#24

CITY OF SEATTLE

ORDINANCE _____

COUNCIL BILL 117652

AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 123459 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2014, requesting a study of investment options for the Actuarial Account, and clarifying the City Finance Director's authority to invest funds in the account.

WHEREAS, on July 11, 1994, the City Council passed Ordinance 117216, establishing an Actuarial Account within the Firefighters' Pension Fund with the intent of accumulating, by means of an actuarially determined Level Payment Amount, sufficient funding in the Actuarial Account to fully amortize all pension obligations by December 31, 2018 or 2019; and

WHEREAS, on November 13, 1997, the City Council passed Ordinance 118814, which clarified the funding plan for the Actuarial Account and set an amortization target date of 2018; and

WHEREAS, under RCW 41.18.040, RCW 41.18.104, and RCW 41.26.240 pension benefits of qualifying retirees are mandated to grow at the same rate as the salaries of current Seattle firefighters of the same rank, and it is the City's responsibility to cover related increased pension costs above the growth rate of the Consumer Price Index; and

WHEREAS, on November 20, 2006, the City Council passed Ordinance 122293, postponing by five years (to 2023) the date by which full funding of the Actuarial Account was to be achieved, in recognition of lower interest rates available for investments; and

WHEREAS, citing rising costs, declining revenues due to the great recession, and lower-than-expected investment returns, the City Council with Ordinances 122859 and 123459 suspended contributions into the Actuarial Account for 2009, 2010, 2011 and 2012; and

WHEREAS, in 2013-2014, the City continues to face slow revenue growth, and interest rates on City investments have fallen to under 1 percent; and

WHEREAS, the January 1, 2012 Actuarial Valuation Report from Milliman indicates that the Fire Pension Fund's assets equal $10.9 million, of which approximately $9.7 million is in the Actuarial Account; and

WHEREAS, in keeping with the City's obligation and commitment to fully fund the expected pension, health care, and long-term care costs of the Fire Pension Fund, the Proposed

COUNCIL CLERK

2013-2014 Budget appropriates amounts sufficient to cover those annual costs; NOW, THEREFORE,

BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:

Section 1. Section 1 of Ordinance 117216, which section was last amended by Ordinance 123459, is amended as follows:

The following funding policy is adopted with respect to the Firefighters' Pension Fund (the "Fund"):

A. Beginning in 1994, the City will place in a separate "Actuarial Account" within the Fund each year an amount which is sufficient to fully amortize as described below the estimated remaining pension liabilities of the Fund by December 31, 2023. The Actuarial Account will be funded as follows:

1. Each year, the City will appropriate a "Level Payment Amount" to the Fund. The Level Payment Amount is intended to be constant for each year between 1994 and 2023. If necessary, the Level Payment Amount will be modified every two years as specified in subsection A(4) below. Notwithstanding the foregoing, no payments will be made in ((~~2009, 2010, 2011 and 2012~~))2013 and 2014.

2. In each year, the Level Payment Amount will be the sum of the expected current pension obligations for that year and a contribution to the Actuarial Account. Thus, the transfer to the Actuarial Account may vary in amount from year to year.

3. In some years, the expected current pension obligations will exceed the Level Payment Amount. In such years, the City will appropriate additional funds to the Fund in order to cover all expected current pension obligations. No contribution will be made to the Actuarial Account in such years.

4. The actuarial calculations of the Level Payment Amount and of the portion to be contributed to the Actuarial Account shall be performed in a manner consistent with Attachment A to Ordinance 118814.

COUNCIL CLERK

5. Beginning in 1998, the Level Payment Amount will be recalculated by June 30 of each even-numbered year by a qualified actuary retained by the Board. While the Level Payment Amount is generally expected to remain constant over time, small variations are likely due to changes in mortality, inflation, and other factors. In addition, the actuary will calculate the expected current pension obligations for each of the two following years. The contribution to the Actuarial Account will be defined as the difference between the Level Payment Amount and the expected current pension obligations for each year. The City will use the actuary's figures in establishing the Level Payment Amount in the biennial budget for the following two (((~~(2)~~))) years, subject to Board confirmation. In the mid-biennium, the City shall revise the expected current pension obligations based on the actuary's latest estimates, subject to Board confirmation. This may change the contribution to the Actuarial Account in the second year of each biennium depending on any increases or decreases in expected current pension obligations.

6. In the event that actual current pension obligations for any year exceed the amounts projected by the actuary and included in the budget, the City will appropriate additional amounts to cover any shortfall. Transfers to the Actuarial Account will not be changed once they are included in the Adopted Budget.

7. Funds in the Actuarial Account are for the purpose of meeting pension obligations and funds will not be transferred from the Actuarial Account for any other purpose unless and until all pension obligations of the Fund have been satisfied.

8. The Department of Finance and Administrative Services, the City Budget Office, the Law Department, and the Seattle Firefighters' Pension Board are hereby requested to work with Council Central Staff and deliver an investment plan to Council no later than April 12, 2013. The plan should seek to ((~~will review actuarial projections in ((2012))2014 and will develop~~)) maximize the investment return on the Fund's Actuarial Account balances, at appropriate levels of risk and under appropriate oversight. ((~~recommendations for possible future funding of the Actuarial Account.~~))

B. Based on actuarial projections, it is anticipated that the Level Payment Amount will generally exceed the expected current pension obligations.

C. In years in which a contribution is to be made to the Actuarial Account, the transfer will occur in two (((~~2~~))) equal installments on the last day of April and the last day of October. The amount transferred to the Actuarial Account on each date will be one-half (((~~1/2~~))) the total amount included as a transfer to the Actuarial Account in the Adopted Budget. The City Finance Director is authorized to make these transfers. Funds in the Actuarial Account will be invested in order to receive the maximum possible returns consistent with State law, the City's investment policies, and the objectives of the Actuarial Account. The City Finance Director will determine how the funds in the Actuarial Account will be invested, consistent with RCW ((~~35.39.030~~))41.16.040 (4), with confirmation by the Board. The City Finance Director will report to the Board on the status of the Actuarial Account in May and November of each year.

D. Beginning on January 1, 2024, it is anticipated that funds accumulated in the Actuarial Account will be sufficient to cover all future pension costs of the Fund. If there are pension liabilities that cannot be met from the balance in the Actuarial Account, the City shall appropriate such funds as are required to pay all pension costs.

E. This policy does not change current practices for budgeting for medical and administrative costs of the Firefighters' Pension Fund.

F. The Fund shall be administered pursuant to RCW 41.16 as amended.

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Section 2. This ordinance shall take effect and be in force 30 days after its approval by the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it shall take effect as provided by Seattle Municipal Code Section 1.04.020.

COUNCIL CLERK

Passed by the City Council the ____ day of _____, 2012, and signed by me in open session in authentication of its passage this _____ day of _____, 2012.

_____

President _____of the City Council

Approved by me this ____ day of _____, 2012.

_____

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2012.

_____

Monica Martinez Simmons, City Clerk

(Seal)

COUNCIL CLERK

Form revised: June 13, 2012

2013 BUDGET LEGISLATION FISCAL NOTE

Department:	Contact Person/Phone:	CBO Analyst/Phone:
FAS	Glen Lee/4-8079	Dave Hennes/4-0537

Legislation Title: AN ORDINANCE relating to the Firefighters' Pension Fund established under RCW 41.16; amending Ordinance 117216 as last amended by Ordinance 123459 to continue the suspension of contributions to the Actuarial Account for an additional two years through 2014, requesting a study of investment options for the Actuarial Account, and clarifying the City Finance Director's authority to invest funds in the account.

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 2014. It also calls on the Department of Finance and Administrative Services, the City Budget Office, the Law Department and the Seattle Firefighters' Pension Board to work with Council Central Staff and deliver an options report on investments for the Actuarial Account by April 12, 2013.

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 or 2019 to fully fund all pension obligations owed after that date. The funding approach was clarified in 1997 through Ordinance 118814.

Actuarial studies prior to 2006 assumed the Actuarial Account could earn 7 percent interest. The account earned generally between 5 and 6 percent in the 1990s, but interest rates fell dramatically after 2001, 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, and suspended payments for 2009 and 2010 through Ordinance 122859, and for 2011 and 2012 through Ordinance 123459. These actions were necessary because meeting the 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. Several factors had resulted in the need for a significant General Fund contribution, 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 4 percent annually, while the City's annual investment pool earnings in 2010, 2011 and 2012 have been just at 1 percent or lower.

COUNCIL CLERK

In recognition of ongoing economic uncertainty for the City and the nation, continued low earnings on the City's investment pool, this proposed legislation suspends payments for an additional two years through 2014. It also requests that the Department of Finance and Administrative Services, the Law Department, the City Budget Office, and the Fire Pension Board work with Council Central Staff to deliver an investment plan by April 12, 2013 exploring ways to maximize returns in the Actuarial Account at appropriate levels of risk and with appropriate oversight.

Please check one of the following:

X This legislation has financial implications.

Summary of Changes to Revenue Generated Specifically from this Legislation:

	Revenue Source	2013 Proposed	2014 Endorsed
Total Fees and Charges Resulting From Passage of This Ordinance		NA	NA

(If new revenue is for a partial year, provide estimate for full year in the notes section below.)

Revenue Change Notes: NA

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

Fund Name and Number	Revenue Source	Total 2013 Revenue	Total 2014 Revenue
60220	General Fund	0	0
TOTAL		0	0

Total Revenue Notes: There will be investment earnings on existing cash balances in the Actuarial Account of approximately $100,000 or less in each year of the biennium.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications? Suspension of the excess contribution to the Actuarial Account will 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 this legislation? This legislation suspends contributions to the Actuarial Account for 2013 and 2014. This is consistent with the 2013-2014 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 $4.1 million would need to be placed in the Actuarial Account in each year of the 2013-2014 biennium if this legislation is not approved. This amount would be in addition to the City's required contribution in

COUNCIL CLERK

the 2013-2014 Proposed Budget to pay the current pension obligations in each year. Even with the suspension of new contributions, interest will continue to accrue in the account.

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 the legislation subject to public hearing requirements? No.

f) Other Issues: None.

Please list attachments to the fiscal note below: None

COUNCIL CLERK