Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Tacoma Employees' Retirement System

For the period January 1, 2020 through December 31, 2020

Published July 6, 2021

Report No. 1028648

Find out what's new at SAO by scanning this code with your smartphone's camera

Office of the Washington State Auditor
Pat McCarthy

July 6, 2021

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

Report on Financial Statements

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

We are issuing this report in order to provide information on the Group's financial condition.

Sincerely,

Pat McCarthy, State Auditor

Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

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*

Tacoma Employees' Retirement System
January 1, 2020 through December 31, 2020

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 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, 2020, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements, and have issued our report thereon dated June 28, 2021.

The financial statements present only the Tacoma Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Tacoma, Washington, as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements include pension trust fund investments valued at $1.91 billion, which comprise 94.6 percent of total assets and 99.7 percent of total net position restricted for pensions. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

As discussed in Note 10 of the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Retirement System is unknown.

The prior year comparative information has been derived from the Retirement System's 2019 basic financial statements, on which we issued our report dated June 23, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Retirement System's internal control over financial reporting (internal control) to determine the 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 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 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 may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Retirement System's financial statements are free from material misstatement, we performed tests of the Retirement System's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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.

Pat McCarthy

Pat McCarthy, State Auditor

Olympia, WA

June 28, 2021

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Tacoma Employees' Retirement System
January 1, 2020 through December 31, 2020

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

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying 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, 2020, and the related notes to the financial statements, which collectively comprise the Retirement System's basic financial statements as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Retirement System's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tacoma Employees' Retirement System, as of December 31, 2020, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matter of Emphasis

As discussed in Note 1 to the financial statements, the financial statements present only the Tacoma Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the City of Tacoma, Washington, as of December 31, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As explained in Note 2 of the financial statements, the financial statements include pension trust fund investments valued at 1.91 billion, which comprise 94.6 percent of total assets and 99.7 percent of total net position restricted for pensions. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners. Our opinion is not modified with respect to this matter.

As discussed in Note 10 to the financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Retirement System is unknown. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Retirement System's financial statements for the year ended December 31, 2019, from which such partial information was derived. We have previously audited the Retirement System's 2019 financial statements and we expressed an unmodified opinion in our report dated June 23, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 2019, is consistent in all material respects with the audited financial statement from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information listed on page 11 be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Retirement System's basic financial statements as a whole. The Schedule of Administrative Expenses, Schedule of Payments to Consultants and Schedule of Investment Expenses are presented for purposes of additional analysis and are 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2021 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 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

Pat McCarthy, State Auditor

Olympia, WA

June 28, 2021

FINANCIAL SECTION

Tacoma Employees' Retirement System
January 1, 2020 through December 31, 2020

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2020

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position – 2020
Statement of Changes in Fiduciary Net Position – 2020
Notes to the Basic Financial Statements – 2020

Required Supplementary Information

Schedule of Changes in Net Pension Liability or Asset of Employers and Related Ratios – 2020
Schedule of Net Pension Liability or Asset of Employers – 2020
Schedule of Employer Contributions – 2020
Schedule of Investment Returns – 2020
Notes to Required Supplementary Information – 2020

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Administrative Expenses – 2020
Schedule of Payments to Consultants – 2020
Schedule of Investment Expenses – 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Tacoma Employees' Retirement System (TERS) financial condition provides an overview of the financial activities and funding conditions for the calendar years ended December 31, 2020, 2019 and 2018. The intent of this discussion and analysis is to give a narrative overview and analysis of the System's financial performance as a whole. For more detailed information, readers should also review the financial statements, notes to the financial statements, and required supplementary information in order to enhance their understanding of the System's financial performance.

Overview of Financial Statements

TERS' financial statements were prepared in conformity with GASB Statement No. 67, *Financial Reporting for Pension Plans*, and are comprised of the following components:

1. Statement of Fiduciary Net Position,
2. Statement of Changes in Fiduciary Net Position,
3. Notes to the Basic Financial Statements,
4. Required Supplementary Information, and
5. Other Supplementary Information

Statement of Fiduciary Net Position. The Statement of Fiduciary Net Position provides information about the System's assets, liabilities and net position. It is a snapshot of the financial position of the System as of the end of the year 2020.

Statement of Changes in Fiduciary Net Position. The Statement of Changes in Fiduciary Net Position illustrates how TERS' net position changed during the calendar year, reflecting contributions accrued, benefit payments made, investment returns earned, and expenses paid to administer the System.

Notes to the Basic Financial Statements. The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the data provided in the Basic Financial Statements.

Required Supplementary Information. The Required Supplementary Information consists of schedules of changes in net pension liability or asset of employers, employers' net pension liability or asset, employers' contributions and the money-weighted long-term rate of investment return for TERS.

Other Supplementary Information. The Other Supplementary Information includes details on administrative expenses, payments to consultants, and investment-related expenses.

Summary of Statement of Fiduciary Net Position

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

	2020	2019	2018	2020-2019 Percentage Change	2019-2018 Percentage Change
Cash and short-term investments	$ 44,716,264	$ 12,062,873	$ 17,508,429	270.69 %	(31.10) %
Receivables	14,027,803	9,110,764	4,516,642	53.97	101.72
Investments	1,909,255,473	1,868,002,580	1,628,186,781	2.21	14.73
Securities lending collateral	49,336,334	52,384,912	21,575,741	(5.82)	142.80
Capital assets, net of accumulated depreciation	7,597	8,441	9,285	(10.00)	(9.09)
Total assets	2,017,343,471	1,941,569,570	1,671,796,878	3.90	16.14
Accounts payable and other liabilities	1,985,545	1,479,371	1,937,311	34.22	(23.64)
Investment purchases	50,261,237	11,609,932	13,263,445	332.92	(12.47)
Securities lending collateral	49,336,334	52,384,912	21,575,741	(5.82)	142.80
Total liabilities	101,583,116	65,474,215	36,776,497	55.15	78.03
Net position restricted for pensions	$1,915,760,355	$1,876,095,355	$1,635,020,381	2.11	14.74

In 2020, the overall financial position of the System reflects an increase in fiduciary net position in comparison to the prior year. The total investment return in 2020 was positive 5.5%, compared to positive 16.8% in 2019 and negative 3.24% in 2018. TERS has a well-diversified investment structure that has been developed to sustain market declines such as those that occurred in the first quarter of 2020. The details of the investment performance are located in the Investment Section of this report.

The System has no long-term liabilities. The bulk of the liabilities at year-end are related to investment purchases that did not settle until early 2021, accrued administrative and investment expenses and securities lending collateral.

Summary of Statement of Changes in Fiduciary Net Position

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

	2020	2019	2018	2020-2019 Percentage Change	2019-2018 Percentage Change
Total contributions	$ 58,705,347	$ 56,542,714	$ 53,780,971	3.82 %	5.14 %
Net investment income (loss)	79,499,815	275,414,254	(58,085,821)	(71.13)	(574.15)
Total additions (deductions)	138,205,162	331,956,968	(4,304,850)	(58.37)	(7811.23)
Benefits and refunds of contributions	96,700,894	89,092,294	82,233,426	8.54	8.34
Administrative expenses	1,839,268	1,789,700	1,690,865	2.77	5.85
Total deductions	98,540,162	90,881,994	83,924,291	8.43	8.29
Net increase (decrease)	39,665,000	241,074,974	(88,229,141)	(83.55)	(373.24)
Net position beginning of year	1,876,095,355	1,635,020,381	1,723,249,522	14.74	(5.12)
Net position end of year	$ 1,915,760,355	$ 1,876,095,355	$ 1,635,020,381	2.11	14.74

Additions to Fiduciary Net Position consist of employer and employee contributions, investment income, and net realized and unrealized gains/losses on investments. For calendar year 2020, the total additions to the fiduciary net position were down from positive $332.0 million in 2019 to positive $138.2 million in 2020 due to lower investment returns. The details of the investment performance are located in the Investment Section of this report.

Deductions to Fiduciary Net Position consist of benefit payments, refunds, and administrative expenses. During 2020, benefits and refunds were 8.5% higher than 2019 - the major cause of the increase is attributable to a significant number of members exiting the System when the City of Tacoma offered an Early Retirement Incentive Program in mid-2020 to address its budget gap. The total administrative expenses of approximately $1.84 million represent approximately 2% of total deductions for the year.

Contacting Tacoma Employees' Retirement System

This financial report is intended to provide its readers with a general overview of the System's finances and to demonstrate accountability for funds, revenues and distributions. If you have questions about this report or need additional information, please contact us at:

Tacoma Employees' Retirement System
Tacoma Public Utilities, Administration Building North
3628 South 35th Street
Tacoma, Washington 98409
Email: tersretirement@cityoftacoma.org
Telephone: (253) 502-8200/ 1-888-404-3787/Fax: (253) 502-8660

Statement of Fiduciary Net Position
As of December 31, 2020 and December 31, 2019

		2020		2019
Assets				
Cash and short-term investments	$	44,716,264	$	12,062,873
Receivables				
Contributions and other receivables	$	1,835,375	$	1,570,157
Interest and dividends		1,249,615		2,836,842
Investment sales		10,942,813		4,703,765
Total receivables	$	14,027,803	$	9,110,764
Investments, at fair value				
Equities	$	930,634,388	$	964,057,034
Fixed income		678,340,684		639,305,114
Real estate		78,296,096		81,145,679
Venture capital and partnerships		221,984,305		183,494,753
Total investments	$	1,909,255,473	$	1,868,002,580
Securities lending collateral		49,336,334		52,384,912
Capital assets, net of accumulated depreciation		7,597		8,441
Total assets	$	2,017,343,471	$	1,941,569,570
Liabilities				
Accounts payable and other liabilities	$	1,985,545	$	1,479,371
Investment purchases		50,261,237		11,609,932
Securities lending collateral		49,336,334		52,384,912
Total liabilities	$	101,583,116	$	65,474,215
Net position restricted for pensions	$	1,915,760,355	$	1,876,095,355

See accompanying Notes to the Financial Statements.

Statement of Changes in Fiduciary Net Position
For the Years Ended December 31, 2020 and 2019

	2020	2019
Additions		
Contributions		
Employer	$ 31,047,707	$ 30,239,417
Plan member	27,657,640	26,303,297
Total contributions	$ 58,705,347	$ 56,542,714
Investment income		
Net appreciation		
in fair value of investments	$ 53,983,887	$ 245,750,862
Interest & dividends	33,326,707	37,864,244
Investment management fees	(7,634,596)	(7,053,157)
Securities lending - agent fees	(52,175)	(65,873)
Securities lending - broker rebates	(124,008)	(1,081,822)
Net investment income	$ 79,499,815	$ 275,414,254
Total additions	$ 138,205,162	$ 331,956,968
Deductions		
Benefits	$ 94,001,225	$ 86,488,222
Refunds of contributions	2,699,669	2,604,072
Administrative expenses	1,839,268	1,789,700
Total deductions	$ 98,540,162	$ 90,881,994
Net increase	39,665,000	241,074,974
Net position restricted for pensions		
Beginning of year	1,876,095,355	1,635,020,381
End of year	$ 1,915,760,355	$ 1,876,095,355

See accompanying Notes to the Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Plan Provisions

Description: The Tacoma Employees' Retirement System (the System) is a cost-sharing, multiple-employer defined benefit public employee pension plan, covering a majority of the employees of the City of Tacoma, and three Member Public Agencies. It has been administered in accordance with Tacoma Municipal Code Chapter 1.30 and the Revised Code of Washington Chapter 41.28.

The System is included in the Pension and Other Employee Benefit Trust Funds section of the City's Comprehensive Annual Financial Report (CAFR).

Administration: At the direction of the City Council, the System is administered by the Board of Administration (the Board) consisting of nine regular members and one alternate member. The members of the Board are: the Mayor, who serves as Chair; the Director of Finance; the City Manager (or designee); the Public Utilities Director (or designee); three elected employee representatives; one elected retired representative; and one City resident (not employed by the City) elected by the other eight members. The nine Board members appoint a TERS member, either active or retired, as an alternate Board member. The Board is required by the Tacoma Municipal Code to make annual reports to the City Council on the financial condition of the Retirement System. The Board, subject to City Council approval, appoints the Director who is responsible for managing the daily operations of the System.

Membership: Substantially all employees of the City of Tacoma are members of the System, with the exception of police officers, firefighters, and Tacoma Rail employees, who are covered by state or federal retirement plans. Other members include employees of the Tacoma-Pierce County Health Department, and certain employees of the Pierce Transit and the 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. The breakdown of membership as of December 31, 2020 is as follows:

Retirees and beneficiaries currently receiving benefits		2,653
Terminated vested and other terminated participants		790
Active members:		
City of Tacoma	2,740	
Pierce Transit	10	
South Sound 911	2	
Tacoma-Pierce County Health Department	285	
Total active members		3,037
Total membership		6,480

Benefits: There are two formulas to calculate the retirement benefits. The benefit paid will be based on the formula which provides the higher benefit. The most commonly applied formula, "service retirement", is a product of the member's highest average monthly salary for a consecutive 24-month period, the number of years of membership credit (30 years maximum), and a percentage factor (2% maximum) that is based on the member's age and years of service. The other formula is an annuity based on member contributions. There are several options available for the retiree to provide for their beneficiaries. The System also provides death, disability and deferred or postponed retirement for those former members who separated and retire later under the retirement eligibility requirements similar to immediate retirement. Additionally, the System provides cost of living adjustment (COLA) increases up to 2.125% as of July 1st of each year; the actual COLA granted is dependent on the change in the Consumer Price Index (Seattle Area - all items) over the preceding calendar year.

Any active member who has not retired, and has five or more years of service as a member may purchase up to five additional years of service at the time of retirement. Total service including service purchased cannot exceed 30 years.

The System participates in the portability of public retirement benefits in Washington State public retirement. As provided under Chapter 41.54 of the RCW, this allows a member to use all years of service with qualified Washington systems to determine retirement eligibility and percentage factor for benefits under the System.

Funding Policy: The participating employers are responsible for funding the System at a level sufficient to pay obligations and ensure the actuarial and financial soundness of the System. Contribution rates for the employer and the employee are recommended by the Board of Administration and final approval rests with the Tacoma City Council. Currently, the required contribution rate for employees is 9.66% of their regular gross pay; the employer contributes 11.34%, for a combined total of 21.00%, which is sufficient to amortize the Unfunded Actuarial Accrued Liability (UAAL) of the System if future experience follows all actuarial assumptions. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

(b) Contributions

Per the Tacoma Municipal Code sections 1.30.350 and 1.30.360, the current contribution rate is 21.00%, split 11.34% to the employers and 9.66% to the member. Contributions made by the employers and the members were in accordance with actuarially computed funding requirements.
The following chart shows the history of the contribution rates since 1980.

Applicable Period	Rate as % of Payroll		
	Employer	Employee	Total Rate
1/1/1980 to 12/31/1996	10.44 %	8.89 %	19.33 %
1/1/1997 to 12/31/2000	9.02	7.68	16.70
1/1/2001 to 1/31/2009	7.56	6.44	14.00
2/1/2009 to 12/31/2009	8.64	7.36	16.00
1/1/2010 to 12/31/2010	9.72	8.28	18.00
1/1/2011 to 12/31/2011	10.26	8.74	19.00
1/1/2012 to 1/31/2018	10.80	9.20	20.00
2/1/2018 onward	11.34	9.66	21.00

(c) Method of Accounting

The System maintains records and accounts, and prepares financial statements using fund accounting principles and the accrual basis of accounting, under which benefits and expenses are recognized when due and payable and revenues are recorded in the accounting period in which they are earned and become measurable in accordance with the terms of the System.

For financial reporting purposes, TERS adheres to accounting principles that are generally accepted in the United States of America. The System applies all applicable pronouncements of the Governmental Accounting Standards Board (GASB).

GASB Statement No. 67, *Financial Reporting for Pensions,* addresses accounting and financial reporting requirements for pension plans. Significant requirements include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 2 and in the Required Supplementary Information.

GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and reporting issues related to fair value measurements. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Comprehensive footnote disclosure regarding this Statement is found in Note 2.

GASB Statement No. 82, *Pension Issues,* requires the presentation of "covered payroll" as pensionable payroll. Statement No. 82 also clarifies that payments made by employers to satisfy "plan member contribution requirements" should be classified as "plan member contributions". The commonly known practice "pick-up", which means that the employer pays the employee portion of the contribution does not apply to TERS because plan members have always paid the employee required contributions, not the employer. There has been a long-standing practice that TERS members contribute 46% of the total contribution rate with the employers contributing 54%.

(d) Administrative Expenses

The Tacoma City Council, with the recommendation from the Board, adopts the operating budget for the administration of the System each biennium. The administrative expenses are financed from contributions and investment earnings of the System. The operating budget may include allocations for capital assets, which are capitalized upon purchase and expensed over their useful lives.

(e) Investments

Investment policy: The System's policy in regard to the allocation of invested assets is established and may be amended by the Board. TERS' assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the System.
The following was the TERS actual asset allocation as of December 31, 2020:

Asset Class	Actual Allocation
Global equity	30.6 %
Low volatility equity	11.4
Core fixed income	16.3
TIPS	3.1
High yield / bank loans	8.9
Emerging market debt	5.4
Long term debt	0.8
Real estate	8.1
Private equity	9.8
Real assets	4.5
Short term fund	1.1
Total	100.0 %

Equity securities, fixed income securities, private equity, real estate, and short-term investments are all reported on a trade date basis, at fair value. Fair value for public market managers was determined by the custodian bank utilizing standard industry practices. Private investments are reported by the managers subject to their fair value policies. No investment in any one corporation exceeded 5% of net position available for benefits.

(f) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amount.

NOTE 2 FAIR VALUE MEASUREMENT

The System categorizes the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The categorization of investments within the hierarchy is based upon the valuation transparency of the instrument as of the measurement date.

Level 1: Investments classified as Level 1 are based on unadjusted quoted prices in active markets for identical assets at the end of each reporting period.

Level 2: Investments classified as Level 2 are based on identical publicly traded securities and exchange-traded securities traded in inactive markets, quoted prices for similar instruments in active markets, or model-derived valuations in which all significant inputs are observable.

Level 3: Investments classified as Level 3 are primarily composed of investments whose valuations are derived from valuation techniques in which significant inputs are unobservable and require judgment and estimation.

Net Asset Value (NAV): The fair values of investments that are measured at fair value using NAV as a practical expedient are not classified in the fair value hierarchy.

The assessment of the significance of particular inputs to these fair value measurements requires consideration be given to factors specific to each asset or liability.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments, which include money market-type securities, foreign currencies and short-term investment funds. The short-term investment funds are valued at cost plus accrued interest, which approximates fair value. Accordingly, these investments are excluded from the fair value schedule.

The table below presents the fair value measurements within the hierarchy established by generally accepted accounting principles as of December 31, 2020 for the Tacoma Employees' Retirement System.

Investments Measured at Fair Value Level As of December 31, 2020	Fair Value	Inputs		
		Level 1	Level 2	Level 3
Asset Backed Securities	$ 19,552,473		$ 19,552,473	
Commercial Mortgage Backed	3,209,294		3,209,294	
Common Stock	202,927,579	$ 202,927,579		
Corporate Bonds	126,533,080		126,533,080	
Government Agencies	59,661,374		59,661,374	
Government Bonds	103,006,978		103,006,978	
Government Mortgage Backed Securities	78,833,972		78,833,972	
Gov't-Issued Commercial Mortgage Backed	741,378		741,378	
Municipal/Provincial Bonds	3,340,098		3,340,098	
Non-Government Backed C.M.O.S	8,187,631		8,187,631	
Total investments by fair value level	**$605,993,858**	$ 202,927,579	$ 403,066,279	$ -

NOTE 2 FAIR VALUE MEASUREMENT continued

The table below presents the fair value measurements using NAV as of December 31, 2020 for the Tacoma Employees' Retirement System.

Investments Measured at NAV* As of December 31, 2019	Fair Value	Unfunded Commitment	Redemption Frequency (If Currently Eligible)	Redemption Notification Period
Common Stock [1]	$ 727,706,809	n/a	Monthly	Two to five business days prior to month-end
Fixed Income [2]	275,274,405	n/a	Monthly	30 to 90 days
Private Equity [3]	221,984,305	$ 247,978,103	Illiquid	n/a
Real Estate [4]	78,296,096	44,258,149	Quarterly, subject to market conditions	45 days prior to quarter-end
Total investments measured at the NAV	**$ 1,303,261,615**	$ 292,236,252		

Reconciliation to statement of fiduciary net position	
Total investments by fair value level	$ 605,993,858
Total investments measured at the NAV	1,303,261,615
Investments per statement of fiduciary net position	$ 1,909,255,473

* *In accordance with GASB 72, certain investments that were measured at NAV per share (or its equivalent) may not be classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of net positon.*

(1) Common Stock

Assets are held in limited liability companies or trusts with daily or monthly liquidity and a perpetual life.

(2) Fixed Income

Assets are held in limited liability companies and trusts with monthly liquidity and a perpetual life.

(3) Private Equity

Assets are held in limited partnerships with constrained liquidity and anticipated life of seven to ten years.

(4) Real Estate

Assets are held in a limited partnership with quarterly liquidity and a perpetual life.

(a) Custodial Credit Risk – Cash and 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. Cash and short term investments include securities with a maturity date of three months or less.

Cash balances represent both operating cash accounts held by the City Treasurer and investment cash on deposit with the investment custodian, The Northern Trust Company (Northern). Cash held by the City Treasurer is invested in accordance with the City of Tacoma's investment policy; cash invested with Northern is under the custody agreement which holds Northern responsible for the safekeeping of all securities and funds held on behalf of the System. All the remaining City securities are held by the City's third party custodial bank in the City's name. The investments of the System are invested in accordance with the "prudent person rule".

The System mitigates its custodial credit risk by having its investment securities held by the System's custodian (Northern) with the investments registered in the System's name. Also, in accordance with the System's Investment Policy Statement, each of the System's investment managers is provided with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards and applicable investment restrictions necessary for diversification and risk control. Managers do not have the authority to depart from their guidelines.

As of December 31, 2020, 100% of the System's cash and investments were held in the System's name and, therefore, the System has no custodial credit risk exposure.

(b) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer. This disclosure requirement does not apply to investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments. The System does not have any investments from a single issuer (excluding pooled investments or explicitly guaranteed governments) that represent more than 5% of the System's assets. In accordance with the System's Investment Policy Statement, credit risk is mitigated by agreeing to a set of investment guidelines with the investment manager. These guidelines specify eligible investments, minimum diversification standards and applicable investment restrictions necessary for diversification and risk control. Managers do not have the authority to depart from their guidelines.

(c) Credit Risk

Credit risk is the financial risk that an issuer or other counterparty will not fulfill its obligation to TERS. Each of the fixed income investment managers consistently monitor the risk associated with their portfolios. The System does not have a formal policy to limit credit risk. However, the firms/funds adhere to investment guidelines that have been reviewed by TERS staff, and regularly report on their positions relative to the benchmark.

The table below discloses the credit ratings for the System's investments in debt securities using Standard and Poor's credit ratings.

Quality Ratings		Fair Value
AAA	$	88,482,904
AA		240,256,159
A		8,714,000
BBB		42,235,280
BB		126,923,748
B		166,453,217
CCC		4,099,175
CC		1,176,201
Total fixed income securities	$	678,340,684

(d) 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 one of the greatest risks faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. The interest rate risk is mitigated by providing each investment manager with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards and applicable investment restrictions necessary for diversification and risk control. Managers do not have the authority to depart from their guidelines. Weighted average maturity is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates.

As of December 31, 2020, the System had the following debt investments:

Investment Type		Fair Value December 31, 2020	Weighted Average Maturity
Asset backed securities	$	19,552,473	24.27
Commercial mortgage backed		3,209,294	20.17
Corporate bonds		245,024,620	11.30
Government agencies		59,661,374	21.25
Government bonds		103,006,978	7.92
Government mortgage backed securities		78,833,972	22.76
Gov't-issued commercial mortgage backed		741,378	11.16
Municipal/provincial bonds		3,340,098	25.66
Non-government backed C.M.O.S		8,187,631	17.91
Other fixed income		156,782,866	8.18
Total fixed income securities	$	678,340,684	

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment or deposit. The System does not have a formal policy to limit foreign currency risk. TERS manages their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The System's currency risk exposures, or exchange rate risks, primarily reside within the venture capital and partnerships investment holdings.

The table below represents securities held in a foreign currency as of December 31, 2020.

Currency Name	Cash and Cash Equivalents	Equities	Venture Capital and Partnerships	Total Fair Value
Australian dollar	$ 43	$ 1,711		$ 1,753
Euro			$ 6,086,262	6,086,262
New Israeli shekel	3,114			3,114
Total	$ 3,157	$ 1,711	$ 6,086,262	$ 6,091,130

NOTE 4 DERIVATIVES

Derivative instruments are financial contracts whose value depends on the values of underlying assets, reference rates, or financial indices. They include futures contracts, swap contracts, credit-linked notes and forward foreign currency exchange. As of December 31, 2020, the derivative instruments held by the System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized in the Statement of Changes in Plan Net Position.

The System's investment managers, as permitted by their specific investment guidelines and consistent with the System's Investment Policy Statement, may enter into transactions involving derivative financial instruments. These instruments include futures, options, swaps, forwards, warrants and rights. In accordance with Board policy, these investments may not be used to leverage the System's portfolio, i.e., use derivatives to increase the portfolio's notional exposure to any given asset class. These instruments are used in an attempt to enhance the portfolio's performance and/or reduce the portfolio's risk. All investment derivatives discussed below are addressed in the Portfolio Risk discussion, which precedes this section. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The table below provides a summary of the derivative instruments outstanding as of December 31, 2020.

Classification	Fair Value	Changes in Fair Value	Notional Fair Value
Forwards	$ (1,228,634)	$ (1,228,634)	
Futures			$ 1,494,938
Total	$ (1,228,634)	$ (1,228,634)	$ 1,494,938

The derivative instruments that are not exchange traded, such as credit default swaps and interest rate swaps, are valued using quoted market prices

Credit default swaps (CDS) are contracts and agreements in which the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if a credit instrument (typically a bond or loan) experiences a credit event.

Futures contracts are financial instruments that derive their value from underlying indices or reference rates and are marked-to-market at the end of each trading day. Daily settlement of gains and losses occur on the following business day. Daily settlement of gains and losses is a risk control measure to limit counterparty credit risk. Futures variation margin amounts are settled each trading day and recognized in the financial statements under net appreciation (depreciation) in fair value of investments as they are incurred.

An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an underlying asset at a specific price on or before a certain date.

Rights/warrants are issued by corporations and provide the holder with the right, but not the obligation, to buy a company's common stock at a predetermined price - the subscription price. The right is good until its expiration date, which is usually four to six weeks after its issue.

Foreign currency forward contracts are obligations to buy or sell a currency at a specified exchange rate and quantity on a specific future date. The fair value of the foreign currency forwards is the unrealized gain or loss calculated based on the difference between the specified exchange rate and the closing exchange rate at December 31, 2020.

(a) Derivative Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement 40, *Deposit and Investment Risk Disclosures*. At December 31, 2020, all of the System's investments in derivative instruments were held in the System's name and were not exposed to custodial credit risk.

(b) Derivative Interest Rate Risk

At December 31, 2020, the System was exposed to interest rate risk on its derivative investments. The table below illustrates the maturity periods of these derivative instruments.

Classification	Investment Maturities 3 months or less
Forwards	$ (1,228,634)

(c) Derivative Contingent Features

As of December 31, 2020, the System did not hold any positions in derivatives containing contingent features.

(d) Derivative Foreign Currency Risk

At December 31, 2020, the System was exposed to foreign currency risk on its derivative investments, as shown in the table below:

Currency Name		Forwards
Australian dollar	$	(237,320)
British pound sterling		(279,650)
Canadian dollar		(164,350)
Danish krone		(13,852)
Euro		(191,914)
Hong Kong dollar		(715)
Japanese yen		(148,411)
New Israeli shekel		(1,948)
New Zealand dollar		(12,349)
Norwegian krone		(15,460)
Singapore dollar		(17,616)
Swedish krona		(59,641)
Swiss franc		(85,409)
Total	$	(1,228,634)

NOTE 5 SECURITIES LENDING

In accordance with the policies of the Board of Administration, the System lends its securities (i.e., U.S. Treasury bonds, U.S. equities and corporate bonds) to broker-dealers with an agreement to return in the future the collateral received for the securities. The System's Custodian (Northern) is authorized to lend available securities to authorized broker-dealers subject to the receipt of acceptable collateral. The System accepts collateral in the form of cash and U.S. government and agencies securities.

The System does not have the ability to pledge or sell non-cash collateral unless the borrower defaults. All securities loaned can be terminated on demand by either the lender or the borrower.

The Custodian provides for full indemnification to the System for any losses that might occur in the Securities Lending program due to the failure of a broker to return a borrowed security (and if the collateral is inadequate to replace the lent securities) or failure to pay the System for income from the securities while on loan. Additionally, the Custodian's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types of collateral, and complying with applicable regulations concerning securities lending.

Gross securities lending income during 2020 was $297,972 and security lending agent fees and rebates were $176,183 resulting in net security lending income of $121,789. The fair value of loaned securities collateralized by cash collateral at December 31, 2020 was $49,336,334.

Cash collateral is invested in a short-term investment pool. Cash collateral may also be invested separately in "term loans" in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

There were no violations of legal or contractual provisions or borrower or lending agent default losses known to the securities lending agent.

As a result of Governmental Accounting Standard Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68, *Accounting and Financial Reporting for Pensions*, TERS has separate valuations performed for financial reporting and funding purposes.

(a) Pension System Funding Valuations

The purpose of the actuarial valuation is to determine whether the scheduled contributions in combination with the future net investment earnings, and invested assets are projected to be sufficient to finance future member benefits.

An actuarial valuation of the System's assets and liabilities is performed annually. The January 1, 2021 actuarial funded ratio, which represents the ratio of the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL), was 96.3%, slightly down from 98.0% from the January 1, 2020 valuation. This is based on the AVA as of December 31, 2020, which uses smoothing on gains and losses of investments over four years. The Funding Ratio based on Fair Value of Assets (FVA) decreased from 101.1% at January 1, 2020 to 96.2% at January 1, 2021 driven by the positive 5.5% net-of-fee return, which was lower than the actuarial rate of return of 6.75%.

(b) Financial Reporting Valuation

The actuarial valuation for financial reporting emphasizes the obligation an employer incurs to pay for the benefit, as promised. The primary purpose of the valuation for financial reporting is to provide a consistent, standardized methodology that allows comparability of data and increased transparency of the pension liability across plans. To do so, GASB requires a different approach for determining the reported Net Pension Liability or Asset (NPL or NPA), as compared to the previously disclosed Unfunded Actuarial Accrued Liability (UAAL). The UAAL mirrored the Unfunded Actuarial Accrued Obligation calculated by TERS' external actuary for funding purposes and represented the excess of the Actuarial Accrued Liability (AAL) over the Actuarial Value of Assets (AVA). Under GASB 67, the UAAL has been replaced by the NPL, which represents the excess of the Total Pension Liability (TPL) over fiduciary net position.

There are considerable differences between the UAAL and the NPL. Conceptually, the UAAL is the actuary's measure of the additional amount of assets needed to pay all benefits earned to date by current plan members, while the NPL is an accrual calculation that reflects future benefits earned by plan members in excess of the System's fiduciary net position.

Per the Board's decision, the System is reporting an Actuarially Determined Contribution (ADC). The ADC for the period ended December 31, 2016 is based on a 30-year amortization of the UAAL based on the AVA, or the current employer contribution rate if that is greater. In July 2016, the Board changed the ADC to be based on a 25-year amortization of UAAL. This was reflected in the January 1, 2017 actuarial valuation, which will be used to calculate the ADC for the year beginning January 1, 2018 reporting date for the employer.

For purposes of determining the GASB discount rate at December 31, 2020, a depletion date projection as of that date has been performed by the System's actuary. The results of this projection show that no depletion of the fiduciary net position is expected to occur. Therefore, this long-term assumed rate of return on plan assets applies for all future projected benefit payments in the determination of the GASB discount rate, which is currently 6.75%.

NOTE 7 NET PENSION LIABILITY OR ASSET OF EMPLOYERS

The Net Pension Liability or Asset (NPL or NPA) (i.e., the System's liability is determined in accordance with GASB No. 67, *Financial Reporting for Pension Plans*, less the fiduciary net position) as of December 31, 2020, is shown below.

Net Pension Liability (Asset)		2020
Total pension liability	$	1,990,963,993
Fiduciary net position		1,915,760,354
Net pension liability (asset)	$	75,203,639
Fiduciary net position as of % of total pension liability		96.22%
Covered payroll	$	273,789,303
Net pension liability as a percentage of covered payroll		27.47%

Actuarial valuation of the System involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. For example, assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability or asset are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last Experience Study was performed in 2020 and the next Experience Study is scheduled to be conducted in 2024. The Schedule of Employers' Net Pension Liability or Asset presents multi-year trend information about whether the plan fiduciary net position is increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The Total Pension Liability as of December 31, 2020, is based on the results of an actuarial valuation date as of January 1, 2021 using the generally accepted actuarial procedures.

(a) Actuarial Assumptions

A summary of the actuarial assumptions used for funding and GASB 67, *Financial Reporting for Pension Plans*, reporting valuation in the latest actuarial valuation is shown below.

Actuarial Cost Method	Entry Age Normal
Amortization Method	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%
Asset Valuation Method	
Smoothing period:	4 years
Corridor:	None
Inflation	2.50%
Salary Increases	Varies by service; details in funding valuation report.
Investment Rate of Return	6.75%
Cost of Living Adjustments	2.125%
Retirement Age	Varies by age, gender, eligibility; details in funding valuation report.
Turnover	Varies by service, gender; details in funding valuation report.
Mortality	105% of the Male and 100% of the Female PubG-2020 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 UAAL. Note that the UAAL amortization period is 30 years for years 2017 and earlier and 25 for years beginning January 1, 2018 and later.*

(b) Target Allocations

The long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting volatility and correlation. The capital market assumptions are per the System's investment advisors as of December 31, 2020. The target asset allocation is based on TERS Investment Policy Statement dated March 2019.

Asset Class	Target Allocation	Long-Term Expected Geometric Rate of Return
Investment grade fixed income	19.5 %	1.30 %
US bank/leveraged loans	3.0	2.39
US long government bonds	3.0	1.75
High yield bonds	6.0	3.10
Emerging market debt	5.0	2.65
Global equity	34.5	5.55
Private real estate	10.0	6.20
Private equity	10.0	6.95
Master limited partnerships	4.0	7.30
Timber	1.5	6.15
Infrastructure	2.0	6.25
Agriculture	1.5	3.72
Assumed inflation- mean		2.50
Assumed inflation- standard deviation		1.65
Portfolio 30 year arithmetic rate of return		7.13
Portfolio 30 year geometric rate of return		6.58
Portfolio standard deviation		10.89
Long-term expected rate of return, net of investment expenses		**6.75**

(c) Sensitivity Analysis

The following presents the NPL of the plan, calculated using the 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	$ 2,248,675,902	$ 1,990,963,993	$ 1,776,187,245
Fiduciary net position	1,915,760,354	1,915,760,354	1,915,760,354
Net pension liability (asset)	$ 332,915,548	$ 75,203,639	$ (139,573,109)

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The System does not have any OPEB related costs for the year ending December 31, 2020. The City of Tacoma reports OPEB information related to TERS members in its financial reporting.

NOTE 9 OTHER MATTERS

No investments were made in loans to, or leases with, any Tacoma Employees' Retirement System official, governmental employer official, party related to a Tacoma Employees' Retirement System official or governmental employer official, non-employer contributor, or organization included in the reporting entity of our participating employers.

The Board of Administration of the Tacoma Employees' Retirement System administers the System. Any risk of loss would be based upon how the System was administered and would be covered through a fiduciary liability policy for the Board or would be paid from plan resources.

Calendar year 2020 showed extreme volatility, as the first quarter brought a bear market with the onset of the COVID-19 pandemic, yet most major asset classes increased and produced positive returns by year-end. It was defined by the coronavirus and the impact resulting from severe economic restrictions accompanied by unprecedented government responses.

In spite of the turbulent conditions, TERS generated a net-of-fee return of 5.50% in 2020, behind relative to its asset allocation policy benchmark return of 7.59%, and behind its actuarial assumed rate of return of 7.00%. Note that this assumed rate of return was reduced to 6.75% effective January 1, 2021.

There were no significant subsequent events requiring further disclosure. In addition, there were no material violations of financial related legal and contractual provisions.

Required Supplementary Information

1. Schedule of Changes in Net Pension Liability or Asset of Employers and Related Ratios

Total Pension Liability	2020	2019	2018	2017	2016	2015	2014
Service cost	$ 45,639,202	$ 42,475,779	$ 40,686,863	$ 40,301,955	$ 42,533,534	$ 39,962,780	$ 38,484,316
Interest on total pension liability	129,784,612	123,223,858	117,668,963	115,522,246	115,288,127	105,422,784	100,571,822
Effect of plan changes	0	-	-	(36,833,135)	-	-	-
Effect of economical/demographic gains or losses	(7,291,912)	17,694,256	4,815,762	(8,898,349)	(20,746,776)	(2,708,626)	(6,285,151)
Effect of assumptions changes or inputs	63,573,598	-	-	-	40,767,283	-	-
Benefit payments/refunds of contributions	(96,700,893)	(89,092,294)	(82,233,425)	(77,467,644)	(71,996,054)	(68,607,774)	(64,636,634)
Net change in total pension liability	135,004,607	94,301,599	80,938,163	32,625,073	105,846,114	74,069,164	68,134,353
Total pension liability, beginning	1,855,959,386	1,761,657,787	1,680,719,624	1,648,094,551	1,542,248,437	1,468,179,273	1,400,044,920
Total pension liability, ending (a)	1,990,963,993	1,855,959,386	1,761,657,787	1,680,719,624	1,648,094,551	1,542,248,437	1,468,179,273
Fiduciary Net Position							
Employer contributions	31,047,707	30,239,417	28,587,937	26,091,331	25,536,034	24,557,390	23,903,892
Member contributions	27,657,640	26,303,297	25,193,034	23,008,946	22,407,327	21,258,474	20,698,886
Investment income net of investment expenses	79,499,814	275,414,254	(58,085,821)	205,616,277	124,939,177	(5,292,224)	111,425,834
Benefit payments/refunds of contributions	(96,700,893)	(89,092,294)	(82,233,425)	(77,467,644)	(71,996,054)	(68,607,774)	(64,636,634)
Administrative expenses	(1,839,269)	(1,789,700)	(1,690,865)	(1,663,105)	(1,917,955)	(1,691,339)	(1,716,124)
Net change in plan fiduciary net position	39,664,999	241,074,974	(88,229,141)	175,585,805	98,968,529	(29,775,473)	89,675,854
Fiduciary net position, beginning	1,876,095,355	1,635,020,381	1,723,249,522	1,547,663,717	1,448,695,188	1,478,546,808	1,388,670,954
Fiduciary net position, ending (b)	1,915,760,354	1,876,095,355	1,635,020,381	1,723,249,522	1,547,663,717	1,448,771,335	1,478,546,808
Net position liability (asset), ending = (a) - (b)	75,203,639	(20,135,969)	126,637,406	(42,529,898)	100,430,834	93,477,102	(10,367,535)
Fiduciary net position as a percentage of total pension liability	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%
Covered payroll	273,789,303	266,661,526	252,789,412	241,586,398	236,444,759	227,383,241	221,332,333
Net pension liability as a percentage of covered payroll	27.47%	-7.55%	50.10%	-17.60%	42.48%	41.11%	-4.68%

Note: This schedule is to be built prospectively until it contains ten years of data.

2. Schedule of Net Pension Liability or Asset of Employers

The System's fiduciary net position, along with the 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 of 7.25% in 2014 through 2016, 7.00% in 2017 through 2020 and 6.75% in 2021 and in future years.

(All Amounts in millions)

Net Pension Liability (Asset)	2020	2019	2018	2017	2016	2015	2014	2013
Total pension liability	$ 1,990.9	$ 1,856.0	$ 1,761.7	$ 1,680.7	$ 1,648.1	$ 1,542.2	$ 1,468.2	$ 1,400.0
Fiduciary net position	1,915.7	1,876.1	1,635.0	1,723.2	1,547.7	1,448.8	1,478.5	1,388.9
Net pension liability	$ 75.20	$ (20.10)	$ 126.70	$ (42.53)	$ 100.43	$ 93.48	$ (10.37)	$ 11.10
Fiduciary net position as a % of total pension	96.22%	101.08%	92.81%	102.53%	93.91%	93.94%	100.71%	99.20%
Covered payroll	2,737	2,667	2,528	2,416	2,364	2,274	2,213	2,138
Net pension liability as a % of covered payroll	27.47%	-7.55%	50.10%	-17.60%	42.48%	41.11%	-4.68%	5.23%

Note: This schedule is to be built prospectively until it contains ten years of data.

3. Schedule of Employers' Contributions

In April 2014, the Board adopted an ADC. The ADC for the period ended December 31, 2016 is based on a 30-year amortization of the UAAL based on the AVA, or the current employer contribution rate if that is greater. At the July 2016 Board meeting, the Board changed the ADC to be based on a 25-year amortization of the UAAL. This was reflected in the January 1, 2017 actuarial valuation, which will be used to calculate the ADC for the year beginning on or after January 1, 2018.

Fiscal Year Ending December 31	Actuarially Determined Contribution*	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll**	Employer Contribution as a % of Covered Payroll
2011	$ 22,500,000	$ 22,500,000	-	$ 219,400,000	10.26 %
2012	22,700,000	22,700,000	-	210,600,000	10.80
2013	23,600,000	23,100,000	500,000	213,800,000	10.80
2014	26,100,000	23,900,000	2,200,000	221,300,000	10.80
2015	27,800,000	24,600,000	3,200,000	227,400,000	10.80
2016	26,500,000	25,500,000	1,000,000	236,400,000	10.80
2017	26,100,000	26,100,000		241,600,000	10.80
2018	28,600,000	28,600,000	-	252,800,000	11.31
2019	30,200,000	30,200,000	-	266,700,000	11.34
2020	31,000,000	31,000,000	-	273,800,000	11.34

*The 21% contribution rate, which is split 11.34% paid by the employer and 9.66% by the member, is consistent with the goal of being greater than or equal to the normal cost rate.

**Covered payroll listed is pensionable payroll.

4. Schedule of Investment Returns

The following is the schedule of the System's annual money-weighted rate of return. The performance calculations were prepared by Wilshire Consulting using the internal rate of return, net of investment expenses and adjusted for the changing amounts actually invested.

2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Percentage									
5.65	18.16	(3.81)	14.34	9.25	(0.67)	8.33	17.25	15.17	0.75

Notes to Required Supplementary Information

1. Schedule of Net Pension Liability or Asset of Employers

The total pension liability contained in this schedule was provided by the System’s actuary, Milliman. The net pension liability or asset is measured as the total pension liability less the amount of the System’s fiduciary net position. The System’s fiduciary net position, along with the expected future contributions, was projected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return of 7.25% in 2014 through 2016, 7.00% in 2017 through 2020 and 6.75% in 2021 and in future years.

2. Schedule of Employers’ Contributions

The required employers’ contributions and percent of those contributions actually made are presented in the schedule.

3. Actuarial Assumptions

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for this actuarial valuation were recommended by the actuary and adopted by the Board.

Other Supplementary Information

1. Schedule of Administrative Expenses
For the Year Ended December 31, 2020 and 2019

	2020		2019	
Personnel services				
Salaries and wages	$	689,025	$	655,760
Personnel benefits		233,642		240,646
Total personnel services	$	922,667	$	896,406
Maintenance and operations				
Communications	$	21,908	$	24,783
General government allocation		111,950		112,780
Information technology		54,232		69,975
Insurance		58,421		59,924
Miscellaneous		4,300		6,030
Office supplies and expenses		26,186		21,989
Professional services		563,505		509,001
Rentals		75,304		73,393
Travel and training		795		15,419
Total maintenance and operation	$	916,601	$	893,294
Total administrative expenses *	$	1,839,268	$	1,789,700

** Does not include investment management expenses.*

2. Schedule of Payments to Consultants
For the Year Ended December 31, 2020

Type		Amount
Custodial bank services		
The Northern Trust Company	$	42,807
Actuarial services		
Milliman		205,290
Pension and investment consulting services		
Wilshire Associates		246,174
Other services (type)		
Central Seattle Panel of Consultants Inc (Disability Evaluation)		875
K&L Gates (Legal)		30,633
Independent Medical Consultants (Disability Evaluation)		1,195
Investment Advisory Committee (Citizen Advisory)		1,100
Small World Solutions (Death Audit)		800
Washington State Auditor's Office (Financial Audit)		34,631
		69,234
Total consultant fees*	$	563,505

** Does not include investment management expenses.*

Information regarding investment management fees can be found on page 3-10 of the Investment Section.

3. Schedule of Investment Expenses
For the Year Ended December 31, 2020

Type		Amount
Investment management fees	$	7,634,596
Securities lending fees*		176,183
Total investment expenses	$	7,810,779

* *Securities lending fees include broker rebates and the lending agent's fees.*

Information regarding investment management fees can be found on page 3-10 of the Investment Section.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the Washington State Constitution and is part of the executive branch of state government. The State Auditor is elected by the people of Washington and serves four-year terms.

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- Find your audit team
- Request public records
- Search BARS manuals (GAAP and cash), and find reporting templates
- Learn about our training workshops and on-demand videos
- Discover which governments serve you — enter an address on our map
- Explore public financial data with the Financial Intelligence Tool

Other ways to stay in touch

- Main telephone: (564) 999-0950
- Toll-free Citizen Hotline: (866) 902-3900
- Email: webmaster@sao.wa.gov