



MEMORANDUM

To: Kurt Triplett, City Manager
From: Chris Thomas, Director of Human Resources
Date: September 26, 2018
Subject: PENSION ADMINISTRATION, RATES, FUNDING HISTORY AND FORECAST

Background Discussion:

In Washington, there are eight state-administered public retirement systems for state and local government employees. The City of Kirkland offers its employees participation in a variety of those pension plans through the Department of Retirement Systems (DRS). Plan selection and enrollment depends on the employee's position eligibility.

Available plans at the City of Kirkland are summarized below (judicial plans are not listed):

- **Public Employees' Retirement System (PERS):** This includes non-public safety employees in a position where the normal pattern of employment is expected to work at least 70 hours per month, for at least five months for two consecutive years. Generally interns, seasonal and on-call employees are not eligible. Employees must choose between Plan 2 and Plan 3. Employees hired before October 1, 1977 were able to elect Plan 1.
- **Law Enforcement Officers' and Fire Fighters' (LEOFF):** This includes full-time commissioned officers and uniformed fire fighters. Plan 1 is for employees hired before October 1, 1977. Plan 2 is for employees hired after that date. All active members of LEOFF in the City of Kirkland are members of Plan 2.
- **Public Safety Employees' Retirement System (PSERS):** The applicable criterion for membership in this group in the City of Kirkland is having "primary responsibility is to ensure the custody and security of incarcerated or probationary individuals." This includes non-commissioned staff, such as corrections officers. Plan 2 is the only available option.

Contribution Rates:

Each DRS member and employer is required to contribute a set percentage of the member's monthly compensation to the applicable retirement fund. Except for the PERS Plan 3, member and employer contributions and their investment earnings fund the current and future retirement benefits of members of the retirement systems. For Plan 3, the employer contributions and their investment earnings fund the defined benefit component of the retirement benefit; the defined contribution component is financed by the member's contributions and provides a tax-deferred investment program for the member. A small percentage of the employer contribution rate pays the administrative expenses of DRS.

Contribution rates are set by the state Pension Funding Council every two years based on analysis and recommendations from the State Actuary and input from the Select Committee on Pension Policy. The Actuary regularly recommends updates to assumptions so policymakers can adjust contribution rates as needed to fund the retirement benefits earned by members.

The Legislature has the authority to revise the rates and assumptions adopted by the Pension Funding Council.

Historic and forecasted employer contribution rates are listed below:

	<i>Past and Current Annualized Contribution Rates</i>						<i>Projected</i>	
	2013	2014	2015	2016	2017	2018	2019	2020
PERS Plans 1, 2, 3	8.21%	9.21%	10.20%	11.18%	11.94%	12.74%	12.85%	12.86%
PSERS	9.70%	10.54%	11.04%	11.54%	11.74%	12.09%	12.26%	12.14%
LEOFF Plan 2	5.23%	5.23%	5.23%	5.23%	5.33%	5.43%	5.38%	5.33%

The estimated fiscal impact of mandatory pension contributions in the 2019-2020 biennium are as follows by fund:

	Budgeted		2019-2020
	2019	2020	Total
General Fund	4,515,660	4,556,284	9,071,944
Lodging Tax Fund	12,184	12,193	24,377
Street Operating Fund	198,971	221,886	420,857
Cemetery Operating Fund	2,222	2,296	4,518
Parks Maintenance Fund	81,880	84,089	165,969
Parks Levy Fund	124,266	127,947	252,213
Water/Sewer Operating Fund	203,232	211,509	414,741
Surface Water Management Fund	390,285	397,417	787,702
Solid Waste Fund	35,528	35,601	71,129
Equipment Rental Fund	85,085	87,075	172,160
Information Technology Fund	401,436	385,232	786,668
Facilities Maintenance Fund	82,048	83,895	165,943
Total All Funds	6,132,797	6,205,424	12,338,221

Plan Funding:

A plan with assets that equal its liabilities is termed 'fully funded', which means the value of the assets on hand equals the plan's accrued liabilities. Any gap between the benefits earned and a retirement plan's assets is referred to as an unfunded liability. A plan with unfunded liability is generally considered underfunded.

Washington has fully funded and underfunded state retirement plans (see below). Current state funding policy requires additional contributions to return the underfunded plans to a fully funded status. As a result of that commitment, it is expected all Washington retirement plans will have

adequate assets to provide for all earned benefits into the future. In particular, a significant portion of the PERS Plan 2/3 and PSERS* contribution rates consist of a supplemental rate above normal cost (currently 4.76%) to amortize the unfunded actuarial accrued liability in PERS Plan 1 and return the plan to a fully funded status. It should be noted that additional variables such as returns on investment of system assets, participant characteristics, and assumptions on valuation interest rates, salary growth, inflation, and membership growth all combine to determine projected contribution rates. Rates do not rise and fall on their funded status alone and plans are not considered overfunded or at-risk solely on whether or not their ratio is above or below 100 percent.

Funded Status of Public Employee Pension Plans with Active City of Kirkland Members:

<i>(dollars in millions)</i>	PERS Plan 1	PERS Plan 2/3	PSERS Plan 2	LEOFF Plan 2
Accrued Liability	\$12,341	\$37,166	\$506	\$10,160
Actuarial Value of Assets	\$7,042	\$33,191	\$480	\$11,037
Unfunded Liability	\$5,299	\$3,975	\$25	(\$878)
Funded Ratio	57%	89%	95%	109%

Source: 2017 Actuarial Valuation Report (AVR), Office of the State Actuary

*PSERS employers contribute to the PERS Plan 1 UAAL supplemental rate as its members were in PERS prior to the establishment of PSERS by the Legislature in 2004.

