TERS 101

A BRIEF OVERVIEW OF THE

Tacoma Employees’ Retirement System
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WHAT IS TERS?

- TERS is a Defined Benefit (DB) pension plan
  - Assuming certain eligibility criteria are met, members are entitled to a lifetime benefit for themselves and potentially a spouse or partner
- The starting pension amount is typically based on a member’s final average salary, a factor and the number of credited service years
- Funded through Employer (11.34%) and Employee (9.66%) contributions and earnings from the $2.1 billion investment portfolio
- Includes early (but reduced) retirement options
- Adjusted for inflation up to 2.125% annually
- Pensions are mostly treated as taxable income
HOW DOES TERS COMPARE TO OTHER TYPES OF RETIREMENT SAVINGS PLANS?

- Defined Contribution (DC) plan (i.e., a private sector 401(k) Plan)
  - Employees and employers make contributions
  - At separation, vested DC members take ownership of the entire balance
  - Separating DB members *cannot* withdraw employer contributions

- Comparing DB and DC plans
  - DB Plans reduce mortality/longevity risk
  - DB Plans reduce inflation risk
  - DB Plans can access additional investment asset classes
  - DB Plans have professional parties (staff/consultant) overseeing investments
  - DB Plans can have lower fees
WHAT DOES “VESTING” MEAN?

- TERS members begin their membership classified as unvested
- Vesting is achieved by
  - Age 60
  - Earning five years of credited TERS service (may be different than City service)
  - Having combined five years of credited service with a portable system before/after joining TERS
WHAT HAPPENS IF I LEAVE THE CITY BEFORE I RETIRE?

- *Unvested* members are entitled to a lump sum refund of all employee contributions plus credited interest.
- *Vested* members are entitled to a lump sum refund of all employee contributions plus credited interest, plus an additional amount, OR
- *Vested* members can choose to leave their funds with TERS and receive a pension once eligibility has been achieved.

**NOTE:**

- Withdrawals are taxable unless rolled directly to a qualified plan.
- Employer contributions are never available for withdrawal.
**WHAT ELSE CAN I BE DOING NOW?**

- Ensure your TERS beneficiary form is correct
- Ensure your home address on file with the City is correct
- Attend Mission Square or City Wellness financial related webinars
- Start a 457 or increase your 457 contributions
- Learn about 457 catch-up / near-retirement annual contribution limits
- For non-represented members, start strategizing the timing of your separation and retirement dates to determine HRA VEBA status
HOW SAFE IS TERS?

- One measure of a public pension plan’s health is called the Funded (or Funding) Ratio.
- This compares assets dedicated to paying future benefits (what we have) to projected liabilities (what we owe).
- It is based on assumptions and is just a snapshot - even a 100% Funded Ratio does not guarantee success (see TERS 2008/2009).
- Some U.S. public pension plans are severely underfunded.
- At a fair value Funded Ratio of around 95%, TERS is in a strong position, particularly versus peers.
QUESTIONS?