



Office of the Washington State Auditor  
Pat McCarthy

# Financial Schedule Audit Report

## Tacoma Employees' Retirement System

For the period January 1, 2023 through December 31, 2023

*Published December 26, 2024*

Report No. 1036381



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**Office of the Washington State Auditor  
Pat McCarthy**

December 26, 2024

The Honorable Mayor and Members of the Board of Administration  
Tacoma Employees' Retirement System  
Tacoma, Washington

**Report on Financial Schedule**

Please find attached our report on the Tacoma Employees' Retirement System's financial schedule.

We are issuing this report in order to provide information on the Retirement System's financial activities and condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

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## TABLE OF CONTENTS

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedule Performed in Accordance with <i>Government Auditing Standards</i> .....	4
Independent Auditor's Report on the Financial Schedule.....	7
Financial Section.....	10
About the State Auditor's Office.....	25

## INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Pension Amounts by Employer Performed in Accordance with *Government Auditing Standards*

### **Tacoma Employees' Retirement System January 1, 2023 through December 31, 2023**

The Honorable Mayor and Members of the Board of Administration  
Tacoma Employees' Retirement System  
Tacoma, Washington

We have audited, in accordance with 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 Schedule of Pension Amounts by Employer (financial schedule) of the Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, as of and for the year ended December 31, 2023, and the related notes to the financial schedule, which collectively comprise the Retirement System's financial schedule, and have issued our report thereon dated December 18, 2024.

We have also audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, Washington, as of and for the year ended December 31, 2023, and our report thereon, dated June 27, 2024.

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial schedule, we considered the Retirement System's 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 schedule, but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Retirement System's 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 Retirement System's financial schedule 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Retirement System's financial schedule is 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 schedule. 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 Retirement System'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 Retirement System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

December 18, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Schedule

### **Tacoma Employees' Retirement System January 1, 2023 through December 31, 2023**

The Honorable Mayor and Members of the Board of Administration  
Tacoma Employees' Retirement System  
Tacoma, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL SCHEDULE**

### **Opinion**

We have audited the accompanying Schedule of Pension Amounts by Employer (financial schedule) of the Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, as of and for the year ended December 31, 2023, and the related notes to the financial schedule, which collectively comprise the Retirement System's financial schedule as listed in the financial section of our report.

In our opinion, the accompanying financial schedule referred to above present fairly, in all material respects, the beginning net pension liability, ending net pension liability, deferred outflows of resources, and deferred inflows of resources of the Tacoma Employees' Retirement System, as of December 31, 2023, and the employer contributions, percentage of total contributions, and pension expense information thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit 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 Auditor's Responsibilities for the Audit of the Financial Schedule section of our report. We are required to be independent of the Retirement System 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.

## Other Matters

We have also audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the Tacoma Employees' Retirement System, a fiduciary fund of the City of Tacoma, Washington, as of and for the year ended December 31, 2023, and our report thereon, dated June 27, 2024.

## Responsibilities of Management for the Financial Schedule

Management is responsible for the preparation and fair presentation of the financial schedule 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 schedule that is free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Schedule

Our objectives are to obtain reasonable assurance about whether the financial schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 schedule.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial schedule, 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 schedule;



- 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 the Retirement System’s 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 schedule;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Retirement System’s ability to continue as a going concern for a reasonable period of time; and
- 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.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2024 on our consideration of the Retirement System’s 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 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 the Retirement System’s 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 the Retirement System’s internal control over financial reporting and compliance.



Pat McCarthy, State Auditor

Olympia, WA

December 18, 2024

## FINANCIAL SECTION

### **Tacoma Employees' Retirement System January 1, 2023 through December 31, 2023**

#### **FINANCIAL SCHEDULE**

Schedule of Pension Amounts by Employer – 2023  
Notes to the Schedule – 2023

# Schedule of Pension Amounts by Employer

Employer	Proportionate Share		Net Pension Liability			Deferred Outflows of Resources			Deferred (Inflows) of Resources			Pension Expense		
	2023 Employer Contributions	Percentage of Total	Beginning Net Pension Liability (Asset)	Ending Net Pension Liability (Asset)**	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings	Changes in Assumptions	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings	Changes in Assumptions	Proportionate Share of 2023 Pension Expense	Net Amortization of Deferred Assets from Changes in Proportionate Share	Total Employer Pension Expense	
City of Tacoma	\$34,075,467	91.78956%	\$138,155,523	\$135,724,017	\$28,810,897	\$84,719,096	\$6,015,974	(\$1,911,931)	\$0	(\$112,474)	\$44,479,740	(\$42,203)	\$44,437,537	
South Sound #11	22,218	0.05904%	135,153	89,005	19,785	55,239	974	(11,247)	-	(140)	29,002	289	29,291	
Pierce Transit	166,894	0.53023%	743,575	794,185	166,463	489,489	9,700	(11,047)	-	(25,842)	256,995	(1,733)	255,262	
Tacoma-Pierce County Health Department	2,836,893	7.64033%	11,448,012	11,299,862	2,389,685	7,053,388	128,500	(459,160)	-	(62,753)	3,703,213	43,678	3,746,891	
Grand Total	\$ 37,131,559	100.00000%	\$ 150,182,262	\$ 147,596,969	\$ 31,394,931	\$ 92,317,212	\$ 143,219	\$ (2,063,904)	\$ -	\$ (143,219)	\$ 48,468,950	\$ 0	\$ 48,468,950	

\*Based on unrounded contributions from 2022.

\*\*Based on unrounded contributions from 2023.

\*\*\*Equal to the sum of all years by employer in the final column of Note C, Table "Deferred (Inflows) and Outflows for Employer – Specific Adjustments per paragraph 54 of GASB 68", based on unrounded amounts

## Notes to the Schedules

### Note 1: Plan Description

The Tacoma Employees' Retirement System (TERS, the System) is a cost-sharing, multiple-employer defined benefit public employee pension plan, covering a majority of the non-uniformed employees of the City of Tacoma, and three Member Public Agencies. The Member Public Agencies are Tacoma-Pierce County Health Department, certain employees of Pierce Transit and South Sound 911 (formerly known as Law Enforcement Support Agency) who established membership in the System when these agencies were still City of Tacoma departments.

It has been administered in accordance with Chapter 1.30 of the Tacoma Municipal Code and Chapter 41.28 of the Revised Code of Washington.

### Note 2: Presentations and Allocations

#### A. Allocation Method

The employer contributions received and accrued within the calendar years ended December 31, 2022 and December 31, 2023, are used as the basis for determining each employer's proportionate share of the collective pension amounts reported in the *Schedule of Pension Amounts by Employer*.

**B. Net Pension Liability**

Components of the calculation of net pension liability (NPL) or assets for the participating employers are calculated in accordance with *GASB Statement No. 67*, are shown in the table below.

<b>Net Pension Liability</b>		
<b>Net Pension Liability</b>	<b>December 31, 2022</b>	<b>December 31, 2023</b>
Total pension liability	\$2,152,607,815	\$2,273,380,470
Fiduciary net position	2,002,425,553	2,125,483,910
Net pension liability (asset)	150,182,262	147,896,560
Fiduciary net position as a % of total pension liability	93.02%	93.49%
Covered payroll	\$299,750,573	\$327,438,792
Net pension liability (asset) as a % of covered payroll	50.10%	45.17%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below.

**Discount Rate**

Discount rate	6.75%	6.75%
Long-term expected rate of return, net of investment expense	6.75%	6.75%
Municipal bond rate	N/A	N/A

The fiduciary net position, along with expected future contributions, was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

**Other Key Actuarial Assumptions**

Valuation date	January 1, 2023	January 1, 2024
Measurement date	December 31, 2022	December 31, 2023
Inflation	2.50%	2.50%
Salary increases including inflation	3.25%	3.25%
Mortality	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration data from 1957-2017.	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration data from 1957-2017.

Active Members:    Employee Mortality                      Employee Mortality

Inactive Members and Beneficiaries:    Healthy Retiree Mortality                      Healthy Retiree Mortality

Disabled Members:    Disabled Retiree Mortality                      Disabled Retiree Mortality

Actuarial cost method                      Entry Age                      Entry Age

**C. Amortization Schedules**

Milliman, TERS' actuary, calculated the amortization schedule of the deferred inflows and outflows of resources for years ended December 31.

**Schedule of Collective Deferred (Inflows) and Outflows of Resources**

Original Amount	Date Established	Original Recognition Period*	Amount Recognized in 2023		Balance of Collective Deferred (Inflows) as of 12/31/2023		Balance of Collective Deferred Outflows as of 12/31/2023		Amount Recognized in 2024		Amount Recognized in 2025		Amount Recognized in 2026		Amount Recognized in 2027		Amount Recognized in 2028	
			Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Date	Measurement Date	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense	Measurement Period Collective Expense
(\$32,183,729)	12/31/2023	5.0	\$ (6,436,746)	\$ (25,746,983)	\$ -	\$ -	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)	\$ (6,436,746)
328,214,220	12/31/2022	5.0	65,642,844	-	196,928,532	-	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844	65,642,844
(222,388,953)	12/31/2021	5.0	(44,477,791)	(88,955,580)	-	-	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)	(44,477,791)
50,456,223	12/31/2020	5.0	10,091,245	-	-	-	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243	10,091,243
(162,144,375)	12/31/2019	5.0	(32,428,875)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			<b>\$ (7,509,323)</b>	<b>\$ (114,702,563)</b>	<b>\$ 207,019,775</b>	<b>\$ 24,819,550</b>	<b>\$ 14,728,309</b>	<b>\$ 59,206,098</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>	<b>\$ (6,436,745)</b>
31,843,896	12/31/2023	5.4	5,897,018	-	25,946,878	-	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018	5,897,018
2,727,517	12/31/2022	5.4	505,096	-	1,717,325	-	505,096	505,096	505,096	505,096	505,096	505,096	505,096	505,096	505,096	505,096	505,096	505,096
4,128,338	12/31/2021	5.4	764,507	-	1,834,817	-	764,507	764,507	764,507	764,507	764,507	764,507	764,507	764,507	764,507	764,507	764,507	764,507
(7,291,912)	12/31/2020	5.6	(1,302,127)	(2,063,404)	-	-	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)	(1,302,127)
17,694,256	12/31/2019	5.6	3,159,689	-	1,895,811	-	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811	1,895,811
4,815,762	12/31/2018	5.6	515,972	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			<b>\$ 9,540,155</b>	<b>\$ (2,063,404)</b>	<b>\$ 31,394,831</b>	<b>\$ 7,760,305</b>	<b>\$ 6,385,344</b>	<b>\$ 6,707,917</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>	<b>\$ 6,099,055</b>
-	12/31/2023	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	12/31/2022	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	12/31/2021	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
63,573,598	12/31/2020	5.6	11,352,428	-	18,163,886	-	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428	11,352,428
-	12/31/2019	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	12/31/2018	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
			<b>\$ 11,352,428</b>	<b>\$ -</b>	<b>\$ 18,163,886</b>	<b>\$ 11,352,428</b>	<b>\$ 6,811,458</b>	<b>\$ 6,811,458</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Investment (gains)/losses are recognized in pension expense over a period of five years; economic/demographic (gains)/losses and assumption changes or inputs are recognized over the average remaining service life for all active and inactive members. The economic/demographic (gains)/losses recognition period of 5.4 for bases established on 12/31/2023 is unchanged from bases established on 12/31/2022.

**Deferred Outflows/(Inflows) for Employer-Specific Adjustments per Paragraph 54 of GASB 68**

Employer	Beginning of Measurement Period for Initial Recognition	Proportion at Measurement Beginning Date	Proportion at Measurement End Date	Total Net Pension Liability (NPL) at Measurement Beginning Date	Balance of Deferred Outflow at Measurement Beginning Date	Balance of Deferred (Inflow) at Measurement Beginning Date	Original Balance of Outflow/(Inflow) due to change in Proportionate Share *		Remaining Amortization Period	Measurement Date Balance of Outflow/(Inflow) due to change in Proportionate Share	Outflow/(Inflow) Recognized in Measurement Period Expense due to change in Proportionate Share
							Proportionate Share	Proportionate Share			
City of Tacoma	12/31/2022	91.99190%	91.76956%	\$ 150,182,262	\$ 322,663,395	\$ (169,247,777)	\$ 7,189	5.4	4.4	\$ 5,958	1,331
City of Tacoma	12/31/2021	91.73198%	91.99190%	(159,867,216)	119,632,648	(248,549,349)	(80,446)	5.4	3.4	(50,651)	(14,897)
City of Tacoma	12/31/2020	92.22974%	91.73198%	75,203,639	180,973,478	(127,478,997)	(108,058)	5.4	2.4	(48,026)	(20,011)
City of Tacoma	12/31/2019	92.40322%	92.22974%	(20,135,969)	135,354,433	(183,325,848)	(48,289)	5.6	1.6	(13,797)	(8,623)
City of Tacoma	12/31/2018	92.39702%	92.40322%	126,637,406	186,950,254	(83,937,756)	1,464	5.6	0.6	157	263
City of Tacoma	12/31/2017	92.46037%	92.39702%	(42,529,898)	70,588,767	(117,015,569)	(2,469)	5.6	0.0	-	(262)
South Sound 911	12/31/2022	0.08999%	0.05984%	150,182,262	322,663,395	(169,247,777)	975	5.4	4.4	795	181
South Sound 911	12/31/2021	0.08933%	0.08999%	(159,867,216)	119,632,648	(248,549,349)	(204)	5.4	3.4	(129)	(38)
South Sound 911	12/31/2020	0.08792%	0.08933%	75,203,639	180,973,478	(127,478,997)	307	5.4	2.4	137	57
South Sound 911	12/31/2019	0.08806%	0.08792%	(20,135,969)	135,354,433	(183,325,848)	(40)	5.6	1.6	(11)	(7)
South Sound 911	12/31/2018	0.08635%	0.08806%	126,637,406	186,950,254	(83,937,756)	405	5.6	0.6	43	72
South Sound 911	12/31/2017	0.08797%	0.08635%	(42,529,898)	70,588,767	(117,015,569)	(63)	5.6	0.0	-	(7)
Pierce Transit	12/31/2022	0.49511%	0.53023%	150,182,262	322,663,395	(169,247,777)	(1,135)	5.4	4.4	(925)	(210)
Pierce Transit	12/31/2021	0.36725%	0.49511%	(159,867,216)	119,632,648	(248,549,349)	(39,574)	5.4	3.4	(24,917)	(7,328)
Pierce Transit	12/31/2020	0.32046%	0.36725%	75,203,639	180,973,478	(127,478,997)	10,158	5.4	2.4	4,515	1,881
Pierce Transit	12/31/2019	0.26538%	0.32046%	(20,135,969)	135,354,433	(183,325,848)	15,332	5.6	1.6	4,380	2,738
Pierce Transit	12/31/2018	0.23239%	0.26538%	126,637,406	186,950,254	(83,937,756)	7,795	5.6	0.6	835	1,392
Pierce Transit	12/31/2017	0.28145%	0.23239%	(42,529,898)	70,588,767	(117,015,569)	(1,912)	5.6	0.0	-	(205)
Tacoma-Pierce Co Health Dept	12/31/2022	7.42299%	7.64038%	150,182,262	322,663,395	(169,247,777)	(7,029)	5.4	4.4	(5,727)	(1,302)
Tacoma-Pierce Co Health Dept	12/31/2021	7.81143%	7.42299%	(159,867,216)	119,632,648	(248,549,349)	120,225	5.4	3.4	73,697	22,264
Tacoma-Pierce Co Health Dept	12/31/2020	7.36188%	7.81143%	75,203,639	180,973,478	(127,478,997)	97,593	5.4	2.4	43,375	18,073
Tacoma-Pierce Co Health Dept	12/31/2019	7.24334%	7.36188%	(20,135,969)	135,354,433	(183,325,848)	32,998	5.6	1.6	9,428	5,892
Tacoma-Pierce Co Health Dept	12/31/2018	7.28424%	7.24334%	126,637,406	186,950,254	(83,937,756)	(9,664)	5.6	0.6	(1,035)	(1,726)
Tacoma-Pierce Co Health Dept	12/31/2017	7.17021%	7.28424%	(42,529,898)	70,588,767	(117,015,569)	4,444	5.6	0.0	-	475
Grand Total	12/31/2022	100.00000%	100.00000%	150,182,262	322,663,395	(169,247,777)	-	5.4	4.4	-	-
Grand Total	12/31/2021	100.00000%	100.00000%	(159,867,216)	119,632,648	(248,549,349)	-	5.4	3.4	-	-
Grand Total	12/31/2020	100.00000%	100.00000%	75,203,639	180,973,478	(127,478,997)	-	5.4	2.4	-	-
Grand Total	12/31/2019	100.00000%	100.00000%	(20,135,969)	135,354,433	(183,325,848)	-	5.6	1.6	-	-
Grand Total	12/31/2018	100.00000%	100.00000%	126,637,406	186,950,254	(83,937,756)	-	5.6	0.6	-	-
Grand Total	12/31/2017	100.00000%	100.00000%	(42,529,898)	70,588,767	(117,015,569)	-	5.6	0.0	-	-

\*Based on unrounded contributions.

In the most recent year for the City of Tacoma, the NPL and the deferred outflows/(inflows) are included with the calculation. For the City of Tacoma, the most recent balance of outflow/(inflow) due to change in proportionate share is equal to  $(91.76956\% - 91.99190\%) \times \$150,182,262 - (91.76956\% - 91.99190\%) \times \$322,663,395 - (91.76956\% - 91.99190\%) \times \$169,247,777 = -\$333,927 + \$717,436 - \$376,319 = \$7,189$ . That amount is being recognized over 5.4 years based on the average remaining service life as of the beginning of the period. The amount recognized in each year is  $\$7,189 / 5.4 = \$1,331$ .

**City of Tacoma's Amortization Schedule**

As of December 31, 2023, the deferred inflows and outflows of resources for City of Tacoma were as follows:

<b>Deferred (Inflows) / Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>	<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	(\$1,911,931)	\$28,810,897
Changes of assumptions	-	16,668,918
Net difference between projected and actual earnings	-	84,719,096
Contributions made subsequent to measurement date	NA	TBD
Changes in Employer Proportion	(112,474)	6,015
<b>Total</b>	<b>\$ (2,024,405)</b>	<b>\$ 130,204,926</b>

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.\* Note that the employer reporting date is one year later than the measurement date.

Year ending December 31:	
2024	\$40,274,418
2025	25,588,000
2026	60,467,429
2027	(314,524)
2028	2,165,198
Thereafter	-

TBD reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

*\*Additional future deferred inflows and outflows of resources may impact these numbers.*



### South Sound 911's Amortization Schedule

As of December 31, 2023, the deferred inflows and outflows of resources for South Sound 911 were as follows:

Deferred (Inflows) / Outflows of Resources	Deferred (Inflows) of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	(\$1,247)	\$18,785
Changes of assumptions	-	10,869
Net difference between projected and actual earnings	-	55,239
Contributions made subsequent to measurement date	NA	TBD
Changes in Employer Proportion	(140)	974
Total	\$ (1,387)	\$ 85,867

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.\* Note that the employer reporting date is one year later than the measurement date.

Year ending December 31:	
2024	\$26,523
2025	16,905
2026	39,606
2027	(37)
2028	1,484
Thereafter	0

TBD reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

*\*Additional future deferred inflows and outflows of resources may impact these numbers.*

### Pierce Transit's Amortization Schedule

As of December 31, 2023, the deferred inflows and outflows of resources for Pierce Transit were as follows:

<b>Deferred (Inflows) / Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>	<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	(\$11,047)	\$166,463
Changes of assumptions	-	96,310
Net difference between projected and actual earnings	-	489,489
Contributions made subsequent to measurement date	NA	TBD
Changes in Employer Proportion	(25,842)	9,730
Total	\$ (36,889)	\$ 761,993

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.\* Note that the employer reporting date is one year later than the measurement date.

Year ending December 31:	
2024	\$230,856
2025	144,051
2026	342,707
2027	(4,932)
2028	12,423
Thereafter	0

TBD reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

*\*Additional future deferred inflows and outflows of resources may impact these numbers.*

### Tacoma-Pierce County Health Department's Amortization Schedule

As of December 31, 2023, the deferred inflows and outflows of resources for Tacoma-Pierce County Health Department were as follows:

<b>Deferred (Inflows) / Outflows of Resources</b>	<b>Deferred (Inflows) of Resources</b>	<b>Deferred Outflows of Resources</b>
Differences between expected and actual experience	(\$159,180)	\$2,398,685
Changes of assumptions	-	1,387,790
Net difference between projected and actual earnings	-	7,053,388
Contributions made subsequent to measurement date	NA	TBD
Changes in Employer Proportion	(6,763)	128,500
<b>Total</b>	<b>\$ (165,943)</b>	<b>\$ 10,968,363</b>

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.\* Note that the employer reporting date is one year later than the measurement date.

Year ending December 31:	
2024	\$3,400,486
2025	2,176,156
2026	5,064,274
2027	(18,197)
2028	179,701
Thereafter	0

TBD reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024.

*\*Additional future deferred inflows and outflows of resources may impact these numbers.*

#### D. Pension Expense

Components of the pension expense reported in the *Schedule of Pension Amounts by Employer* are presented below.

### GASB 68 Collective Pension Expense

<b>Measurement Period:</b>	<b>January 1, 2022 to December 31, 2022</b>	<b>January 1, 2023 to December 31, 2023</b>
Service cost	\$50,103,196	\$53,673,457
Interest on total pension liability	139,324,117	145,271,565
Effect of plan changes	-	-
Administrative expenses	2,334,105	2,216,303
Member contributions	(29,885,606)	(32,235,015)
Expected investment return net of investment expenses	(148,776,356)	(133,740,620)
Recognition of Deferred (Inflows)/Outflows of Resources		
Recognition of economic/demographic gains or losses	2,894,344	9,540,155
Recognition of assumption changes or inputs	11,352,428	11,352,428
Recognition of investment gains or losses	34,362,646	(7,609,323)
Pension Expense	<u>\$ 61,708,874</u>	<u>\$ 48,468,950</u>

#### Note 3: Reconciliation of TERS' financial statements and employer records to *Schedule of Proportionate Share by Employer* and *Schedule of Pension Amounts by Employer*

##### A. Basis of Accounting

TERS' financial statements conform to generally accepted accounting principles (GAAP) in the United States.

The retirement plan is accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions.

##### B. Employer Contribution

The employer contributions reported in *TERS' Statement of Changes in Fiduciary Net Position* included in the separately issued Annual Comprehensive Financial Report agree with the employer allocation totals in the *Schedule of Proportionate Share by Employer*, which includes the accrual prepared at the plan level.

The employer contributions were used in determining each employer's proportionate share of the collective pension amounts for the calendar years ended December 31, 2022 and December 31, 2023.

#### Note 4: Actuarial Methods and Assumptions Used for Funding and GASB Valuation

The following actuarial methods and assumptions were used in the January 1, 2024 funding valuation. Please see the actuarial valuation report for funding for further details.

<b>Actuarial Cost Method</b>	Entry Age
<b>Amortization Method</b>	Funding is based on statutory contribution rate. This amount is compared to a 25-year amortization for the purposes of calculating the Actuarially Determined Contribution. The amortization method for the ADC is as follows*:
Level percent or level dollar:	Level percent
Closed, open, or layered periods:	Open
Amortization period:	25 years*
Amortization growth rate:	3.25%
<b>Asset Valuation Method</b>	
Smoothing period:	4 years
Corridor:	None
<b>Inflation</b>	2.50%
<b>Salary Increases</b>	Varies by service; details in funding valuation report
<b>Investment Rate of Return</b>	6.75%
<b>Cost of Living Adjustments</b>	2.125%
<b>Retirement Age</b>	Varies by age, gender, eligibility; details in funding valuation report
<b>Turnover</b>	Varies by service, gender; details in funding valuation report
<b>Mortality</b>	105% of the Male and 100% of the Female PubG-2010 Amount-Weighted Mortality Tables, sex distinct. Generational improvements with unisex projection scale based on Social Security Administration data from 1957-2017.
	Active Members: Employee Mortality
	Inactive Members, Retired Members, and Beneficiaries: Healthy Retiree Mortality
	Disabled Members: Disabled Retiree Mortality

*\*The actual contribution is used if that rate is greater than the rate necessary to amortize the Unfunded Actuarial Accrued Liability (UAAL). Note that the UAAL amortization period is 30 years for 2017 and earlier and 25 for years beginning January 1, 2018 and later.*

## Note 5: Long-Term Expected Rate of Return

The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the System's investment advisors as of December 31, 2023 with real rates of return shown net of 2.50% inflation. The target asset allocation is based on the Tacoma Employees' Retirement System Investment Policy Statement dated August 2023.

<b>Asset Class</b>	<b>Index</b>	<b>Target Allocation</b>	<b>Long-Term* Expected Geometric Real Rate of Return</b>
Investment Grade Fixed Income	Barclays Aggregate	21.5%	2.28%
US Bank / Leveraged Loans	Credit Suisse Leveraged Loan	2.0%	4.12%
US Long Gvt Bonds	Bloomberg Barclays Long Gvt	3.0%	2.43%
High Yield Bonds	BAML High Yield	5.0%	3.93%
Emerging Market Debt	JP Morgan EMBI Plus	5.0%	2.80%
Global Equity	MSCI ACWI NR	19.0%	4.35%
Low Volatility Global Equity	MSCI ACWI Minimum Volatility	9.5%	4.47%
Private Real Estate	NCREIF Property	10.0%	3.53%
Private Equity	Cambridge Private Equity	15.0%	7.15%
Private Credit	CDL Index	3.0%	5.90%
Infrastructure	S&P Global Infrastructure	7.0%	5.28%
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			1.44%
Portfolio 10 year Geometric Rate of Return			6.60%
Portfolio 30 year Arithmetic Rate of Return*			7.89%
Portfolio 30 year Geometric Rate of Return*			7.28%
Portfolio Standard Deviation			11.55%
<b>Long-Term Expected Rate of Return, net of investment expenses</b>			<b>6.75%</b>

\* Long-Term Expected Geometric Rates of Return shown are based on a 30-year period.

## **Note 6: Depletion Date Projection**

Determining the discount rate under GASB 67 and 68 will often require that the actuary perform projections of future benefit payments and asset values. GASB 68 (paragraph 29) allows for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgement.

The following circumstances justify an alternative evaluation of sufficiency for TERS:

- TERS members and employers are committed to contributing the statutory amount, which exceeds the current normal cost rate. The total contribution rate as of December 31, 2023, was 21.00%, while the normal cost rate is 19.12% of pay.
- GASB 67 and 68 specify that the projections regarding future solvency assume that plan assets earn the assumed rate and return and there are no future changes in the plan provisions or actuarial methods and assumptions. This would mean that the projections would not reflect any adverse future experience which might impact the Plan's funded position.

Based on these circumstances, it is the professional opinion of the Plan's actuary, Milliman, that the fiduciary net position is projected to be sufficient to cover benefit payments and administrative expenses. If all assumptions are met, the fiduciary net position will continue to exceed the total pension liability. Therefore, a GASB discount rate equal to the long-term assumed rate of return on plan assets of 6.75% applies.

**Note 7: Sensitivity Analysis of NPL**

The following presents the NPL of the System, calculated using the current discount rate of 6.75%, as well as what the System's NPL would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate.

	1% Decrease* 5.75%	Current Discount Rate 6.75%	1% Increase* 7.75%
Total pension liability	\$ 2,566,293,907	\$ 2,273,380,470	\$ 2,029,312,884
Fiduciary net position	2,125,483,910	2,125,483,910	2,125,483,910
Net pension liability (asset)	<u>\$ 440,809,997</u>	<u>\$ 147,896,560</u>	<u>\$ (96,171,026)</u>

*\*Numbers may not sum to totals due to rounding.*

**Employers' Proportionate Share of the NPL**

Employer	1% Decrease* 5.75%	Current Discount Rate 6.75%	1% Increase* 7.75%
City of Tacoma	\$ 404,529,379	\$ 135,724,017	\$ (88,255,724)
South Sound 911	263,763	88,495	(57,545)
Pierce Transit	2,337,287	784,185	(509,923)
Tacoma-Pierce County Health Department	33,679,568	11,299,862	(7,347,834)
Total NPL	<u>\$ 440,809,997</u>	<u>\$ 147,896,560</u>	<u>\$ (96,171,026)</u>

*\*Numbers may not sum to totals due to rounding.*

**Note 8: Additional Information**

Additional actuarial and pension plan information is included in the TERS 2023 Annual Comprehensive Financial Report. All other actuarial data, assumptions and methods relied on for the preparation of GASB 67 and 68 are included in Milliman's 2023 GASB 67 and 68 Disclosure Report.



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