

Retirement System Overview & Actuarial Valuation Report Review

Cecelia M. Carter, Executive Director

Finance & Budget Committee

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In Attendance:

Cecelia M. Carter, SCERS Executive Director

Nick Collier, ASA, MAAA, EA - Milliman

Robert T McCrory, Executive V.P., Pension Consulting Alliance / EFI Actuaries, Inc.

John McCoy - Legislative Analyst, Central Staff

Agenda

Introduction and Overview of Retirement System to Committee – Cecelia Carter

Overview of January 1, 2010 Actuarial Valuation Report – Nick Collier

Questions & Answers from Committee

Overview of Retirement System to Committee

Plan Description

Retirement System was established by Ordinance in 1929 ...

81 years of Service to the Employees of the City of Seattle

The Seattle City Employees' Retirement System (the System) is a single-employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active and one retired members of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three year terms.

All employees of the City of Seattle are eligible for membership in the system with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments

were allowed to continue their System membership. There are currently 5,304 retirees and beneficiaries receiving benefits, and 9,071 active members of the System. There are 2,006 terminated employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after 10 years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement.

Plan Statistics

Membership:

As of January 1, 2010 the System serves 16,381 current and former City employees.

- 9,071 active (currently contributing to the plan)
 - Up from 8,793 actives as of January 1, 2009 [3.2% increase]
- 5,304 retired (& beneficiaries) – receiving a monthly benefit
 - Up from 5,247 retirees as of January 1, 2009 [1.1% increase]
- 2,006 vested (terminated and “may” be due a benefit at a future date)
 - Down from 2038 vested as of January 1, 2009 [1.6% decrease]

Contributions:

Employees currently contribute 8.03% of compensation to the Plan

The City currently contributes 8.03% of salary to the Plan

- A combined contribution rate of 16.03%
- For YE 2009 – 2008 – 2007 this equated to:

	2009	2008	2007
○ Member Contributions	\$46,613,886	\$ 45,986,139	\$ 40,533,554
○ Employer Contributions	\$46,650,169	\$ 45,961,040	\$ 40,299,506

Benefit Payments:

Retirement Benefits paid in all of 2009 – 2008 - 2007 were:

**effective 2007 the automatic 1.5% cost of living increase to retirees was enacted*

	2009	2008	2007
○ Retiree Benefits	\$108,138,820	\$102,703,230	\$ 98,391,533

Net Plan Assets:

- For Year-end 2009 = \$1,645,297,349
 - This represents a net increase of \$194,689,743 from YE 2008

Actuarial Funding Status:

- January 1, 2010 = 62% funded
- January 1, 2008 = 94% funded

Administrative recommendations from the Seattle City Employees' Retirement System Board of Administration to the City Council will be forthcoming within 2010.

Seattle City Employees' Retirement System



Actuarial Valuation As of January 1, 2010

By

Nick J. Collier

Associate, Society of Actuaries
Enrolled Actuary
Member, American Academy of Actuaries

Seattle City Employees' Retirement System Actuarial Valuation

Section 1 Summary of the Findings



Contribution Sufficiency

Based on the actuarial valuation of the benefits in effect under the Seattle City Employees' Retirement System as of January 1, 2010, **the current contribution rate of 16.06% of members' salaries is not sufficient to maintain the current benefits**, assuming future experience follows the actuarial assumptions. This is mainly due to the recent large asset losses that were reflected in this valuation.

The current Retirement Board funding policy states that "if the Funding Ratio is less than 100% and a UAAL (Unfunded Actuarial Accrued Liability) occurs which can not be amortized over a period of less than 20 years by the combined total contribution rates, additional employer contributions may be considered." The practical goal of SCERS is to amortize the UAAL over a period of 30 years or less.

It should be noted that a 30-year amortization period is the longest acceptable period under GASB standards, and is often used by retirement systems as a benchmark for funding. We prefer an amortization period shorter than 30 years, as it provides stronger funding.

The contribution rates currently in effect are not projected to amortize the UAAL over any period. Additional contributions will be required if the System is to both fund ongoing benefits, and amortize the UAAL over a period of 30 years. If the necessary increase were implemented as of January 1, 2011, the Total Contribution Rate would need to be increased from 16.06% of pay to 25.03% of pay. Since this includes the 2.00% increase allowable on the member contribution rate, the effective employer contribution rate increase needed would be 6.97% of pay. See Section 8 of this report for a discussion of possible alternate contribution rate increase schedules.

The current contribution rates for the death benefit program are sufficient to finance the \$2,000 death benefit.

Funding Progress

On the basis of the January 1, 2008 actuarial valuation the Funding Ratio was 92.4%. Based on the January 1, 2010 valuation, the Funding Ratio is 62.0%. The decrease in the Funding Ratio is due mainly to the reflection of large asset losses since the last valuation. Because SCERS uses Market Value of Assets to calculate its Funded Ratio, the full impact of the 2008 asset loss is reflected in the 2010 valuation. A summary of the historical Funding Ratio and other measurements are shown on Graph 1 and 2.

Most public retirement systems use asset smoothing to mitigate investment volatility by recognizing portions of investment gains and losses over a period of years. A 5-year period is the most common. After a significant asset loss, systems that use asset smoothing are likely to initially appear significantly better-funded than systems that do not. Due to SCERS' policy of immediately recognizing all asset gains and losses, comparisons of SCERS with other systems will likely show a lower Funding Ratio even if the systems are in similar financial health.

All assumptions for the January 1, 2010 actuarial valuation are the same as those used for the January 1, 2008 actuarial valuation, except for the new mortality assumptions that were adopted by the Board earlier this year.

Funding Progress (continued)

A summary of the changes in the Funding Ratio is shown below.

Sources of Change	Funding Ratio
January 1, 2008 Actuarial Valuation	92.4 %
Expected Valuation-to-Valuation Change	2.0 %
Asset Gain/(Loss)	(30.0)%
Salary Less/(Greater) Than Expected	(0.2)%
Assumption Change (Mortality)	(2.8)%
Other	0.6 %
Total Change	(30.4)%
January 1, 2010 Actuarial Valuation	62.0 %

Contingent COLA Benefits

The Seattle Municipal Code allows for an increase in the cost-of-living adjustment (COLA) available to current and future retired members. Currently, the Floor COLA is at the 65% level. The enhanced COLA benefit (70% Floor COLA) does not become effective until the System attains at least a 100% funding level.

Since it is unknown when this benefit will become effective, especially given the current funded status of the System, we have not included the valuation of these potential benefit changes in this valuation.

Summary Exhibit

A summary of the key results of this valuation, along with a comparison to the January 1, 2008 valuation is shown in Table 1.

Current Economic Environment

The last several years have been a time of great volatility in the financial and economic markets. The effect of widespread investment losses on public pension plans has been well-publicized, and systems which use Market Value of Assets rather than smoothing gains and losses, such as SCERS, may appear to have been even harder-hit since the recognition of the full impact of these losses is reflected immediately (unlike most other public retirement systems).

While it is important to be aware of current short-term financial and market trends, the actuarial assumptions take a long-term view of the economic and demographic patterns of the System.

We have included an additional section in this valuation report (Section 8) to discuss SCERS' actuarial assumptions in light of the current economic environment, SCERS' current funded status, and options for the phase-in of additional System contributions to pay off the UAAL over a period of 30 years.

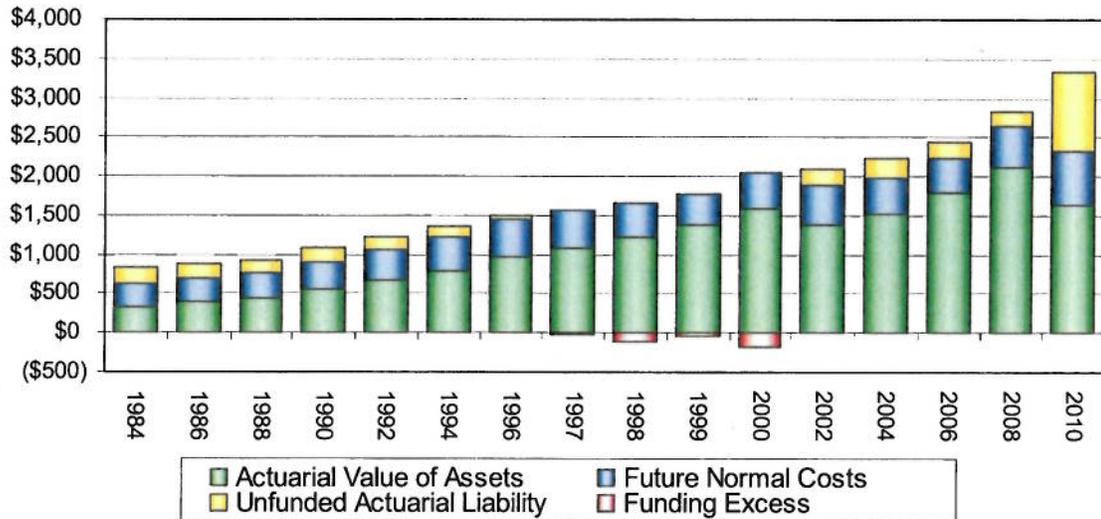
Seattle City Employees' Retirement System Actuarial Valuation

Table 1 Summary of Results

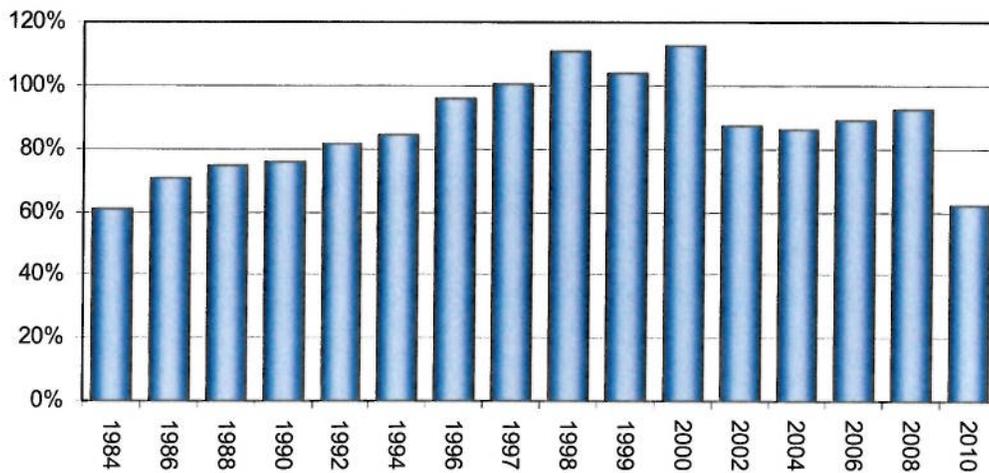
	Valuation January 1, 2010	Valuation January 1, 2008	Percentage Change
I. Total Membership			
A. Active Members	9,071	8,842	2.6%
B. Retired Members & Beneficiaries	5,304	5,201	2.0%
C. Vested Terminated Members	2,006	2,050	(2.1)%
D. Total	16,381	16,093	1.8%
II. Pay Rate as of January 1, 2010			
A. Annual Total (\$millions)	\$ 597.0	\$ 529.1	12.8%
B. Annual Average	\$ 65,810	\$ 59,835	10.0%
III. Average Monthly Benefit Paid to Current Retirees and Beneficiaries			
A. Service Retirement	\$ 1,862	\$ 1,781	4.5%
B. Disability Retirement	1,071	1,090	(1.7)%
C. Surviving Spouse and Dependents	1,024	1,057	(3.1)%
D. Total	\$ 1,712	\$ 1,647	4.0%
IV. Actuarial Accrued Liability			
A. Active Members	\$ 1,477.4	\$ 1,209.7	22.1%
B. Retired Members	1,062.5	959.9	10.7%
C. Vested Terminated Members	113.9	125.0	(8.9)%
D. Total	\$ 2,653.8	\$ 2,294.6	15.7%
V. Assets			
A. Market Value of Fund (\$millions)	\$ 1,645.3	\$ 2,119.4	(22.4)%
VI. Unfunded Actuarial Accrued Liability or Surplus Funding (\$millions)	\$ 1,008.5	\$ 175.2	475.8%
VII. Amortization of UAAL			
A. Period Based on Current Contribution	does not amortize	16.2 years	
B. Additional Amount Needed for 30-Year Amortization (as a % of Payroll)	8.97% *	0.00%	
* Total member plus employer contributions. Since member increases are capped at 2.00%, the City would need to make up the remaining 6.97% beginning January 1, 2011.			
VIII. Funded Ratio	62.0%	92.4%	(32.9)%
IX. Normal Cost as a Percent of Salary	15.23%	13.32%	14.3%

Seattle City Employees' Retirement System Actuarial Valuation

Graph 1 Historical Asset and Liability Comparison



Graph 2 Historical Funding Ratios



Year	(in Millions)				Funding Ratio
	PVB	Assets	PVFNC	UAAL	
1992	1,221.2	660.0	410.7	150.5	81.4%
1994	1,358.9	781.8	432.7	144.4	84.4%
1996	1,492.0	980.2	472.3	39.5	96.1%
1998	1,539.3	1,224.6	433.5	(118.8)	110.7%
2000	1,872.4	1,582.7	469.3	(179.6)	112.8%
2002	2,088.7	1,383.7	507.3	197.7	87.5%
2004	2,229.8	1,527.5	450.9	251.4	85.9%
2006	2,448.5	1,791.8	431.0	225.8	88.8%
2008	2,825.8	2,119.4	531.2	175.2	92.4%
2010	3,328.7	1,645.3	674.9	1,008.5	62.0%