

## Summary of Financial Activities

For the Year Ended December 31, 2008

### Source of Funds

Member Contributions .....	\$ 13,067,175
Employer Contributions .....	14,925,078
Income (Loss) from Investments .....	(363,013,228)
<b>Total .....</b>	<b>\$ (335,020,975)</b>
<b>Uses of Funds</b>	
Benefit Expenditures .....	\$ 44,043,797
Administration .....	1,673,656
Additions (Deductions) from Reserves .....	(380,738,428)
<b>Total .....</b>	<b>\$ (335,020,975)</b>

## Investment Performance

Investment performance period ending December 31, 2008\*

	%	%	%	%	%	Inception
	1-year	3-year	5-year	10-year	Inception	Date
<b>Domestic Equity</b>						
Northern Trust S&P 500 Index Fund	-37.65	-8.69	-2.41	-1.49	7.86	Dec-90
-S&P 500 Index	-37.01	-8.35	-2.19	-1.39	7.94	
Northern Trust Russell 2000	-33.87	-8.35	-0.98	2.97	9.24	Dec-90
Russell 2000 Index	-33.80	-8.29	-0.93	3.02	9.18	
Denver Investment Advisors	-45.34	-11.79	-3.98	1.31	9.92	Mar-83
Custom Benchmark <sup>1</sup>	-41.64	-9.95	-1.16	1.83	8.96	
BGI Alpha Tilts	-36.61	--	--	--	-22.68	Mar-07
S&P 500 Index	-37.01	--	--	--	-21.10	
INTECH	-36.59	--	--	--	-20.75	Mar-07
S&P 500 Index	-37.01	--	--	--	-21.10	
Research Affiliates	-37.48	--	--	--	-22.51	Mar-07
S&P 500 Index	-37.01	--	--	--	-21.10	
<b>International Equity</b>						
Northern Trust Intn'l						
Index Fund	-45.37	-7.21	2.23	1.60	3.86	Mar-88
Custom Benchmark <sup>2</sup>	-45.52	-7.26	2.15	1.53	3.54	
TT International	-47.87	-8.11	1.29	--	0.93	Mar-99
MSCI EAFE Index	-43.38	-7.35	1.66	--	0.68	
<b>Fixed Income</b>						
Metropolitan West	-1.46	4.03	4.09	--	5.28	Mar-02
Barclays Aggregate Index	5.24	5.51	4.65	--	5.55	
Post Advisory	-19.94	-3.25	--	--	-2.66	Sep-05
ML High Yield Master II Index	-26.39	-5.62	--	--	-5.01	
<b>Real Estate</b>						
Adelante Capital	-45.29	-14.72	-0.52	7.18	5.29	Dec-97
DJ Wilshire REIT Index	-39.20	-11.99	0.65	7.65	5.13	

<sup>1</sup> Denver Custom Benchmark: 3Q06-Present = Dow Jones Wilshire U.S. Mid Cap Growth; 2Q86-2Q06 = Wilshire Mid Cap Growth

<sup>2</sup> Northern Trust International Custom Benchmark: 2Q06-Present = MSCI ACWI x-US; 2Q92-1Q06 = MSCI Euro/Pacific 50/50; 2Q88-1Q92 = MSCI EAFE

## Investments at Fair Value

Comparison for Years Ended  
December 31, 2008 and December 31, 2007  
(000's)

Type	2008	% of Total	2007	% of Total
U.S./Int'l Bonds	\$ 295,922	35.18	\$ 332,190	27.53
U.S. Equity .....	294,157	34.97	472,716	39.17
International Equity .....	97,411	11.58	190,311	15.77
U.S./Int'l REITs .....	74,188	8.81	3,488	0.29
Securities Lending .....	79,528	9.45	208,038	17.24
	\$ 841,161	100.00	\$ 1,206,745	100.00

## Tacoma Employees' Retirement System Board of Administration

Tacoma Employees' Retirement System Board of Administration

Mayor & Chairman	William Baarsma
Director of Finance,	
Secretary/Treasurer of the Board	Robert K. Biles
Designee of the City Manager	Rey Arellano
Designee of the Tacoma Public	
Utilities Director	Tim Ross
Employee Representatives	Diane Wetzel Rodney Croston James Curley
Retired Representative	Dave Peterson
Citizen Representative	Chris Webster
Alternate Board Member	Kenneth Turner
Actuary	Milliman Consultants and Actuaries
Investment Consultants	The Northern Trust Company Custodian Bank
	Denver Investment Advisors
	Adelante Capital Management
	Metropolitan West Asset Management
	TT International
	Barclay Global Investors
	INTECH
	Research Affiliates
	Russell Investments
	Post Advisory Group
Investment Performance Analysis	Wilshire Consulting
Investment Advisory Committee	Dr. Alva Butcher Joseph E. Cook Dr. Lynda Livingston Frank D. Underwood Allan L. Undem

For further information write or call:  
**Tacoma Employees' Retirement System**  
3628 S. 35th Street, Tacoma, Washington 98409  
(253) 502-8200

### Web Sites:

Located at <http://www.cityoftacoma.org/ters> are the Retirement Booklet; Commonly Asked Retirement Questions; Standard Forms for both Active and Retired Members; Annual Report; Summary Annual Report; the Actuarial Study; and Retirement Board packets, including minutes and agendas.

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## Tacoma Employees' Retirement System 2008 Summary Annual Report

The Tacoma Employees' Retirement System has been providing employees with retirement benefits since 1941. Continuing to recognize the vital role of our employees, we wish to maintain quality of life for you after retirement with the Tacoma Employees' Retirement System. This Plan is designed to provide income after your retirement in addition to your social security benefits.

This summary annual report has been designed to provide you with summary information for the Tacoma Employees' Retirement System along with the following overview for 2008. It includes a summary of the plan, funding progress, benefit improvements, schedules of benefit payments, financial activities, and investments, as well as a listing of the Board of Administration.

The year 2008 marked the System's sixty-eighth year of operation. At year-end there were 1,819 people receiving monthly pensions from the Tacoma Employees' Retirement System, as well as 3,124 employee participants. The retirement fund net plan assets at December 31, 2008 were \$763.6 million.

The Board of Administration conducts its monthly Retirement meetings on the second Thursday of the month. These Retirement meetings are held at 1:00 p.m. in the Tacoma Public Utilities Building, Room ABN-LT1 and are open to the public.

If you have any questions regarding the Retirement Plan, please feel free to contact the Retirement Office at (253) 502-8200 or a member of the Board of Administration. Additional statistical information can also be found in the Tacoma Employees' Retirement System's 68th Annual Report.

The Board of Administration is pleased to submit this summary annual report to you.

William Baarsma  
Mayor and Chairman

## Summary of the Plan

The Tacoma Employees' Retirement System is . . .

- \* Organized under the Official Code of the City of Tacoma for the purpose of providing a uniform program of retirement, disability and death benefits for its eligible members.
- \* Governed by a Board of Administration of nine regular members consisting of the Mayor, a designee of the City Manager, the Director of Finance, a designee of the Tacoma Public Utilities Director, three elected employees who are members of the Retirement System, a retired member of the Retirement System elected by other retired members of the System, and a citizen member appointed by the other eight Board Members. The nine regular Board Members appoint a member of the Retirement System, either active or retired as an alternate Board Member.
- \* Administered by a Retirement System Director who is appointed by the Board. The administrative staff is selected by the Director. Information and services are provided from the Retirement System Office in the Tacoma Public Utilities Building.

## Funding Progress

The ultimate test for a retirement system is the level of funding. The funding objective is to meet long term benefit promises through contributions that remain approximately level as a percentage of payroll. The objective of the pension system is to determine that the funding of the system, on a going concern basis, is adequate and to determine that progress is being made in accumulating the necessary assets to pay the benefits when due.

**Unfunded Actuarial Accrued Liability:** The actuarial accrued liability is determined by calculating the actuarial present value of all future benefits and subtracting out that portion which is attributable to the actuarial present value of the future normal costs for present members. The unfunded actuarial accrued liability is equal to the actuarial accrued liability less the actuarial value of net assets available for benefits.

The System's near term funded ratio (actuarial value of assets divided by actuarial accrued liability) is 109.5%.

The funding policy states that if the funding ratio is more than 100% then the System's funding is based on the amortization of the funding reserve (also referred to as a funding excess) amount. Per the funding policy, amortization of the funding reserve shall not be less than 20 years. If the amortization of the reserve amount is over a shorter period, the Retirement Board will consider an increase in contribution rates.

Although the current contribution rate is below the normal cost of funding the System's benefits, the funding reserve supports the difference. When the funding reserve is depleted, there is no longer a source to fund the normal cost in excess of total contributions, thus requiring the contribution rate to increase to the normal cost rate (currently 17.37%) plus an amortization of the Actuarial Accrued Liability in excess of the Actuarial Assets.

## Summary of the 2007-2008 Biennial Budget

Net Assets as of December 31, 2008 ..... \$763,625,375

Controllable ..... \$ 561,130  
 Non-Controllable ..... 103,128,977  
 Estimate to Reserves ..... 76,395,961  
 Budget ..... \$180,086,068

Valuation Date	Actuarial Accrued Liability (millions)	Actuarial Value of Assets (millions)	Unfunded Actuarial Accrued Liability (millions)	Percent of Covered Payroll
1/1/93	\$347.6	\$306.1	\$41.5	42.3%
1/1/95	\$394.5	\$367.1	\$27.4	25.8%
1/1/97	\$477.9	\$482.7	(\$4.8)*	(4.1)%*
1/1/98	\$515.7	\$523.8	(\$8.1)*	(7.0)%*
1/1/99	\$537.6	\$570.7	(\$33.1)*	(27.1)%*
1/1/01	\$605.7	\$700.7	(\$95.0)*	(71.2)%*
1/1/03	\$686.8	\$740.1	(\$53.3)*	(34.6)%*
1/1/05	\$754.3	\$807.3	(\$53.0)*	(30.7)%*
1/1/07	\$895.8	\$1,021.3	(\$125.5)*	(71.7)%*
1/1/09	\$1,002.3	\$1,097.3	(\$95.0)*	(48.1)%*

\* These results are based on the System's current actuarial assumptions, which do not reflect experience under the January 1, 1997 improved benefit structure or portability. An increase in actuarial losses or negative experience could result in an increase in the contribution rate.  
 As noted from the preceding table, the unfunded actuarial accrued liability has declined as a percent of active payroll since January 1, 1991.  
 Effective January 1, 2001, active members contribute 6.44% of their salaries and the City contributes 7.56%. Contribution rates have increased for years 2009 and 2010.

## Investment Outlook

2008 marked a volatile year: most major asset classes finished the year with sharply negative returns. Global equities markets posted steep losses for the year and particularly so during the fourth quarter, as the sub-prime originated credit crisis picked up steam by roiling the financial markets in September and led to a fast spreading global economic downturn. Continuing prior year's trend, publicly traded real estate, also known as REITs, was the worst performing asset class in 2008, as the collapse of the sub-prime lending market persisted and its impact reverberated throughout the economy which significantly contributed to the recessionary development. Commodity prices plummeted worldwide as the global slowdown slashed demand; this is highlighted by the crude oil futures, which closed the year at \$44.60, down from its all-time high of \$147. In an effort to combat the growing recession and rising unemployment rate, the Federal government announced a \$700 billion aid package aimed to prop up the ailing U.S. financial sector. The Federal Reserve also took drastic action during the year and lowered the Federal Funds rate to a target range of 0.0% to 0.25% at its last meeting.

Investment returns for the next ten years are likely to be in the single digits. According to the return assumptions of Wilshire Associates of Santa Monica, CA, the investment consultant to Tacoma Employees' Retirement System, nominal returns for U.S. and Non- U.S. equities are expected to average 8.50% for the next ten years, investment-grade fixed income securities are expected to generate a return of 4.00%, high yield fixed income securities are expected to earn 8.50%, and public real estate securities are expected to earn 7.00%. During 2008, in a move to further enhance its return and risk profile, the System adopted a new strategic asset allocation policy. The new asset allocation policy significantly reduces The Tacoma Employees' Retirement System's home country bias, which is aimed to achieve a more balanced exposure to global equity, and introduces private equity investments. The new strategic policy should further strengthen the diversification benefit already provided by the System's current asset allocation mix and firmly position it to prosper for the next decade.

## Benefit Changes

**Divorce Pop-Up Provision :** A member retiring on or after 1/1/08, electing Option D or E and divorced thereafter and having satisfied Section 1.30.690.C of the Tacoma Municipal Code, the benefit payable to the member 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 the member is divorced and later remarries, within three months of remarriage the member will have the option to irrevocably designate the member's 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 member who remarries after the death of a husband or wife.

## Benefit Payments

	Number of Payments	Total Paid 2008
Recurring Monthly Payments at December 31, 2008		
Service Retirement .....	1,481	\$36,406,930
Survivor Retirement.....	305	4,179,658
Disability Retirement.....	33	422,682
Total Benefits .....	1,819	41,009,270
Lump Sum Payments.....		
During the Year.....		
Death Benefits.....	1	4,691
Separation/Overtime Refunds .....	149	3,029,835
Total Refunds.....	150	3,034,526
Total Benefits and Refunds.....		<u>\$44,043,796</u>

As recurring annuities and disability benefits are awarded, the Retirement System sets aside reserves. People who terminate their employment can withdraw all of their contributions and the interest credited to their account.

## Retired Benefits Paid

Last Five Fiscal Years

Year Ending	Service	Survivors	Disability	Total
2004	\$ 26,628,821	\$ 3,729,503	\$ 400,635	\$ 30,758,959
2005	28,444,655	3,693,717	392,534	32,530,906
2006	31,139,370	3,806,416	391,384	35,337,170
2007	33,700,736	4,258,452	407,201	38,366,389
2008	36,406,930	4,179,658	422,682	41,009,270

## Statement of Plan Net Assets

Comparison for Years Ended December 31, 2008 and December 31, 2007 (000's)

Assets	2008	2007
Cash/Short-Term Investments .....	\$ 27,440	\$ 26,075
Receivables .....	21,731	6,527
Investments.....	841,161	1,333,310
Furniture & equipment.....	24	61
Total Assets.....	890,357	1,365,973
Less: Payables .....	(126,731)	(221,610)
Plan Net Assets .....	<u>\$ 763,625</u>	<u>\$1,144,364</u>

In accordance with GSAB No. 25, Investments are stated at fair value to arrive at plan net assets available for benefits.