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Guest: Seattle's pension system is unsustainable

The City of Seattle faces potentially gigantic financial problems with its employee pension system, writes guest columnist Brian Sonntag.

by Hon. Brian Sonntag
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Like so many other municipalities and state governments, the City of Seattle faces potentially gigantic financial problems with its employee pension system. This problem is urgent and it must be confronted.

Presently, the unfunded liability of the Seattle City Employees' Retirement System, which covers 78 percent of the city's workforce that includes your neighborhood librarian and local parks department staff, exceeds $1 billion. The amount is a financial calculation of what the city would have to pay if all the pension obligations came due at once.

While such a one-time payout is highly unlikely, it is a real liability over time, and it reflects a fivefold increase since 2008. It simply cannot be sustained.

The Washington Policy Center asked me to lead a review of the city's pension system, which is one of only three public pension plans in Washington not covered by the state's retirement systems.

Our review is intended to provide city leadership with a solid analysis and recommendations to tackle the problem. We also want to make the issue transparent to citizens, who must have assurance its city government is meeting its financial responsibilities.

Certainly, the City of Seattle is not alone. Many state and local government retirement systems throughout the country have mounting liabilities. It was prompted largely by inadequately funding pensions because of dwindling revenues and lower investment returns during recent recessionary times. Those governments had to balance those obligations against funding for basic programs and services.

But failure to fund pensions sufficiently, for which governments are legally obligated, carries an escalating potential impact ranging from significant to catastrophic.

As pension obligations rise, so does the risk of being unable to afford other public services. We have seen the effects, contributing to the bankruptcy of some municipalities. Exacerbating this dilemma was a recent court decision that pension funds can be used to fund those other liabilities that bail a city out of bankruptcy.

Credit goes to Seattle leaders for recognizing their problem and taking steps to deal with it, seeking to resolve the looming liability over 30 years. In 2010, City Council members authorized a study to develop options that would put the pension system on solid financial footing. The study should prompt action, not become shelf art.

The Washington Policy Center review contains a menu of suggestions for the council to consider. Among them is the prospect of moving from a current defined-benefit system to one based on employee contributions. It could be a system similar to what will be created as a result of the Machinists union's recent vote on a revised contract with Boeing. Many governments and private pension plans are moving to well-designed defined-contribution systems.

The decision facing the City Council, the new mayor and other city leaders must be transformational. We cannot just patch a leak in a financial boat. It requires major forward thinking, even if that means fundamentally changing an outmoded system that has been in place since 1927, when Calvin Coolidge was president.

The city must meet the obligations and trust it made with its dedicated workers, and also protect its citizens and provide for their needs. That's what citizens expect, demand and deserve.

Brian Sonntag is former state auditor for Washington state. He is the author of Washington Policy Center's new study, "The City of Seattle Pension System — A new approach is needed."