# Note x: pension Plans

**General Information**

*[Optional introductory paragraph—may omit and start with General Information below]*

The District is required to provide retirement benefits for substantially all qualifying employees through the Washington State Department of Retirement Systems (DRS), a department within the primary government of the state of Washington. Generally accepted accounting principles require, among other provisions, that the District recognize its proportionate share of the DRS plans’ funded status. The District has no independent ability to fund or satisfy pension liabilities outside of Washington State’s legislatively adopted contribution rates. Assessments now and in the future are made based on the legislatively mandated rates and are paid by the District on salaries and wages, as earned, in future years.

The following table represents the aggregate pension amounts for all plans for fiscal year 2020:

|  |
| --- |
| **Aggregate Pension Amounts—All Plans** |
| Pension Liabilities | $  |
| Pension Assets |  |
| Deferred outflows of resources |  |
| Deferred inflows of resources |  |
| Pension expense/expenditures |  |

*[Note—if omitting 1st paragraph above, define DRS here as done above.]*

DRS, a department within the primary government of the state of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Washington State Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or online at https://www.drs.wa.gov.

## Membership Participation

Substantially all of the District’s full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by DRS: Teachers’ Retirement System (TRS), Public Employees’ Retirement System (PERS) and School Employees’ Retirement System (SERS).

## Membership & Plan Benefits

Certificated employees are members of TRS. Classified employees are members of PERS (if Plan 1) or SERS. Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. TRS 1 and PERS 1 are closed to new entrants.

### TRS Plan Information

TRS was established in 1938, and its retirement provisions are contained in RCW Chapters 41.34 and 41.32. TRS is a cost-sharing multi-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component. TRS eligibility for membership requires service as a certificated, public school employee working in an instructional, administrative or supervisory capacity.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability and death benefits. TRS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the average final compensation (AFC), for each year of service credit, up to a maximum of 60 percent, divided by twelve. The AFC is the total earnable compensation for the two consecutive highest-paid fiscal years, divided by two. Members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. Other benefits include temporary and permanent disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

TRS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the average final compensation (AFC) per year of service for Plan 2 members and one percent of AFC for Plan 3 members. The AFC is the monthly average of the 60 consecutive highest-paid service credit months. There is no cap on years of service credit. Members are eligible for normal retirement at the age of 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. TRS Plan 2/3 members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. TRS Plan 2/3 members who have 30 or more years of service credit, were hired prior to May 1, 2013, and are at least 55 years old, can retire under one of two provisions: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. TRS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. TRS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

### PERS Plan Information

PERS was established in 1947, and its retirement benefit provisions are contained in RCW Chapters 41.34 and 41.40. PERS is a cost-sharing, multi-employer retirement system. PERS Plan 1 provides retirement, disability and death benefits. PERS 1 members were vested after the completion of five years of eligible service. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service. The AFC is the average of the member’s 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service.

Members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

### SERS Plan Information

SERS was established by the legislature in 1998, and the plan became effective in 2000. SERS retirement benefit provisions are established in RCW Chapters 41.34 and 41.35. SERS is a cost-sharing, multiemployer retirement system comprised of two separate plans for membership purposes. SERS Plan 2 is a defined benefit plan and SERS Plan 3 is a defined benefit plan with a defined contribution component. SERS members include classified employees of school districts and educational service districts.

SERS is reported as two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the member’s average final compensation (AFC) times the member’s years of service for Plan 2 and one percent of AFC for Plan 3. The AFC is the monthly average of the member’s 60 highest-paid consecutive service months before retirement, termination or death. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. SERS members, who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a reduced benefit.

The benefit is reduced by a factor that varies according to age, for each year before age 65. SERS members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 2, 2013: With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules. SERS members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service. SERS retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost- of-living allowance (based on the Consumer Price Index), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries.

## Plan Contributions

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. Employers do not contribute to the defined contribution portions of TRS Plan 3 or SERS Plan 3. Under current law the employer must contribute 100 percent of the employer-required contribution. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at six percent and does not vary from year to year.

The employer and employee contribution rates for the PERS plan were effective as of July 1, 2019. SERS and TRS contribution rates are effective as of September 1, 2019. All plans will not have a contribution rate change until September 1, 2020. The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2020 are listed below:

| **Pension Contribution Rates from September 01, 2019 to August 31, 2020** |
| --- |
|  | Employer | Employee |  |
| PERS Plan 1 | 12.86% | 6.00% |  |
| TRS Plan 1 | 15.51% | 6.00% |  |
| TRS Plan 2/3 | 15.51% | 7.77% | \*/\*\* |
| SERS Plan 2/3 | 13.19% | 8.25% | \*/\*\* |
| *Note: The Employer rates include .0018 DRS administrative expense.*  |
| \* – TRS and SERS Plan 3 Employee Contribution Variable from 5% to 15% based on rate selected by the employee member. |
| \*\* – TRS and SERS Plan 2/3 Employer Contributions for defined benefit portion only. |

**The School District’s Proportionate Share of the Net Pension Liability (NPL)**

At June 30, 2020, the school district reported a total liability of $**\_\_\_\_\_\_\_\_\_\_** for its proportionate shares of the individual plans’ collective net pension liability. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2020, the district’s proportionate share of each plan’s net pension liability is reported below:

| June 30, 2020 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
| --- | --- | --- | --- | --- |
| District’s Annual Contributions |  |  |  |  |
| Proportionate Share of the Net Pension Liability |  |  |  |  |

Changes to net pension liability from the prior period are displayed in the Schedule of Changes in Long Term Liabilities.

At June 30,2020, the school district’s percentage of the proportionate share of the collective net pension liability was as follows and the change in the allocation percentage from the prior period is illustrated below.

| Allocation percentages | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
| --- | --- | --- | --- | --- |
| Current year proportionate share of the Net Pension Liability |  |  |  |  |
| Prior year proportionate share of the Net Pension Liability |  |  |  |  |
| Net difference percentage |  |  |  |  |

### Actuarial Assumptions

The total pension liabilities for TRS 1, TRS 2/3, PERS 1 and SERS 2/3 were determined by actuarial valuation as of June 30, 2019, with the results rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| Inflation | 2.75% total economic inflation, 3.50% salary inflation  |
| --- | --- |
| Salary increases | In addition to the base 3.50% salary inflation assumption, salaries are also expected to grow by promotions and longevity.  |
| Investment rate of return | 7.40% |

#### Mortality Rates

Mortality rates used in the plans were developed using the Society of Actuaries’ Pub.H-2010 Mortality rates, which vary by member status as the base table. OSA applies age offsets for each system to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale to project mortality rates for every year after the 2010 base table. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of the *2013–2018 Demographic Experience Study* *Report and the 2019 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2019 actuarial valuation report.

#### Long-term Expected Rate of Return

OSA selected a 7.40% long-term expected rate of return on pension plan investments using a building-block method. In selecting the assumptions, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns the Washington State Investment Board (WSIB) provided.

The CMAs contain three pieces of information for each class of assets the WSIB currently invest in:

* Expected annual return
* Standard deviation of the annual return
* Correlations between the annual returns of each asset class with every other asset class

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons. The expected future rates of return are developed by the WSIB for each major asset class. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans’ target asset allocation as of June 30, 2020, are summarized in the following table:

| TRS 1, TRS 2/3, PERS 1, and SERS 2/3 |
| --- |
| Asset Class | Target Allocation  | Long-term Expected Real Rate of Return |
| Fixed Income | 20.00% | 2.20% |
| Tangible Assets | 7.00% | 5.10% |
| Real Estate | 18.00% | 5.80% |
| Global Equity | 32.00% | 6.30% |
| Private Equity | 23.00% | 9.30% |

#### Discount Rate

The discount rate used to measure the total pension liability was 7.40 percent. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on the assumptions described in the DRS CAFR Certification Letter, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return, a 7.40 percent on pension plan investments was applied to determine the total pension liability.

**Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The Pension Plans reported collective Deferred Outflows of Resources and collective Deferred Inflows of resources related to the individual plans. At August 31, 2020, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| **Deferred Outflows of Resources and Deferred Inflows of Resources****Related to Pensions** |
| --- |
| Plan Name | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experiences  | $ | $ |
| Net difference between projected and actual earnings on pension plan investments | $ | $ |
| Changes in assumptions or other inputs | $ | $ |
| Changes in proportionate shares  | $ | $ |
| Contributions subsequent to the measurement date  | $ | $ |
| TOTAL | $ | $ |

|  |  |  |
| --- | --- | --- |
| Plan Name | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experiences  | $ | $ |
| Net difference between projected and actual earnings on pension plan investments | $ | $ |
| Changes in assumptions or other inputs | $ | $ |
| Changes in proportionate shares  | $ | $ |
| Contributions subsequent to the measurement date  | $ | $ |
| TOTAL | $ | $ |

|  |
| --- |
| **Deferred Outflows of Resources and Deferred Inflows of Resources****Related to Pensions** |
| Plan Name | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experiences  | $ | $ |
| Net difference between projected and actual earnings on pension plan investments | $ | $ |
| Changes in assumptions or other inputs | $ | $ |
| Changes in proportionate shares  | $ | $ |
| Contributions subsequent to the measurement date  | $ | $ |
| TOTAL | $ | $ |

|  |  |  |
| --- | --- | --- |
| Plan Name | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Difference between expected and actual experiences  | $ | $ |
| Net difference between projected and actual earnings on pension plan investments | $ | $ |
| Changes in assumptions or other inputs | $ | $ |
| Changes in proportionate shares  | $ | $ |
| Contributions subsequent to the measurement date  | $ | $ |
| TOTAL | $ | $ |

$\_\_\_\_\_\_\_\_ reported as Deferred Outflows of Resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended August 31 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
| --- | --- | --- | --- | --- |
| 2021 |  |  |  |  |
| 2022 |  |  |  |  |
| 2023 |  |  |  |  |
| 2024 |  |   |   |   |
| 2025 |  |   |   |   |
| Thereafter |  |   |   |   |

**Pension Expense**

For the year ending August 31, 20CY, the District recognized a total pension expense as follows:

|  | Pension Expense |
| --- | --- |
| PERS 1 | $ |
| SERS 2/3 | $ |
| TRS 1 | $ |
| TRS 2/3 | $ |
| TOTAL | $ |

***Note to Preparer:*** *Pension expense would equal contributions to the plan for employees during the year plus pension expense from the change in NPL.*

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the \_\_\_\_\_\_\_\_\_\_\_\_ School District’s proportionate share of the collective net pension liability (NPL) calculated using the discount rate of 7.40 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.40 percent) or one percentage-point higher (8.40 percent) than the current rate. Amounts are calculated using the school district’s specific allocation percentage, by plan, to determine the proportionate share of the collective net pension liability.

| Sensitivity of the Net Pension Liability to Changes in the Discount Rate |
| --- |
|  | 1% Decrease (6.40%) | Current Discount Rate (7.40%) | 1% Increase (8.40%) |
| **PERS 1 NPL** | $4,422,202,000 | $3,530,540,000 | $2,752,919,000 |
| Allocation Percentage |  |  |  |
| Proportionate Share of Collective NPL  |  |  |  |
|  |
|  | 1% Decrease (6.40%) | Current Discount Rate (7.40%) | 1% Increase (8.40%) |
| **SERS 2/3 NPL** | $1,517,879,000 | $531,964,000 | ($283,583,000) |
| Allocation Percentage |  |  |  |
| Proportionate Share of Collective NPL  |  |  |  |
|  |
| **TRS 1 NPL** | $3,051,911,000 | $2,408,786,000 | $1,847,550,000 |
| Allocation Percentage |  |  |  |
| Proportionate Share of Collective NPL  |  |  |  |
|  |
| **TRS 2/3 NPL** | $4,526,645,000 | $1,535,981,000 | ($903,643,000) |
| Allocation Percentage |  |  |  |
| Proportionate Share of Collective NPL  |  |  |  |

**Schedules of Required Supplementary Information**

***Note to Preparer:*** *Required supplementary information is presented in the required supplementary schedules for each plan the District participates in. RSI Schedules are illustrated here for reference but they are not included in the Notes to the Financial Statements.*

*[You may also refer to BARS GAAP Manual Guidance, found in Reporting/Required Supplementary Information (RSI), Section [7]:* <https://sao.wa.gov/bars_gaap/reporting/required-supplementary-information-rsi/required-supplementary-information-rsi/> ]

*The required supplementary information identified below is presented separately for each plan the school district participates in. The amounts reported in the Schedules of the Districts Proportionate Share of the Net Pension Liability are determined as of the* ***June 30*** *measurement date of the collective net pension liability. (Prepare a separate table for each plan.)*

| **Schedule of the District’s Proportionate Share of the Net Pension Liability** |
| --- |
| *Plan Name* |
| Last 10 Fiscal Years\* (Dollar amounts in thousands) |
|  | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| District’s proportion of the net pension liability (percentage) |  |  |  |  |  |  |
| District’s proportionate share of the net pension liability (amount) |  |  |  |  |  |  |
| District’s covered-employee payroll |  |  |  |  |  |  |
| District’s proportionate share of the net pension liability (amount) as a percentage of its covered payroll |  |  |  |  |  |  |
| Plan fiduciary net position as a percentage of the total pension liability |  |  |  |  |  |  |

\* This schedule is to be built prospectively until it contains ten years of data.

*The information identified below is the Schedule of District Contributions, by Plan. The amounts reported in the Schedules of District Contributions are determined as of the school district’s fiscal year ending* ***August 31****. (Prepare a separate table for each plan.)*

| **Schedule of District Contributions** |
| --- |
| *Plan Name* |
| Last 10 Fiscal Years\* (Dollar amounts in thousands) |
|  | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually required contribution |  |  |  |  |  |  |
| Contributions in relation to the contractually required contributions |  |  |  |  |  |  |
| Contribution deficiency (excess) |  |  |  |  |  |  |
| District’s covered-employee payroll  |  |  |  |  |  |  |
| Contribution as a percentage of covered-employee payroll |  |  |  |  |  |  |

\* This schedule is to be built prospectively until it contains ten years of data.