Overview and Initial Issues Identification
Firefighters' Pension

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Expenditures/Revenues

	2012 Adopted	2013 Proposed	% Change '12 to '13	2014 Proposed	% Change '13 to '14
Expenditures by BCL					
Firefighters' Pension	$20,189,000	$20,017,000	($172,000)	$19,829,000	($187,000)
Total Expenditures	**$20,189,000**	**$20,017,000**	**($172,000)**	**$19,829,000**	**($187,000)**
Total FTEs	**4.0**	**4.0**	**0.0**	**4.0**	**0.0**
Revenues					
General Subfund	$18,875,000	$18,273,000	($602,000)	$18,060,000	($212,000)
Other Revenue Sources	$939,000	$1,407,000	$467,000	$1,432,000	$26,000
Use of Fund Balance	$376,000	$338,000	($37,000)	$337,000	($1,000)
Total Revenues	**$20,189,000**	**$20,017,000**	**($172,000)**	**$19,829,000**	**($187,000)**

Introduction:

The Firefighters' Pension system provides pension, medical, and long-term care benefits to retired Seattle firefighters and their spouses. It closed to new members in 1977, at which time new hires joined the state-run Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 2. Members hired between 1970 and 1977 receive a mixture of benefits from the City plan and LEOFF Plan 1. Firefighter's pension is one of the City's two closed, legacy pension systems, the other being Police Relief and Pension, which has a similar structure. Firefighters' Pension is currently projected to have $375 million in outstanding benefit liabilities, to be paid out between now and approximately 2062. Of this, approximately $139 million is for the pension benefit.

The City has generally elected to fund this plan on a pay-as-you-go basis, with costs currently running about $20 million per year. Most of this cost is supported by annual appropriations from the General Subfund, which is, in turn, supported by a local property tax levy the state allowed for this purpose. A small share (about $1.3 million per year) is supported by a fire insurance premium tax and Medicare prescription drug subsidies.

In 1994, the City Council elected to begin pre-funding the plan's pension liability – but not the medical or long-term care – with a goal of achieving full funding by 2018 or 2019. Extra payments were placed in an "actuarial account", to be spent on benefits when the account had sufficient amounts to cover the remainder of the pension liability. Since then, Council has modified its approach for funding this account several times. The mechanism was substantially revised in 1997. In 2006, the deadline was extended five years, to 2023. Finally, in 2008, as the great recession substantially reduced revenues, contributions were suspended for 2009 and every year since.

Identified Issues:

- Continued Deferral of Extra Contributions – The Mayor's 2013-2014 Proposed Budget and accompanying legislation would continue the suspension of new contributions into the actuarial account through 2014. Absent this legislation, the Budget would need to appropriate an additional $4.1 million of General Subfund in each of 2013 and 2014 to make scheduled payments to the actuarial account. For comparison, this is roughly equal to the amounts allocated for those years to the Rainy Day Fund. The Firefighters' Pension Board voted its concurrence with this approach on October 11, 2012. The proposed budget does, however, make sufficient appropriations (along with the use of fund balance) to fully pay benefits projected to come due in 2013 and 2014.

- Low Interest Earnings on the Actuarial Account – The $9.7 million balance in the actuarial account is currently invested in the City's consolidated cash pool, which is earning less than 1% interest due to the extremely low interest rate environment. Arguably, the actuarial account is different from other short-term cash pool balances, in that the money will be invested for several decades, potentially taking on more risk and earning higher rates.

Potential Issues Under Assessment:

There may be latitude under state law to invest the balance of the actuarial account more like a traditional pension fund portfolio, earning a higher return and saving the General Subfund money in the long run. As a rough example, an additional 2% earnings on the current actuarial account balance would generate $18 million more in investment earnings over the next 30 years, which the General Subfund would not have to pay.

The accompanying ordinance has been modified so that it now calls on the Department of Finance and Administrative Services, the Law Department, the Firefighters' Pension Board, and the City Budget Office to work with Council Central Staff and prepare a report on the plan's investment options for Council consideration no later than April 12, 2013. The report should focus on ways to maximize the investment return at modest risk and under appropriate oversight.