

2015 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	CBO Analyst/Phone:
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Legislation Title: AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 124057 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2016.

Summary of the Legislation:

This legislation continues to suspend contributions to the Actuarial Account in the Firefighters' Pension Fund for an additional two years through 2016. It calls for a review and evaluation of funding for the Actuarial Account to be conducted by the Department of Finance and Administrative Services, the City Budget Office, and the Seattle Firefighters' Pension Board in 2015.

Background:

In 1994, the Mayor and City Council approved Ordinance 117216 to begin to accumulate funds in a separate Actuarial Account within the Firefighters' Pension Fund. The intention of this ordinance was to accumulate sufficient funds in the Actuarial Account by the end of 2018 to fully fund all pension obligations owed after that date. The funding approach was clarified in 1997 through Ordinance 118814, and the funding period was extended to 2023 with the passage of Ordinance 122293 in 2006.

Actuarial studies prior to 2006 assumed the Actuarial Account could earn 7 percent interest, which was a reasonable assumption in the 1990s, and the Actuarial Account earned interest at a rate slightly higher than the assumed rate. However, interest rates fell dramatically in the early part of the last decade and it was apparent by 2006 that this was no longer a reasonable assumption. Based on the advice of its then current actuary, Mercer Human Resources Consulting, and with the recommendation of the Seattle Firefighters' Pension Board, the City lowered its interest rate assumption from 7 percent to 5.125 percent and extended the funding period by five years through 2023 in Ordinance 122293, which was passed in 2006.

The City added money to the Actuarial Account each year between 1994 and 2008. Since then it has suspended payments for 2009 and 2010 through Ordinance 122859, for 2011 and 2012 through Ordinance 123459 and for 2013 and 2014 through Ordinance 124057. These actions were necessary because meeting the additional contribution targets as last set forth in Ordinance 122293 would have put undue pressure on the General Fund during a period of local and national financial uncertainty.

At the same time several factors had resulted in the need for significant General Fund

contributions, including increases in firefighters' salaries that raised pension benefits beyond what was envisioned when the Actuarial Account was created, and even lower-than-anticipated investment returns from when the funding period was extended in 2006. Current actuarial assumptions are for an investment earnings rate of 5.25 percent annually, while the City's annual investment pool earnings between 2010 and 2013 have been just at 1 percent or lower. In 2013 the City Finance Director with the approval of the Fire Pension Board authorized the City's Department of Finance and Administrative Services to invest the Actuarial Account balances in U.S. stocks and bonds with the intent of maximizing the investment return consistent with State law and at appropriate levels of risk. Now in recognition that the City continues to face in the 2015-2016 biennium, revenue growth forecasts that only just keep pace with the growth in total labor costs or overall operations and maintenance costs, the change in investment approach and changes in the underlying demographics of Fund beneficiaries, this proposed legislation suspends payments for an additional two years through 2016 and calls on the Department of Finance and Administrative Services, the City Budget Office, and the Seattle Firefighters' Pension Board to re-examine the funding basis for the Actuarial Account in 2015.

Please check one of the following:

This legislation has financial implications.

Summary of Changes to Revenue Generated Specifically from this Legislation:

	Revenue Source	2015 Proposed	2016 Proposed
Total Fees and Charges Resulting From Passage of This Ordinance		NA	NA

Revenue Change Notes: NA

Anticipated Total Revenue from Entire Program, Including Changes Resulting from this Legislation:

Fund Name and Number	Revenue Source	Total 2015 Revenue	Total 2016 Revenue
60220	GF	0	0
TOTAL		0	0

Total Revenue Notes:

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
 Depending on a number of economic and demographic assumptions, suspension of the

excess contribution to the Actuarial Account may increase the Level Payment Amount required in subsequent years to reach the full funding goal by the prescribed target date of December 31, 2023.

- b) **What is the financial cost of not implementing the legislation?** This legislation suspends contributions to the Actuarial Account for 2015 and 2016. This is consistent with the 2015 and 2016 Proposed Budget. Without this legislation, significant increases in General Fund payments to the Actuarial Account would be needed. According to the latest actuarial report provided by Milliman, approximately \$1.8 million would need to be placed in the Actuarial Account in each year of the 2015-2016 biennium if this legislation is not approved. This amount would be in addition to the City's required contribution (approximately \$7.3 million) in the 2015-2016 Proposed Budget to pay the current pension obligations in each year. With a suspension of transfers into the Actuarial Account in the 2015-2016 biennium, the Account balance will increase according to its interest earnings.
- 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?** None
- 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
- h) **Other Issues:** None

List attachments to the fiscal note below: