



To: Councilmember Tim Burgess, Chair
Councilmember Lisa Herbold, Vice Chair
Councilmember Rob Johnson, Member
Affordable Housing, Neighborhoods, and Finance Committee

From: Erik Sund, Council Central Staff

Date: August 3, 2016

Subject: Resolutions endorsing contribution and interest rates for SCERS

The Seattle City Employees' Retirement System (SCERS) Board of Administration (Board) has submitted two Resolutions to the Council for its consideration. The Resolutions would ratify actions already taken by the Board to establish contribution and interest rates for the system for 2017. Summaries of the individual pieces of legislation follow.

2017 SCERS Contribution Rate Resolution

Resolution 31688 would approve the Board's adoption of revised SCERS contribution rates for 2017. The proposed rate, which if approved would be incorporated into the 2017 budget, to reflect the results of January 1, 2016 Actuarial Valuation. The Board-approved total contribution rate for 2017 is 25.32% of payroll, an increase of 0.06% from the current rate of 25.26%. Under the terms of the current agreements with the labor unions representing City employees and SMC 4.36.540, 10.03% of this total contribution rate would be paid by employees, while the City would contribute 15.29% of payroll, up from 15.23% in 2016.

The proposed contribution rate reflects the results of the 2016 actuarial valuation performed by Milliman, the Board's contracted actuaries. The increase in required City contributions is due to delayed recognition of past investment returns. This delayed recognition is consistent with SCERS' asset smoothing method, which requires that any variation (gain or loss) from the assumed rate of return on plan assets be taken into account gradually over a five-year period. This policy is intended to reduce volatility in the plan's calculated funding status and contribution rates.

A separate piece of legislation (CB 118715) before the Council would establish a new benefit tier within SCERS for new members joining the system on or after January 1, 2017. The City's contribution rate in the new plan will be the same as for the current one; however, members of SCERS Plan 2 will contribute 7% of pay rather than 10.03%.

2017 SCERS Credited Interest Rate

Resolution 31689 would approve the SCERS Board's adopted 2017 interest rates for SCERS contributions made by members after 2011. SCERS members' contributions are maintained in individual accounts that earn interest. The balances of these individual member accounts are tracked for three reasons. First, a member's contributions and interest earnings are refundable

in the event that the member separates from City employment without meeting the five-year vesting requirement for SCERS or separates after vesting but requests a refund instead of collecting a retirement allowance. Second, the member's contributions and interest may be paid to the member's beneficiary or estate in the event that the member dies prior to retirement. Finally, the account balance of a member who retires from SCERS is used in the calculation of a retirement annuity option that is an alternative to the basic retirement benefit formula.

Previously, interest was credited to member accounts at a fixed rate of 5.75% per year. This fixed rate, which was established in 1975, is still effective for all member contributions made prior to December 31, 2011. Under a new policy adopted by the Board and approved by the Council in 2011, contributions made after 2011 earn interest at a variable rate established each year by the Board (subject to Council approval).

Since the move in 2011 to a variable rate for member interest, the Board's stated policy has been to set the interest rate for any given year "with a view toward the market returns of other low-risk or risk-free investments," with a target rate of 0.25% above the average yield on 30-year United States Treasury Bonds for the 12-month period ending May 31 of the prior year. In practice, the Board's policy target was met only once, in 2012. Recognizing this, the Board adopted a revised policy in June of this year that incorporates a target rate equal to the average yield on 30-year Treasuries, without the additional 0.25% interest.

Consistent with the new target rate, the Board's adopted 2017 interest rate for member contributions is equal to the average yield on 30-year Treasuries over the 12 months ending May 31, 2016 at 2.86%.

Next Steps

If the Committee takes action on the proposed legislation at its August 3 meeting, the bill will be eligible for full Council vote on August 8.

cc: Kirstan Arestad, Central Staff Executive Director
Dan Eder, Central Staff Deputy Director