

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
SCERS – Retirement	Cecelia M. Carter / 206-615-1423	Hall Walker / 206-233-7065

Legislation Title: AN ORDINANCE relating to the Seattle City Employees’ Retirement System; eliminating the disqualification for disability retirement due to pre-existing conditions; clarifying the requirements for disability appeals; authorizing the re-examination of persons retired for temporary total disability every 24 months; and amending Sections 4.36.145, 4.36.220 and 4.36.250 of the Seattle Municipal Code.

Summary of the Legislation:

This legislation would eliminate the pre-existing condition disqualification provisions relating to disability and temporary disability retirement. Additionally, it clarifies the process for members to appeal a Board decision and codifies the Board’s authority to request re-examinations of members on temporary disability retirement.

Background:

This modification came before the Board of Administration of the Seattle City Employees’ Retirement System (SCERS) when the Board realized an employee with more than 10 years of service was to be denied a disability retirement benefit because the employee’s disabling condition pre-dated his or her employment with the City; all other criteria for a disability retirement were met in this case. The Board found this provision to be inconsistent with the City’s relationship with its employees and unnecessary to protect the Retirement Fund from overuse, since members must have 10 years of City service to qualify for the benefit. The service requirement is similar to those found in the federal Social Security Disability Insurance program, which is available to people with at least 40 quarters (i.e. 10 years) of wage history, or less if they are relatively young.

A historical look back reveals over the last 20 years (1992-2011) there was an average of 2.15 disability retirements per year granted by the Board of Administration; while a ten-year look back (2002-2011) reveals there was an average of 2.6 disability retirements granted; and a five-year look back (2007-2011) reveals there was an average of 1 disability retirement granted. This demonstrates that disability retirements are a *de minimis* small component of the overall fund liabilities. For calendar year 2011, the aggregate amount paid to retirees receiving disability retirement benefits was less than \$950,000 out of approximately \$120 million in total benefit payments.

Milliman, the actuary for SCERS and its Board of Administration, ~~estimated the cost of this action~~ assaid it had no basis on which to estimate the effect of the proposed change. As an

illustrative measure, if the ordinance resulted in one additional disability retirement per year, the cost of this action would be a 1 basis point (.01%) increase to the plan’s normal cost, based on the January 1, 2011 valuation. It would raise the normal cost from 15.19% of payroll to 15.20%. This represents a roughly \$100,000 increase to the actuarial accrued liability of the fund, valued in total at \$2.7 billion.

The actuary’s ~~projection~~ illustration of a 1 basis point increase to normal cost is predicated on the assumption of one additional disability retirement per year; thus raising the more recent five-year average from one disability retirement per year to two disability retirements per year. Similarly, if only one additional disability retirement occurred every two years, the estimated increase in normal costs would be half of the value outlined above.

Please check one of the following:

This legislation does not have any financial implications.

(Please skip to “Other Implications” section at the end of the document and answer questions a-h. Earlier sections that are left blank should be deleted. Please delete the instructions provided in parentheses at the end of each question.)

This legislation has financial implications.

(If the legislation has direct fiscal impacts (e.g., appropriations, revenue, positions), fill out the relevant sections below. If the financial implications are indirect or longer-term, describe them in narrative in the “Other Implications” Section. Please delete the instructions provided in parentheses at the end of each title and question.)

Appropriations:

(This table should reflect appropriations that are a direct result of this legislation. In the event that the project/programs associated with this ordinance had, or will have, appropriations in other legislation please provide details in the Appropriation Notes section below. If the appropriation is not supported by revenue/reimbursements, please confirm that there is available fund balance to cover this appropriation in the note section.)

Fund Name and Number	Department	Budget Control Level*	2012 Appropriation	2013 Anticipated Appropriation
TOTAL				

*See budget book to obtain the appropriate Budget Control Level for your department.

Appropriations Notes:

See Attachment 1 for a discussion of the actuarial impact of the proposed rule change.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

(This table should reflect revenues/reimbursements that are a direct result of this legislation. In the event that the issues/projects associated with this ordinance/resolution have revenues or reimbursements that were, or will be, received because of previous or future legislation or budget actions, please provide details in the Notes section below the table.)

Fund Name and Number	Department	Revenue Source	2012 Revenue	2013 Revenue
TOTAL	n/a	n/a	n/a	n/a

Revenue/Reimbursement Notes:

There are no Revenue / Reimbursements resulting from this legislation.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

(This table should only reflect the actual number of positions affected by this legislation. In the event that positions have been, or will be, created as a result of other legislation, please provide details in the Notes section below the table.)

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2012 Positions	2012 FTE	2013 Positions*	2013 FTE*
TOTAL	n/a	n/a	n/a	n/a	n/a	n/a	n/a

* 2013 positions and FTE are total 2013 position changes resulting from this legislation, not incremental changes. Therefore, under 2013, please be sure to include any continuing positions from 2012.

Position Notes:

There is no financial impact to positions as a result of this legislation.

Do positions sunset in the future?

(If yes, identify sunset date)

Not applicable

Spending/Cash Flow:

(This table should be completed only in those cases where part or all of the funds authorized by this legislation will be spent in a different year than when they were appropriated (e.g., as in the case of certain grants and capital projects). Details surrounding spending that will occur in future years should be provided in the Notes section below the table.)

Fund Name & #	Department	Budget Control Level*	2012 Expenditures	2013 Anticipated Expenditures
			n/a	n/a
TOTAL			n/a	n/a

* See budget book to obtain the appropriate Budget Control Level for your department.

Spending/Cash Flow Notes:

Other Implications:

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

This legislation will open up the opportunity for employees hired with a disabling condition to apply for disability retirement if their condition worsens and thus prohibits them from further employment; provided the 10-year service requirement and all other criteria have been met.

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

There is no additional financial cost to not implementing this legislation.

c) Does this legislation affect any departments besides the originating department?

This legislation affects all City departments with membership in SCERS.

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

~~There are no~~ No alternatives have been explored.

e) Is a public hearing required for this legislation?

No public hearing is required for this legislation.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

Notice is not required for this legislation.

g) Does this legislation affect a piece of property?

This legislation does not affect a piece of property.

h) Other Issues:

This legislation only affects active members of the Seattle City Employees' Retirement System and does not impact the entire City of Seattle employee base. Particularly, this legislation has no impact on uniformed police and fire personnel as they are not members of SCERS. This legislation has no impact on former employees with a vested account balance in SCERS after three months of discontinuance of City service, nor does this legislation impact a former employee once retired.

List attachments to the fiscal note below:

Attachment 1 – Letter from Nick J. Collier, ASA, EA, MAAA of Milliman dated February 3, 2012.



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February 3, 2012

Ms. Cecelia Carter
Executive Director
Seattle City Employees' Retirement System
720 Third Ave., Suite 1000
Seattle, WA 98104

Re: Disability Retirement Eligibility Cost Study

Dear Cecelia:

Under certain conditions, monthly benefits are payable to disabled members of the Seattle City Employees' Retirement System (SCERS). To be eligible for this benefit, the member must have at least 10 years of service (or the disability must have occurred in the course of City employment) and the condition must not have existed prior to entrance into service with the City. It is our understanding that consideration is being given to removing the pre-existing condition exclusion. The purpose of this letter is to discuss the actuarial impact, per your request.

Variability

Any actuarial cost estimate is based on a number of assumptions which can have a significant impact on the results. This is particularly true in this case, as we have no experience on which to base some of our assumptions. In particular, we have no way of knowing how many additional disability retirements will occur due to this change. The actual cost will vary significantly depending on the actual number of additional disability retirements that may occur due to this proposed change.

Since we have no credible way of estimating the increase in disabilities due to the proposed change, we have not attempted to make any assumption with regard to this. To give some estimate of the potential cost, we have shown the cost impact if there was an increase in non-duty disability retirements of one per year. Note that under the current assumptions, approximately two disability retirements (not duty related) are assumed to occur each year.

This work product was prepared solely to provide assistance to SCERS. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Findings

The following chart shows the estimated cost impact of one additional disability retirement each year. The results shown are based on the actuarial valuation as of January 1, 2011.

(\$ Millions)	Current Provisions*	Revised Disability Eligibility	Estimated Cost of Change
Funded Status of SCERS as of January 1, 2011			
Actuarial Accrued Liability	\$ 2,709.0	\$ 2,709.1	\$ 0.1
Actuarial Value of Assets	2,013.7	2,013.7	-
Unfunded Actuarial Accrued Liability	\$ 695.4	\$ 695.5	\$ 0.1
Funded Ratio	74.3%	74.3%	0.0%
30-Year Funding Rate			
Normal Cost	15.19%	15.20%	0.01%
Unfunded Actuarial Accrued Liability	6.11%	6.11%	0.00%
Total 30-Year Funding Rate	21.30%	21.31%	0.01%
*Rates shown are based on the January 1, 2011 actuarial valuation, and do not reflect the change to the member crediting rate adopted after the valuation.			

The above chart shows the estimated increase in costs if the revised eligibility requirements for disability retirement were adopted, and it caused one additional person to take a non-duty disability retirement each year. For example, the increase in the ongoing annual cost (normal cost) plus the amount required to finance the increase in the unfunded actuarial accrued liability (UAAL) over a 30-year period is estimated to be an additional 0.01% of payroll. We have used 30 years as it is the period the Board ordinarily uses to measure funding sufficiency.

As previously noted, the estimated costs are based on one additional disability retirement per year. Therefore, if there were two additional disability retirements per year, the estimated cost increase would double. Similarly, if only one additional disability retirement occurred every two years, the estimated increase in costs would be half of the value shown above.

All values shown are based on the January 1, 2011 actuarial valuation and therefore only partially reflect the impact of the market decline that occurred in the fiscal year ended in 2008. Deferred losses will be recognized in the Actuarial Value of Assets in upcoming years. If the full impact of the decline were reflected in the exhibit, the Funded Ratio shown in the chart would decrease materially. However, the relative cost of the proposed change would not be affected.

Additional Comments

Based on the 2011 valuation and these actuarial calculations, it does not appear that the adoption of this change would materially affect the System's funded status. However, SCERS is currently projected to need increases in contribution rates in order to amortize its UAAL in the future. The Board should take this into consideration as they contemplate whether to adopt the proposed revision to the current disability retirement provisions.

Assumptions and Methods

All data, methods and assumptions are the same as those used in our January 1, 2011 actuarial valuation of SCERS, except for the adjustment for the change in the disability retirement eligibility. Please refer to that report for further details.

To reflect an increase of approximately one disability per year, we have increased the non-duty disability rates as follows:

Non-Duty Related Disability Rates*

Age	Male and Female	
	Current Provisions	Adjusted Assumptions
20	.00 %	.00 %
25	.00	.00
30	.03	.04
35	.03	.04
40	.03	.05
45	.03	.05
50	.05	.08
55	.05	.08
60	.05	.08
65	.00	.00

**Non-duty disability rates under current provisions are equal to 2/3rd of the total disability rates, as shown in Appendix A of the January 1, 2011 valuation report.*

It should be noted that we have not made any other changes in the demographic assumptions, as it is difficult to anticipate how plan changes will impact participant behavior, but changes in behavior could result.

Actuarial Certification

The cost estimates shown in this letter reflect the data, methods and assumptions used for the January 1, 2011 actuarial valuation. These cost estimates are subject to the uncertainties of a

regular actuarial valuation; the costs are inexact because they are based on assumptions that are themselves necessarily inexact, even though we consider them reasonable. Thus, the emerging costs may vary from those presented in this letter to the extent actual experience differs from that projected by the actuarial assumptions.

The cost estimates presented in this letter are based on the January 1, 2011 actuarial valuation report. In preparing that report, we relied without audit on information (some oral and some in writing) supplied by SCERS' staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We used SCERS' benefit provisions as stated in our January 1, 2011 Actuarial Valuation report. Note that this means we did not reflect the adjustment to the interest crediting rate that occurred subsequent to the valuation. In our examination, after discussion with SCERS and certain adjustments, we have found the data to be reasonably consistent and comparable with data used for other purposes. Since the valuation results, as well as the estimates shown in this letter, are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our determinations might need to be revised.

The emerging costs will vary from those presented in this letter to the extent that actual experience differs from that projected by the actuarial assumptions. Future actuarial measurements may differ significantly from the current measurements presented in this letter due to a number of factors. Due to the scope of this assignment, we did not perform an analysis of the potential range of such measurements. Actuarial computations presented in this letter are for purposes of studying the cost impact of changing disability eligibility. Determinations for other purposes may be significantly different from the results contained in this letter.

Milliman's work is prepared solely for the internal business use of SCERS. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.



Ms. Cecelia Carter
February 3, 2012
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On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

I, Nick Collier, am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

A handwritten signature in black ink that reads "Nick Collier".

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary
NJC/nlo

