



City of Seattle

Seattle City Employees' Retirement System

SCERS Finances and Investments



Presentation Outline

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Background on SCERS

- Established in the 1920s, SCERS provides a retirement benefits to most City employees not covered by the State's LEOFF plan. SCERS is a defined benefit retirement plan, meaning when members retire they will receive a guaranteed lifetime benefit based upon their years of service, highest average salary, and age at time of retirement.
- SCERS is governed by a seven member Board of Administration (City Council Finance Chair, City Finance and HR Directors, 2 elected active members, 1 elected retired member, 1 Board-appointed).
- As of the end of 2018, SCERS's membership includes 9,388 active members, 2,635 deferred members, and 6,792 retirees and beneficiaries.



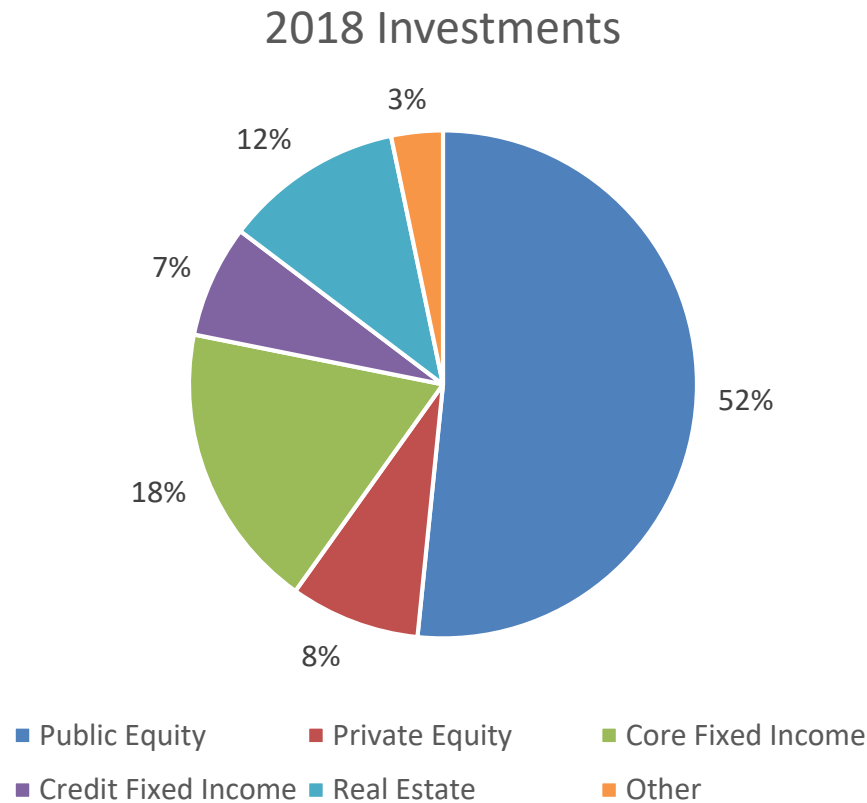
Background on SCERS

- The SCERS Board of Administration has a fiduciary duty to SCERS members and must act in their best interest. In order to exercise this duty when considering investment decisions, the Board relies on the investment expertise of the following groups:
 - SCERS employs four full-time experienced investment professionals to oversee a portfolio across a diverse set of investment types, or asset classes. Each team member takes a leadership role in oversight of at least one asset class.
 - SCERS is advised by an Investment Advisory Committee. This is a volunteer panel of investment experts who give an independent perspective to the Board and staff.
 - SCERS employs NEPC as an investment advisor. NEPC is one of the largest general investment consultants in the industry, with over 350 clients and total assets under advisement over \$1 trillion.
 - SCERS contracts with over 20 investment managers with expertise in specific asset classes. The performance of these managers is regularly monitored and assessed against industry benchmarks.



SCERS's Financial Condition

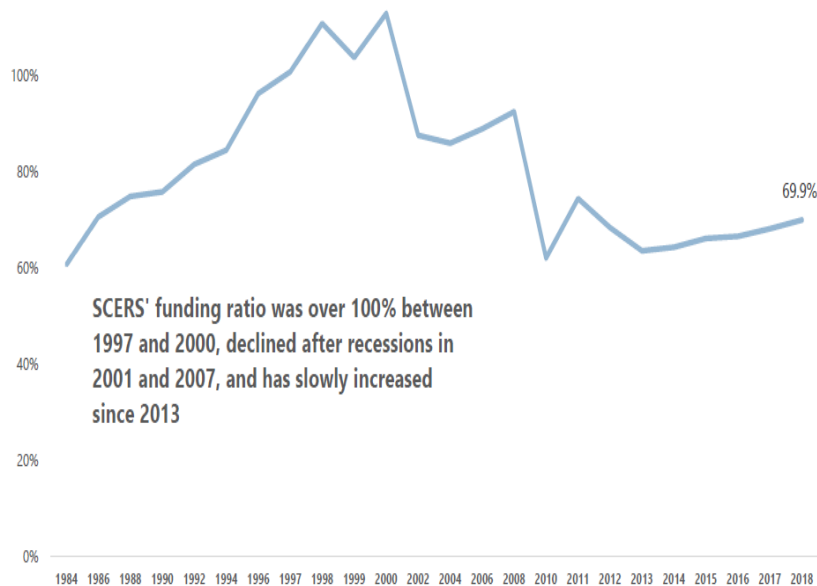
Assets – As of the end of 2018, SCERS had over \$2.7 billion of investments in the portfolio. A breakdown by investment type is shown below:



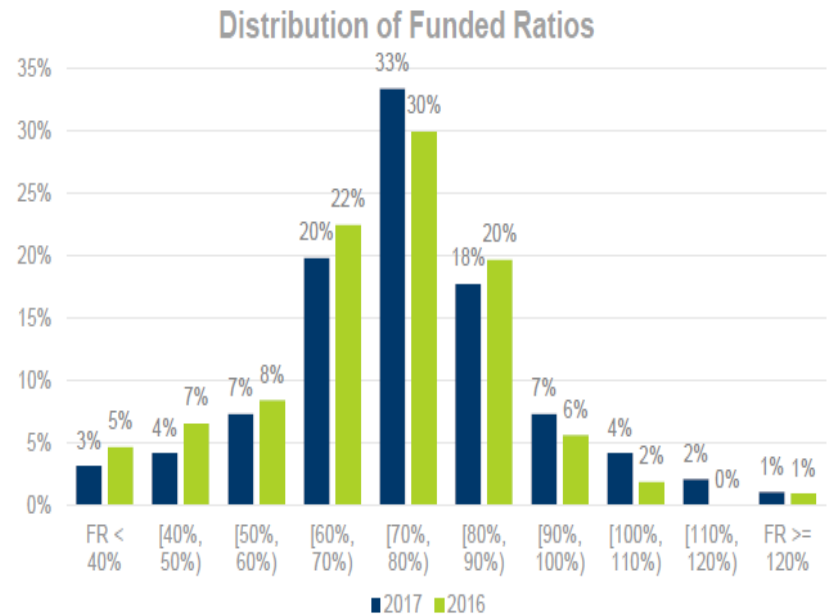


SCERS's Financial Condition

Funding Ratio – Assets divided by the system's liabilities (future pension payments for current members and retirees, less future contributions) equal the pension's funding ratio. The funding ratio is the figure most often cited indicator of a pension system's health, with 80% considered a healthy level of funding. SCERS's funding ratio at the end of 2018 was 68.2%. A history of SCERS's funding ratio is shown below along with a comparison of the funding ratios of other cities and counties.



Source – City of Seattle Financial Condition 2017; City Auditor



Source – Wilshire Consulting 2018 City & County Funding Study



SCERS's Financial Condition

Over the last ten years, SCERS and the City have taken a number of steps to improve the performance of the investment portfolio and the long-term sustainability of the pension fund. Some of these actions are listed below.

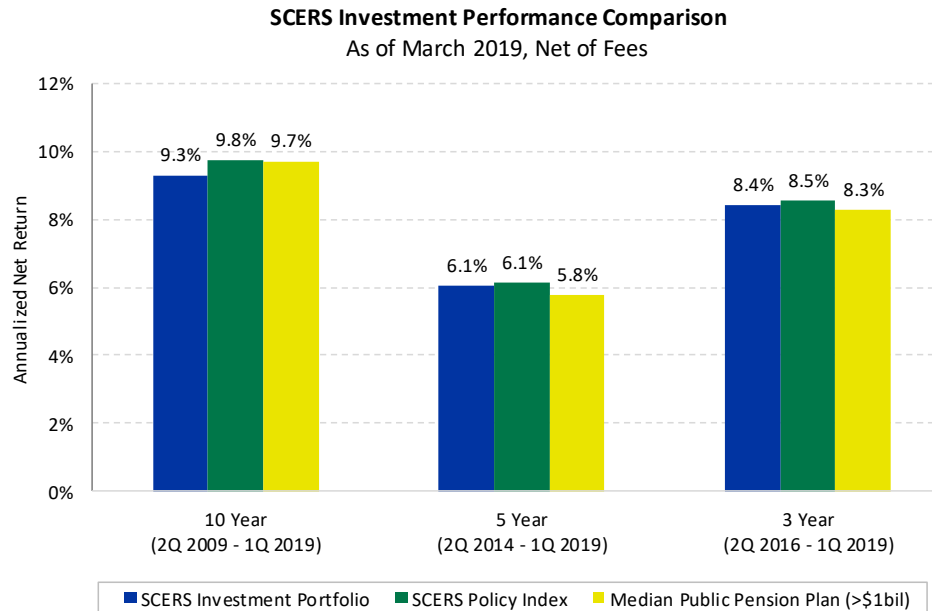
- Starting in 2008 and accelerating in 2014, increased the investment capabilities of SCERS by hiring a team of investment professionals, contracting with a general investment consultant, and recruiting experienced investment experts to join SCERS's Investment Advisory Committee.
- Continue a strong commitment to funding the pension system by making all actuarially required contributions.
- Strengthen the long-term sustainability of the pension fund by closing the amortization period for the liability, creating a second tier for new members to the system, and reducing the expected return of the investment portfolio.



Investment Management

Investment Performance

- The steps taken to improve SCERS's investment management have begun to have a noticeable impact on investment performance. As the chart below shows, SCERS's investment performance has made steady gains when compared to the policy index and peer pension funds.



Source: NEPC, InvestorForce



Investment Management

Outsourcing Investment Management

- Senate Bill 5240 was introduced in 2019 that would allow the state's municipal pension systems (Seattle, Tacoma, and Spokane) to outsource the management of their investment portfolios to the Washington State Investment Board. The bill's stated intent was to reduce administrative costs and increase investment opportunities for the municipal pension systems by allowing them to invest alongside the larger state pension systems.
- Even though the bill did not progress past the Senate's policy committee, the SCERS Board and the City sought the opinion of SCERS's Investment Advisory Committee in assessing if such an option was in Seattle's best interest.
- The Committee's conclusion was that outsourcing investments, as envisioned in SB 5240, was not in the City's interest. They highlighted that outsourcing would only move investment responsibilities; the City would still be responsible for pension benefits and liabilities. Accordingly, they found that "the City would incur significant additional financial risk by separating, in perpetuity, management of investments from pension obligations". They also found that "SCERS has more than adequate scale to manage its portfolio effectively."



Investment Management

Environmental Social and Governance (ESG) Issues

Starting with its first consideration of fossil fuel divestment back in 2013, SCERS has worked to establish policies that make an impact on ESG issues while still meeting the system's fiduciary responsibilities. In 2015, SCERS adopted a Positive Action Strategy with a focus on addressing climate change. The strategy has the following elements.

- Shareholder Advocacy – Using SCERS's rights as a shareholder to encourage companies to take actions that help mitigate climate change, including increased disclosure, conducting climate risk assessments, and ensuring robust government regulation.
- Sustainability Investments – Proactively evaluate investments that are expected to help address climate change, such as renewable energy infrastructure, and selectively make such investments if economically equivalent or superior to other available investments in the same category.
- Integrating Climate Risk – Consider climate change as a risk alongside macroeconomic, geopolitical, and other risks when making investment decisions.