



TO: Elizabeth Pauli, City Manager
FROM: Timothy Allen, Director and Chief Investment Officer, Retirement Department
COPY: City Council and City Clerk
SUBJECT: Ordinance – TERS Contribution Rate Change – November 21, 2017
DATE: November 1, 2017

SUMMARY:

An Ordinance amending Chapter 1.30.350 and 1.30.360 of the Municipal Code – Retirement and Pensions; increasing the employer and employee contribution rate by a total of 1% effective the first pay period of February 2018 to ensure the actuarial and financial soundness of the Tacoma Employees' Retirement System.

The Board of Administration of the Tacoma Employees' Retirement System (TERS) has recommended a 1% contribution rate increase (divided 0.54% for employers and 0.46% for employees), and this proposal has been presented and agreed to by the Joint Labor Committee as required in the Collective Bargaining Agreement. The proposed increase from a combined 20% to 21% is based on the results of the most recent valuation report from the System's actuary as well as the guidance of TERS' Funding and Benefits Policy.

STRATEGIC POLICY PRIORITY:

This action is necessary to ensure the fiscal sustainability of the retirement system and to promote inter-generational fairness by aligning the costs of the accrued benefits with the period in which those benefits are earned.

BACKGROUND:

The Retirement Board (Board) along with their actuary, Milliman, has continued to review the funding status of the Tacoma Employees' Retirement System on an on-going basis to ensure the financial and actuarial soundness of the plan. Based on the results of the most recent actuarial valuation report, the Board, as plan fiduciaries, finds it necessary to recommend a contribution rate increase to the City Council.

The Unfunded Actuarial Accrued Liability (the amount of estimated underfunded liabilities) is projected to be paid down over a 31 year period; this exceeds the 25 year maximum amortization period in the Board's Funding and Benefits Policy and requires consideration of increased retirement contributions at this level of funding. Retirement contributions were last revised in 2012.

The Board at its June 8, 2017 meeting voted to recommend to the City Council to increase the total contributions of employer and employee by 1%. In order to accomplish the recommended increase, the Board voted to recommend to the City Council to amend Section 1.30.340 Contributions – Normal rates, and Section 1.30.350 Contributions – Deductions, to increase the employee contribution rate from 9.20% of pay to 9.66% of pay effective as of the first pay period in January, 2018 and to recommend to the City Council to amend Section 1.30.360 Contributions – City's Share, to increase the employer contribution rate from 10.80% to 11.34% of pay effective as of the first pay period in January, 2018.



This proposed recommendation was presented and agreed to the Joint Labor Committee as required by the Collective Bargaining Agreement on September 27, 2017. In addition, in anticipation of this request a 1% combined contribution rate increase beginning in 2018 was incorporated into the 2017-2018 Biennial Budget. In order to provide sufficient time for systems implementation, the effective date for the contribution request is the first pay period in February 2018.

ALTERNATIVES:

The Council could choose to reject the TERS Board and Joint Labor Committee recommendation, or to delay implementation of the contribution rate increase to a later date. However, without a contribution increase, the System’s funded ratio will remain below actuarially prudent levels, and even larger contribution increases will likely be needed in the future to restore the plan. All members will be more secure in their retirements when the fiscal health of the plan is restored.

RECOMMENDATION:

I request that the Council approve the recommended contribution rate increase from a combined 20% to a combined 21% effective in the first pay period in February 2018. The long-term fiscal sustainability of the retirement system is dependent on all parties continuing to meet their ongoing fiduciary responsibilities.

FISCAL IMPACT:

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
General Fund	multiple		\$190,666.67
Other General Government	multiple		\$415,250.00
Tacoma Public Utilities	multiple		\$644,416.67
Pierce County Health Department	Not City of Tacoma		\$88,916.66
TOTAL			\$1,339,250.00

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Employer Contributions		4342960	\$1,339,250.00
Employee Contributions		4342920	\$1,140,333.33
TOTAL			\$2,479,583.33

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$1,250,333.33

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes, the 1% increase in employee and employer contributions was included in the 2017-2018 biennial budget.