

Tacoma Employees' Retirement System
COMPREHENSIVE ANNUAL FINANCIAL REPORT

A pension trust fund of the City of Tacoma, Washington
For the Year Ended December 31, 2012

Monica Butler, Retirement System Director
3628 South 35th Street
Tacoma, Washington 98409
www.cityoftacoma.org/retirement

2012 KEY STATISTICS

Active Members		2,861
Benefit Recipients		2,106
Deferred Members		427
Fund Net Assets (at Fair Value)	\$	1,218,715,990
Benefits Paid	\$	54,840,648
Refund of Contributions	\$	2,704,771
Administrative Expenses	\$	1,705,598
Member Contributions	\$	20,365,089
Employer Contributions	\$	22,741,360
Investment Rate of Return		14.1%

Introductory Section

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ADMINISTRATIVE ORGANIZATION

BOARD OF ADMINISTRATION

As of December 31, 2012

Marilyn Strickland	Mayor and Chair
Steven Call	Interim Director of Finance and Board Secretary/Treasurer
Tansy Hayward	Designee of the City Manager
William A. Gaines	Tacoma Public Utilities Director
Gordon Cavanaugh	Employee Representative
Samuel Bencotter	Employee Representative
Alice Phillips	Employee Representative
James Curley	Retired Representative
Chris Webster	Citizen Representative
Wayne Reed	Alternate Board Member

INVESTMENT ADVISORY COMMITTEE

Dr. Alva Butcher	Professor	University of Puget Sound
Joseph E. Cook, CFA, CPA	Director	Courtland Partners, Ltd.
Dr. Lynda Livingston	Professor	University of Puget Sound
Dr. Kevin K. Boeh	Professor	Pacific Lutheran University

ADMINISTRATIVE STAFF

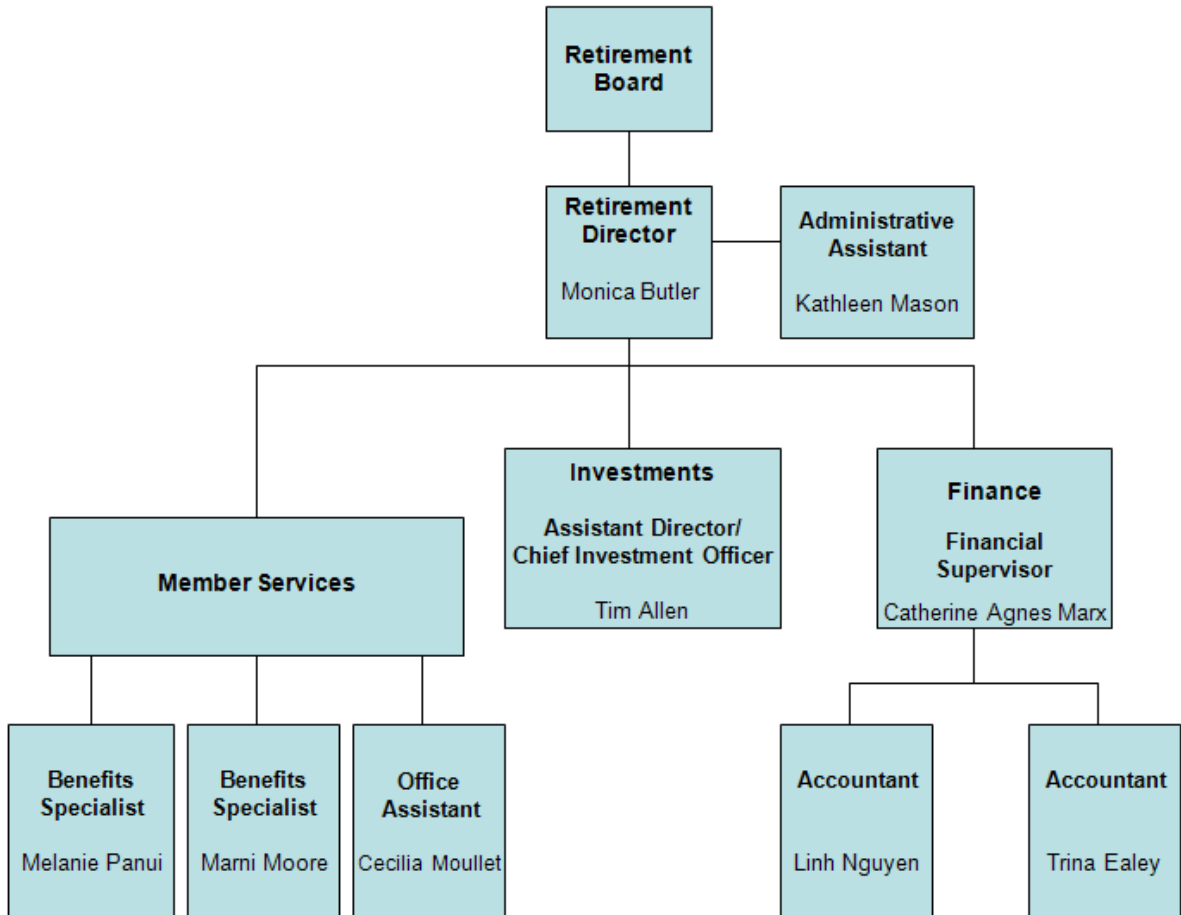
Monica Butler	Retirement System Director
Timothy Allen	Assistant Director/Chief Investment Officer
Catherine Agnes Marx	Financial Supervisor
Trina Ealey	Accountant
Linh Nguyen	Accountant
Kathleen Mason	Administrative Assistant, Board Recording Secretary
Melanie Panui	Benefits Specialist
Marni Moore	Benefits Specialist
Cecilia Moullet	Office Assistant

PROFESSIONAL CONSULTANTS

Davis Wright Tremaine, LLC	Legal Consultant
Milliman	Consulting Actuaries
The Northern Trust Company	Custodian Bank
Wilshire Consulting	Investment Consultant
Adelante Capital Management	Investment Manager
BlackRock	Investment Manager
Dimensional Fund Advisors	Investment Manager
Eaton Vance Management	Investment Manager
INTECH	Investment Manager
INVESCO	Investment Manager
Hamilton Lane	Investment Manager
HarbourVest Partners	Investment Manager
Metropolitan West Asset Management	Investment Manager
Neuberger Berman	Investment Manager
Northern Trust Global Investments	Investment Manager
Pantheon	Investment Manager
Prudential Trust Company	Investment Manager
Research Affiliates	Investment Manager
Tortoise Capital Advisors, LLC	Investment Manager

Information regarding investment professional expenses can be found on pages 25-26 of the Financial Section.

Tacoma Employees' Retirement System Organization Chart



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Tacoma Employees' Retirement
System, Washington

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Christopher P. Morrill

President

Jeffrey R. Emer

Executive Director

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Letter of Transmittal

May 31, 2013

To the Honorable Mayor and
City of Tacoma Council
Tacoma, Washington 98402

The comprehensive annual financial report (CAFR) of the Tacoma Employees' Retirement System, for the calendar year ended December 31, 2012, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Retirement System. To the best of our knowledge and belief, the enclosed annual report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operation of the Tacoma Employees' Retirement System.

This report fulfills the requirement in Section 1.30.440 of the Tacoma Municipal Code that the Board of Administration transmit an annual report of the financial condition of the Retirement System to the City Council.

This letter of transmittal is designed to be read in conjunction with the Management's Discussion and Analysis (MD&A). The MD&A can be found in the financial section immediately following the report of the State Auditors.

PLAN HISTORY

The Retirement System was created and established, effective January 1, 1941, by Ordinance 11870 of the City of Tacoma, to be known thereafter as the Tacoma Employees' Retirement System, for the purpose of providing retirement income to maintain the quality of life of its former employees. The year 2012 concludes our 72nd year of operation. The summary of the plan provisions is provided in the notes to the financial statements of the financial section of this report.

FINANCIAL INFORMATION

The City of Tacoma is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting information is generated in order to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide the concept of reasonable assurance that recognizes the cost of a control should not exceed the benefits likely to be derived, and the valuation of the cost and benefits requires estimates and judgments by management.

The City of Tacoma is required to undergo an independent, annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such audit has been performed by the Washington State Auditors' Office, which meets the requirements of the Revised

Code of Washington 43.09.260. The auditor's report on our general purpose financial statements is included in the financial section of this report.

This report has been prepared in accordance with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board.

The accrual basis of accounting is used to record assets, liabilities, revenues and expenses.

FUNDING

A sustainable pension plan is able to pay the promised benefits to its participants. The Board of Administration's objective is that contribution rates will be relatively stable over the long term and that the funding of the System, on a going concern basis, is sufficient to pay the benefits when due.

Milliman, actuaries for Tacoma Employees' Retirement System, has completed the actuarial valuation as of January 1, 2012.

In 2012, the Board approved some revisions to the actuarial assumptions, including a lower expected rate of return, which will be incorporated in the 1/1/2013 valuation. The following bullets summarize the most important points from the valuation as of January 1, 2012.

- The System's funded ratio (actuarial value of assets divided by actuarial accrued liability) is 90.1%.
- The actuarial value of liabilities exceeds the actuarial assets by \$117.2 million.
- The total contribution rate of 20.00% is 2.66% more than the Normal Cost rate of 17.34%. Although the System does not currently have a Funding Reserve, the 20% of pay contribution rate is sufficient based on the current funding methods and long term actuarial assumptions.

INVESTMENT OVERVIEW

The assets of the Tacoma Employees' Retirement System are invested consistent with the "prudent person rule". The prudent person standard states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries, and with the degree of diligence, care, and skill which a prudent person would ordinarily exercise under similar circumstances in a like position.

The Board of Administration has adopted an Investment Policy Statement, which incorporates key policies, including the strategic asset allocation and main investment responsibilities of the Board, staff and professional investment advisors. The policy allows for the delegation of investment authority to professional investment advisors. Investment advisors are required to execute their duties in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and their specific investment guidelines. The System maintains a well-diversified investment portfolio that contains domestic and international equities, domestic and international fixed income, real estate, real assets and private equity.

Investment income is expected to represent a significant source of revenue to the System. Total returns in 2012 were a solid 14.1%, on par with the policy benchmark. Global equities rebounded from a lackluster 2011, posting strong gains of 17.0% for 2012. Fixed income, the second largest asset class after global equity, also enjoyed a solid year, with the System's core fixed income and high yield investments delivering very favorable returns of 9.7% and 12.8%, respectively. In addition, the System's real estate and private equity portfolios performed well in 2012, generating respective returns of 12.4% and 14.3%.

Finally, the real assets portion of the portfolio performed favorably for its first full year, producing a total return of 6.6% that complemented the System's existing investment structure very well.

When compared to other public funds in the Wilshire Cooperative Total Fund Universe, the System was ranked in the first quartile during 2012 and over the past three-year and ten-year periods, while ranking in the second quartile over the five-year period.

Overall, the System's current asset allocation and investment discipline have served it well during 2012.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the staff under the leadership of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, as a means for determining responsible stewardship for the assets of the System, and to provide information to the members and other interested parties.

The report will be posted on the System's website at www.cityoftacoma.org/retirement to make it available to all members and City departments.

I would like to take this opportunity to express my gratitude to the staff, the advisors, and to the many people who have worked so diligently to ensure the successful operation of the System.

Respectfully submitted,



Monica Butler
Retirement System Director

cc: TERS Board of Administration

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Financial Section



Washington State Auditor Troy Kelley

INDEPENDENT AUDITOR'S REPORT

May 20, 2013

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

REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Tacoma Employees' Retirement System, Pierce County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Retirement Systems' basic financial statements as listed in the table of contents.

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

As discussed in Note 1, the financial statements present only the financial position and changes in financial position of the aggregate remaining fund information of the City of Tacoma that is attributable to the Tacoma Employees' Retirement System. They do not purport to, and do not, present fairly the financial position of the City of Tacoma as of December 31, 2012, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tacoma Employees' Retirement System, Pierce County, Washington, as of December 31, 2012, 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.

Matters of Emphasis – Report on Summarized Comparative Information

The financial statements include partial prior year comparative information derived from the Retirement System's 2011 financial statements and, in our report dated May 18, 2012, we expressed an unmodified opinion on the financial statements. 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, 2011, from which such partial information was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 10 and pension trust fund information on pages 21 through 23 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 accompanying information listed as supporting schedules on pages 24 through 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to 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 financial statements or to the 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.

The information identified in the table of contents as the Introductory, Investment, Actuarial and Statistical sections, and management's responsibility for financial reporting on page 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Retirement System. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we will include 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 in our report on the same for the City of Tacoma for the year ended December 31, 2012. 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.

Sincerely,



TROY KELLEY
STATE AUDITOR

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

December 31, 2012

Management has prepared the basic financial statements of the Tacoma Employees' Retirement System (the System), and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform to the generally accepted accounting principles in the United States of America. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the Board of Administration. The Director and the rest of the System's staff assist the Board in its responsibilities. Internal controls and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include communication of policies and procedures to TERS and related City departments, standards in hiring and training of employees, and segregation of duties and responsibilities.

The System's external auditors, the Washington State Auditor's Office, have conducted an independent audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. This audit is described in their Independent Audit Report on the preceding pages. Management has provided the external auditors with full and unrestricted access to the System's staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.

Monica Butler
Retirement Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Tacoma Employees' Retirement System (the System) financial condition provides an overview of the financial activities and funding conditions for the calendar years ended December 31, 2012, 2011 and 2010. 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.

Financial Statements

This financial report contains two basic financial statements:

- The Statement of Plan Net Assets that provides information about the System's assets, liabilities and net assets. It is a snapshot of the financial position of the pension trust fund as of the end of the year 2012.
- The Statement of Changes in Plan Net Assets that describes information about the year-to-year changes in plan net assets.

There are also notes to the financial statements that include a summary of significant accounting policies, a brief plan description, and information about the funded status. The report also contains required supplemental information and other supporting schedules in addition to the basic financial statements to help readers in their evaluation of the financial integrity of the Tacoma Employees' Retirement System.

Summary of Statements of Plan Net Assets

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

	2012	2011	2010	2012-2011 Percentage Change	2011-2010 Percentage Change
Cash and short-term investments	\$ 27,602,356	\$ 16,824,925	\$ 14,454,526	64.06 %	16.40 %
Receivables	4,952,768	7,330,369	5,869,037	(32.43)	24.90
Investments	1,195,252,693	1,073,471,221	1,100,093,899	11.34	(2.42)
Securities lending collateral	37,423,421	40,781,263	65,161,346	(8.23)	(37.41)
Capital assets	14,349	16,341	19,152	(12.19)	(14.68)
Total assets	<u>1,265,245,587</u>	<u>1,138,424,119</u>	<u>1,185,597,960</u>	11.14	(3.98)
Refunds payable and other accrued expenses	1,166,352	5,110,721	5,003,523	(77.18)	2.14
Investments purchased	7,939,824	9,626,619	34,377,360	(17.52)	(72.00)
Securities lending collateral	37,423,421	40,781,263	65,161,345	(8.23)	(37.41)
Total liabilities	<u>46,529,597</u>	<u>55,518,603</u>	<u>104,542,228</u>	(16.19)	(46.89)
Net assets held in trust for pension benefits	<u>\$1,218,715,990</u>	<u>\$1,082,905,516</u>	<u>\$1,081,055,732</u>	12.54	0.17

Summary of Statements of Changes in Plan Net Assets

The table below provides a summary of the changes in plan net assets and reflects the activities of the fund for the years ended December 31.

	2012	2011	2010	2012-2011 Percentage Change	2011-2010 Percentage Change
Total contributions	\$ 43,106,449	\$ 42,414,466	\$ 40,233,467	1.63 %	5.42 %
Net investment income	151,955,042	13,463,770	134,006,939	1028.62	(89.95)
Total additions	<u>195,061,491</u>	<u>55,878,236</u>	<u>174,240,406</u>	249.08	(67.93)
Benefits and refunds of contributions	57,545,419	52,273,535	48,653,809	10.09	7.44
Administrative expenses	1,705,598	1,754,917	1,846,765	(2.81)	(4.97)
Total deductions	<u>59,251,017</u>	<u>54,028,452</u>	<u>50,500,574</u>	9.67	6.99
Net increase	135,810,474	1,849,784	123,739,832	7241.96	(98.51)
Net assets beginning of year	<u>1,082,905,516</u>	<u>1,081,055,732</u>	<u>957,315,900</u>	0.17	12.93
Net assets end of year	<u>\$ 1,218,715,990</u>	<u>\$ 1,082,905,516</u>	<u>\$ 1,081,055,732</u>	12.54	0.17

Financial Position and Results of Operations

The overall financial position of the System improved in 2012. The total investment return in 2012 was 14.12%, compared to 0.90% in 2011. All the asset classes in the System's portfolio reported a positive return. The detail of the investment performance is located in the investment section of this report.

In 2012, there was an increase in net assets of \$135.8 million or 12.54% compared to the prior year. Total assets increased by \$126.8 million or 11.14% compared to 2011, which was largely attributable to net gains on investments. Total liabilities decreased by \$9 million or 16.19% compared to 2011. The decrease was primarily due to the decrease on refunds payable and other accrued expenses and securities lending collateral at year-end.

Additions to Plan Net Assets consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For calendar year 2012, the total additions to the plan net assets were up from \$55.9 million in 2011 to \$195 million and were primarily due to strong investment returns. There was a slight increase in total contributions from \$42.4 million in 2011 to \$43.1 million in 2012.

Deductions to Plan Net Assets consist of benefit payments, refunds, and administrative expenses. During 2012, benefits and refunds totaled \$57.5 million compared to \$52.3 million in 2011, or a 10% increase. The primary reason for the increase was the high number of retirements that the System experienced, partly due to a reduction in the labor force by the City of Tacoma. The total administrative expenses for two consecutive years have decreased from \$1.75 million in 2011 to \$1.70 million in 2012 or 3%.

Current Environment

Plan membership for active members decreased in 2012. Active membership was 2,861 members at December 31, 2012, as compared to 3,038 members at December 31, 2011. On the other hand, the number of retirees has increased from 1,950 retirees at December 31, 2011 to 2,107 at December 31, 2012.

An actuarial valuation of the System's assets and liabilities is performed annually. The January 1, 2012 actuarial funded ratio, which represents the ratio of the actuarial value of assets to the actuarial accrued liability, is 90.1%, down by 4.8% from the 2011 valuation. This is based on the actuarial value of assets as of December 31, 2011, which uses smoothing on gains and losses over 4 years. The January 1, 2012 valuation fully recognizes the large 2008 investment loss. However, given the date of the valuation study, gains from the year 2012 are not yet incorporated in the actuarial asset values.

Contacting Tacoma Employees' Retirement System

This financial report is intended to provide its readers with a general overview of the retirement 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
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 Plan Net Assets
December 31, 2012 and December 31, 2011

	2012	2011
Assets		
Cash and short-term investments	\$ 27,602,356	\$ 16,824,925
Receivables		
Contributions and other receivables	\$ 1,486,807	\$ 1,549,383
Interest and dividends	2,131,470	3,621,923
Investment sales	1,334,491	2,159,063
Total receivables	\$ 4,952,768	\$ 7,330,369
Investments, at fair value		
Equities	\$ 619,218,650	\$ 560,732,264
Fixed income	376,274,409	343,851,368
Other assets	-	338,801
Real estate	51,698,931	48,091,411
Venture capital and partnerships	148,060,703	120,457,377
Securities lending collateral	37,423,421	40,781,263
Total investments	\$ 1,232,676,114	\$ 1,114,252,484
Capital assets, net of accumulated depreciation of \$12,367 and \$10,375	\$ 14,349	\$ 16,341
Total assets	\$ 1,265,245,587	\$ 1,138,424,119
Liabilities		
Refunds payable and other accrued expenses	\$ 1,166,352	\$ 5,110,721
Investments purchased	7,939,824	9,626,619
Securities lending collateral	37,423,421	40,781,263
Total liabilities	\$ 46,529,597	\$ 55,518,603
Net assets held in trust for pension benefits	\$ 1,218,715,990	\$ 1,082,905,516

See accompanying Notes to the Financial Statements.

Statement of Changes in Plan Net Assets
For the Years Ended December 31, 2012 And 2011

	2012	2011
Additions		
Contributions		
Employer	\$ 22,741,360	\$ 22,511,500
Plan member	20,365,089	19,902,966
Total contributions	\$ 43,106,449	\$ 42,414,466
Investment income		
Net appreciation (depreciation) in fair value of investments	\$ 127,415,635	\$ (6,104,342)
Interest & dividends	28,372,342	22,602,316
Securities lending gross income	124,999	180,256
Investment management fees	(3,942,449)	(3,173,752)
Securities lending - agent fees	(46,914)	(59,769)
Securities lending - broker rebates	31,429	19,061
Net investment income	\$ 151,955,042	\$ 13,463,770
Total additions	\$ 195,061,491	\$ 55,878,236
Deductions		
Benefits	\$ 54,840,648	\$ 49,836,150
Refunds of contributions	2,704,771	2,437,385
Administrative expenses	1,705,598	1,754,917
Total deductions	\$ 59,251,017	\$ 54,028,452
Net Increase	135,810,474	1,849,784
Net assets held in trust for pension benefits		
Beginning of year	1,082,905,516	1,081,055,732
End of year	\$ 1,218,715,990	\$ 1,082,905,516

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements
December 31, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

(a) Plan Provision

Plan Description: The Tacoma Employees' Retirement System (the System) is a single-employer defined benefit public employee pension plan, covering employees of the City of Tacoma and administered in accordance with Chapter 1.30 of the Tacoma Municipal Code and Chapter 41.28 the Revised Code of Washington. The System is a pension trust fund of the City of Tacoma and is reported in the combined City of Tacoma Comprehensive Annual Financial Report.

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 regular 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, Tacoma Rail employees who are covered by state or federal retirement plans. Employees of the Tacoma-Pierce County Health Department, as well as certain employees of the Pierce Transit and the Law Enforcement Support Agency who established membership in the System when these agencies were still City of Tacoma departments, are also members. The breakdown of membership as of December 31, 2012 is as follows:

Retirees and beneficiaries currently receiving benefits	2,106
Inactive members entitled to future benefits	427
Active members:	
City of Tacoma	2,572
Law Enforcement Support Agency	4
Pierce Transit	5
Tacoma-Pierce County Health Department	<u>280</u>
Total active members	2,861
Total membership	<u><u>5,394</u></u>

Benefits: There are two formulas to calculate the retirement benefits. The benefit 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 average monthly salary for the highest consecutive 24-month period, the number of years of membership credit, and a percentage factor (2% maximum) that is determined 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 retirement. Additionally, the System provides cost of living increases up to 2.125% as of July 1st of each year: the actual COLA granted is dependent on 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 Plan 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 eligibility and percentage factor of benefits under the Plan.

Funding Policy: The City of Tacoma is 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. In the event of termination of the Retirement System, any deficit or plan liabilities remain the responsibility of the City. Currently, the required contribution rate for employees is 9.20% of their regular gross pay and the employer contributes 10.80%, for a combined total of 20.00%. Changes to the contribution rate are subject to Sections 1.30.340 and 1.30.360 of the Tacoma Municipal Code.

(b) Basis of Accounting

The financial statements of the System were prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues when due, pursuant to formal commitments. Expenses are recorded when the corresponding liabilities are due and payable. Benefit payments and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Compensated leave balance of Retirement System staff are accrued at year-end and recognized as a current liability. The accrual is based on percentages of vacation and sick leave balances at year-end.

(c) Administrative Expenses

The Tacoma City Council, with the recommendation from the Retirement 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.

(d) Investments

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 equity investments are reported by the managers subject to their fair value policies. No investment in any one corporation exceeded 5% of net assets available for benefits.

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, 2012, 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.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment 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.

Credit Risk

TERS fixed income credit risk is diversified, with holdings in one separate account and five fixed income commingled focused funds. Each of the fixed income investment managers constantly monitor the risk associated with their portfolios. The firms/funds follow investment guidelines that have been reviewed by TERS staff, and regularly report on their positions and the risk/reward of management decisions relative to the benchmark. Commingled funds do not have credit ratings, thus are listed as "not available".

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

Quality Ratings	Fair Value
AAA	\$ 16,021,642
AA	13,447,644
A	20,507,477
BBB	12,543,504
BB	8,801,708
B	3,965,834
CCC	1,979,095
Not Available	187,467,208
	<u>264,734,112</u>
Explicitly or implicitly guaranteed by the U.S. Government	111,540,297
Total fixed income securities	<u>\$ 376,274,409</u>

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. In accordance with the System’s Investment Policy Statement, 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. The government issued instruments shown below are implicitly guaranteed by the U.S. government (i.e. the Federal National Mortgage Association, the Federal Home Loan Bank, or the Federal Home Loan Mortgage Corporation).

As of December 31, 2012, the System had the following debt investments:

Investment Type	Fair Value December 31, 2012	Weighted Average Maturity
Asset backed securities	\$ 21,366,656	18.90
Commercial mortgage-backed	10,107,267	32.75
Corporate bonds	135,864,871	9.00
Government agencies	30,828,243	5.64
Government bonds	26,275,137	11.70
Government mortgage backed securities	50,216,548	19.21
Gov't-issued commercial mortgage-backed	3,052,274	15.63
Index linked government bonds	4,565,967	8.51
Municipal/provincial bonds	3,728,458	13.59
Non-government backed C.M.O.s	6,077,598	21.88
Other fixed income	84,191,390	9.47
Total fixed income securities	<u>\$ 376,274,409</u>	

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's currency risk exposures, or exchange rate risks, primarily reside within the international equity investment holdings. The following table represents securities held in a foreign currency as of December 31, 2012.

Currency Name	Cash and Cash Equivalents	Equities	Venture Capital and Partnerships	Total Fair Value
Australian dollar	\$ 13,265	\$ 1,980		\$ 15,245
Euro	113,420		1,755,095	1,868,515
Japanese yen	180,801			180,801
Swiss franc	41,633			41,633
Total	<u>\$ 349,119</u>	<u>\$ 1,980</u>	<u>\$ 1,755,095</u>	<u>\$ 2,106,194</u>

Derivatives

Pursuant to the requirements of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the System has provided a summary of derivative instrument activities during the reporting period and the related risks. As of December 31, 2012, 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 Assets.

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. By Board policy, these investments may not be used to leverage the System's portfolio, i.e., use derivatives to

increase the portfolio's national 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 following table provides a summary of the derivative instruments outstanding as of December 31, 2012.

Classification	Subclass	Fair Value	Cost	Unrealized Gain (Loss)
Forwards	Foreign Exchange Contracts	\$ 912,075	-	\$ 912,075
Options	Interest Rate Contracts	313	73	240
Total		\$ 912,388	\$ 73	\$ 912,315

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, 2012.

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. At December 31, 2012, all of the System's investments in derivative instruments were held in the System's name and were not exposed to custodial credit risk.

Derivative Interest Rate Risk

At December 31, 2012, the System was exposed to interest rate risk on its derivative investments. The table below illustrates the maturity periods of these derivative instruments.

Classification	Subclass	Investment Maturities 3 months or less
Forwards	Foreign Exchange Contracts	\$ 912,075
Options	Interest Rate Contracts	313
Total		<u>\$ 912,388</u>

Derivative Foreign Currency Risk

At December 31, 2012, the System was exposed to foreign currency risk on its derivative investments, as shown in the following table:

Currency Name	Forwards
Australian dollar	\$ 76,794
British pound sterling	33,030
Danish krone	8,934
Euro	210,829
Hong Kong dollar	(229)
Japanese yen	522,463
New Israeli shekel	(3,944)
New Zealand dollar	1,299
Norwegian krone	3,079
Singapore dollar	4,483
Swedish krona	3,112
Swiss franc	52,226
Total	<u>\$ 912,075</u>

Derivative Contingent Features

As of December 31, 2012, the System did not hold any positions in derivatives containing contingent features.

(e) Other Postemployment Benefits – Healthcare and Other Non-Pension Costs

The System does not have any OPEB related costs for the year ending December 31, 2012, although the City of Tacoma does report an OPEB related to TERS members.

(f) Securities Lending Transactions

In accordance with the policies of the Board of Administration, the System lends its securities to broker-dealers with an agreement to return in the future the collateral received for the securities. The System's Custodian (Northern Trust) is authorized to lend available securities to authorized broker-dealers subject to the receipt of acceptable collateral. The System lends securities for collateral in the form of cash, U.S. government securities and irrevocable letters of credit. 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 Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

Gross securities lending income during 2012 was \$125,000, security lending agent fees and rebates were \$15,485, resulting in net security lending income of \$109,515. The fair value of loaned securities collateralized by cash collateral at December 31, 2012 is \$36,731,251; the cash collateral received from borrowers at December 31, 2012 is \$37,423,421.

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.

2. 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 plan. Any risk of loss would be based upon how the plan was administered and would be covered through a fiduciary liability policy covering the Board or would be paid from plan resources.

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

Required Supplementary Information

1. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL) Entry	Unfunded AAL (UAAL) (*2)	Funded Ratio	Covered Payroll (*3)	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
1/1/2003	\$ 740.1	\$ 686.8	\$ (53.3)	107.8 %	\$ 154.2	(34.6) %
1/1/2005	807.3	754.3	(53.0)	107.0	172.5	(30.7)
1/1/2007	1,021.3	895.8	(125.5)	114.0	175.0	(71.7)
1/1/2009	1,097.3	1,002.3	(95.0)	109.5	197.4	(48.1)
1/1/2011	1,074.8	1,132.9	58.1	94.9	219.6	26.5
1/1/2012	1,068.3	1,185.5	117.2	90.1	219.4	53.4

Dollars expressed in millions

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.
- (2) Actuarial accrued liabilities less actuarial value of assets.
- (3) Covered payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date.

2. Schedule of Employer Contributions

Fiscal Year	Actual Employer Contributions	Percentage of ARC* Contributed
2006	\$ 13.2	100 %
2007	13.6	100
2008	14.9	104
2009	17.9	118
2010	21.3	125
2011	22.5	132

Table expressed in millions

* Annual Required Contribution

Notes to Required Supplementary Information

FUNDED STATUS AND ACTUARIAL METHODS AND ASSUMPTIONS

Six-year historical trend information about Tacoma Employees' Retirement System is presented as required supplementary information. This information is intended to help assess plan funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation may be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the funding status of the Tacoma Employees' Retirement System on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage is, the stronger the system. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids in analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the system.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation dated	January 1, 2012
Actuarial cost method	Entry age
Amortization method	Level percentage of the System's projected payroll
Remaining amortization period	30.0 years (open)
Asset valuation method	Assets are valued based on their fair value, with a four-year smoothing of all fair value gains and losses. The expected return is determined for each year based on the beginning of year fair value and actual cash flows during the year. Any difference between the expected fair value return and the actual fair value return is recognized evenly over a period of four years.
Actuarial Assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25%
Price inflation	3.25%
Interest on member contributions	6.136%
Administrative expenses	.90% of members' salaries

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Tacoma Employees' Retirement System is a defined benefit pension plan covering primarily employees of the City of Tacoma; however, some employees of other governmental units which were previously City of Tacoma departments are also covered under the plan. Each participating unit of government is obligated by City Ordinance to make all required contributions to the plan.

The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The unfunded accrued liabilities are amortized over an open 30-year period. As of the January 1, 2012 valuation date, Milliman, the System's actuary, calculated that the System's actuarial accrued liability exceeds the System's actuarial assets by \$117.2 million. The total contribution rate of 20.00% of salary exceeds the normal cost rate of 17.34% of pay.

Contributions, made in accordance with the actuarially determined contribution requirements, totaled the following:

	2012		2011
Employer	\$ 22,741,360	\$	22,511,500
Employee	20,365,089		19,902,966
Total	\$ 43,106,449	\$	42,414,466

Contribution rates are as follows:

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 onward	10.80		9.20		20.00

The January 1, 2012 actuarial valuation shows that the current rates are sufficient to pay the System's normal cost and maintain assets in excess of the System's actuarial liability indefinitely, based on the current funding methods and long term actuarial assumptions.

**Schedule of Administrative Expenses
For the Year Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Personnel services		
Salaries and wages	\$ 643,646	\$ 658,455
Personnel benefits	272,545	257,862
Total personnel services	<u>\$ 916,191</u>	<u>\$ 916,317</u>
Maintenance and operations		
Office supplies and expenses	\$ 27,464	\$ 23,134
Professional services	462,033	447,371
Information technology	67,861	79,957
Communications	17,591	12,896
Travel and training	21,438	15,391
Insurance	44,854	87,005
Rentals	64,123	69,000
General government allocation	74,850	95,240
Miscellaneous	9,193	8,606
Total maintenance and operation	<u>\$ 789,407</u>	<u>\$ 838,600</u>
Total administrative expenses *	<u><u>\$ 1,705,598</u></u>	<u><u>\$ 1,754,917</u></u>

* *Does not include investment management expenses.*

**Schedule of Payments to Consultants
For the Year Ended December 31, 2012**

Custodial Bank Services	
The Northern Trust Company	\$ 76,851
 Actuarial Services	
Milliman Consultants and Actuaries	171,335
 Pension and Investment Consulting Services	
Wilshire Associates	185,600
 Other Services (Type)	
Davis Wright Tremaine, LLP & Others (Legal)	6,103
Eilts & Co, PS (Accounting and Audit)	2,500
Investment Advisory Committee (Citizen Advisory)	500
Independent Medical Consultants (Disability Evaluation)	8,479
Small World Solutions (Death Audit)	800
Washington State Auditor's Office (Audit)	9,865
	<u>28,247</u>
 Total Consultant Fees*	 <u><u>\$ 462,033</u></u>

**Does not include investment management fees.*

Information regarding investment management fees can be found on page 32 of the Investment Section.

**Schedule of Investment Expenses
For the Year Ended December 31, 2012**

<u>Type</u>	<u>Amount</u>
Management Fees	\$ 3,942,449
Custodian Fees	76,851
Securities Lending Fees*	15,485
Total Investment Expenses	<u><u>\$ 4,034,785</u></u>

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

Information regarding investment management fees can be found on page 32 of the Investment Section.

Investment Section



Andrew H. Junkin CFA, CAIA
Managing Director

March 14, 2013

Ms. Monica Butler
Retirement System Director
Tacoma Employees' Retirement System
3628 S. 35th Street
Tacoma, WA 98409

Re: 2012 Performance Results

Dear Monica:

The purpose of this letter is to review the 2012 investment performance results of the Tacoma Employees' Retirement System ("TERS", "the System").

TERS maintains a well-diversified investment portfolio that consists of global equities, investment grade and high yield fixed income, real estate, real assets as well as private equity. Building largely on a surely, albeit gradual, improving U.S. economy, the System's overall portfolio recorded steady gains throughout most of the year and finished 2012 with a solid return of 14.1%¹ that was on par with the return of its policy benchmark. Rebounding from a lackluster 2011, global equities rounded off the year with strong gains of 17.0%, driven by rising corporate profits, firming growth outlook from China, stabilizing Eurozone sovereign debt concerns, and the resolution of U.S. presidential election/fiscal cliff uncertainty. Fixed income, the second largest asset class after global equity, also enjoyed a solid year with the backdrop of highly accommodative monetary policy. With the Federal Reserve aiming to provide continued boost to sustain the U.S. economic recovery, its low interest rate pledge and quantitative easing rounds have prompted income/yield-seeking investors to drive corporate and mortgage bond yields tighter and returns higher during 2012, allowing TERS' core fixed income and high yield investments to generate very favorable returns of 9.7% and 12.8%, respectively. The System's real estate and private equity portfolios have also done well this year, as their respective returns of 12.4% and 14.3% were fueled by the continued improvement in the commercial real estate markets and the strengthening of U.S.

¹ Performance calculations are consistent with the computations and methodologies approved by the CFA Institute.



financial system. Lastly, as part of the ongoing pursue to further enhance its return/risk profile, TERS' board adopted and funded a new allocation in real assets at the end of 2011, investing in Master Limited Partnerships (MLPs), with the aim of combining the benefits of a good inflation hedge and relatively low correlation to other traditional asset classes. The MLP portfolio performed favorably for its first full year, as the investment's strong yield-generating characteristic and energy exposure allowed it to produce a total return of 6.6% that complemented TERS' existing investment structure very well.

When compared to other public funds in the Wilshire Cooperative Total Fund Universe, TERS was ranked in the first quartile during 2012, over the past three-year and ten-year periods, while ranking in the second quartile over the five-year period. Overall, the System's current asset allocation and investment discipline have served it well during the year of 2012.

As always, we thank you for the opportunity to be of service to TERS.

Sincerely,



Andrew Junkin
Managing Director

Investment Performance - Periodic Results Through 2012

	1-Year		3-Year		5-Year
Total Fund	14.12	%	9.62	%	2.88
<i>Custom Policy Benchmark Index</i>	14.10		9.27		2.97
Domestic Equities	15.96		11.28		1.48
<i>Custom Domestic Equity Index</i>	16.43		11.21		1.84
International Equities	17.77		3.13		(5.47)
<i>Custom International Equity Index</i>	17.86		3.70		(3.99)
Core Fixed Income	9.70		9.05		8.37
<i>Barclays Capital Aggregate Index</i>	4.22		6.19		5.95
TIPS	6.93		#		#
<i>Barclays Capital U.S. TIPS Index</i>	6.98		8.90		7.04
High Yield / Bank Loans	12.75		10.07		8.17
<i>Custom High Yield Index</i>	14.88		11.42		9.91
Real Estate	12.37		17.57		2.36
<i>Custom Real Estate Index</i>	14.10		17.56		4.90
Private Equity	14.30		11.88		#
<i>Custom Private Equity Index</i>	21.17		12.40		#
Real Assets	6.61		#		#
<i>Custom Real Assets Index</i>	4.79		17.47		12.52

Additional Information:

= performance for full period not applicable

Note: performance calculations were prepared by Wilshire Consulting using market value time-weighted rates of return.

Total returns include cash income plus gains and losses due to changes in fair value, whether realized or unrealized.

Supplemental Benchmark Information:

The Custom Policy Benchmark Index from April 2012 to May 2012 was 46.5% Russell Global Equity Index (1/2 Hedge on Developed ex-US), 17% Barclays Aggregate Index, 2.5% Barclays TIPS Index, 9% Custom High Yield Index, 4% JP Morgan EMBI Global Diversified Index, 4% Wilshire REIT Index, 4% NCREIF Property Index 3% Alerian MLP Index and 10% Custom Private Equity Index.

The Custom Policy Benchmark Index from January 2012 to March 2012 was 46.5% Russell Global Equity Index (1/2 Hedge on Developed ex-US), 21% Barclays Aggregate Index, 2.5% Barclays TIPS Index, 9% Custom High Yield Index, 4% Wilshire REIT Index, 4% NCREIF Property Index 3% Alerian MLP Index and 10% Custom Private Equity Index.

The Custom Policy Benchmark Index at year-end 2011 was 23% Russell 3000 Index, 23.5% Custom International Equity Index, 21% Barclays Aggregate Index, 2.5% Barclays TIPS Index, 9% Custom High Yield Index, 4% Wilshire REIT Index, 4% NCREIF Property Index 3% Alerian MLP Index and 10% Custom Private Equity Index.

The Custom Domestic Equity Index from January 2010 was the Russell 3000 Index; prior to that date, the Domestic Equity Index was the S&P 500 Index.

The Custom International Equity Index from January 2012 was the Russell Global Equity ex-US Index (1/2 Hedge on Developed ex-US), and from October 2010 it was 38.5% MSCI EAFE index, 38.5% MSCI EAFE Index Currency hedged and 23% MSCI EM Index.

The Custom International Equity Index from April 2009 to September 2010 was 40% MSCI EAFE index, 40% MSCI EAFE Index Currency hedged and 20% MSCI EM Index. The Custom International Equity Index from April 2006 to March 2009 was MSCI ACWI ex-US Index.

The Custom High Yield Index from June 2012 was the Merrill Lynch High Yield Master II Constrained Index, from January 2010 it was the Merrill Lynch High Yield BB/B Constrained Index; prior to that date the Custom High Yield Index was the Merrill Lynch High Yield Master II Index.

The Custom Real Estate Index from October 2010 was 50% NCREIF Property Index and 50% Wilshire REIT Index; from April 1988 to September 2010 the Custom Real Estate Index was the Wilshire REIT Index.

The Custom Private Equity Index is dynamically calculated based on the actual weights of the private equity investments and the private equity source fund.

To coincide with private equity investments reporting, 1-quarter lagged market values are used for the private equity component in the custom benchmark calculation.

The Custom Real Assets Index from October 2011 was the Alerian MLP Index.

**Summary of Investment Holdings
For the Year Ending December 31, 2012**

Investment Type	Fair Value	Percentage of Total
Equities	\$ 619,218,650	49.24 %
Fixed income	376,274,409	29.92
Real estate	51,698,931	4.11
Venture capital and partnerships	148,060,703	11.77
Short-term investment funds	24,777,068	1.97
Securities lending collateral	37,423,421	2.98
Total investments owned December 31, 2012	<u>\$ 1,257,453,182</u>	<u>100.00 %</u>
Reconciliation to statement of plan net assets		
Total portfolio value	\$ 1,257,453,182	
Less: amounts classified as short-term investments	<u>24,777,068</u>	
Investments per statement of plan net assets	<u>\$ 1,232,676,114</u>	

**Schedule of Largest Holdings
As of December 31, 2012**

Equity	Fair Value
MFB NT Collective S&P500 Index Fund-Non Lending	\$ 113,030,998
MFB NT Collective EAFE Index Fund - Lending	95,958,737
MFB NT Collective S&P 500 Index Fund - Lending	82,088,021
MFB NT Collective Emerging Markets Index Fund-Lending	74,711,574
MFO DFA Invt Dimensions Group Inc Intl Core Equity Portfolio	61,972,043
CF Intech Enhanced Plus Fd Llc	36,136,774
MFB NT Collective Russell 1000 Growth Index Fund - Lending	27,451,091
MFB NT Collective Russell 2000 Index Fund-Lending	25,915,753
MFB NT Collective Canada Index Fund - Non Lending	13,679,585
Simon Property Group Inc Com	6,183,690

Fixed Income	Fair Value
CF Neuberger Berman High Income Fund Llc	\$ 71,667,867
CF Prudential Emerging Market Debt Fund	51,759,779
CF Eaton Vance Instl Sr Ln Fd	32,431,298
CF Blackrock Debt Index NI Fd	30,431,951
CF Blackrock U.S. TIPS	27,430,371
U.S. Treasury Notes 0.75% due 10-31-2017	8,357,331
U.S. Treasury Notes 0.75% due 06-30-2017	7,021,447
FNMA TBA	4,736,115
U.S. Treasury Bonds 2.75% due 08-15-2042	3,978,375
U.S. Treasury Notes 1.625% due 11-15-2022	3,664,475

Note: Complete list of holdings available on request.

**Investment Management Fees
For the Year Ending December 31, 2012**

Investment Type	Assets Under Management	Fees
Equities	\$ 619,218,650	\$ 1,218,545
Fixed income	376,274,409	1,185,448
Real estate	51,698,931	565,107
Venture capital and partnerships	148,060,703	973,348
Short-term investment funds	24,777,068	n/a
Securities lending collateral	37,423,421	n/a
Subtotal	\$ 1,257,453,182	\$ 3,942,449
Other investment services		
Custodian		\$ 76,851
Securities lending		15,485
Subtotal		\$ 92,336
Total investment fees		\$ 4,034,785

**Brokerage Commissions
For the Year Ended December 31, 2012**

Rank	Broker's Name	Commissions	Shares	Commissions Per Share
1	Ivy Securities Inc	\$ 9,920	263,402	\$ 0.0377
2	Jefferies & Company	9,327	4,644,450	0.0020
3	Weeden & Company	9,069	261,820	0.0346
4	Citation Group	5,411	138,828	0.0390
5	Citigroup Global Markets Inc/Smith Barney	4,365	193,194	0.0226
6	Loop Capital Markets	2,885	75,214	0.0384
7	Robert W. Baird & Company Inc Milwaukee USA	2,517	1,224,976	0.0021
8	ISI Group Inc	2,515	67,600	0.0372
9	Penserra Securities	2,304	63,700	0.0362
10	Merrill Lynch Pierce Fenner & Smith	2,252	2,823,101	0.0008
11	Wachovia Capital Markets	2,075	1,790,254	0.0012
12	Cabrera Capital Markets, Inc	1,576	39,400	0.0400
13	Morgan Stanley & Co Inc New York	1,552	12,150,260	0.0001
14	Guggenheim Capital Markets LLC	1,378	36,590	0.0376
15	RBC Dain Rauscher	1,355	3,321,172	0.0004
16	Barclays Capital Le	1,220	112,199	0.0109
17	Green Street Advisors	1,084	27,100	0.0400
18	Goldman Sachs & Company	1,046	27,407,612	0.0000
19	MKM Partners LLC	344	8,600	0.0400
20	Credit Suisse First Boston Corporation	326	64,331,849	0.0000
21	UBS Warburg LLC	303	5,628,911	0.0001
22	Bear Stearns	226	24,099	0.0094
23	Liquidnet Inc	118	7,113	0.0166
24	Knight Equity Markets LP	74	2,463	0.0300
25	Morgan Keegan & Company	67	2,240	0.0300
26	Keefe Bruyette & Woods Inc	64	1,600	0.0400
27	Fidelity Capital Markets	44	4,420	0.0100
28	Jonestrading Inst Serv	28	949	0.0300
29	Raymond James	23	768	0.0300
30	Baypoint Trading LLC	17	569	0.0300
	Total	<u>\$ 63,486</u>	<u>124,654,453</u>	<u>\$ 0.0005</u>

Investments Goals and Policies

The overall goal of Tacoma Employees' Retirement System (TERS) is to provide benefits to its participants and their beneficiaries through a carefully planned and executed investment program. The investment goal is to preserve fund assets and generate sufficient risk adjusted returns to meet future pension obligations. While preservation of capital is desirable, the Retirement Board recognizes that prudent investment risk taking is necessary to meet its goals.

The TERS Retirement Board's Investment Policy Statement provides the framework for the management of the TERS Plan assets, and outlines the target allocation and acceptable range for each permitted asset classes. The Investment Policy Statement is designed to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, yet provide reasonable parameters to ensure prudence and care in the execution of the investment program.

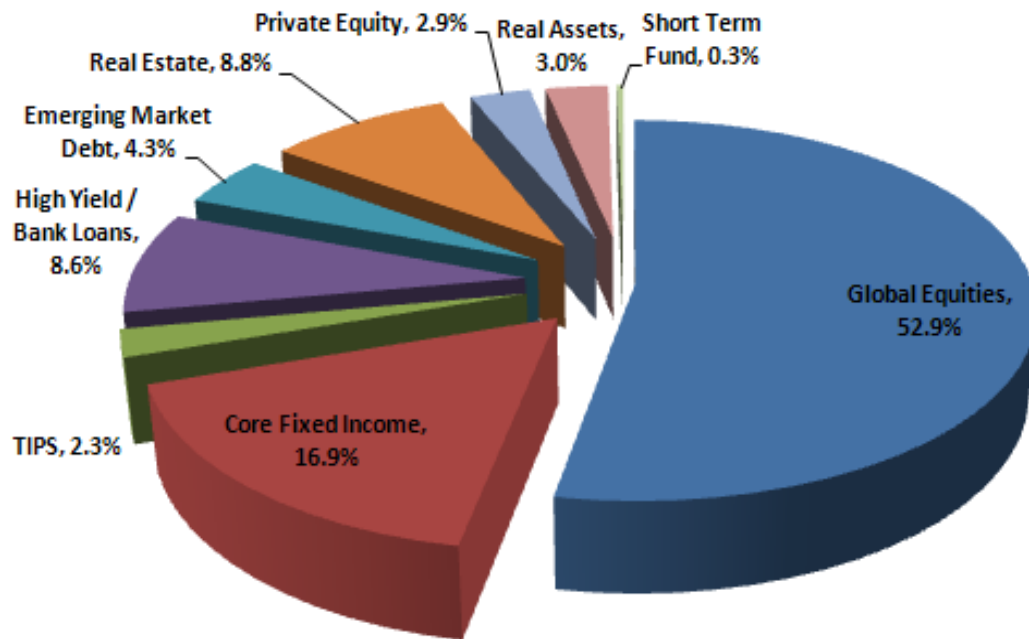
In developing the Investment Policy, the Board periodically requests asset allocation studies that consider the current and expected condition of the Plan, the expected long term capital market outlook, and the Plan's risk tolerance. The asset allocation study measures the potential impact on pension costs of alternative asset allocation policies based on various degrees of diversification in terms of risk and return and the existing and projected liability structure of the Plan. The Board will conduct an asset allocation study no less frequently than every five years, at which time it will determine (1) the asset classes to be included in the investment portfolio, (2) the targeted or normal commitments to each asset class to achieve the desired level of diversification and return (collectively, the Strategic Asset Allocation), and (3) the range in which the commitments are permitted to fluctuate.

The TERS Strategic Asset Allocation includes commitments to Global Equities, Domestic and Emerging Markets Fixed Income, Public and Private Real Estate, Real Assets and Private Equity. Professional investment management firms, which are registered investment advisors and/or acknowledge co-fiduciary status, are retained to assist in managing TERS assets. Each investment manager functions under a formal contract that delineates its responsibilities and appropriate performance expectations. A set of administrative requirements for management of each portfolio is agreed to with each manager.

The Retirement Board reviews the investment performance of the total fund and asset classes on a regular basis, at least quarterly. The Investment Policy Statement outlines the benchmarks for the total fund and major categories of asset class. The individual managers are also reviewed quarterly, and evaluated relative to specific benchmarks that reflect the objectives and characteristics of the strategic role they play in the portfolio.

The Retirement Board uses the services of an investment consultant for the purpose of asset allocation studies, manager screening and selection, performance measurement and evaluation, and topical studies. The comments and recommendations of the consultant, in conjunction with the input of staff and other available information, are considered by the Retirement Board for the purpose of making informed and prudent decisions. The investment consultant acts in a fiduciary capacity providing investment advice to the Retirement Board.

Asset Allocation 2012



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Actuarial Section



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milliman.com

April 23, 2012

Board of Administration
Tacoma Employees' Retirement System
3628 South 35th Street
Tacoma, WA 98409

Re: GFOA Report as of January 1, 2012

Members of the Board:

The purpose of this letter is to provide the required exhibits the Retirement System (the System) needs to complete its Comprehensive Annual Financial Report in conformance with the GFOA and GASB standards. Milliman, Inc. has performed 19 actuarial valuations for the Tacoma Employees' Retirement System since January 1, 1976. Biennial valuations occurred from 1985 through 2011 and one additional valuation was performed in 1998. Beginning in 2012, annual actuarial valuations will be performed. The most recent actuarial valuation of the Tacoma Employees' Retirement System was performed as of January 1, 2012. The next scheduled valuation of the Tacoma Employees' Retirement System will be as of January 1, 2013.

The financing objective of the System is to establish contribution rates that will tend to remain level as a percentage of payroll. The contribution rates have been:

Applicable Period	City Rate	Member Rate	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 onward	10.80	9.20	20.00

Our January 1, 2012 actuarial valuation shows that the current rates are sufficient to pay the System's normal cost and amortize the System's unfunded actuarial accrued liability over 35 years, based on the current funding methods and long term actuarial assumptions. The entire current employer and employee contribution of 20.00% of salary exceeds the Normal Cost rate of 17.34% of pay. The System's Actuarial Accrued Liability exceeds the System's actuarial value of assets by \$117.2 million as of January 1, 2012.

This work product was prepared solely for the Tacoma Employees' Retirement System. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

A funding measurement that may be considered is the funded ratio of the Actuarial Accrued Liability to Assets. This ratio is shown in Exhibit 7. As the actuarial experience varies from year to year, the funded ratio will reflect actuarial gains and losses. The Actuarial Accrued Liability represents the portion of the total plan benefits and expenses which is not provided for by future Normal Cost contributions.

The actuarial assumptions for future salaries, service retirements, disablement rates, other employment termination rates and investment expenses were not changed since the January 1, 2009 actuarial valuation. The actuarial assumptions used in our 2012 actuarial valuation are summarized in Exhibit 1. These assumptions were recommended by the actuary and adopted by the Board.

The GASB annual required contribution (ARC) calculated in the January 1, 2012 actuarial valuation for the fiscal year ending December 31, 2013 is 10.94%. The ARC refers to only the employer's portion of the total contribution rate. The Board's funding policy may require a contribution rate different than the GASB required ARC, which is an accounting disclosure. To the extent the funding policy requires a contribution rate different than the computed ARC, adjustments in the net pension obligation (NPO) will occur from year to year.

Certification

The assumptions represent our best estimate of future conditions affecting the System, and we believe they are reasonably related to the past experience of the System. Nevertheless, the emerging costs of the System will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions. Gains or losses in future experience may result in changes in future contribution rates. The current actuarial asset method smoothes asset gains and losses over four years.

In preparing our actuarial valuation reports, we relied, without audit, on the financial statements prepared by the staff of the System. We also relied upon the employee and beneficiary data provided to us by the staff. We compared the data for the January 1, 2011 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations. It should be noted that if any data or other information is inaccurate or incomplete, our calculations might need to be revised.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, Financial Reporting for Defined Benefit Pension Plans.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not

perform an analysis of the potential range of future measurements. The Board has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in Exhibit 1 of this report.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts of the System. Actuarial computations under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for this purpose may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements as stated under their Funding Policy and the requirements of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work is prepared solely for the internal business use of the System. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- (a) The System may provide a copy of Milliman's work, in its entirety, to the System's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the System.
- (b) The System may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

The enclosed Exhibits 1 through 14 provide further related information. Milliman is completely responsible for these exhibits. Specifically, they are:

Exhibit 1	Summary of Actuarial Assumptions and Methods
Exhibit 2	Schedule of Active Member Valuation Data
Exhibit 3	Schedule of Retirees and Beneficiaries
Exhibit 4	Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
Exhibit 5	GASB Statement No. 27 Annual Pension Cost and Net Pension Obligation
Exhibit 6	Schedule of Funding Progress
Exhibit 7	Funding Ratios
Exhibit 8	Schedule of Employer Contributions
Exhibit 9	GASB Statement No. 27 Three-Year Trend Information

Exhibit 10	GASB Statement No. 27 Annual Development of Pension Cost
Exhibit 11	Actuarial Present Value of Accumulated Vested Plan Benefits
Exhibit 12	Analysis of Actuarial Gains or Losses
Exhibit 13	Provisions of Governing Law
Exhibit 14	Changes Affecting Actuarial Valuations

We are members of the American Academy of Actuaries and Fellows of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,



Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary
MCO/DRW/nlo



Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary

Tacoma Employees' Retirement System
Summary of Actuarial Assumptions and Methods

1. Investment Return

The annual rate of investment earnings based on the actuarial value of the assets of the System are assumed to be 7.75% per year, compounded annually and net of investment expenses (adopted 1/1/2001).

2. Valuation of Assets

Assets are valued based on their market value, with a four-year smoothing of all market value gains and losses. The expected return is determined for each year based on the beginning of year market value and actual cash flows during the year. Any difference between the expected market value return and the actual market value return is recognized evenly over a period of four years (adopted 1/1/1997).

3. Selection of Assumptions

The actuarial assumptions and methods used to value the System's liabilities and measure the System's funding progress are recommended by a Member of the American Academy of Actuaries (MAAA) and approved by the Retirement Board.

4. Mortality

The mortality rates used in this valuation are:

*Contributing Members,
Retired Members and
Beneficiaries:*

Basis – RP-2000 Combined Healthy Mortality projected by Scale AA for respective sexes, as adjusted:

<u>Group</u>	<u>Adjustment</u>	<u>Adopted</u>
Contributing males	+1 year	1/1/2007
Contributing females	-1	1/1/2007

Disabled Members:

RP-2000 Disabled Male Retiree Mortality projected by Scale AA (adopted 1/1/2007).

5. Retirement

Service Retirement

Annual probabilities among persons eligible for service retirement are illustrated in the following table:

Age	Males			Females		
	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter	Eligible for Reduced Benefits	First Year Eligible for Full Benefits	Thereafter
45 or less	1.2%	14.5%	14.5%	2.0%	12.0%	12.0%
46	1.2	14.5	14.5	2.2	12.0	12.0
47	1.2	14.5	14.5	2.4	12.0	12.0
48	1.2	14.5	14.5	2.6	12.0	12.0
49	1.2	14.5	14.5	2.8	12.0	12.0
50	2.0	14.5	14.5	3.0	12.0	12.0
51	2.0	14.5	14.5	3.2	12.0	12.0
52	4.0	14.5	14.5	3.4	12.0	12.0
53	4.0	14.5	14.5	3.6	12.0	12.0
54	4.0	14.5	14.5	8.0	12.0	12.0
55	4.0	14.5	14.5	8.0	12.0	12.0
56	4.0	14.5	14.5	8.0	12.0	12.0
57	4.0	14.5	14.5	8.0	12.0	12.0
58	4.0	14.5	14.5	8.0	12.0	12.0
59	4.0	14.5	14.5	8.0	12.0	12.0
60		14.5	14.5		23.0	23.0
61			14.5			22.0
62			29.0			22.0
63			11.0			16.0
64			17.0			16.0
65			39.0			42.0
66			25.0			34.0
67			25.0			34.0
68			25.0			34.0
69			25.0			34.0
70			*			*

* Immediate retirement is assumed for every person age 70 or over.

(Adopted 1/1/2009)

Disability Retirement

Annual probabilities are illustrated below:

Age	Males and Females
22	.02%
27	.02
32	.05
37	.05
42	.05
47	.09
52	.10
57	.11

(Adopted 1/1/2009)

6. Other Terminations of Employment

The annual rates of termination are illustrated below:

Year of Service	Males	Females
1	33.00%	28.00%
2	13.00	12.00
3	8.60	10.00
4	5.40	8.60
5	3.70	5.90
6	3.57	5.90
7	3.43	5.90
8	3.30	5.90
9	3.04	5.32
10	2.78	4.74
11	2.52	4.16
12	2.26	3.58
13	2.00	3.00
14	1.93	2.74
15	1.86	2.48
16	1.79	2.22
17	1.72	1.96
18 and up	1.65	1.70

(Adopted 1/1/2009)

7. Future Salaries

The total annual rates of salary increase include an assumed 4.25% per annum ultimate rate of increase in the wage growth plus increases due to promotions and longevity.

Years of Service	Annual Rate of Increase	
	Promotion and Longevity	Total*
1	5.00%	9.46%
2	4.25	8.68
3	3.75	8.16
4	3.25	7.64
5	2.75	7.12
6	2.35	6.70
7	2.10	6.44
8	1.90	6.23
9	1.75	6.07
10	1.60	5.92
11	1.45	5.76
12	1.30	5.61
13	1.25	5.55
14	1.20	5.50
15	1.15	5.45
16	1.10	5.40
17	1.05	5.34
18	1.00	5.29
19	0.97	5.26
20	0.94	5.23
21	0.91	5.20
22	0.88	5.17
23	0.85	5.14
24	0.83	5.12
25	0.81	5.09
26	0.79	5.07
27	0.77	5.05
28 and over	0.75	5.03

* Including a 4.25% general wage increase assumption.

(Adopted 1/1/2009)

8. Growth in Membership

No growth in the membership of the System is assumed. The combined effects of replacements of members and increases in salaries are assumed to produce an average 4.25% annual expansion in the payroll of covered members (adopted 1/1/2009).

9. Actuarial Cost Method

The entry age actuarial cost method (adopted 1/1/1976).

The unfunded actuarial accrued liability created by this method, including gains and losses, is amortized as a level percentage of the System's projected payroll. The amortization payment is set so the total contribution rate will be unchanged, provided that rate allows the unfunded actuarial accrued liability to be completely funded over an acceptable period.

10. Postretirement Increases

It is assumed that the Consumer Price Index will continue to increase at a rate of 3.25% per year; thus, retirement allowances are assumed to increase at a rate of 2.125% per year and an additional amount to bring the member's indexed benefit to at least 50% of its original purchasing power, as provided by the System (adopted 1/1/2005).

11. Effective Dates

All assumptions and procedures adopted for the January 1, 2009 actuarial valuation have not changed.

12. Date of Last Study

The last study of the System's active member and economic experience reflected in this report was performed in 2008. It analyzed the experience for the four-year period from 2004-2007. The next study of the System's active member and economic experience is scheduled for the year 2012 and will cover the four years of experience from 2008 through 2011.

A study of the System's retired and disabled mortality experience was performed in 2006. It analyzed the experience for the four-year period from 2002-2005. It will be updated in 2012.

13. Interest on Member Contributions

Interest on member contributions is assumed to accrue at an annual rate of 1.50% per quarter, compounded quarterly. This is equivalent to 6.136% per annum, compounded annually (adopted 1/1/1979).

14. Administrative Expenses

The annual contribution assumed to be necessary to meet administrative expenses of the System is 0.90% of members' salaries. These figures are included in the calculation of the normal cost rate (adopted 1/1/2001).

15. Price Inflation

3.25% per annum, compounded annually (adopted 1/1/2005).

16. Independent Actuarial Review

Aon Consulting performed an actuarial audit of the 2009 Actuarial Valuation in 2009.

17. Portability

The estimated cost of portability with other public retirement systems is included in the valuation. The available data to measure the costs of portability is small. As data on portability retirements continues to be collected, more accurate measurements will be possible in the future.

For now, we are assuming:

- 20% of all members retiring will be eligible for portability benefits;
- The average number of years a member will have with another system will be 15 years with an average of 5% salary increase per year;
- Portability service will increase the benefit percentage factor by 33%; and
- Members retiring from active service with TERS, who are eligible for a retirement benefit based on the full 2.0% benefit percentage factor without portability, will not have their benefits changed by portability.

Tacoma Employees' Retirement System
Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Average Annual Pay	Annualized % of Increase in Average Pay
01/01/1976	2,088	\$ 31,334,000	\$ 15,006	N/A
01/01/1979	2,099	39,933,000	19,024	8.2%
01/01/1982	2,128	56,181,000	26,400	11.5
01/01/1985	2,137	63,609,000	29,765	4.1
01/01/1987	2,205	67,456,000	30,593	1.4
01/01/1989	2,315	75,757,000	32,725	3.4
01/01/1991	2,515	89,024,000	35,397	4.0
01/01/1993	2,630	100,303,000	38,138	3.8
01/01/1995	2,817	112,677,000	39,999	2.4
01/01/1997	2,667	117,961,000	44,230	5.2
01/01/1998 ⁽¹⁾	2,655	119,259,000	44,919	1.6
01/01/1999	2,650	123,247,000	46,508	3.5
01/01/2001	2,814	142,219,000	50,540	4.2
01/01/2003	2,935	161,266,000	54,946	4.3
01/01/2005	3,072	176,736,000	57,531	2.3
01/01/2007	2,967	178,227,000	60,070	2.2
01/01/2009	3,123	200,482,000	64,195	3.4
01/01/2011	3,112	220,825,000	70,959	5.1
01/01/2012	3,038	217,566,000	71,615	0.9

(1) A special actuarial valuation was performed at January 1, 1998. Originally, actuarial valuations were only performed at the beginning of odd numbered years until 2011, when annual valuations were adopted.

Tacoma Employees' Retirement System

Schedule of Retirees and Beneficiaries

Valuation Date	Number	Annual Allowances	Average Annual Allowances	Annualized % of Increase in Average Allowances
01/01/1976	763	\$ 2,457,000	\$ 3,221	N/A
01/01/1979	952	3,898,000	4,095	8.3%
01/01/1982	1,110	5,743,000	5,173	8.1
01/01/1985	1,244	8,410,000	6,760	9.3
01/01/1987	1,315	10,098,000	7,679	6.6
01/01/1989	1,378	11,899,000	8,635	6.0
01/01/1991	1,425	13,353,000	9,371	4.2
01/01/1993	1,439	14,868,000	10,332	5.0
01/01/1995	1,438	16,369,000	11,383	5.0
01/01/1997	1,453	18,107,000	12,462	4.6
01/01/1998 ⁽¹⁾	1,653	23,521,000	14,229	14.2
01/01/1999	1,622	23,863,000	14,712	3.4
01/01/2001	1,582	25,156,000	15,901	4.0
01/01/2003	1,599	27,678,000	17,310	4.3
01/01/2005	1,646	31,171,000	18,937	4.6
01/01/2007	1,734	36,478,000	21,037	5.4
01/01/2009	1,819	41,855,000	23,010	4.6
01/01/2011	1,894	47,443,000	25,049	4.3
01/01/2012	1,950	51,057,000	26,183	4.5

(1) A special actuarial valuation was performed at January 1, 1998. Originally, actuarial valuations were only performed at the beginning of odd numbered years until 2011, when annual valuations were adopted. Increases in Annual Allowances include the 50% restoration of purchasing power benefit effective January 1, 1997, plus the 215 early window retirements, which occurred in 1997.

Exhibit 4

Tacoma Employees' Retirement System
Schedule of Retirees and Beneficiaries Added to and Removed from Rolls

Valuation Date January 1	Added to Rolls		Removed from Rolls		Rolls		Percent Increase in Annual Allowances	Average Annual Allowances	Percent Increase in Annual Allowances
	No.	Annual Allowances ⁽¹⁾	No.	Annual Allowances	No.	Annual Allowances			
1993					1,439	\$ 14,868,000	5.5%	\$ 10,332	5.0%
1995	128	\$ 2,430,000	129	\$ 929,000	1,438	16,369,000	4.9	11,383	5.0
1997	116	2,677,000	101	939,000	1,453	18,107,000	5.2	12,462	4.6
1999	269	6,700,000	100	943,000	1,622	23,864,000	14.8	14,713	8.7
2001	74	2,533,000	114	1,242,000	1,582	25,156,000	2.7	15,901	4.0
2003	133	4,057,000	116	1,535,000	1,599	27,677,000	4.9	17,309	4.3
2005	220	5,714,000	173	2,220,000	1,646	31,171,000	6.1	18,937	4.6
2007	236	7,271,000	148	1,964,000	1,734	36,478,000	8.2	21,037	5.4
2009	245	7,952,000	160	2,575,000	1,819	41,855,000	7.1	23,010	4.6
2011	233	8,061,000	158	2,473,000	1,894	47,443,000	6.5	25,049	4.3
2012	135	5,172,000	79	1,558,000	1,950	51,057,000	7.6	26,183	4.5

(1) Includes post-retirement increases.

Note: The numbers added to rolls and removed from rolls were for two-year periods for valuations dated 2011 and earlier, but for one-year periods for valuations dated after 2011.



This work product was prepared solely for the Tacoma Employees' Retirement System. It may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

Tacoma Employees' Retirement System
GASB Statement No. 27 Annual Pension Cost
and Net Pension Obligation

	<u>Fiscal Year Ending December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
1a. Total Normal Cost Rate	17.37%	17.16%	17.16%
1b. Employee Contribution Rate ⁽¹⁾	<u>7.28%</u>	<u>8.28%</u>	<u>8.74%</u>
1c. Employer Normal Cost Rate (1a - 1b)	10.09%	8.88%	8.42%
2a. Total Employer Contribution Rate ⁽²⁾	8.55%	9.72%	10.26%
2b. Amortization Payment Rate (2a - 1c)	-1.54%	0.84%	1.84%
2c. Amortization Period	28 years	29 years	28 years
2d. GASB 27 Amortization Rate	-2.85%	-1.09%	-0.63%
3. Total Annual Required Contribution (ARC) Rate ⁽³⁾ (1c + 2d)	7.24%	7.79%	7.79%
4. Covered Employee Payroll ⁽⁴⁾	\$ 209,852,117	\$ 219,643,755	\$ 219,410,331
5a. ARC (3 x 4)	\$ 15,193,293	\$ 17,110,249	\$ 17,092,065
5b. Interest on Net Pension Obligation (NPO)	(81,076)	(295,743)	(630,966)
5c. ARC Adjustment	<u>60,248</u>	<u>209,412</u>	<u>456,321</u>
5d. Annual Pension Cost (APC) (5a + 5b + 5c)	\$ 15,172,465	\$ 17,023,918	\$ 16,917,420
6. Employer Contribution	\$ 17,942,356	\$ 21,349,373	\$ 22,511,500
7a. Change in NPO (5d - 6)	(2,769,891)	(4,325,455)	(5,594,080)
7b. NPO at Beginning of Year	<u>(1,046,147)</u>	<u>(3,816,038)</u>	<u>(8,141,493)</u>
7c. NPO at End of Year (7a + 7b)	\$ (3,816,038)	\$ (8,141,493)	\$ (13,735,573)

(1) For 2009 the Employee Contribution Rate was 6.44% from January 1, 2009 through January 31, 2009 and 7.36% from February 1, 2009 through December 31, 2009. 7.28% is the weighted average. For 2010, the Employee Contribution Rate was 8.28%. For 2011, the Employee Contribution Rate was 8.74%.

(2) For 2009 the Employer Contribution Rate was 7.56% from January 1, 2009 through January 31, 2009 and 8.64% from February 1, 2009 through December 31, 2009. 8.55% is the weighted average. For 2010, the Employer Contribution Rate was 9.72%. For 2011, the Employer Contribution Rate was 10.26%.

(3) The ARC is calculated as a percent of salary with the Fiscal Year 2009 calculations based on the January 1, 2007 Actuarial Valuation and the Fiscal Year 2010 and 2011 calculation based on the January 1, 2009 Actuarial Valuation.

(4) Covered Payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date. Covered Payroll differs from Active Member Valuation payroll shown in Exhibit 2, which is an annualized compensation of only those members who were active on the actuarial valuation date.

Tacoma Employees' Retirement System

Schedule of Funding Progress
(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL) ⁽¹⁾	Unfunded Actuarial Accrued Liabilities (UAAL) ⁽²⁾	Funded Ratio	Funding Ratio Increase (Decrease) Over Prior Valuation	Covered Payroll ⁽³⁾	UAAL as a Percentage of Covered Payroll
	\$	\$	\$	101.0 %	7.9 %	\$	(4.1) %
January 1, 1997	482.7	477.9	(4.8)	101.0	7.9	116.3	(4.1)
January 1, 1998 ⁽⁴⁾	523.8	515.7	(8.1)	101.6	0.6	116.1	(7.0)
January 1, 1999 ⁽⁵⁾	570.7	536.9	(33.8)	106.3	4.7	122.3	(27.6)
January 1, 1999 ⁽⁶⁾	570.7	537.6	(33.1)	106.2	(0.1)	122.3	(27.1)
January 1, 2001	700.7	605.7	(95.0)	115.7	9.5	133.4	(71.2)
January 1, 2003	740.1	686.8	(53.3)	107.8	(7.9)	154.2	(34.6)
January 1, 2005	807.3	754.3	(53.0)	107.0	(0.8)	172.5	(30.7)
January 1, 2007	1,021.3	895.8	(125.5)	114.0	7.0	175.0	(71.7)
January 1, 2009	1,097.3	1,002.3	(95.0)	109.5	(4.5)	197.4	(48.1)
January 1, 2011	1,074.8	1,132.9	58.1	94.9	(14.6)	219.6	26.5
January 1, 2012	1,068.3	1,185.5	117.2	90.1	(4.8)	219.4	53.4

(1) Actuarial present value of benefits less actuarial present value of future normal costs based on Entry Age Actuarial Cost Method.

(2) Actuarial accrued liabilities less actuarial value of assets.

(3) Covered Payroll includes compensation paid to all active employees on which contributions were made in the year preceding the valuation date. Covered Payroll differs from Active Member Valuation payroll shown in Exhibit 2, which is an annualized compensation of only those members who were active on the actuarial valuation date.

(4) A special actuarial valuation was performed as of January 1, 1998.

(5) Results of January 1, 1999 Actuarial Valuation.

(6) January 1, 1999 results adjusted for inclusion of benefit percentage in portability, removal of overtime contributions and removal of 90-day waiting period.

Tacoma Employees' Retirement System

Funding Ratios
(Dollar Amounts in Millions)

Actuarial Valuation Date ⁽¹⁾	Actuarial Accrued Liabilities for				Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets			
	A	B	C	D		A	B	C	D
	Active Member Contributions	Inactives, Retirees and Beneficiaries	Active Members (Employer-Financed Portion)	Total					
January 1, 1997	\$ 136.3	\$ 184.8	\$ 156.8	\$ 477.9	\$ 482.7	100.0%	100.0%	100.0%	101.0%
January 1, 1998	133.5	252.5	129.7	515.7	523.8	100.0%	100.0%	100.0%	101.6%
January 1, 1999 ⁽²⁾	138.8	253.7	144.4	536.9	570.7	100.0%	100.0%	100.0%	106.3%
January 1, 1999 ⁽³⁾	138.8	253.7	145.1	537.6	570.7	100.0%	100.0%	100.0%	106.2%
January 1, 2001	165.0	268.2	172.5	605.7	700.7	100.0%	100.0%	100.0%	115.7%
January 1, 2003	186.1	296.1	204.6	686.8	740.1	100.0%	100.0%	100.0%	107.8%
January 1, 2005	204.2	325.4	224.7	754.3	807.3	100.0%	100.0%	100.0%	107.0%
January 1, 2007	194.1	427.2	274.5	895.8	1,021.3	100.0%	100.0%	100.0%	114.0%
January 1, 2009	207.1	497.6	297.6	1,002.3	1,097.3	100.0%	100.0%	100.0%	109.5%
January 1, 2011	236.4	569.8	326.7	1,132.9	1,074.8	100.0%	100.0%	82.2%	94.9%
January 1, 2012	246.7	612.2	326.6	1,185.5	1,068.3	100.0%	100.0%	64.1%	90.1%

(1) See Exhibit 14 for significant changes affecting the valuation results.

(2) Results of January 1, 1999 Actuarial Valuation.

(3) January 1, 1999 results adjusted for inclusion of benefit percentage in portability, removal of overtime contributions and removal of 90-day waiting period.

Tacoma Employees' Retirement System

Schedule of Employer Contributions

(Dollar Amounts in Millions)

Fiscal Year Ending	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions ⁽²⁾	Actual Employer Contribution ⁽²⁾	Annual Required Contribution (ARC) % ⁽²⁾	Percentage of ARC Contributed
12/31/2001	\$ 142.5	\$ 10.8	7.56%	7.56%	100%
12/31/2002	154.2	11.7	7.56%	7.56%	100%
12/31/2003	154.1	11.6	7.56%	7.56%	100%
12/31/2004	172.5	13.0	7.56%	7.56%	100%
12/31/2005	172.8	13.1	7.56%	7.56%	100%
12/31/2006	175.0	13.2	7.56%	7.56%	100%
12/31/2007	180.0	13.6	7.56%	7.56%	100%
12/31/2008	197.4	14.9	7.56%	7.24%	104%
12/31/2009	209.9	17.9	8.55% ⁽³⁾	7.24%	118%
12/31/2010	219.6	21.3	9.72%	7.79%	125%
12/31/2011	219.4	22.5	10.26%	7.79%	132%

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll.

(2) The actual and required employer contributions are expressed as a percentage of payroll.

(3) The Employer Contribution Rate was 7.56% from January 1, 2009 through January 31, 2009 and 8.64% from February 1, 2009 through December 31, 2009. 8.55% is the weighted average.

Tacoma Employees' Retirement System
GASB Statement No. 27 Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation (NPO)</u>
December 31, 2009	\$ 15,172,465	118.26%	\$ (3,816,038)
December 31, 2010	17,023,918	125.41%	(8,141,493)
December 31, 2011	16,917,420	133.07%	(13,735,573)

Tacoma Employees' Retirement System
 GASB Statement No. 27 Annual Development of Pension Cost

Fiscal Year Ending	(1) ARC at EOY	(2) = [prior yr(7)] x interest	(3) = [prior yr(7)] / (9)	(4) = (1) + (2) - (3)	(5) Total Employer Contributions	(6) = (4) - (5)	(7) = (6) + [prior yr(7)]	(8) = (1) - (5)	(9) Amort. Factor	Amort. Of Gain/Loss	(10) = [prior yr (11)] / (9)	Ending Balance
	ARC at EOY	Interest on NPO	ARC Adjustment	Annual Pension Cost (APC)	Total Employer Contributions	Change in NPO	NPO Balance ⁽¹⁾	Gain/Loss	Amort. Factor	Amort. Of Gain/Loss	(10) = [prior yr (11)] / (9)	Ending Balance
December 31, 1997	10,445,292	-	-	10,445,292	10,468,504 ⁽¹⁾	(23,212)	(23,212)	(23,212)	-	-	-	(23,212)
December 31, 1998	10,965,855	(1,741)	(1,108)	10,965,222	11,026,980	(61,758)	(84,970)	(61,125)	20.94086	(1,108)	(1,108)	(84,970)
December 31, 1999	11,827,421	(6,373)	(4,058)	11,825,106	11,906,622	(81,516)	(166,486)	(79,201)	20.94086	(4,058)	(4,058)	(166,486)
December 31, 2000	11,778,427	(12,486)	(7,950)	11,773,891	12,031,870	(257,979)	(424,465)	(253,443)	20.94086	(7,950)	(7,950)	(424,465)
December 31, 2001	10,773,136	(31,835)	(25,399)	10,766,700	10,773,136	(6,436)	(430,901)	-	16.71210	(25,399)	(25,399)	(430,901)
December 31, 2002	11,654,321	(33,395)	(24,645)	11,645,571	11,654,321	(8,750)	(439,651)	-	17.48432	(24,645)	(24,645)	(439,651)
December 31, 2003	11,648,249	(34,073)	(25,805)	11,639,981	11,648,249	(8,268)	(447,919)	-	17.03762	(25,805)	(25,805)	(447,919)
December 31, 2004	13,040,648	(34,714)	(53,313)	13,059,247	13,040,648	18,599	(429,320)	-	8.40167	(53,313)	(53,313)	(429,320)
December 31, 2005	13,067,325	(33,272)	(55,956)	13,090,009	13,067,325	22,684	(406,636)	-	7.67249	(55,956)	(55,956)	(406,636)
December 31, 2006	13,231,812	(31,514)	(31,250)	13,231,548	13,231,812	(264)	(406,900)	-	13.01245	(31,250)	(31,250)	(406,900)
December 31, 2007	13,605,935	(31,535)	(32,587)	13,606,987	13,605,935	1,052	(405,848)	-	12.48641	(32,587)	(32,587)	(405,848)
December 31, 2008	14,293,329	(31,453)	(22,903)	14,284,779	14,925,078	(640,299)	(1,046,147)	(631,749)	17.72031	(22,903)	(22,903)	(1,046,147)
December 31, 2009	15,193,293	(81,076)	(60,248)	15,172,465	17,942,356	(2,769,891)	(3,816,038)	(2,749,063)	17.36404	(60,248)	(60,248)	(3,816,038)
December 31, 2010	17,110,249	(295,743)	(209,412)	17,023,918	21,349,373	(4,325,455)	(8,141,493)	(4,239,124)	18.22266	(209,412)	(209,412)	(8,141,493)
December 31, 2011	17,092,065	(630,966)	(456,321)	16,917,420	22,511,500	(5,594,080)	(13,735,573)	(5,419,435)	17.84161	(456,321)	(456,321)	(13,735,573)

(1) NPO at transition is zero.

Amortization Period: 30 years, Open, unless fixed rate amortizes less than 30 years
 Amortization Method: Level Percentage of Projected payroll



Tacoma Employees' Retirement System

Actuarial Present Value of Accumulated Vested Plan Benefits

Actuarial Valuation Date ⁽¹⁾	Active Members				Actuarial Value of Assets	Portion of Accumulated Vested Plan Benefits Covered by Actuarial Assets
	Retired Members	Inactive Vested Members	Member Contributions	Employer-Financed Portion		
January 1, 1997	\$ 179.1	\$ 5.7	\$ 136.3	\$ 109.6	\$ 482.7	112.1%
January 1, 1998	246.5	6.0	133.5	93.2	523.8	109.3%
January 1, 1999 ⁽²⁾	244.3	9.4	138.8	112.1	570.7	113.1%
January 1, 1999 ⁽³⁾	244.3	9.4	138.8	115.1	570.7	112.4%
January 1, 2001	250.3	17.8	165.0	123.0	700.7	126.0%
January 1, 2003	274.8	21.3	186.1	143.1	740.1	118.4%
January 1, 2005	303.0	22.4	204.2	170.6	807.3	115.3%
January 1, 2007	377.6	49.6	194.1	213.4	1,021.3	122.4%
January 1, 2009	438.5	59.1	207.1	226.9	1,097.3	117.8%
January 1, 2011	500.0	69.8	236.4	236.9	1,074.8	103.0%
January 1, 2012	538.1	74.1	246.7	239.0	1,068.3	97.3%

(1) See Exhibit 14 for significant changes affecting the valuation results.

(2) Results of January 1, 1999 Actuarial Valuation.

(3) January 1, 1999 results adjusted for inclusion of benefit percentage in portability, removal of overtime contributions and removal of 90-day waiting period.

Tacoma Employees' Retirement System
Analysis of Financial Experience

The results of our analysis of the financial experience of the System in the three most recent actuarial valuations are presented on the following page. Each gain or loss shown represents our estimate of how much the given type of experience caused the UAAL or Funding Excess to change since the previous actuarial valuation. Note that the first two columns cover two-year periods, while the last column covers a one-year period.

Gains and losses shown due to demographic sources are approximate. Demographic experience is analyzed in greater detail in our periodic assumption studies.

Non-recurring gains and losses during the last three valuations were from changes in the actuarial assumptions and benefit improvements.

Analysis of Actuarial Gains or Losses⁽¹⁾
(Dollar Amounts in Millions)

	Gain/(Loss) For Period		
	2007 - 2008	2009 - 2010	2011 ⁽²⁾
Investment Income			
Investment Income was greater (less) than expected. Based on actuarial value of assets.	\$ (51.0)	\$ (174.3)	\$ (77.7)
Pay Increases			
Pay increases were less (greater) than expected.	8.4	(13.8)	18.7
Age & Service Retirements			
Members retired at older (younger) ages or with less (greater) final average pay than expected.	2.6	13.7	(1.8)
Disability Retirements			
Disability claims were less (greater) than expected.	0.6	0.6	0.3
Death-in-Service Benefits			
Survivor claims were less (greater) than expected.	2.8	3.0	1.5
Withdrawal From Employment			
More (Less) reserves were released by withdrawals than expected.	(5.4)	1.5	(1.3)
Death After Retirement			
Retirees died younger (lived longer) than expected.	(1.9)	(3.0)	1.9
Other			
Miscellaneous gains and losses resulting from data adjustments.	-	-	-
Membership Growth			
(Additional) liability for new members.	(5.3)	(3.2)	(0.7)
Total Gain or (Loss) During Period From Financial Experience	\$ (49.2)	\$ (175.5)	\$ (59.1)
Non-Recurring Items			
Changes in actuarial assumptions caused a gain (loss).	5.7	-	-
Changes in benefits caused a gain (loss).	-	-	-
Composite Gain (Loss) During Period	\$ (43.5)	\$ (175.5)	\$ (59.1)

(1) Effects related to losses are shown in parentheses. Numerical results are expressed as a decrease (increase) in the UAAL.

(2) Since annual valuations were adopted in 2011, the first two columns cover two years while the final column (2011) covers one year.

Tacoma Employees' Retirement System

Provisions of Governing Law

All actuarial calculations are based upon our understanding of the Tacoma Employees' Retirement System, Chapter 1.30 of the Tacoma City Code. The benefit and contribution provisions of this law are summarized briefly below for reference purposes, along with corresponding references to the City code. This summary encompasses the major provisions of the System. It does not attempt to cover all the detailed provisions.

Effective Date

The effective date of the Retirement System was January 1, 1941.

(Section 1.30.280)

Members' Mandatory Contribution Rate

The members' mandatory contribution rate is currently 9.20% of salary effective January 1, 2012.

(Sections 1.30.340 and 1.30.350)

City Contribution Rate

The City contribution rate is the amount which is determined by actuarial investigation to be necessary to fund membership service, prior service, and basic service pensions on an actuarially sound basis. It has been established at 10.80% of salary effective January 1, 2012.

(Sections 1.30.360 and 1.30.665)

Normal Accumulated Contributions

An employee's normal accumulated contributions are based on contributions compounded quarterly at 6.00%. Effective February 1, 2009, the accumulated contributions used in determining benefits changed. The outline below specifies which contribution amounts are used in benefit calculations.

A = accumulated contributions earned up until Feb. 1, 2009

B = accumulated contributions based on 6.44% of pay starting Feb. 1, 2009 and running into the foreseeable future

C = accumulated contributions based on the excess of the normal rate (currently 7.36%) over 6.44% of pay starting Feb. 1, 2009 and running into the foreseeable future

I = accumulated interest on only A and B

1. If a member terminates employment, but does not have 5 years of service and requests a refund of contributions:
 - They will be entitled to a payment of $(A + B + C + I)$
2. If a member terminates employment, has 5 years or more of service, and requests a refund of contributions:
 - They will be entitled to a payment based on the greater of:
 - a. $1.5 \times (A + B + I)$
 - b. $(A + B + C + I)$
3. The 200% of employee contributions with interest retirement benefit will be based on $(A + B + I)$.
4. The 10 year death benefit will be based on 200% of $(A + B + I)$.
5. The contribution amount that the reduction for Benefit Options A and B will be based on is $(A + B + C + I)$.

Overtime Contributions

Effective January 1, 2000, neither member nor City contributions are collected on overtime pay. Prior overtime contributions are eligible for a 50% employer match at time of either termination or retirement.

(Sections 1.30.550)

Service Retirement

Eligibility

- 30 years of service; or
- Age 60; or
- Age 55 and 10 years of service; or
- Age 40 and 20 years of service.

Normal Form

Straight life benefit.

Optional Forms

Actuarial equivalent according to the mortality and interest basis adopted by the Retirement Board for such purposes.

Amount of Allowance The total monthly allowance is the product of the following items:

1. Total years of service;
2. Average final compensation*; and
3. A percentage determined as follows:

Age	Creditable Service												
	30	29	28	27	26	25	24	23	22	21	20	19-10	9-1
40							0.759	0.698	0.642	0.591	0.544	N/A	N/A
41						0.897	0.825	0.759	0.698	0.642	0.591	N/A	N/A
42					1.060	0.975	0.897	0.825	0.759	0.698	0.642	N/A	N/A
43				1.252	1.152	1.060	0.975	0.897	0.825	0.759	0.698	N/A	N/A
44			1.417	1.332	1.252	1.152	1.060	0.975	0.897	0.825	0.759	N/A	N/A
45		1.603	1.507	1.417	1.332	1.252	1.152	1.060	0.975	0.897	0.825	N/A	N/A
46	2.000	1.706	1.603	1.507	1.417	1.332	1.252	1.152	1.060	0.975	0.897	N/A	N/A
47	2.000	1.815	1.706	1.603	1.507	1.417	1.332	1.252	1.152	1.060	0.975	N/A	N/A
48	2.000	1.871	1.815	1.706	1.603	1.507	1.417	1.332	1.252	1.152	1.060	N/A	N/A
49	2.000	1.929	1.871	1.815	1.706	1.603	1.507	1.417	1.332	1.252	1.152	N/A	N/A
50	2.000	1.964	1.929	1.871	1.815	1.706	1.603	1.507	1.417	1.332	1.252	N/A	N/A
51	2.000	2.000	1.964	1.929	1.871	1.815	1.706	1.603	1.507	1.417	1.332	N/A	N/A
52	2.000	2.000	2.000	1.964	1.929	1.871	1.815	1.706	1.603	1.507	1.417	N/A	N/A
53	2.000	2.000	2.000	2.000	1.964	1.929	1.871	1.815	1.706	1.603	1.507	N/A	N/A
54	2.000	2.000	2.000	2.000	2.000	1.964	1.929	1.871	1.815	1.706	1.603	N/A	N/A
55	2.000	2.000	2.000	2.000	2.000	2.000	1.964	1.929	1.871	1.815	1.706	1.706	N/A
56	2.000	2.000	2.000	2.000	2.000	2.000	2.000	1.964	1.929	1.871	1.815	1.815	N/A
57	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	1.964	1.929	1.871	1.871	N/A
58	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	1.964	1.929	1.929	N/A
59	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	1.964	1.964	N/A
60	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000

In the event a member's age plus years of credited service equals 80 or more, the percentage amount is 2.00%

**Average final compensation is based on greatest compensation during any consecutive 24-month period (Section 1.30.150).*

Maximum Years of Membership Service Effective January 1, 1976, any member with thirty or more years of membership service shall receive no further membership service credit.

Minimum Benefit Based on Member Contributions The monthly retirement allowance for members retiring from City service on and after January 1, 1997 will not be less than the actuarial equivalent of 200% of the member's accumulated normal contributions.

(Sections 1.30.570, 1.30.580, and 1.30.660)

1997 Early Retirement Window Provision

A member actively at work on January 1, 1997 who met one of the following requirements, on or before December 31 1997, was eligible to receive greater retirement benefits, as long as retirement occurred on or before January 1, 1998. In addition, the administrative forms had to be completed to receive this benefit.

- Eligibility*
- Age 52 or older with no less than 22 years of service
 - Age 57 or older
 - 27 years of service

Benefit Add three years to the member's creditable service plus three years to the member's age if under age 60. The maximum number of years of service is 30. The service retirement benefit is computed, as described above, using the additional years of service and age.

Disability Retirement

Service Requirements Five years of service credited within the ten years preceding disability retirement. If disabled while on the job, there is no service requirement.

Normal Form Modified cash refund annuity.

Optional Forms Actuarial equivalent according to the mortality and interest basis adopted by the Retirement Board for such purposes.

Amount of Allowance The total monthly disability allowance is the product of the following items:

1. Total years of service that could have been earned to age 65;
2. Average final compensation; and
3. 1.5%.

The maximum disability retirement allowance is 1/3 of average final compensation or, if greater, 1.5% times completed years of service times average final compensation. The minimum disability allowance is \$100 per month.

(Sections 1.30.630 and 1.30.640)

Death Benefits

Retired Members

Death benefits to retired members are payable according to the form of retirement allowance elected.

Active Members

1. Payment of accumulated contributions, including additional contributions to the beneficiary in a lump sum refund or in installments not to exceed five years; or
2. If, at the time of death, the member had completed five years of service, the beneficiary may elect to receive, in place of (1) above, a monthly allowance, payable for ten years, having the same value as twice the accumulated normal member contributions, with interest; or
3. In lieu of (2) above, the spouse may elect to defer receipt of an immediate monthly allowance and elect to commence payment at a later date. The value of the deferred death benefit is equal to the value of the benefit payable immediately.
4. If, at the time of death, the member was eligible for service retirement and had elected his spouse as beneficiary, the spouse may receive, in place of (1) above, a monthly allowance, for life, equal to the benefit she would have received had the member retired, on the day before he died, with a 100% contingent annuitant option in force; or
5. In lieu of (4) above, the spouse may elect to receive a lump-sum cash payment, not to exceed one-half of the deceased member's accumulated contributions and accumulated additional contributions, and a retirement allowance based on a 100% contingent annuitant option, reduced by the value of the cash payment.

(Section 1.30.670)

Withdrawal Benefits

Form

Payment of accumulated contributions, including member overtime and additional contributions.

(Section 1.30.330)

Vested Withdrawal Benefits

Service

Five years of service.

Requirements

Options:

1. Amount of allowance is the same as service retirement benefit. Benefits commence at age 60.
2. If the member terminates employment after December 31, 1996, the member may elect payment of 1.5 times the member's accumulated normal contributions and any overtime contributions, plus any additional contributions. This benefit is in lieu of the deferred retirement benefit in 1 above.

(Section 1.30.600)

Postretirement Cost-of-Living Increases

Provisions

As of July 1st of each year every monthly retirement allowance less the portion provided by additional contributions is automatically increased 2.125% provided the Consumer Price Index (Seattle Area-all items) has increased 2.125% or more over the preceding calendar year. This increase is granted to any member of the Retirement System whose retirement or death occurred on or before July 1st of the preceding year. The 2.125% rate was effective January 1, 2003.

The amount of any cost-of-living increase or decrease in any year which is in excess of the maximum annual retirement allowance adjustment of 2.125% shall be accumulated from year to year and included in the computation of increases or decreases in succeeding years.

After applying the above adjustment, if the member's inflation-adjusted monthly retirement allowance is less than 50% of the purchasing power of the monthly retirement allowance at date of retirement determined using the same index described above (the indexed benefit), then the monthly retirement allowance will be further increased so that it shall not be less than 50% of the indexed benefit.

(Section 1.30.665)

Portability Benefits

TERS participates in the portability of public retirement benefits in Washington State public retirement systems. As contemplated under Chapter 41.54 RCW, this allows a member to use all years of service with qualified Washington systems to determine eligibility for benefits under TERS. Effective in 1999, TERS expanded the state provisions to include these years for determining the benefit percentage factor for retirement benefits.

(Section 1.30.890)

Tacoma Employees' Retirement System

Changes Affecting Actuarial Valuations

Valuation Date*	Change
1976	The actuarial assumptions related to the rate of investment return and the rate of increase in the general wage level were changed from those used by the System's previous actuary.
1979	All actuarial assumptions except those related to the rate of investment return and the rate of increase in the general wage level were changed.
1982	Four-year select and ultimate assumptions were adopted for investment return and general wage level. Employer contribution rates were decreased and employee contribution rates were increased; both are now set by law.
1985	Almost all actuarial assumptions were changed.
1987	Select and ultimate assumptions for investment return and general wage level were dropped. The net administrative expense assumption was increased 0.05%.
1989	Almost all non-economic actuarial assumptions were changed. In addition, select economic assumptions were adopted for the next four-year period.
1991	The mortality assumption for service retirees and beneficiaries was changed. In addition, select economic assumptions were adopted for the next four-year period.
1993	Almost all non-economic actuarial assumptions were changed.
1995	Changed actuarial assumption for rate of increase in the general wage level. Certain retired members benefits were increased.
1997	All economic and non-economic actuarial assumptions except the mortality rates were changed. Benefits were improved. Contribution rates were lowered. The actuarial asset valuation method was changed.
1998	The mortality assumption for service retirees, beneficiaries and disabled members was changed.
2001	All economic and non-economic actuarial assumptions except the retirement and mortality rate were changed. Benefits were improved in both 1999 and 2000. Contribution rates were lowered effective January 1, 2001.
2003	The mortality assumption for service retirees and beneficiaries was changed.
2005	Wage inflation, price inflation and all active demographic assumptions were changed.
2007	The mortality assumption for contributing members, service retirees, beneficiaries and disabled members was changed.
2009	Wage inflation, investment expenses and all active demographic assumptions were changed. Contribution rates were increased effective February 1, 2009.
2011	Contribution rates were increased effective January 1, 2011.
2012	Contribution rates were increased effective January 1, 2012.

* Valuations as of January 1.

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Statistical Section

Statistical Section
For the year ended December 31, 2012

This part of the Tacoma Employees' Retirement System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

Contents

Schedules

Financial Trends

1 - 5

These schedules contain trend information to help readers understand how the System's financial performance and well-being have changed over time.

Demographic and Economic Information

6 - 8

This schedule offers demographic and economic indicators to help readers understand the environment within which the System's financial activities take place.

Except where noted, the information in these schedules is derived from the System's comprehensive annual financial reports for the relevant year. The System implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning that year.

Changes in Net Assets
For Last Ten Calendar Years

**Financial Trends Information
Schedule 1**

Calendar Year	Additions	Deductions	Net Change	Net Assets	
				Beginning of Year	End of Year
2012	\$ 195,061,491	\$ 59,251,017	\$ 135,810,474	\$ 1,082,905,516	\$ 1,218,715,990
2011	55,878,236	54,028,452	1,849,784	1,081,055,732	1,082,905,516
2010	174,240,406	50,500,574	123,739,832	957,315,900	1,081,055,732
2009	240,027,098	46,336,573	193,690,525	763,625,375	957,315,900
2008	(335,020,977)	45,717,451	(380,738,428)	1,144,363,803	763,625,375
2007	69,416,201	42,676,404	26,739,797	1,117,624,006	1,144,363,803
2006	201,238,548	39,094,343	162,144,205	955,479,801	1,117,624,006
2005	101,534,312	35,942,744	65,591,568	889,888,233	955,479,801
2004	144,577,627	33,866,512	110,711,115	779,177,118	889,888,233
2003	200,258,807	32,254,493	168,004,314	611,172,804	779,177,118

Additions to Plan Net Assets by Source
For Last Ten Calendar Years

**Financial Trends Information
Schedule 2**

Calendar Year	Member Contribution	%	Employer Contributions	%	Net Investment Income	%	Total
2012	\$ 20,365,089	10.4	\$ 22,741,360	11.7	151,955,042	77.9	\$ 195,061,491
2011	19,902,966	35.6	22,511,500	40.3	13,463,770	24.1	55,878,236
2010	18,884,094	10.8	21,349,373	12.3	134,006,939	76.9	174,240,406
2009	15,684,375	6.5	17,942,356	7.5	206,400,367	86.0	240,027,098
2008	<i>a</i> 13,067,175	(3.9)	14,925,078	(4.5)	(363,013,230)	108.4	(335,020,977)
2007	12,076,388	17.4	13,605,935	19.6	43,733,828	63.0	69,416,151
2006	11,717,068	5.8	13,231,812	6.6	176,289,668	87.6	201,238,548
2005	11,476,402	11.3	13,067,325	12.9	76,990,585	75.8	101,534,312
2004	11,446,776	7.9	13,040,648	9.0	120,090,203	83.1	144,577,627
2003	10,220,153	5.1	11,648,249	5.8	178,390,405	89.1	200,258,807

a The loss from investment income exceeded the contributions made by members and the employer. This created negative total revenues and caused the percentages displayed to change sharply from previous years. The investment income loss exceeded contributions by 1,233.67%.

**Benefit and Refund Deductions from Net Assets by Type
For Last Ten Calendar Years**

**Financial Trends Information
Schedule 3**

	Calendar Year	Type of Benefit			Total Benefits	Type of Refund			Total Deductions
		Service	Survivor	Disability		Death	Separation	Total Refund	
Dollars	2012	\$ 49,574,663	\$ 4,791,021	\$ 474,964	\$ 54,840,648	\$ 166,524	\$ 2,538,247	\$ 2,704,771	\$ 57,545,419
% of Total		86.15%	8.33%	0.83%	95.30%	0.29%	4.41%	4.70%	100%
Dollars	2011	44,798,313	4,570,973	466,864	49,836,150	23,616	2,413,769	2,437,385	52,273,535
% of Total		85.70%	8.74%	0.89%	95.34%	0.05%	4.62%	4.66%	100%
Dollars	2010	41,349,194	4,600,258	456,801	46,406,253	5,467	2,242,089	2,247,556	48,653,809
% of Total		84.99%	9.46%	0.94%	95.38%	0.01%	4.61%	4.62%	100%
Dollars	2009	38,497,122	4,382,819	428,254	43,308,195	41,522	1,239,341	1,280,863	44,589,058
% of Total		86.34%	9.83%	0.96%	97.13%	0.09%	2.78%	2.87%	100%
Dollars	2008	36,406,930	4,179,658	422,682	41,009,270	4,691	3,029,835	3,034,526	44,043,796
% of Total		82.66%	9.49%	0.96%	93.11%	0.01%	6.88%	6.89%	100%
Dollars	2007	33,700,736	4,258,452	407,201	38,366,389	5,465	2,782,410	2,787,874	41,154,264
% of Total		81.89%	10.35%	0.99%	93.23%	0.01%	6.76%	6.77%	100%
Dollars	2006	31,139,370	3,806,416	391,384	35,337,170	16,189	2,332,988	2,349,177	37,686,347
% of Total		82.63%	10.10%	1.04%	93.77%	0.04%	6.19%	6.23%	100%
Dollars	2005	28,444,655	3,693,717	392,534	32,530,906	83,495	2,032,415	2,115,910	34,646,816
% of Total		82.10%	10.66%	1.13%	93.89%	0.24%	5.87%	6.11%	100%
Dollars	2004	26,628,821	3,729,503	400,635	30,758,959	25,061	1,667,793	1,692,854	32,451,813
% of Total		82.06%	11.49%	1.23%	94.78%	0.08%	5.14%	5.22%	100%
Dollars	2003	25,020,941	3,671,776	392,928	29,085,645	123,126	1,760,222	1,883,348	30,968,993
% of Total		80.79%	11.86%	1.27%	93.92%	0.40%	5.68%	6.08%	100%

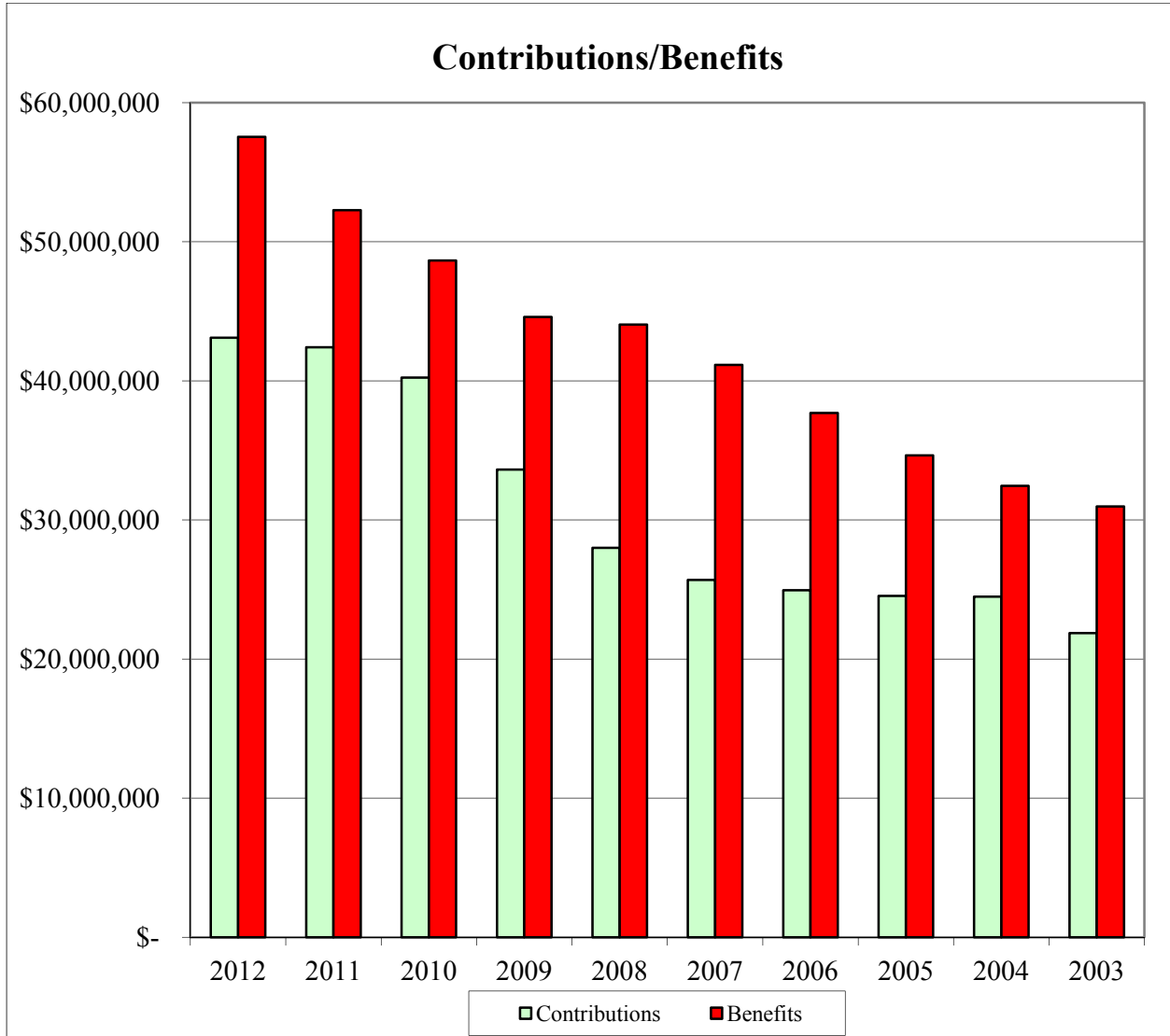
Deductions from Net Assets by Type
For Last Ten Calendar Years

**Financial Trends Information
Schedule 4**

Year Ending	Benefits	%	Refunds	%	Administrative Expenses	%	Total Deductions
2012	\$54,840,648	92.6	\$ 2,704,771	4.6	\$ 1,705,598	2.9	\$59,251,017
2011	49,836,150	92.2	2,437,385	4.5	1,754,917	3.2	54,028,452
2010	46,406,253	91.9	2,247,556	4.5	1,846,765	3.7	50,500,574
2009	43,308,195	93.5	1,280,863	2.8	1,747,515	3.8	46,336,573
2008	41,009,270	89.7	3,034,526	6.6	1,673,655	3.7	45,717,451
2007	38,358,472	89.9	2,787,874	6.5	1,530,058	3.6	42,676,404
2006	35,337,170	90.4	2,349,177	6.0	1,407,996	3.6	39,094,343
2005	32,530,906	90.5	2,115,910	5.9	1,295,928	3.6	35,942,744
2004	30,758,959	90.8	1,692,854	5.0	1,414,699	4.2	33,866,512
2003	29,085,645	90.2	1,883,348	5.8	1,285,500	4.0	32,254,493

Comparison of Contributions Vs Benefits
For Last Ten Calendar Years

Financial Trends Information
Schedule 5



Demographics of Retired and Active Members
As of December 31, 2012

**Financial Trends Information
Schedule 6**

Retired Members

<u>Ages</u>	<u>Service</u>			<u>Survivors</u>			<u>Disabilities</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
Under 55	16	26	42	8	24	32	3	8	11
55 to 59	91	77	168	2	13	15	2	2	4
60 to 64	227	160	387	3	24	27	5	3	8
65 to 69	282	153	435	3	18	21	2	1	3
70 to 74	170	99	269	3	20	23	1	-	1
75 to 79	124	59	183	2	25	27	-	1	1
80 to 84	91	38	129	3	53	56	1	-	1
85 to 89	70	38	108	2	56	58	1	-	1
90 to 94	31	21	52	-	29	29	-	-	-
95 to 100	4	3	7	1	5	6	-	-	-
Over 100	1	-	1	-	1	1	-	-	-
Total	1,107	674	1,781	27	268	295	15	15	30

Active Members By Age

<u>Ages</u>	<u>Active Members</u>			<u>Percentage Distribution</u>		
	<u>Male</u>	<u>Female</u>	<u>Total</u>	<u>Male</u>	<u>Female</u>	<u>Total</u>
20 to 29	110	78	188	6.4 %	6.9 %	6.6 %
30 to 39	344	242	586	19.9	21.3	20.5
40 to 49	494	331	825	28.6	29.1	28.8
50 to 59	605	395	1,000	35.1	34.8	35.0
60 to 69	169	89	258	9.8	7.8	9.0
70 and over	3	1	4	0.2	0.1	0.1
Total	1,725	1,136	2,861	60.3 %	39.7 %	100.00 %

Active Members By Employer

<u>Employer</u>	<u>Active Members</u>	<u>Percentage of Total</u>
City of Tacoma	2,572	89.90 %
Tacoma-Pierce County Health Department	280	9.79
Pierce Transit	5	0.17
Law Enforcement Support Agency	4	0.14
Total	2,861	100.00

Retired Members by Type of Benefit
As of December 31, 2012

**Demographic and Economic Information
Schedule 7**

Amount of Monthly Benefits	Type of Retirement			Option Selected								
	Service	Survivors	Disability	Total	Unmod	A	B	C-5	C-10	D	E	F
Under \$500	117	44	1	162	52	16	14	6	10	29	31	4
\$500 - \$999	181	81	1	263	37	29	21	14	40	67	55	-
\$1,000 - \$1,499	226	75	22	323	63	35	25	14	30	77	76	3
\$1,500 - \$1,999	238	31	4	273	37	19	44	13	35	63	61	1
\$2,000 - \$2,499	225	33	2	260	35	12	37	16	23	68	66	3
\$2,500 - \$2,999	200	13	-	213	35	8	18	14	35	60	43	-
\$3,000 - \$3,499	171	9	-	180	17	11	24	9	38	52	28	1
\$3,500 - \$3,999	139	1	-	140	17	6	18	10	32	37	20	-
Over \$4,000	284	8	-	292	40	12	23	22	72	80	42	1
Total	1,781	295	30	2,106	333	148	224	118	315	533	422	13
Average Benefit	\$ 2,575	\$ 1,362	\$ 1,301	\$ 2,387								

Description of Retirement Options

- Unmodified The maximum allowance the retiree can receive is the Unmodified monthly form of payment. This option is for the member only, and does not provide for a spouse or beneficiary.
- Option A Provides that, at the time of death, the beneficiary will receive a lump sum refund of the difference between the total accumulated contributions and interest at the date of retirement and the annuity payments received since retirement.
- Option B Provides that, at the time of death, the beneficiary will continue to receive monthly annuity payments until the total equals the total accumulated contributions and interest at the date of retirement.
- Option C Provides for the payment of a retirement allowance for a guaranteed period of years. If the retiree lives beyond the guaranteed period, the allowance is continued for life, but if the retiree dies before the expiration of the period, the allowance will be continued to the beneficiary for the balance of the time. Retirees have an option of five or ten years for the guaranteed period.
- Option D Provides a modified monthly allowance for life and, after death, the spouse at the time of retirement will receive one-half of this amount each month for life. (See *Pop-Up Provision and ** Divorce Pop-Up Provision)
- Option E Provides a modified monthly allowance for life and, after death, the spouse at the time of retirement will receive the same monthly allowance for life. (See * Pop-Up Provision and **Divorce Pop-Up Provision)
- Option F If the member, at the time of retirement, has no spouse, a modified monthly allowance for life is provided and, after death, the chosen beneficiary will receive one-half of this amount each month for life or will receive the same monthly allowance for life. (See * Pop-Up Provision)
- *Pop-Up Provision Retiring on or after 1/1/99 and have elected Option D or E, and if the spouse dies before the retiree, then the benefit is increased to the Unmodified retirement allowance. The same benefit is provided for Option F as well.
- **Divorce Pop-Up Provision Retiring on or after 1/1/08 and have elected Option D or E, and divorced thereafter and have satisfied Section 1.30.690.C of the Tacoma Municipal Code, the benefit payable effective as of the first day of the month following the entry of the Order shall be increased to the Unmodified retirement allowance. Provided further, that in the event that the retiree later remarries, within three months of remarriage the retiree will have the option to irrevocably designate the new spouse as the wife or husband under Options D or E, subject to the same conditions as provided in Options D or E for a retiree who remarries after the death of a spouse.

Average Benefit Payments

Demographic and Economic Information Schedule 8

Retirement Dates	Years of Credited Service					Total
	0-10	10-15	15-20	20-25	25+	
Period 1/1/2002 - 12/31/2002						
Avg monthly benefit	\$ 640	\$ 893	\$ 1,230	\$ 1,737	\$ 3,117	\$ 1,795
Avg final avg salary	\$ 4,859	\$ 3,890	\$ 3,805	\$ 4,151	\$ 5,424	\$ 4,539
Number of active retirees	7	14	9	11	20	61
Period 1/1/2003 - 12/31/2003						
Avg monthly benefit	\$ 469	\$ 909	\$ 1,213	\$ 2,262	\$ 3,037	\$ 2,202
Avg final avg salary	\$ 4,213	\$ 3,344	\$ 3,643	\$ 5,024	\$ 5,471	\$ 4,799
Number of active retirees	7	10	11	14	42	84
Period 1/1/2004 - 12/31/2004						
Avg monthly benefit	\$ 516	\$ 1,308	\$ 1,734	\$ 1,971	\$ 3,189	\$ 2,123
Avg final avg salary	\$ 4,675	\$ 5,176	\$ 4,510	\$ 4,767	\$ 5,475	\$ 5,060
Number of active retirees	10	15	17	9	34	85
Period 1/1/2005 - 12/31/2005						
Avg monthly benefit	\$ 717	\$ 1,264	\$ 1,542	\$ 2,097	\$ 3,264	\$ 2,337
Avg final avg salary	\$ 5,359	\$ 4,938	\$ 4,903	\$ 5,122	\$ 6,218	\$ 5,581
Number of active retirees	6	6	18	12	36	78
Period 1/1/2006 - 12/31/2006						
Avg monthly benefit	\$ 629	\$ 1,348	\$ 1,660	\$ 2,202	\$ 3,381	\$ 2,374
Avg final avg salary	\$ 5,352	\$ 4,950	\$ 5,220	\$ 5,031	\$ 5,964	\$ 5,503
Number of active retirees	15	12	15	24	53	119
Period 1/1/2007 - 12/31/2007						
Avg monthly benefit	\$ 892	\$ 1,819	\$ 1,622	\$ 2,437	\$ 3,839	\$ 2,557
Avg final avg salary	\$ 5,154	\$ 6,446	\$ 4,607	\$ 5,308	\$ 6,779	\$ 5,885
Number of active retirees	17	11	18	16	43	105
Period 1/1/2008 - 12/31/2008						
Avg monthly benefit	\$ 960	\$ 1,298	\$ 1,798	\$ 2,355	\$ 3,697	\$ 2,503
Avg final avg salary	\$ 5,389	\$ 5,320	\$ 4,779	\$ 5,597	\$ 6,684	\$ 5,903
Number of active retirees	13	12	9	14	36	84
Period 1/1/2009 - 12/31/2009						
Avg monthly benefit	\$ 526	\$ 1,753	\$ 2,097	\$ 2,476	\$ 4,140	\$ 2,689
Avg final avg salary	\$ 4,928	\$ 6,271	\$ 5,296	\$ 5,713	\$ 6,574	\$ 5,907
Number of active retirees	10	7	11	21	27	76
Period 1/1/10 - 12/31/2010						
Avg monthly benefit	\$ 910	\$ 1,143	\$ 1,836	\$ 2,250	\$ 3,841	\$ 1,996
Avg final avg salary	\$ 4,492	\$ 5,054	\$ 6,051	\$ 5,337	\$ 6,587	\$ 5,504
Number of active retirees	17	12	8	22	48	107
Period 1/1/2011- 12/31/2011						
Avg monthly benefit	\$ 1,001	\$ 1,649	\$ 1,836	\$ 2,737	\$ 5,138	\$ 2,472
Avg final avg salary	\$ 5,568	\$ 4,715	\$ 4,889	\$ 5,900	\$ 7,337	\$ 5,682
Number of active retirees	12	11	16	34	39	112
Period 1/1/12 - 12/31/2012						
Avg monthly benefit	\$ 815	\$ 1,470	\$ 2,312	\$ 3,230	\$ 6,410	\$ 2,847
Avg final avg salary	\$ 5,690	\$ 5,980	\$ 5,359	\$ 6,001	\$ 6,974	\$ 6,001
Number of active retirees	33	29	23	43	79	207
Summary of 2002 - 2012						
Avg monthly benefit	\$ 775	\$ 1,348	\$ 1,756	\$ 2,509	\$ 4,149	\$ 2,417
Avg final avg salary	\$ 5,174	\$ 5,174	\$ 4,849	\$ 5,243	\$ 6,405	\$ 5,573
Number of active retirees	147	139	155	220	457	1,118

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