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POLICY NOTE

The City of Seattle Pension System – A New Approach is Needed

How to Enact Reforms that Benefit Current Workers, Future City Employees and Seattle Taxpayers

by Hon. Brian Sonntag, former Washington State Auditor January 2014

Key Findings

1. *The Center for State and Local Government Excellence reports that pension programs for government employees, like maintenance staff, public health workers and librarians are facing unprecedented breakdown.*
2. *In 2008, the Seattle pension system had unfunded liabilities of $175 million, which grew to $1.1 billion in 2013.*
3. *The volatility and magnitude of this unfunded liability has increased the tension between providing services to current residents while legally fulfilling past pension commitments.*
4. *Benefit increases added by the City in 1998 and 2001 have resulted in much higher monthly payments to retirees. The sharp rise in pension costs is financially impacting the City's pocketbook as well as those of its employees.*
5. *The Seattle City Council needs to enact comprehensive pension reform that takes a new approach. The goal of reform should be to provide sound retirement income for retirees, but at a lower cost to both Seattle residents and to City employees.*
6. *To enhance fiscal responsibility, several jurisdictions across the country have phased out their traditional defined-benefit plans and established well-designed, employee-owned defined contribution retirement plans.*
7. *Allowing city workers access to personal defined-contribution accounts would help solve the pension system's financial problems, while providing a fair and sustainable retirement system for public employees.*

This is a summary of an in-depth study, "The City of Seattle Pension System – A New Approach is Needed," reporting on the existing shortfalls and potential solutions in Seattle's public pension system, available from www.washingtonpolicy.org.

Introduction – A System in Trouble

The City of Seattle pension system is in trouble. A statement by city leaders recognizes significant risks from the rising financial burden of unfunded liabilities and that a new approach is needed.

The City pension system, started in 1927, today carries an unfunded liability of nearly $1 billion, a staggering financial burden that must be shouldered by a community of less than 635,000 residents. The rising cost of City pension payments, over $72 million in 2011, is crowding out funding for safety-net programs and other public services that are essential to the people of Seattle.

The City's old-style pension program is becoming increasingly outdated. The system's unfunded liability poses a major threat to Seattle's long-term financial stability and to Seattle residents who may be required to bail out the system through higher taxes. Significant reforms are needed that provide a funded benefit for city workers, like the local librarian, and reasonable protection for taxpayers.

Background – Assessing the Problem

City officials know they face major financial problems with the Seattle City Employees' Retirement System (SCERS). As with governments across the country, Seattle city council members and past mayors have made pension commitments in the past that are not sustainable. Seattle officials are not alone. The Center for State and Local Government Excellence reports that pension programs for government employees, like park maintenance staff, public health workers and librarians, are in the midst of an era of unprecedented breakdown. For officials in many states and municipalities, reform has become an imperative.

To their credit, Seattle officials recognize the problem. In November 2010, the City Council authorized an initiative to develop a sustainable retirement benefit program. The Council's goal is to design options that continue to provide ample income for retirees, but at a lower cost to both public employees and the people of the City.

Council members envisioned action on the report's policy recommendations in 2012, with an implementation effective date of January 1, 2013. The members of the Council's Budget Committee voted unanimously to pursue this initiative. Currently, however, the policy options outlined in the report have not been acted upon by the full City Council.

Defined-Contribution Plans and a Framework for Reform

In 2010 Council members said in a Statement of Legislative Intent that:

> "Significant risks remain that the City's unfunded retirement liabilities will increase, placing additional burden on City budgets. A new approach is needed."

That new approach should include comprehensive pension reform enacted by the City Council and supported by the Mayor. The goal of reform should be to provide sound retirement income for retirees, but at a lower cost to both Seattle residents and to City employees.

The City's commissioned report proposes options that would provide, with Social Security, ample income to maintain employees' standard of living in retirement. Any program changes should honor benefits already earned, as accrued benefits are legally protected.

Comprehensive reform needs to accomplish four goals:

- Systematic funding of SCERS unfunded liabilities.
- A retirement system for future employees that is affordable, sustainable and secure.
- A total compensation package that enhances Seattle's ability to recruit and retain a talented public-sector workforce.
- Reduces costs for taxpayers and those who depend on city services.

Allowing City workers and new hires to have tax-deferred defined-contribution retirement accounts would go a long way toward solving the financial crisis in the City's pension system, while providing a fair and stable retirement system for employees.

Well-designed personal accounts allow employees to supplement their retirement savings during their working career, in addition to employer contributions, and create a secure financial asset that is not subject to changes in City politics. Money placed in an employee's personal account would be more than just a promise. These would be employee-owned retirement savings that could never be taken away by future mayors and future city councils.

As added security, the accumulated worker and employee contributions, plus all investment earnings, in employee personal accounts would be protected from public bankruptcy proceedings. Unlike public retirees in Detroit, public employees with personal pension accounts would never face the potential loss of their benefits in bankruptcy court.

Conclusion

The importance of properly financing SCERS and providing real long-term retirement security for current and future City employees, the people the community depends on to provide important public services, has never been greater. Reformed pension policies would ensure costs are sustainable and that public employees receive the retirement benefits they have earned, and it would protect taxpayers by strengthening the financial position and credit rating of the City of Seattle.

To read the full Policy Brief, visit www.washingtonpolicy.org/research/open-government.

Hon. Brian Sonntag is the former State Auditor for the state of Washington. Sonntag was first elected to public office in 1978 as Pierce County Clerk, working as the administrative officer for the Superior Courts. In 1986, he was elected to the office of Pierce County Auditor. Following the end of his second term, Sonntag was elected Washington State Auditor in 1992. He was re-elected four times, most recently in 2008 with 70 percent of the vote.

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