



## City of Seattle

Gregory J. Nickels, Mayor

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### Personnel Department

Mark M. McDermott, Personnel Director

### MEMORANDUM

**DATE:** January 10, 2008

**TO:** Coalition Unions Signatory to the Coalition Tentative Agreement

**FROM:** David Bracilano   
Director of Labor Relations

**SUBJECT:** Implementation of the Retirement Provision

The October 3, 2007 Coalition Tentative Agreement states that, “...if a year-end actuarial study commissioned by the Seattle City Employees’ Retirement System (hereinafter, System) finds that the amortization period for the System’s unfunded actuarial liability exceeds thirty (30) years, the City and employees shall equally increase contribution rates to the System in an amount determined by the actuary to be needed to achieve a thirty (30) year amortization period.”

This memorandum provides additional information about how this provision would be implemented in the event that the City’s Retirement System was found to have an unfunded liability in excess of thirty years. It is important to note that our best information indicates that currently the Retirement System has an unfunded liability of between 7 – 8 years.

The “30-year unfunded liability” threshold expressed in the Coalition Tentative Agreement refers to a principle enunciated by the Governmental Accounting Standards Board (GASB) and is a generally accepted accounting standard that describes when an agency would want to closely scrutinize funding levels of its retirement system. It is not a legal requirement per se. However, should an agency allow such a liability to persist over time without any action, it would be noted by auditors and eventually by bond rating agencies (as happened in San Diego, for example), and the agency would be expected to do something to reduce the liability.

In the case of the Seattle Retirement System, should an actuarial study find that the unfunded liability exceeds thirty years the City would not need to take any immediate action. We would almost certainly want to go for a period of time, perhaps a few years, to see if investment performance would turn around before considering an increase in contribution rates. There is an established process for the Retirement Board to consider the situation and make recommendations to the City, but these recommendations are not binding on the City. Nothing in the Coalition Tentative Agreement changes this process. Your members need to remember that

the City would also have to incur the cost of paying higher contributions in this scenario. Certainly, this provides an incentive to be very deliberate about whether the City's Retirement System would need an increase in contribution rates.

As we have discussed, it is likely that the legislative authority for this provision will be an amendment to Seattle Municipal Code 4.36.110 pertaining to contribution rates. The City does not anticipate that it will be necessary to amend other sections to SMC 4.36 in order to implement the above provision. This approach will provide proper authority to implement this provision while maintaining language in individual collective bargaining agreements that is consistent with the negotiated intent.

Finally, as I stated at the bargaining table, it is the City's intent to implement this provision for non represented employees and considers it important that all City employees participate equally and fairly in the City's Retirement System.

CC: Dwight Dively  
Mark McDermott