retirement Fund could be forced to grant disability pensions worth 33% of salary for members with very short City service, possibly as little as one day.

c) Does this legislation affect any departments besides the originating department? No

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

Other mathematical solutions to this issue are possible. Tacoma's City Council enacted legislation limiting eligibility for City disability retirements under portability. Seattle, however, prefers to address the issue through the benefit formula.

e) Is a public hearing required for this legislation? No

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation? No

g) Does this legislation affect a piece of property? No

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SCERS Disability Portability Clarification FISC
October 19, 2012
Version #2

h) Other Issues: None

List attachments to the fiscal note below:

None.