

NOTE X: PENSION PLANS

General Information

[Note to Preparer: The annual report for the DRS pension funds is issued in the fall. OSPI will provide an updated Pension Note X once that information is available with updates to any assumptions as well as a tool and information to complete the tables.]

[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 of the District for fiscal year 2023:

| 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. Remove any pension amount line items unused in the table above (for example, Pension Assets most likely will not be reported in the table).]

DRS, a department within the primary government of the state of Washington, issues a publicly available annual comprehensive financial report that includes financial statements and required supplementary information for each plan. The DRS annual comprehensive financial report 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 Chapters 41.32 and 41.34 RCW. 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 a single plan for accounting purposes.

TRS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are calculated using 2% of the member's Average Final Compensation (AFC) times the member's years of service – up to a maximum of 60%. AFC is the average of the member's two consecutive highest-paid fiscal years.

Members are eligible for retirement at any age after 30 years of service, 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).

TRS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits for Plan 2 are calculated using 2% of the member's Average Final Compensation (AFC) times the

member's years of service. Retirement defined benefits for Plan 3 are calculated using 1% of AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. TRS Plan 2/3 has no cap on years of service credit.

Members are eligible for retirement with a full benefit at age 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 retirement benefits are actuarially reduced to reflect the choice of a survivor benefit.

Other TRS Plan 2/3 benefits include a Cost-of-Living Adjustment (COLA) based on the Consumer Price Index, capped at 3% annually.

Annuities purchased with plan 3 defined contributions that are invested within the WSIB TAP are considered defined benefits. Plan 3 WSIB TAP annuities are actuarially reduced if a survivor benefit is chosen and TAP annuities include a COLA of 3% annually.

TRS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contribution upon separation. Members have multiple withdrawal options, including purchase of an annuity.

PERS Plan Information

PERS was established in 1947, and its retirement benefit provisions are contained in Chapters 41.34 and 41.40 RCW. PERS is a cost-sharing, multiple-employer retirement system. PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as 2% times the member's Average Final Compensation (AFC) times the member's years of services. 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.

PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from inactive status before age 65 may also receive actuarially reduced benefits. Other benefits include an optional Cost-of-Living Adjustment (COLA).

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 Chapters 41.34 and 41.35 RCW. SERS members include classified employees of school districts and educational service districts.

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.

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 a single plan for accounting purposes.

SERS provides retirement, disability, and death benefits. Retirement benefits for Plan 2 are calculated as 2% times the member's Average Final Compensation (AFC) times the member's years of service. Defined benefits for Plan 3 are calculated using 1% times the member's AFC times the member's years of service. AFC is the monthly average of the member's 60 consecutive highest-paid service credit months.

Members are eligible for retirement with a full benefit at age 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 Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen.

Other SERS Plan 2/3 benefits include a Cost-of-Living Adjustment (COLA) based on the Consumer Price Index, capped at 3% annually.

SERS 3 defined contributions benefits are totally dependent on employee contributions and the investment earnings on those contributions. Annuities purchased with plan 3 defined contributions that are invested within the WSIB TAP are considered defined benefits. Plan 3 WSIB TAP annuities are actuarially reduced if a survivor benefit is chosen and TAP annuities include a 3% annually.

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. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW for PERS, Chapters 41.35 and 41.45 RCW for SERS, and Chapters 41.32 and 41.45 RCW for TRS. 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 all plans were effective as of September 1, 2022. PERS contribution rates changed on July 1, 2023. The pension plan contribution rates (expressed as a percentage of covered payroll) for fiscal year 2023 are listed below:

| | From this date | Through this date | Member rate | Employer rate | |
|--|-----------------------|--------------------------|--------------------|----------------------|----|
| PERS 1 | 7/1/2022 | 6/30/2023 | 6.00% | 10.39% | |
| PERS 1 | 7/1/2023 | 8/31/2023 | 6.00% | 9.39% | |
| SERS 2 | 9/1/2022 | 8/31/2023 | 7.76% | 11.79% | |
| SERS 3 | 9/1/2022 | 8/31/2023 | * | 11.79% | ** |
| TRS 1 | 9/1/2022 | 8/31/2023 | 6.00% | 14.69% | |
| TRS 2 | 9/1/2022 | 8/31/2023 | 8.05% | 14.69% | |
| TRS 3 | 9/1/2022 | 8/31/2023 | * | 14.69% | ** |
| <i>Note: The Employer rates include .0018 DRS administrative expense.</i> | | | | | |
| * – 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 District's actual contributions to the plans for the year ended August 31, 2023 were as follows:

| August 31, 2023 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---------------------------------|--------|----------|-------|---------|
| District's Annual Contributions | | | | |

The School District's Proportionate Share of the Net Pension Liability (Asset)

At June 30, 2023, the school district reported a total liability of \$_____ for its proportionate shares of the individual plans' collective net pension liability and \$_____ for its proportionate shares of net pension assets. Proportion of net pension liability is based on annual contributions for each of the employers participating in the DRS administered plans. At June 30, 2023, the district's proportionate share of each plan's net pension liability is reported below:

| June 30, 2023 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|--|--------|----------|-------|---------|
| Proportionate Share of the Net Pension Liability (Asset) | | | | |

Changes to the District's proportionate shares of the collective net pension liability are displayed in the Schedule of Changes in Long Term Liabilities, **Note X**.

At June 30, 2023, the school district's percentage of the proportionate share of the collective net pension (asset) liability and the change in the allocation percentage from the prior period is illustrated below.

| Change in Proportionate Shares | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|---|--------|----------|-------|---------|
| Current year proportionate share of (NPA)/NPL | | | | |
| Prior year proportionate share of (NPA)/NPL | | | | |
| 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, 2022, with the results rolled forward to June 30, 2023, using the following actuarial assumptions, applied to all prior periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% total economic inflation, 3.25% salary inflation |
| Salary increases | In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by promotions and longevity. |
| Investment rate of return | 7.00% |

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, 2022, valuation were based on the results of the *2013–2018 Demographic Experience Study Report and the 2021 Economic Experience Study*. Additional assumptions for subsequent events and law changes are current as of the 2022 actuarial valuation report.

Long-term Expected Rate of Return

OSA selected a 7.00% 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, 2021, 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% | 1.50% |
| Tangible Assets | 7.00% | 4.70% |
| Real Estate | 18.00% | 5.40% |
| Global Equity | 32.00% | 5.90% |
| Private Equity | 23.00% | 8.90% |

The inflation component used to create the above table is 2.20% and represents WSIB's long-term estimate of broad economic inflation consistent with their 2021 CMAs.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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 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 7.00% on pension plan investments was applied to determine the total pension liability or (asset).

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 or asset calculated using the discount rate of 7.00 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 (6.00 percent) or one percentage-point higher (8.00 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 or asset.

| Sensitivity of the Net Pension Liability or Asset to Changes in the Discount Rate | | | |
|---|---------------------|----------------------------------|---------------------|
| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
| PERS 1 | \$3,189,149,000 | \$2,282,732,000 | \$1,491,643,000 |
| Allocation Percentage | | | |
| Proportionate Share | | | |
| SERS 2/3 | \$1,168,408,000 | (\$143,144,000) | (\$1,224,160,000) |
| Allocation Percentage | | | |
| Proportionate Share | | | |
| TRS 1 | \$1,927,853,000 | \$1,266,517,000 | \$688,424,000 |
| Allocation Percentage | | | |
| Proportionate Share | | | |
| TRS 2/3 | 3,965,509,000 | (122,815,000) | (3,446,561,000) |
| Allocation Percentage | | | |
| Proportionate Share | | | |

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, 2023, the District reported Deferred Outflows of Resources and Deferred Inflows of Resources related to pensions from the following sources:

| Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pension Plans | | |
|--|--------------------------------|-------------------------------|
| PERS 1 | 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 | \$ | \$ |
| SERS 2/3 | 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 | \$ | \$ |
| TRS 1 | 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 Outflow of Resources and Deferred Inflow of Resources Related to Pension Plans | | |
|--|--------------------------------|-------------------------------|
| TRS 2/3 | 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 | \$ | \$ |
| COMBINED TOTAL | 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, 2023.

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 |
|----------------------|--------|----------|-------|---------|
| 2024 | | | | |
| 2025 | | | | |
| 2026 | | | | |
| 2027 | | | | |
| 2028 | | | | |

| Year ended August 31 | PERS 1 | SERS 2/3 | TRS 1 | TRS 2/3 |
|-------------------------|--------|----------|-------|---------|
| 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.

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) | | | | | | | | | |
| | 2023 | 2022 | 2021 | 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 | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|
| <i>Plan Name</i> | | | | | | | | | |
| Last 10 Fiscal Years* (Dollar amounts in thousands) | | | | | | | | | |
| | 2023 | 2022 | 2021 | 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.