# Retirement Overview and Initial Issues Identification

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The Seattle City Employees' Retirement System (SCERS) provides retirement income for most City employees who are not uniformed members of the Police and Fire pension systems. Currently, 8.03% is deducted from SCERS members' regular paychecks and matched by an equal City contribution. SCERS then invests these funds in a variety of stocks, bonds and other financial instruments in order to grow and provide sufficient resources to pay future benefits. SCERS's portfolio currently has about $1.7 billion in assets. Like most pension plans, SCERS suffered significant market losses in 2008. These losses (and increasing employee lifespans) caused the actuaries to reduce SCERS' funding ratio – a measure of long-run financial soundness – from 92% to 62%, as of January 1, 2010. The system continues to have sufficient resources to pay benefits for at least two decades.

1. **Contribution Rate Change** – In September, the SCERS Board of Administration recommended that the City raise employee and employer contributions by 1% each in 2011 and an additional 1% each in 2012. This recommendation was reflected in the Mayor's proposed budget and would bring total contributions to 20.06% of payroll over the biennium, up from the current 16.06%. The proposed contribution rate falls well short of the 25.03% rate recommended by the SCERS actuary to amortize the system's unfunded liabilities over 30 years. And even that rate assumes that the retirement fund will earn an average annual return of 7.75%, which may not be possible. The proposed increase was intended to begin the process of amortizing SCERS' unfunded liabilities while remaining sensitive to the City's near-term budget needs.

   The City's share of the proposed increase breaks down roughly as follows[1]:

| | 2011 Increase | 2012 Increase |
|---|---|---|
| General Fund | $2,003,000 | $4,087,000 |
| Other Funds (utilities, etc.) | $3,804,000 | $7,759,000 |
| **Total** | **$5,807,000** | **$11,846,000** |

   a. **Legislation** – Earlier this year, Council legislated the ability to raise the employee contribution by 2%, in accordance with a labor Memorandum of Understanding signed in 2009. Budget legislation currently before Council would come back and actually enact that increase. Central Staff review has uncovered no further issues with this legislation.

[1] Figures are rough and reflect baseline budget estimates reduced by 2.3% to reflect proposed layoffs.

b. **Budget Review** – The City Budget Office (CBO) allocated General Fund and other resources to department budgets to pay for the City's share of the increased retirement contribution rates in 2011 and 2012. Central Staff review has uncovered some anomalies in how the policy was reflected in the 2011-2012 Proposed Budget. A technical correction greensheet may address these anomalies, possibly generating some budget savings. Review is ongoing.

2. **The Future of Employee Retirement (SLI)** – Nationally, many state and local jurisdictions are investigating ways to make their pension obligations more affordable. At over 20% of payroll, the cost of funding the retirement benefit is significant for the City, its employees and the taxpayers. And this cost may grow if the SCERS investment portfolio fails to return the expected 7.75% average annual return going forward. A Statement of Legislative Intent (SLI) could call for a study of retirement policy changes for Seattle, which could be enacted for new hires as of a certain date. Possible study questions include:

   - How does Seattle's retirement benefit compare to those offered by other public and private entities? What level of benefits is necessary to make the City competitive as an employer?

   - What market return can SCERS reasonably expect to earn going forward, and what implications does that have for the affordability of retirement benefits? How much are employees, the City, and the taxpayers willing to pay for retirement benefits?

   - What employment patterns are young people entering the workforce now likely to experience, and what style of retirement benefit would serve them best? Among the possible alternatives:

     - A defined benefit plan like SCERS,
     - A defined contribution plan (perhaps with a City match), or
     - A hybrid plan (such the Federal employee plan) that features elements of both.

   - What percentage of pre-retirement income should the City's retirement benefit aim to replace? Given increasing employee lifespans, what is a reasonable age to begin receiving retirement benefits?

   - What savings could be achieved by changing the retirement policy? What transition costs must be planned for? Should some employees (particularly newer members of SCERS who are not yet vested) have the option to choose between the old and new systems?

Possible deadlines / timeframes for action could include:

| | |
|---|---|
| June 1, 2011 | Initial stakeholder input and consultant selection |
| February 15, 2012 | Final stakeholder input and consultant report to Mayor, Council and SCERS Board of Administration |
| Mid-March, 2012 | SCERS Board of Administration makes recommendations |
| March-July, 2012 | Mayor/Council deliberation and possible legislation |
| January 1, 2013 | New retirement policy takes effect for new hires |

3. **Retirement Office Workload and Staffing (Greensheet)** – The current configuration of the retirement office may not be able to support the current workload, given the maturity of the Plan's membership. SCERS is currently experiencing a heavy volume of retirement estimate requests and expects the increased workload to continue in 2011. In addition, the SCERS Board of Administration is finalizing its asset / liability study and will likely require additional staffing to implement the contemplated investment changes. Finally, the policy development exercise called for in #2 above will require significant staff effort for research, consultant management, coordination and communication with key stakeholders. A possible greensheet may propose adding two Strategic Advisor positions (one potentially term limited) – to be funded through SCERS's retirement contributions – to the current authorized staffing of 15.5 FTEs. In addition, the greensheet may reclassify a vacant Accounting Tech I position to a Senior or Principal Accountant to assume more operational responsibilities for retirement fund transactions and free up the current finance manager for higher-level strategic and policy tasks.