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Analysis of Seattle's new pension changes

POLICY NOTE

By Hon. Brian Sonntag, Former Washington State Auditor (1993-2013) February 2016
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The City of Seattle recently committed to a slightly scaled down version of the Seattle City Employees' Retirement System (SCERS) for many of its future workers than what current employees receive.

Set to begin in 2017, SCERS II will include changes designed to insulate the city further from investment losses and bolster support for existing retirees. The changes will bring SCERS II closer to the national average.

City officials claim that the reduced retirement plan will cut city pension expenses by $200 million over the course of three decades. Over this same period, employee contributions are expected to decrease by approximately $750 million.[1]

With consideration to coverage, the changes to SCERS will not be city wide. As of this time, the system covers nearly 4,000 City employees, not including uniformed police and fire personnel. SCERS is incomprehensive in light of the approximately 10,000 workers employed by Seattle.

Admittedly, city officials have recognized the significant financial problem wrought by SCERS. The original City pension system, established in 1927, has evolved to a current unfunded liability of approximately $1 billion.[2] The imposing financial burden has compelled city leaders to identify a sustainable retirement benefits program.

In the agreement negotiated between city officials and the Coalition of City Unions - a group of 20 unions - a final defined benefit plan emerged with some modest changes. Due to an adjustment in how the City calculates benefits, new employees in 2017 will average smaller pensions than current workers.

Additional modifications will set marginally higher increases to early retirement penalties. Another change will update the minimum

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1 "Seattle to change city employee retirement plan in 2017," by Daniel Beekman, *The Seattle Times,* January 8, 2016 at http://www.seattletimes.com/seattle-news/politics/seattle-to-change-city-employee-retirement-plan-in-2017/.

2 "The City of Seattle Pension System - A New Approach is Needed," by Brian Sonntag, Washington Policy Center, January 2014 at http://www.washingtonpolicy.org/library/docLib/The_City_of_Seattle_Pension_System__200_223_A_New_Approach_is_Needed.pdf.

retirement age of 52 to 55. Likewise, the Rule of 80 will be replaced with a Rule of 85, meaning a member's age and service must equal or exceed 85 when added together if the member desires to retire under this option.

In its effort to render retirement benefits more sustainable by moving toward a defined-benefit pension with guaranteed monthly payouts, the City of Seattle remains noncommittal to recommendations found within a $250,000 report authorized by the city council.[3] That report defines a variety of solutions to the urgent financial problems of the employee pension system.

In 2014, a Washington Policy Center (WPC) report, that I authored, advocated a defined-contribution plan for future employees, rather than the current defined benefit plan. Changes found in SCERS II do not accomplish this goal. However, the new plan does achieve the report's goal of lowering pension costs for future city employees and Seattle taxpayers.

Under SCERS II, future workers are to contribute about 7 percent of their salaries to retirement, compared to 10 percent for SCERS I employees. Further, Seattle's base pension contribution rate will be about 5 percent of payroll, in contrast to the 6 percent paid to cover SCERS I employees.

Had the City implemented the defined-contribution approach, it would have saved $1.6 billion over 30 years. To provide a reliable retirement income for retirees, the Seattle City Council will need to adopt a new approach to comprehensive pension reform.

Comprehensive reform will need to provide a lower cost to both Seattle residents and to City employees. Ultimately, Washington Policy Center recommends allowing city workers access to personal defined-contribution accounts. These additional changes will further help alleviate the financial burden of the pension system and provide a sustainable retirement system for public employees.

Hon. Brian Sonntag served as Washington State Auditor from 1993 to 2013 as he was re-elected four times most recently in 2008 with 70 percent of the vote. In 1999, the Municipal League of King County awarded Sonntag the Warren G. Magnuson Award for "implementing performance measures and the performance audit as constructive management tools for state and local governments, allowing them to operate more efficiently and be more accountable to their constituencies." Sonntag is a Certified Government Financial Manager (CGFM). He has been a member of the Washington Coalition for Open Government, State Productivity Board and the National State Auditors Association's Performance Audit Task Force. He is a current member of WPC's board of directors.

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3 "Options for a Sustainable Retirement Benefit," by John McCoy & Tom Kirn, City of Seattle, April 9, 2012 at https://assets.documentcloud.org/documents/2675721/Full-Report-Consultation-Draft.pdf.