

#19

CITY OF SEATTLE

ORDINANCE _____

COUNCIL BILL 117642

AN ORDINANCE clarifying the disability retirement benefit formula in the Seattle City Employees' Retirement System (SCERS); amending Seattle Municipal Code section 4.36.230; providing a benefit that is directly proportional to City service for members making application for disability retirement after December 31, 2012 who have less than 10 years of City service but who otherwise may qualify for a disability retirement under portability.

WHEREAS, the Seattle City Employees' Retirement System (SCERS) provides both service retirement benefits and disability retirement benefits to eligible members of SCERS; and

WHEREAS, the Seattle Municipal Code (SMC) requires SCERS members to have 10 years of City service over a period not to exceed 15 years to be eligible for a disability retirement benefit, among other requirements; and

WHEREAS, the disability benefit formula in SMC 4.36.230 often results in a disability benefit equal to one third of the member's final average compensation; and

WHEREAS, the City agreed to participate in portability with other Washington retirement systems under Revised Code of Washington (RCW) 41.54, and under those provisions, service in such other retirement systems may be combined for purposes of determining eligibility for a disability retirement; and

WHEREAS, under portability, a non-vested member of SCERS may be eligible for a SCERS disability retirement benefit worth up to one-third of final compensation, which would result in disproportionate costs to SCERS; and

WHEREAS, earlier in 2012 the SCERS Board of Administration recommended and the City Council adopted a modification to the disability and temporary disability retirement provisions whereby the previous prohibition to pre-existing conditions was eliminated from the eligibility requirements, thus making the disability benefit more valuable and application of portability to a disability retirement more sensitive; and

WHEREAS, it is the belief of the SCERS Board of Administration and Seattle City Council that this disproportionate allocation of disability retirement benefit in certain cases involving portability is not in keeping with the intent of portability; and



1 WHEREAS, Seattle wishes to provide disability retirement benefits under portability that are
2 proportional to the member's "actually established" City service as envisioned in RCW
3 41.54.032.2(b); NOW, THEREFORE,

4 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

5 Section 1. Section 4.36.230.A of the Seattle Municipal Code, which section was last
6 amended by Ordinance 121366, is amended as follows:

7 A. Upon retirement for disability, as provided in Section 4.36.220, provided the disability
8 is not due to intemperance, willful misconduct or violation of law, of which the Board shall be
9 the judge, a member shall receive a retirement allowance calculated as follows:

10 For a member, making application for disability retirement after December 31, 2012,
11 with less than 10 years of actual City service, but who otherwise qualifies for a disability
12 retirement under the portability provisions of RCW 41.54.032, one and one-half (1 1/2) percent
13 of final compensation multiplied by years of creditable City service. For all other members with
14 at least 10 years of actual City service, ((O))one and one-half (1 1/2) percent of final
15 compensation multiplied by years of creditable service, if such retirement allowance exceeds
16 one-third (1/3) of his final compensation; otherwise one and one-half (1 1/2) percent of final
17 compensation multiplied by years of service which would be creditable to him were his services
18 to continue until attainment of age sixty-two (62) but such alternative disability retirement
19 allowance shall not exceed one-third (1/3) of such final compensation; provided, that no
20 disability retirement allowance shall exceed sixty (60) percent of final compensation.
21 Notwithstanding any provision of this section to the contrary, the minimum retirement allowance
22 shall be One Hundred Forty Dollars (\$140) per month.

23 The retirement allowance as above calculated shall consist of:

24 1. An annuity which shall be the actuarial equivalent of the member's accumulated
25 normal contributions;



- 1 2. A pension which shall be the actuarial equivalent of the City's matching contributions;
- 2 3. A pension for prior service, if any, calculated at the rate of one and one-half (1 1/2)
- 3 percent of final compensation for each year of prior service, which shall be provided by
- 4 contributions of the City;
- 5 4. An additional pension, provided by contributions of the City, should the calculation of
- 6 the allowance show that subsections A1, 2 and 3 above are not enough to produce the retirement
- 7 allowance indicated;
- 8 5. When use of proper annuity and pension rates results in a retirement allowance
- 9 amounting to more than would be realized by adherence to the formula indicated in the second
- 10 paragraph of this section the Board shall allow the higher amount.



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

4
5 Passed by the City Council the ____ day of _____, 2012, and
6 signed by me in open session in authentication of its passage this
7 ____ day of _____, 2012.

8
9 _____
10 President _____ of the City Council

11
12 Approved by me this ____ day of _____, 2012.

13
14 _____
15 Michael McGinn, Mayor

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17 Filed by me this ____ day of _____, 2012.

18
19 _____
20 Monica Martinez Simmons, City Clerk

21 (Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Employees' Retirement System	Cecelia M. Carter (5-1423)	Jessica Wang (5-1759)

Legislation Title: AN ORDINANCE clarifying the disability retirement benefit formula in the Seattle City Employees' Retirement System (SCERS); amending Seattle Municipal Code section 4.36.230; providing a benefit that is directly proportional to City service for members making application for disability retirement after December 31, 2012 who have less than 10 years of City service but who otherwise may qualify for a disability retirement under portability.

Summary of the Legislation: This ordinance adds a provision to the disability retirement benefit definition to address members with less than 10 years of City service who combine service in other retirement systems under portability. The goal is to establish a benefit in these cases that is directly proportional to the length of the member's actual City service.

Background: The Seattle City Employees' Retirement System (SCERS) offers its members a disability retirement benefit that replaces a share of their working income in the event that he or she becomes permanently and totally disabled. This benefit is in addition to the disability insurance benefits that are available from City personnel and the Federal Social Security program.

The Seattle Municipal Code already requires that members perform 10 years of City service before becoming eligible for a SCERS disability retirement. The benefit calculation is complex, but often results in a benefit that replaces 33% of the member's final compensation. However, under portability, service in other retirement systems may be combined when determining eligibility for a disability retirement. The SMC currently lacks any provision for determining a benefit when the member has less than 10 years of City service. As a result, a member with 10 years of service in a portable system but as little as one day of service in Seattle could be eligible for a Seattle disability retirement benefit worth 33% of salary. A case of this type recently came to light in the City of Tacoma's retirement system, which has a similar benefit formula and eligibility rules. In that case, even though the member had more far service with the State of Washington than with the City of Tacoma, the City was required to pay the vast majority of the member's disability retirement benefit under portability. The outcome is thought to be contrary to the spirit of portability as described in the Revised Code of Washington (RCW 41.54) which allows retirement systems to "[c]alculate the disability retirement allowance *based on service actually established in the current system*" [emphasis added].

To correct this oversight, this legislation would add a provision to the disability benefit definition for members making application for a disability retirement after December 31, 2012. The new piece of the benefit formula addresses members who have less than 10 years of City service but



who otherwise qualify for a disability pension under portability. It provides a benefit worth 1.5% of salary for each year of City service. This definition helps restore the proportionality that was intended when portability was enacted.

Please check one of the following:

This legislation does not have any financial implications.

This legislation has financial implications.

This legislation has only small, indirect financial implications for the Retirement Fund and City pension costs. The legislation makes no appropriations or position changes and has no direct effect on City pension contributions or Retirement Fund revenues.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

This legislation would reduce the Fund's benefit costs in the event of a disability-portability retirement where the member had less than 10 years of City service. Such cases are expected to be quite rare.

b) What is the financial cost of not implementing the legislation?

The cost of not implementing the legislation is uncertain and would depend on member behavior. If this disability-portability "loophole" were to become widely known and abused, the Retirement Fund could be forced to grant disability pensions worth 33% of salary for members with very short City service, possibly as little as one day.

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?

Other mathematical solutions to this issue are possible. Tacoma's City Council enacted legislation limiting eligibility for City disability retirements under portability. Seattle, however, prefers to address the issue through the benefit formula.

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:

None.

