# SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
**Report of Independent Auditors**
**and Financial Statements with**
**Required Supplementary Information**
**and Additional Information**

**December 31, 2023 and 2022**

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**CONTENTS**

CliftonLarsonAllen LLP
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# INDEPENDENT AUDITORS' REPORT

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), as of, and for the years then ended December 31, 2023 and 2022, and the related notes to the financial statements which collectively comprise SCERS's basic financial statements as listed in the table of contents, .

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SCERS as of December 31, 2023 and 2022, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SCERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERS' ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SCERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the schedules of changes in net pension liability and related ratios, employer contributions, and investment returns be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERS’ basic financial statements. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the additional information, as listed in the tables of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2024, on our consideration of SCERS’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS’ internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Boston, Massachusetts
June 10, 2024

This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the years ended December 31, 2023 and 2022. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues, and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the status of the System from both an accounting and funding perspective.

**This report contains the following information:**

1. **Basic Financial Statements** including:
   a. Statements of Fiduciary Net Position
   b. Statements of Changes in Fiduciary Net Position
   c. Notes to the Financial Statements

2. **Required Supplementary Information** including:
   a. This Management's Discussion and Analysis
   b. Schedule of Changes in Net Pension Liability and Related Ratios
   c. Schedule of Employer Contributions
   d. Schedule of Investment Returns

3. **Additional Information** including:
   a. Schedule of Administrative Expenses
   b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statements of Fiduciary Net Position show the account balances at year-end and includes the fiduciary net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Changes in Net Pension Liability and Related Ratios that is included in the Required Supplementary Information.

- The Statements of Changes in Fiduciary Net Position show the sources and uses of funds during the year and illustrate the change in fiduciary net position from the previous year.

- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Changes in Net Pension Liability and Related Ratios contains actuarial information about the status of the plan for the last 10 years.

- The Schedule of Employer Contributions contains historical trend information regarding the value of the actuarially determined employer contributions, and the actual contributions paid by the employer for the last 10 years.

- The Schedule of Investment Returns contains the investment returns realized on the total portfolio for the last 10 years.

**Financial Highlights**

- Fiduciary net position increased by $371.6 million (10.2%) during 2023. The primary driver was a net gain from investment activities of $426.3 million. Fiduciary net position decreased by $495.8 million (12.0%) during 2022. The primary driver was a net loss from investment activities of $452.8 million. Fiduciary net position increased by $493.3 million (13.5%) during 2021. The primary driver was net income from investment activities of $522.8 million.

- Revenue (additions to net position) for 2023 was $661.9 million which includes member and employer contributions of $235.6 million and revenue from investment activity of $426.3 million. Revenue for 2022 was a loss of $224.5 million which includes member and employer contributions of $228.3 million offset by a net loss from investment activities of $452.8 million. Revenue for 2021 was $744.1 million which includes member and employer contributions of $221.3 million and revenue from investment activity totaling $522.8 million.

- Expenses (deductions from net position) for 2023 increased by $19.0 million (7.0%) from 2022. This can be primarily attributed to an $14.8 million increase in retiree benefits, a $3.5 million increase in refunds of contributions and an increase in administrative expenses of $0.7 million. In 2023, the number of retirees receiving benefits increased by 2.3%. Expenses for 2022 increased by $20.5 million (8.2%) from 2021. This can be primarily attributed to an $11.2 million increase in retiree benefits, an $8.3 million increase in refunds of contributions and an increase in administrative expenses of $1.0 million. In 2022, the number of retirees receiving benefits increased by 3.0%. Expenses for 2021 increased by $14.4 million (6.1%) from 2020. This can be primarily attributed to an $8.9 million increase in retiree benefits and a $5.9 million increase in refunds of contributions, partially offset by decreases in administrative expenses of $0.5 million. In 2021, the number of retirees receiving benefits increased by 2.5%.

## Fiduciary Net Position

The table below provides a summary of assets and current liabilities for the years ended December 31:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Cash and cash equivalents and receivables | $ 521,283,784 | $ 629,824,930 | $ 437,546,128 |
| Investments at fair value | 3,833,308,955 | 3,482,487,216 | 3,912,537,754 |
| Securities Lending Collateral | 4,975,758 | 8,488,179 | 8,490,499 |
| Prepaid Expenses | 528,774 | 494,525 | 393,445 |
| Total Assets | 4,360,097,271 | 4,121,294,850 | 4,358,967,826 |
| Securities lending payable | 4,954,916 | 8,461,574 | 8,490,397 |
| Other payables | 344,583,774 | 473,895,554 | 215,695,450 |
| Total Liabilities | 349,538,690 | 482,357,128 | 224,185,847 |
| **Total fiduciary net position** | $ 4,010,558,581 | $ 3,638,937,722 | $ 4,134,781,979 |

## Changes in Fiduciary Net Position

The table below provides a summary of the changes in fiduciary net position and reflects the activities of the fund for the years ended December 31:

| | 2023 | 2022 | 2021 |
|---|---|---|---|
| Additions: | | | |
| Employer contributions | $ 150,422,765 | $ 145,366,397 | $ 139,664,957 |
| Member contributions | 85,199,264 | 82,947,406 | 81,682,256 |
| Net investment income (loss) and other income | 426,267,353 | (452,851,682) | 522,778,737 |
| Total additions | 661,889,382 | (224,537,879) | 744,125,950 |
| Deductions: | | | |
| Retiree benefits | 249,139,648 | 234,362,228 | 223,168,101 |
| Refunds of contributions | 32,706,454 | 29,212,918 | 20,954,178 |
| Administrative expenses | 8,422,421 | 7,731,231 | 6,676,131 |
| Total deductions | 290,268,523 | 271,306,377 | 250,798,410 |
| **Net increase (decrease)** | $ 371,620,859 | $ (495,844,257) | $ 493,327,540 |

**Revenues - Additions to Fiduciary Net Position**

- In 2023, employer contributions increased $5.1 million (3.5%) due primarily to a 5.6% increase in number of current employee members. In 2022, employer contributions increased $5.7 million (4.1%) due primarily to a 2.9% increase in number of current employee members.

- In 2023, member contributions increased by $2.3 million (2.7%) from 2022 due primarily to an increase in number of active employee members. In 2022, member contributions increased by $1.3 million (1.6%) from 2021 due primarily to an increase in number of active employee members.

- In 2023, net income from investment activities was $879.1 million higher than in 2022, the result of a net gain of $426.3 million in 2023 compared to a net loss of $452.8 million in 2022. In 2022, net income from investment activities was $975.6 million lower than in 2021, the result of a net loss of $452.8 million in 2022 compared to a net gain of $522.8 million in 2021.

**Expenses - Deductions from Fiduciary Net Position**

- Retiree benefits increased in 2023 by $14.8 million (6.3%) compared to 2022. Retiree benefits increased in 2022 by $11.2 million (5.0%) compared to 2021. The increases in 2023 and 2022 are primarily due to the increased number of members retiring and a 1.5% COLA (Cost of Living Adjustment).

- Refunds of contributions increased in 2023 by $3.5 million (12.0%) compared to 2022. Refunds of contributions increased in 2022 by $8.3 million (39.4%) compared to 2021.

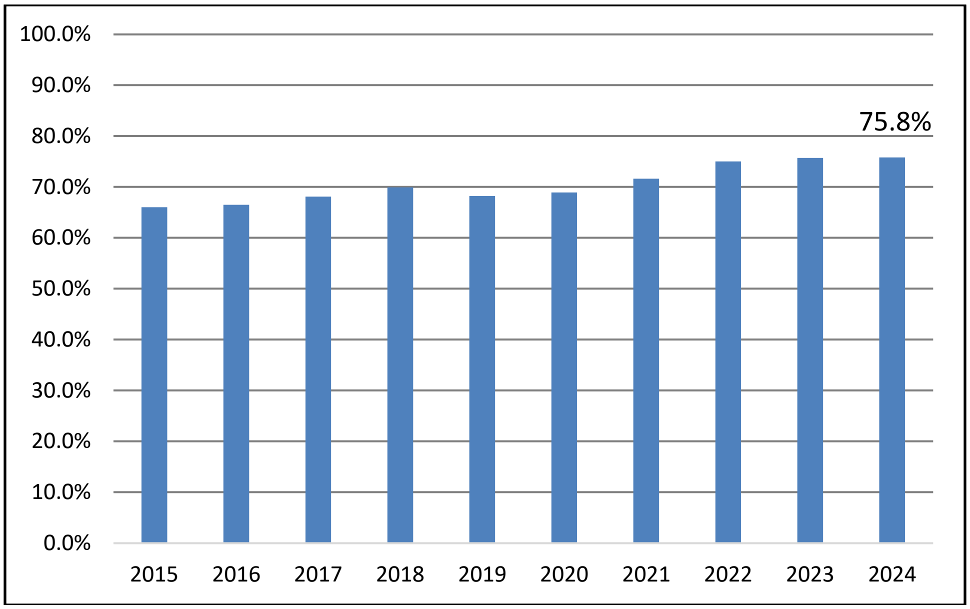
**Changes in Plan Membership**

The table below reflects the active membership and retiree changes for the years ended December 31:

| | | | | % Change | |
|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2023 to 2022 | 2022 to 2021 |
| Retirees and beneficiaries receiving benefits | 7,689 | 7,513 | 7,317 | 2.3% | 2.7% |
| Current and terminated employees: | | | | | |
| Current employee members | 9,827 | 9,309 | 9,045 | 5.6% | 2.9% |
| Terminated members entitled to, but not yet receiving benefits | 1,719 | 1,647 | 1,556 | 4.4% | 5.8% |
| Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested | 1,868 | 1,839 | 1,701 | 1.6% | 8.1% |
| **Total** | 21,103 | 20,308 | 19,619 | 3.9% | 3.5% |

**Funding Status**

**Schedule of Funding Progress**
**Funding Ratio**
**As of January 1st, Valuation Date**




Funds are accumulated from employer and employee contributions and investment earnings and are used to pay present and future benefit obligations and administrative expenses.

The City of Seattle adopted a second tier (Tier II) of the System for new eligible employees starting January 1, 2017. Active Tier I members contributed 10.03% of their salaries to the retirement fund in 2023, 2022 and 2021 and the City contributed 15.91% in 2023 and 16.20% in 2022 and 2021. Active Tier II members contributed 7.00% in 2023, 2022 and 2021 and the City contributed 15.56% in 2023 and 15.72% in 2022 and 2021.

The graph above refers to the results of actuarial valuations prepared for funding purposes in accordance with Actuarial Standards of Practice (ASOPs). However, GASB 67 requires a separate actuarial valuation for accounting purposes. The primary purpose of the valuation for accounting purposes is to provide consistent, standardized methodology that allows comparability of amounts and increased transparency of the pension liability across U.S. pension plans complying with GASB 67. When reporting in accordance with GASB 67, the Plan Fiduciary Net Position as a Percentage of the Total Pension Liability was 74.93% as of December 31, 2023.

## Investment Activities

One-year returns on asset classes (net of fees) and comparative benchmarks are presented in the table below for the years ended December 31. These returns are calculated on a time-weighted rate of return basis:

| Investment Performance | 2023 | 2022 | 2021 |
|---|---|---|---|
| Total Portfolio[1] | 11.5% | -9.8% | 16.8% |
| Strategic Policy Benchmark | 11.5% | -9.2% | 16.0% |
| Passive Reference Benchmark | 17.0% | -16.5% | 12.4% |
| Public Equity | 21.6% | -17.0% | 19.5% |
| Benchmark: MSCI ACWI IMI w/US Gross | 21.9% | -18.2% | 18.5% |
| Core Fixed Income | 5.5% | -13.4% | -1.6% |
| Benchmark: Bloomberg Barclays U.S. Aggregate Index | 5.5% | -13.0% | -1.6% |
| Credit Fixed Income[1] | 10.4% | -7.4% | 4.5% |
| Benchmark: Custom Credit Index[3] | 13.1% | -7.9% | 3.2% |
| Private Equity[1] | 7.6% | -4.0% | 55.4% |
| Benchmark: Custom Private Equity Index[2] | 4.1% | -0.1% | 54.4% |
| Real Estate[1] | -8.0% | 19.4% | 14.8% |
| Benchmark: NCREIF ODCE Index | -12.9% | 21.0% | 13.6% |
| Infrastructure[1] | 8.1% | 11.9% | 18.5% |
| Benchmark: Custom Infrastructure Index[4] | 10.6% | 12.5% | 12.5% |

Notes:

1 - Values in previous years have been updated to reflect final calculations.

2 - Custom Private Equity Index is defined as the Burgiss Private Equity Eligible Universe pooled time-weighted return that contains funds with vintage years of 2014 to present

3 - Custom Credit Index is defined as 40% Merrill Lynch High Yield Master II Index, 40% Credut Suisse Leveraged Loan Index, 10% JPM EMBI Global Diversified Index and 10% JPM GBI-EM Global DIversified Index

4 - Custom Infrastructure Index is defined as the Burgiss Infrastructure Universe pooled time-weighted return that contains funds with vintage years of 2016 to present

## Contacting the Seattle City Employees' Retirement System

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: retirecity@seattle.gov or you may mail your questions to:

Seattle City Employees' Retirement System
720 Third Avenue, Suite 900
Seattle, WA 98104

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# FINANCIAL STATEMENTS

| | 2023 | 2022 |
|---|---|---|
| Assets: | | |
| Cash and Cash Equivalents | $ 330,107,039 | $ 338,839,450 |
| Receivables: | | |
| Members | 3,084,186 | 3,009,928 |
| Employer | 4,749,591 | 4,588,819 |
| Interest and dividends | 8,064,596 | 6,790,937 |
| Sales proceeds receivable | 175,278,372 | 276,595,796 |
| Total receivables | 191,176,745 | 290,985,480 |
| Investments, at fair value: | | |
| Fixed Income | 931,235,500 | 861,907,495 |
| Infrastructure | 110,575,243 | 88,312,329 |
| Private Equity | 555,227,186 | 510,191,139 |
| Public Equity | 1,794,772,074 | 1,543,906,248 |
| Real Estate | 441,498,952 | 478,170,005 |
| Total investments, at fair value | 3,833,308,955 | 3,482,487,216 |
| Securities lending collateral | 4,975,758 | 8,488,179 |
| Prepaid Expenses: | 528,774 | 494,525 |
| Total assets | 4,360,097,271 | 4,121,294,850 |
| Liabilities: | | |
| Pensions payable and other | 5,236,311 | 5,022,826 |
| Obligations under securities lending | 4,954,916 | 8,461,574 |
| Investment commitments payable | 339,347,463 | 468,872,728 |
| Total liabilities | 349,538,690 | 482,357,128 |
| **Fiduciary net position restricted for pension benefits** | $ 4,010,558,581 | $ 3,638,937,722 |

The accompanying notes are an integral part of these financial statements.

| | 2023 | 2022 |
|---|---|---|
| Additions: | | |
| Contributions: | | |
| Employer | $ 150,422,765 | $ 145,366,397 |
| Member | 85,199,264 | 82,947,406 |
| Total contributions | 235,622,029 | 228,313,803 |
| Investment activities: | | |
| Net investment income (loss) | | |
| Net change in fair value of investments | 366,184,718 | (494,873,565) |
| Interest | 40,561,497 | 28,954,041 |
| Dividends | 17,630,680 | 19,032,947 |
| Other investment income | 18,429,322 | 8,918,844 |
| Investment activity expenses | (16,804,963) | (14,977,268) |
| Net investment income (loss) | 426,001,254 | (452,945,001) |
| Securities lending activities: | | |
| Securities lending income | 289,389 | 130,948 |
| Borrowing rebates | 65,400 | (6,533) |
| Total securities lending income | 354,789 | 124,415 |
| Securities lending management fees | (88,690) | (31,096) |
| Net income from securities lending | 266,099 | 93,319 |
| Net income (loss) from investment activities | 426,267,353 | (452,851,682) |
| Total additions | 661,889,382 | (224,537,879) |
| Deductions: | | |
| Benefits | 249,139,648 | 234,362,228 |
| Refunds of contributions | 32,706,454 | 29,212,919 |
| Administrative expenses | 8,422,421 | 7,731,231 |
| Total deductions | 290,268,523 | 271,306,378 |
| Net change | 371,620,859 | (495,844,257) |
| Fiduciary net position restricted for pension benefits | | |
| Beginning of year | 3,638,937,722 | 4,134,781,979 |
| **End of year** | $ 4,010,558,581 | $ 3,638,937,722 |

The accompanying notes are an integral part of these financial statements.

## Note 1 - Plan Description

The Seattle City Employees' Retirement System (the System) is a multiple employer defined benefit public employee retirement plan, covering employees of the City of Seattle. The System is administered in accordance with Chapter 4.36 of the Seattle Municipal Code and is reported as a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Human Resources Director, two active members and one retired member of the System who are elected by system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System except for uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 14 active members in this category). There are currently 7,689 retirees and beneficiaries receiving benefits, and 9,827 active members of the System. There are 1,719 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. The City of Seattle adopted a second tier for the System in 2016. Starting January 1, 2017, new eligible employees join this second tier.

Retirement benefits for Tier I members are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. The System provides post-retirement benefit increase including a 1.5% annual COLA increase and a 65% restoration of purchasing power benefit.

Tier II is a defined benefit plan much like the original tier but has a lower contribution rate for members and retirement benefits are calculated as 1.75% multiplied by years of creditable service multiplied by average salary, based on the highest 60 months of service. Other changes related to the new tier can be found in the Seattle Municipal Code 4.36.

## Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

**Basis of Accounting** - These financial statements have been prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

**Use of Estimates in Preparing Financial Statements -** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the System to make

**Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters** (Continued)

estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents -** The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities and funds that invest in these securities as cash equivalents.

**Method Used to Value Investments -** Plan investments are reported at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current arm's length transaction between willing parties in which the parties each act knowledgeably and prudently. All investments are valued based on objective, observable, unadjusted quoted market prices in an active market on the measurement date, if available. In the absence of such data, valuations are based upon those of comparable securities in active markets. For illiquid or hard to value investments such as real estate, private equity, and other private investments, valuations are based upon data provided by the respective investment managers. These private asset valuations are generally based upon estimated current values and/or independent appraisals. For certain investments for which comparable assets are not available in the marketplace, such as certain bank loans included in fixed income and private funds included in public equity, values are estimated.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

**Federal Income Tax Status -** The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

**Contributions** - Employee and employer contributions are reported in the year they are due to the System.

**Benefits and Refunds of Contributions** - Benefits and refunds of contributions are recognized when due and payable in accordance with the System's policy.

**Note 3 - Contributions**

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Normal Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required

**Note 3 – Contributions** (Continued)

contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Tier I members are those who joined the plan prior to January 1, 2017 and contribute a fixed 10.03% of pay. The City of Seattle adopted a second tier (Tier II) of the System for new eligible employees starting January 1, 2017 and these members contribute 7.00% of pay.

Minimum actuarially determined employer contribution rates were 15.82% and 15.33% for 2023 and 2022, respectively. In 2023, a blended employer contribution rate of 15.82% was adopted as a combination of a 15.91% rate for Tier I members and 15.56% for Tier II members. In 2022, a blended employer contribution rate of 16.10% was adopted as a combination of a 16.20% rate for Tier I members and 15.72% for Tier II members.

There are no long-term contracts for contributions outstanding and currently no legally required reserves. See Note 9 for additional information on assumptions used in calculating the actuarially determined contribution rates.

**Note 4 - Cash**

SCERS' policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation (FDIC) and Washington Public Deposit Protection Commission (PDPC) insurance. The FDIC insures cash deposits up to $250,000. As provided by the State of Washington RCW 43.84, the PDPC collateralizes deposits in excess of $100,000. The bank balances of deposits of an FDIC institution at December 31, 2022 and 2023 are insured.

**Note 5 - Investments**

**Investment policy** - The Board of Administration has established an Investment Policy as required by the Revised Code of Washington (RCW). The Investment Policy guides and assists the Board of Administration in selecting, monitoring, and managing System investments to fulfill SCERS's mission and in accordance with the "prudent person" rule established in RCW Section 35.39.060.

**Note 5 - Investments** (Continued)

The following was the Board's adopted asset allocation policy, effective January 1, 2020:

| Asset Class | Target Allocation |
|---|---|
| Equity | |
| Public Equity | 48.0% |
| Private Equity | 11.0% |
| Fixed Income | |
| Core Fixed Income | 18.0% |
| Credit Fixed Income | 7.0% |
| Real Assets | |
| Real Estate | 12.0% |
| Infrastructure | 4.0% |
| **Total** | **100.0%** |

**Money-weighted rate of return –** As of December 31, 2023, the return for the System, based on a net-of-fee money-weighted rate of return methodology, was 12.30%. As of December 31, 2022, the return for the System, based on a net-of-fee money-weighted rate of return methodology, was a negative 10.76%.

**Cash and Cash Equivalents** - Cash and Cash Equivalents include a Short-term Investment Fund (STIF), valued on an amortized cost basis, which is a collective trust that may include certificates of deposit, treasury bills, and other short-term highly liquid securities.

**Commingled Funds** – The System invests in various commingled funds where it has an ownership interest in a pool of securities alongside other fund holders. The following tables in this Section reflect the System's direct investment in these commingled funds, rather than the indirect investment in the securities that are held by these funds.

**Custodial Credit Risk** – For investments, custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian and invested in a short-term investment fund.

**Credit Risk** - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. The Core Fixed Income asset class is primarily allocated to investment-grade securities with low credit risk. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that include a minimum allocation to investment-grade securities. The Credit Fixed Income asset class is primarily allocated to below investment-grade securities with correspondingly higher credit risk. A summary of the credit ratings of the System's fixed income investments is provided on pages 21 and 22.

**Note 5 - Investments** (Continued)

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the default of a single issuer. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that include a maximum allocation to a single issuer in most cases. There is no single issuer exposure that comprises five percent or more of the book value of the fund as of December 31, 2023 and 2022.

**Interest Rate Risk** - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the fixed income securities market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The Board provides each of the System's Core Fixed Income investment managers with a set of investment guidelines that includes a limit on the difference in duration between the portfolio and its applicable benchmark. A summary of the maturities of the System's fixed income investments is provided on pages 19 and 20.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily resides within the international holdings of the Public Equity asset class.

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2023, is summarized in the following table.

| Currency Type | Public Equity Securities | Real Estate Funds | Total |
|---|---|---|---|
| EURO CURRENCY UNIT | $ - | $ 11,799,561 | $ 11,799,561 |
| HONG KONG DOLLAR | 12,140 | - | 12,140 |
| POUND STERLING | 23,314 | - | 23,314 |
| **Total** | $ 35,454 | $ 11,799,561 | $ 11,835,015 |

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2022, is summarized in the following table.

| Currency Type | Public Equity Securities | Real Estate Funds | Total |
|---|---|---|---|
| EURO CURRENCY UNIT | $ - | $ 9,951,866 | $ 9,951,866 |
| HONG KONG DOLLAR | 12,146 | - | 12,146 |
| POUND STERLING | 22,019 | - | 22,019 |
| **Total** | $ 34,165 | $ 9,951,866 | $ 9,986,031 |

**Note 5 - Investments** (Continued)

**Derivatives** - The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by careful screening of counterparties performed by the manager. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System's derivative transactions as of December 31, 2023 are summarized in the following table.

| | Unrealized Gain/Loss | | | Notional Value | |
|---|---|---|---|---|---|
| **Type** | **Long Position** | **Short Position** | **Total** | **Long Position** | **Short Position** |
| Futures - Fixed Income | $ (402,848) | $ (377,992) | $ (780,840) | $ 186,038,094 | $ (41,227,008) |
| Futures - Equity | 143,081 | (14,454) | 128,627 | 11,340,800 | (12,668,215) |
| Swaps - Fixed Income | 598,111 | 13,025 | 611,136 | 13,300,000 | (13,300,000) |
| **Total** | $ 338,344 | $ (379,421) | $ (41,077) | | |

The System's derivative transactions as of December 31, 2022 are summarized in the following table.

| | Unrealized Gain/Loss | | | Notional Value | |
|---|---|---|---|---|---|
| **Type** | **Long Position** | **Short Position** | **Total** | **Long Position** | **Short Position** |
| Futures - Fixed Income | $ (103,906) | $ (742) | $ (104,648) | $ 54,278,328 | $ (2,381,531) |
| Futures - Equity | (2,549,694) | 83,825 | (2,465,869) | 89,735,760 | (2,921,985) |
| Swaps - Fixed Income | 120,930 | 484,343 | 605,273 | 79,300,000 | (79,300,000) |
| **Total** | $ (2,532,670) | $ 567,426 | $ (1,965,244) | | |

**Note 5 - Investments** (Continued)

As of December 31, 2023, the fixed income portfolio of the System had the following investment maturities:

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| **Investment** | **Fair Value** | **<1** | **1 - 5** | **6 - 10** | **>10** |
| Fixed Income Securities | | | | | |
| Agencies | $ 12,973,717 | $ - | $ 12,060,904 | $ 912,813 | $ - |
| Asset Backed Security | 34,980,312 | - | 22,348,533 | 9,537,621 | 3,094,158 |
| Corporate Debt | 302,753,860 | 10,642,990 | 129,546,565 | 101,207,596 | 61,356,709 |
| Derivatives | 1,403,667 | (777,640) | - | 921,959 | 1,259,348 |
| Foreign Sovereign | 5,897,748 | 2,154,062 | - | 859,220 | 2,884,466 |
| Mortgage Backed Security | 265,716,940 | - | 2,201,044 | 5,453,840 | 258,062,056 |
| Municipal | 3,285,756 | - | 1,407,189 | 807,048 | 1,071,519 |
| Treasury Notes and Bonds | 151,719,919 | 4,954,300 | 41,333,690 | 41,713,735 | 63,718,194 |
| **Total Fixed Income Securities** | 778,731,919 | $ 16,973,712 | $ 208,897,925 | $ 161,413,832 | $ 391,446,450 |
| Fixed Income Funds | 152,503,581 | | | | |
| **Total Fixed Income** | $ 931,235,500 | | | | |

**Note 5 - Investments** (Continued)

As of December 31, 2022, the fixed income portfolio of the System had the following investment maturities:

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| **Investment** | **Fair Value** | **<1** | **1 - 5** | **6 - 10** | **>10** |
| Fixed Income Securities | | | | | |
| Agencies | $ 11,013,271 | $ - | $ 10,147,032 | $ 866,239 | $ - |
| Asset Backed Security | 24,621,476 | - | 9,223,079 | 9,898,725 | 5,499,672 |
| Corporate Debt | 313,943,356 | 3,142,793 | 128,053,028 | 130,772,923 | 51,974,612 |
| Derivatives | 1,602,678 | (104,648) | (523,155) | 1,050,309 | 1,180,172 |
| Foreign Sovereign | 5,632,144 | - | 2,098,754 | 818,270 | 2,715,120 |
| Mortgage Backed Security | 244,586,215 | - | 3,608,580 | 8,166,159 | 232,811,476 |
| Municipal | 6,631,633 | - | 753,206 | 2,606,154 | 3,272,273 |
| Treasury Notes and Bonds | 122,790,199 | - | 31,509,902 | 37,958,871 | 53,321,426 |
| **Total Fixed Income Securities** | 730,820,972 | $ 3,038,145 | $ 184,870,426 | $ 192,137,650 | $ 350,774,751 |
| Fixed Income Funds | 131,086,523 | | | | |
| **Total Fixed Income** | $ 861,907,495 | | | | |

**Note 5 - Investments** (Continued)

As of December 31, 2023, the fixed income portfolio of the System had the following investment ratings:

| | | Ratings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Investment** | **Fair Value** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B** | **CCC& Below** | **Not Rated** |
| Fixed Income Securities | | | | | | | | | |
| Agencies | $ 12,973,717 | $ 12,973,717 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Asset Backed Security | 34,980,312 | 25,102,542 | 6,456,290 | 621,167 | 362,033 | - | - | 193,755 | 2,244,526 |
| Corporate Debt | 302,753,860 | 7,883,228 | 8,709,377 | 56,235,850 | 127,739,655 | 35,495,180 | 50,865,159 | 14,342,644 | 1,482,768 |
| Derivatives | 1,403,667 | - | - | - | - | - | - | - | 1,403,667 |
| Foreign Sovereign | 5,897,748 | - | 788,544 | 3,743,686 | - | - | - | - | 1,365,518 |
| Mortgage Backed Security | 265,716,940 | 178,804,352 | - | - | - | - | 72,609 | - | 86,839,979 |
| Municipal | 3,285,756 | 310,017 | 2,214,237 | 761,502 | - | - | - | - | - |
| Treasury Notes and Bonds | 151,719,919 | 151,719,919 | - | - | - | - | - | - | - |
| **Total Fixed Income Securities** | 778,731,919 | $ 376,793,775 | $ 18,168,448 | $ 61,362,205 | $ 128,101,687 | $ 35,495,180 | $ 50,937,768 | $ 14,536,398 | $ 93,336,458 |
| Fixed Income Funds | 152,503,581 | | | | | | | | |
| **Total Fixed Income** | $ 931,235,500 | | | | | | | | |

**Note 5 - Investments** (Continued)

As of December 31, 2022, the fixed income portfolio of the System had the following investment ratings:

| | | Ratings | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Investment** | **Fair Value** | **AAA** | **AA** | **A** | **BBB** | **BB** | **B** | **CCC& Below** | **Not Rated** |
| Fixed Income Securities | | | | | | | | | |
| Agencies | $ 11,013,271 | $ 11,013,271 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Asset Backed Security | 24,621,476 | 17,118,389 | 3,984,109 | 640,709 | 381,495 | - | - | 208,754 | 2,288,020 |
| Corporate Debt | 313,943,356 | 6,391,632 | 9,615,699 | 61,179,839 | 124,663,822 | 43,607,770 | 53,571,270 | 13,822,740 | 1,090,585 |
| Derivatives | 1,602,678 | - | - | - | - | - | - | - | 1,602,678 |
| Foreign Sovereign | 5,632,144 | - | 768,488 | 3,533,390 | - | - | - | - | 1,330,266 |
| Mortgage Backed Security | 244,586,215 | 155,356,355 | - | - | - | 126,130 | - | - | 89,103,730 |
| Municipal | 6,631,633 | 778,770 | 4,431,320 | 1,421,543 | - | - | - | - | - |
| Treasury Notes and Bonds | 122,790,198 | 122,790,198 | - | - | - | - | - | - | - |
| **Total Fixed Income Securities** | 730,820,972 | $ 313,448,615 | $ 18,799,616 | $ 66,775,482 | $ 125,045,316 | $ 43,733,900 | $ 53,571,270 | $ 14,031,493 | $ 95,415,279 |
| Fixed Income Funds | 131,086,523 | | | | | | | | |
| **Total Fixed Income** | $ 861,907,495 | | | | | | | | |

## Note 6 - Fair Value Measurements

Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1: unadjusted quoted prices for identical instruments in active markets
- Level 2: quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable
- Level 3: significant inputs are unobservable

The following schedule presents investments categorized according to the fair value hierarchy, and is proceeded with additional information regarding investments measured at the net asset value as of December 31, 2023:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments by fair value level** | **12/31/2023** | **Quoted Prices in Active Markets Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Public Equity Securities | $ 955,295,239 | $ 955,278,376 | $ 1,000 | $ 15,863 |
| Fixed Income Securities | 778,731,919 | 150,939,079 | 589,005,751 | 38,787,089 |
| **Total investments by fair value level** | **1,734,027,158** | **$ 1,106,217,455** | **$ 589,006,751** | **$ 38,802,952** |
| **Fund Investments measured at the net asset value (NAV)** | | | | |
| Fixed Income | 152,503,581 | | | |
| Infrastructure | 110,575,243 | | | |
| Private Equity | 555,227,186 | | | |
| Public Equity | 839,476,835 | | | |
| Real Estate | 441,498,952 | | | |
| **Total investments by measured at the NAV** | **2,099,281,797** | | | |
| **Total investments** | **$ 3,833,308,955** | | | |

**Fund Investments Measured at the NAV**

| | Fair Value | Unfunded Commitments | Redemption Frequency (if Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| Fixed Income | $ 152,503,581 | $ 77,827,746 | Daily, N/A | 5 Days, N/A |
| Infrastructure | 110,575,243 | 33,518,560 | N/A | N/A |
| Private Equity | 555,227,186 | 355,066,386 | N/A | N/A |
| Public Equity | 839,476,835 | - | Daily, Quarterly | 1 - 90 Days |
| Real Estate | 441,498,952 | 97,168,263 | Quarterly, N/A | 45 Days, N/A |
| Total investments measured at the NAV | $ 2,099,281,797 | $ 563,580,955 | | |

**Note 6 - Fair Value Measurements** (Continued)

Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset:

- Level 1: unadjusted quoted prices for identical instruments in active markets
- Level 2: quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable
- Level 3: significant inputs are unobservable

The following schedule presents investments categorized according to the fair value hierarchy, and is proceeded with additional information regarding investments measured at the net asset value as of December 31, 2022:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| **Investments by fair value level** | **12/31/2022** | **Quoted Prices in Active Markets Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Public Equity Securities | $ 789,787,219 | $ 789,770,356 | $ 1,000 | $ 15,863 |
| Fixed Income Securities | 730,820,972 | 122,685,551 | 551,728,793 | 56,406,628 |
| **Total investments by fair value level** | **1,520,608,191** | **$ 912,455,907** | **$ 551,729,793** | **$ 56,422,491** |
| **Fund Investments measured at the net asset value (NAV)** | | | | |
| Fixed Income | 131,086,523 | | | |
| Infrastructure | 88,312,329 | | | |
| Private Equity | 510,191,139 | | | |
| Public Equity | 754,119,029 | | | |
| Real Estate | 478,170,005 | | | |
| **Total investments by measured at the NAV** | **1,961,879,025** | | | |
| **Total investments** | **$ 3,482,487,216** | | | |

**Fund Investments Measured at the NAV**

| | **Fair Value** | **Unfunded Commitments** | **Frequency (if Currently Eligible)** | **Redemption Notice Period** |
|---|---|---|---|---|
| Fixed Income | $ 131,086,523 | $ 54,898,360 | Monthly, N/A | 5 - 30 Days, N/A |
| Infrastructure | 88,312,329 | 69,162,807 | N/A | N/A |
| Private Equity | 510,191,139 | 387,075,679 | N/A | N/A |
| Public Equity | 754,119,029 | - | Daily, Monthly | 1 - 60 Days |
| Real Estate | 478,170,005 | 81,381,309 | Quarterly, N/A | 45 Days, N/A |
| Total investments measured at the NAV | $ 1,961,879,025 | $ 592,518,155 | | |

**Note 6 - Fair Value Measurements** (Continued)

Fixed Income – These fund investments are structured as limited partnerships. The investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of five years where redemptions are restricted. There are no plans to liquidate the portfolio.

Infrastructure – These fund investments are structured as limited partnerships or limited liability companies. These investments have an approximate life of ten years where redemptions are restricted. There are no plans to liquidate the portfolio.

Private Equity – These fund investments are structured as limited partnerships or limited liability companies. These investments have an approximate life of ten years where redemptions are restricted. There are no plans to liquidate the portfolio.

Public Equity – These fund investments are structured as mutual funds, trusts, limited partnerships, or limited liability companies. The funds have a perpetual life. Redemption frequencies range from daily to quarterly. There are no plans to liquidate the portfolio.

Real Estate – These fund investments are structured as trusts, limited partnerships, or limited liability companies. These investments include those with a perpetual life and the ability to redeem as well as investments with an approximate life of 10 years where redemptions are restricted. There are no plans to liquidate the portfolio.

**Note 7 - Securities Lending Transactions**

In accordance with SCERS' Investment Policy and RCW 39.59.020, the System participates, through a custodial agent, in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2023, the fair value of securities on loan was $4,806,439. Associated cash collateral totaling $4,954,916 was received. The fair market value of the reinvested collateral was $4,975,758 at December 31, 2023. As of December 31, 2022, the fair value of securities on loan was $8,250,628. Associated cash collateral totaling $8,461,574 was received. The fair market value of the reinvested collateral was $8,488,179 at December 31, 2022.

The fair value of noncash collateralized securities on loan at December 31, 2023 was $12,716,433 and the noncash collateral was $12,985,848, 102.12% of the fair value of the securities on loan. The fair value of noncash collateralized securities on loan at December 31, 2022 was $11,165,614 and the noncash collateral was $11,423,731, 102.31% of the fair value of the securities on loan. In the event a borrower fails to return loaned securities or securities equivalent to the loaned securities, and the liquidation of noncash collateral is insufficient to replace any of the loaned securities not returned, the bank shall pay such additional amounts as necessary to make SCERS whole.

## Note 8 - Commitments

The System has entered into capital commitments to fund partnership interests in certain alternative investments. The System has unfunded commitments to these partnerships of $563,580,955 at December 31, 2023, and $592,518,155 at December 31, 2022.

## Note 9 - Net Pension Liability

The components of the net pension liability as of December 31 were as follows:

| | 2023 | 2022 |
|---|---|---|
| Total Pension Liability | $ 5,352,324,892 | $ 5,151,961,389 |
| Plan Fiduciary Net Position | 4,010,558,581 | 3,638,937,722 |
| Net Pension Liability | $ 1,341,766,311 | $ 1,513,023,667 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.93% | 70.63% |

**Actuarial assumptions**

The total pension liability as of December 31, 2023 and 2022 was determined by actuarial valuations as of January 1, 2023 and 2022, respectively. Generally accepted actuarial techniques were applied to roll forward the total pension liability to December 31, 2023 and 2022, respectively.

The following actuarial cost method and key actuarial assumptions and other inputs were applied to the measurement periods of December 31, 2023 and 2022:

| | |
|---|---|
| Investment Rate of Return: | 6.75% compounded annually, net of expenses |
| General Wage Increases: | 3.35% |
| Inflation: | 2.60% |
| Actuarial Cost Method: | Individual Entry Age Normal |
| Postretirement Benefit Increases: | Annual compounding COLA of 1.5%, 2.60% annual increase if the purchasing level decreases to 65%. |
| Mortality: | Various rates based on PubG-2010 mortality tables and using generational projection of improvement using MP-2021 Ultimate projection scale |

**Note 9 - Net Pension Liability** (Continued)

The actuarial assumptions that determined the total pension liability as of December 31, 2023 and December 31, 2022 were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2021.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2023 and 2022 (see discussion of pension plan's investment policy) are summarized in the following table:

| **Asset Class** | **Long-Term Expected Real Rate of Return** | |
|---|---|---|
| | **2023** | **2022** |
| Equity | | |
| Public Equity | 4.7% | 4.9% |
| Private Equity | 7.5% | 7.5% |
| Fixed Income | | |
| Core Fixed Income | 2.3% | 2.1% |
| Credit Fixed Income | 5.8% | 5.3% |
| Real Assets | | |
| Real Estate | 4.2% | 3.0% |
| Infrastructure | 4.5% | 4.4% |

The above table reflects the expected (30 year) real rate of return for each major asset class. The expected inflation rate was projected at 2.60% in 2023 and 2022.

Discount Rate. The discount rate used to measure the total pension liability was 6.75% for 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

**Note 9 - Net Pension Liability** (Continued)

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the current discount rate of 6.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|---|
| **2023** | $ 2,016,626,424 | $ 1,341,766,311 | $ 777,715,952 |

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the current discount rate of 6.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

| | 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|---|
| **2022** | $ 2,160,805,864 | $ 1,513,023,667 | $ 971,260,850 |

**Note 10 – Subsequent Event**

In March 2024, the City and the Coalition of City Unions (CCU) (as well as the City and additional bargaining units) reached a tentative four-year agreement for Annual Wage Increases (AWIs) and other wage adjustments for certain positions for the period January 1, 2023 through December 31, 2026. This agreement provides for AWIs of 5% and 4.5% for 2023 and 2024, respectively. When implemented in 2024, retroactive application of the 2023 AWI and other wage adjustments will result in 2023 employee and employer contribution revenue in an amount equal to the applicable contribution rates on eligible earnings.

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## REQUIRED SUPPLEMENTARY INFORMATION

| | December 31, 2023 | December 31, 2022 | December 31, 2021 | December 31, 2020 | December 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total pension liability** | | | | | | | | | | |
| Service Cost | $ 126,411,478 | $ 128,211,256 | $ 126,888,870 | $ 118,381,689 | $ 106,878,177 | $ 106,483,390 | $ 112,691,379 | $ 106,450,550 | $ 100,415,811 | $ 94,017,562 |
| Interest | 346,933,183 | 334,933,663 | 335,488,843 | 319,903,550 | 303,180,183 | 293,163,397 | 281,360,916 | 268,005,035 | 254,539,867 | 241,885,785 |
| Difference between expected and actual experience | 8,864,944 | (11,013,010) | (5,291,246) | 4,737,015 | (21,432,335) | (12,310,502) | (29,175,591) | (7,653,756) | 1,983,005 | - |
| Changes in assumptions | - | - | 129,971,469 | - | - | 100,064,436 | - | - | - | - |
| Benefits payments | (249,139,648) | (234,362,228) | (223,168,101) | (214,228,946) | (203,413,178) | (190,475,464) | (179,226,526) | (168,967,298) | (159,349,807) | (150,239,208) |
| Refunds of contributions | (32,706,454) | (29,212,919) | (20,954,178) | (15,028,611) | (15,188,644) | (20,287,842) | (19,158,756) | (16,456,570) | (16,137,840) | (15,103,615) |
| Net change in total pension liability | 200,363,503 | 188,556,762 | 342,935,657 | 213,764,697 | 170,024,203 | 276,637,415 | 166,491,422 | 181,377,961 | 181,451,036 | 170,560,524 |
| **Total pension liability - beginning** | 5,151,961,389 | 4,963,404,627 | 4,620,468,970 | 4,406,704,273 | 4,236,680,070 | 3,960,042,655 | 3,793,551,233 | 3,612,173,272 | 3,430,722,236 | 3,260,161,712 |
| **Total pension liability - ending (a)** | 5,352,324,892 | 5,151,961,389 | 4,963,404,627 | 4,620,468,970 | 4,406,704,273 | 4,236,680,070 | 3,960,042,655 | 3,793,551,233 | 3,612,173,272 | 3,430,722,236 |
| **Plan net position** | | | | | | | | | | |
| Contributions - employer | 150,422,765 | 145,366,397 | 139,664,957 | 141,417,746 | 119,171,072 | 117,816,201 | 112,102,982 | 108,454,496 | 101,153,403 | 89,988,898 |
| Contributions - member | 85,199,264 | 82,947,406 | 81,682,256 | 82,914,475 | 75,260,573 | 76,285,206 | 73,650,409 | 71,755,857 | 65,779,216 | 63,969,504 |
| Net investment income (loss) | 426,267,353 | (452,851,682) | 522,778,737 | 503,737,186 | 465,764,583 | (106,569,274) | 388,156,509 | 189,941,169 | 7,083,633 | 122,510,395 |
| Benefits payments | (249,139,648) | (234,362,228) | (223,168,101) | (214,228,946) | (203,413,178) | (190,475,464) | (179,226,526) | (168,967,298) | (159,349,807) | (150,239,208) |
| Administrative expense | (8,422,421) | (7,731,231) | (6,676,131) | (7,221,267) | (9,167,368) | (12,204,574) | (11,150,217) | (9,250,653) | (8,211,137) | (5,330,764) |
| Refunds of contributions | (32,706,454) | (29,212,919) | (20,954,178) | (15,028,611) | (15,188,644) | (20,287,842) | (19,158,756) | (16,456,570) | (16,137,840) | (15,103,615) |
| Net change in plan net position | 371,620,859 | (495,844,257) | 493,327,540 | 491,590,583 | 432,427,038 | (135,435,747) | 364,374,401 | 175,477,001 | (9,682,532) | 105,795,210 |
| **Plan net position - beginning** | 3,638,937,722 | 4,134,781,979 | 3,641,454,439 | 3,149,863,856 | 2,717,436,818 | 2,852,872,565 | 2,488,498,164 | 2,313,021,163 | 2,322,703,695 | 2,216,908,485 |
| **Plan net position - ending (b)** | 4,010,558,581 | 3,638,937,722 | 4,134,781,979 | 3,641,454,439 | 3,149,863,856 | 2,717,436,818 | 2,852,872,565 | 2,488,498,164 | 2,313,021,163 | 2,322,703,695 |
| **Net pension liability - ending (a) - (b)** | $ 1,341,766,311 | $ 1,513,023,667 | $ 828,622,648 | $ 979,014,531 | $ 1,256,840,417 | $ 1,519,243,252 | $ 1,107,170,090 | $ 1,305,053,069 | $ 1,299,152,109 | $ 1,108,018,541 |
| **Ratio of plan net position to total pension liability (b) / (a)** | 74.93% | 70.63% | 83.31% | 78.81% | 71.48% | 64.14% | 72.04% | 65.60% | 64.03% | 67.70% |
| **Covered payroll** | $ 946,192,571 | $ 901,500,367 | $ 865,130,155 | $ 876,856,592 | $ 785,552,254 | $ 779,092,412 | $ 733,288,443 | $ 708,600,000 | $ 641,700,000 | $ 630,900,000 |
| **Net pension liability as a percentage of covered payroll** | 141.81% | 167.83% | 95.78% | 111.65% | 159.99% | 195.00% | 150.99% | 184.17% | 202.45% | 175.63% |

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

**Amounts Presented in Millions**

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Actuarially determined employer contribution | $ 149.7 | $ 138.2 | $ 139.1 | $ 141.4 | $ 114.3 | $ 116.6 | $ 112.1 | $ 107.9 | $ 100.9 | $ 90.3 |
| Actual employer contributions | 150.4 | 145.4 | 139.7 | 141.4 | 119.2 | 117.8 | 112.1 | 108.5 | 101.2 | 90.0 |
| Annual contribution deficiency (excess) | (0.7) | (7.2) | (0.6) | - | (4.9) | (1.2) | - | (0.6) | (0.3) | 0.3 |
| Covered payroll | 946.2 | 901.5 | 865.1 | 876.9 | 785.6 | 779.1 | 733.3 | 708.6 | 641.7 | 630.9 |
| Actual contributions as a percentage of covered payroll | 15.90% | 16.13% | 16.15% | 16.12% | 15.17% | 15.12% | 15.29% | 15.31% | 15.77% | 14.27% |

**Notes to Schedule**:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the fiscal year in which the contributions will apply.

Methods and assumptions used to determine contribution rates for fiscal year 2023 are:

| | |
|---|---|
| Actuarial cost method | Individual Entry Age Normal |
| Amortization method | Level percent |
| Remaining amortization period | Closed 30 years as of January 1, 2013 valuation |
| Asset valuation method | 5 years smoothed, non-asymptotic |
| Inflation | 2.60% |
| General wage increases | 3.35% |
| Investment rate of return | 6.75% |
| Cost of Living Adjustments | Annual compounding COLA of 1.5% assumed. |

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Fund | 12.30% | -10.76% | 14.77% | 14.68% | 17.29% | -3.79% | 16.00% | 8.40% | 0.10% | 5.47% |

Notes:

- These returns are calculated on a net-of-fee money-weighted rate of return basis.

# ADDITIONAL INFORMATION

| | Budget | Actual Expenses | |
|---|---|---|---|
| | **2023** | **2023** | **2022** |
| Personnel Services | | | |
| Salaries | $ 3,866,967 | $ 3,893,052 | $ 3,653,200 |
| Benefits | 1,572,240 | 1,633,641 | 1,327,748 |
| Total Personnel Services | 5,439,207 | 5,526,693 | 4,980,948 |
| Maintenance and Operations | | | |
| Professional Services | 1,569,452 | 848,075 | 734,983 |
| Office Rent | 385,341 | 419,797 | 402,146 |
| Data Processing | 1,187,291 | 1,097,172 | 1,087,586 |
| Office Supplies | 299,341 | 128,799 | 133,455 |
| Postage | 117,200 | 116,458 | 99,410 |
| Training & Travel | 105,000 | 70,351 | 83,119 |
| Internal Services & Cost Allocations | 1,371,238 | 1,397,521 | 1,309,945 |
| Total Maintenance & Operations | 5,034,863 | 4,078,173 | 3,850,644 |
| Total Expenses | $ 10,474,070 | $ 9,604,866 | $ 8,831,592 |
| Less Internal Investment Expenses | | $ 1,182,445 | $ 1,100,361 |
| Total Administrative Expenses | | $ 8,422,421 | $ 7,731,231 |

| | | |
|---|---|---|
| Investment Management Fees: | | |
| Public Equity | $ | 2,282,783 |
| Private Equity | | 1,549,190 |
| Fixed Income | | 3,379,736 |
| Real Estate | | 5,379,628 |
| Infrastructure | | 2,225,038 |
| Other | | 124,658 |
| Total Investment Management Fees | $ | 14,941,033 |
| Consulting Services: | | |
| NEPC LLC | | 332,264 |
| Custodial Services: | | |
| Bank of New York Mellon | | 349,221 |
| Internal Costs: | | 1,182,445 |
| **Total Investment Expenses** | $ | 16,804,963 |
| **Securities Lending Services:** | | |
| Bank of New York Mellon | $ | 88,690 |

Note:

- Certain investment managers pursue a multi-manager strategy whereby the manager identifies, selects and invests through multiple underlying investment managers. In these instances, the investment fees reflected in the schedule are only those incurred directly by the investment manager of the multi-manager strategy and do not incorporate those fees incurred indirectly by the underlying investment managers.

# INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Seattle City Employees' Retirement System (SCERS), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated June 10, 2024.

## *Report on Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Board of Administration
Seattle City Employees' Retirement System

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether SCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Boston, Massachusetts
June 10, 2024