

**RESOLUTION NUMBER 2019-13**

**A RESOLUTION OF THE TOWN OF PARADISE VALLEY, ARIZONA ADOPTING THE ANNUAL PSPRS PENSION FUNDING POLICY FOR THE FISCAL YEAR 2020**

**WHEREAS**, the provisions of Title 38, Chapter 863.01, Article 4, Arizona Revised Statutes (A.R.S.), require all local agencies (counties, cities, towns and special districts) that participate in the Public Safety Personnel Retirement System (“PSPRS”) to adopt and post a Pension Funding Policy annually beginning on or before July1, 2019; and,

**WHEREAS**, the PSPRS administers an agent multiple-employer pension plan where each local agency participating in the plan has an individual trust fund to account for that local agency’s assets and liabilities that each local agency is responsible for, including paying any Unfunded Actuarial Accrued Liability (“UAAL”); and

**WHEREAS**, the UAAL is the difference between trust assets and the estimated future costs of pensions earned by employees resulting from actual results (including interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations; and

**WHEREAS**, the Town Council’s Resolution 2016-19 established paying the Town’s PSPRS unfunded liability as a priority and implemented an aggressive schedule to pay it as quickly as reasonably possible that is an integral part of the FY2019/20 budget; and

**WHEREAS**, the Arizona League of Cities and Town’s has provided a template to assist municipalities in meeting the State requirements.

**NOW THEREFORE, BE IT RESOLVED**, that the accompanying policy includes the PSPRS trust fund's assets, liabilities and unfunded liability that are the responsibility of the Town and includes the plan to be fully funded.

**BE IT FURTHER RESOLVED**, Town Council affirms continuation of its direction set forth in Resolution 2016-19 to expedite the payment of the unfunded liability as quickly as reasonably possible.

**PASSED AND ADOPTED** by the affirmative vote of the Paradise Valley Town Council this 13<sup>th</sup> day of June 2019.

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Jerry Bien-Willner, Mayor

ATTEST:

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Duncan Miller, Town Clerk

APPROVED AS TO FORM

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Andrew M. Miller, Town Attorney

# **Town of Paradise Valley Public Safety Personnel Retirement System Pension Funding Policy**

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to our employees and the sound financial management of the Town and to comply with new statutory requirements of Laws 2018, Chapter 112.

Several terms are used throughout this policy:

**Unfunded Actuarial Accrued Liability (UAAL)** – Is the difference between trust assets and the estimated future cost of pensions earned by employees. This UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations.

**Annual Required Contribution (ARC)** – Is the annual amount required to pay into the pension funds, as determined through annual actuarial valuations. It is comprised of two primary components: normal pension cost – which is the estimated cost of pension benefits earned by employees in the current year; and, amortization of UAAL – which is the cost needed to cover the unfunded portion of pensions earned by employees in previous years. The UAAL is collected over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

**Funded Ratio** – Is a ratio of fund assets to actuarial accrued liability. The higher the ratio the better funded the pension is with 100% being fully funded.

**Intergenerational equity** – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.

The Town's police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

## **Public Safety Personnel Retirement System (PSPRS)**

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to comingle assets of all plans under its administration, thus achieving economy of scale for more cost efficient investments, and invest those assets for the benefit of all members under its administration and 2) serve as the statewide uniform administrator for the distribution of benefits.

Under an agent multiple-employer plan each agency participating in the plan has an individual trust fund reflecting that agencies' assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The Town of Paradise Valley has one trust fund for police employees.

Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2017 actuarial valuation, which are detailed below.

<b>Trust Fund</b>	<b>Assets</b>	<b>Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
Paradise Valley Police	\$17,549,901	\$34,948,185	\$17,398,284	50.2%

### **PSPRS Funding Goal**

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity. Most funds in PSPRS are significantly underfunded and falling well short of the goal of intergenerational equity.

**The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036.** Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Paradise Valley's liability
- The fluctuating cost of an UAAL causes strain on the Town's budget, affecting our ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Council has taken the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds annually without diminishing Town services.
- Additional payments above the ARC:
  - Council Resolution 2016-19 declared the expedient resolution of the PSPRS unfunded liability a priority
  - The intent of Council is to pay off the liability as quickly as reasonably possible

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2017 Actuarial Valuation.