

Resolution 2020-19: Adopting the Annual Public Safety Personnel Retirement System (“PSPRS”) Pension Funding Policy for FY 2021



June 11th, 2020

- ▶ State law requires the annual adoption of a PSPRS funding policy.
 - ▶ This is the 2nd year of this annual process.
 - ▶ The Arizona League of Cities and Towns has provided a template.
 - ▶ Town Council provided guidance under Council Resolution number 2016-19 Declaring the expedient resolution of the PSPRS unfunded liability a priority.
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- ▶ Presented for Council's consideration is Resolution 2020-19 to adopt a PSPRS policy that:
 - ➔ Meets state requirements;
 - ➔ Amortizes the liability at the maximum time allowed to give flexibility and not over commit the Town in economic downturns; and
 - ➔ Reaffirms Town Council's declared priority to pay the unfunded liability as quick as reasonably possible with cash payments.



PSPRS POLICY

State Mandated Annual Policy

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 commingle 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 agency's 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, 2019](#) actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Paradise Valley Police	\$29,762,486	\$38,164,331	\$8,401,845	78.0%

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, 2019 Actuarial Valuation.



Recommendation:

**Adopt Resolution 2020-19 Adopting the
Annual PSPRS Pension Funding Policy for
Fiscal Year 2021**



June 11th, 2020

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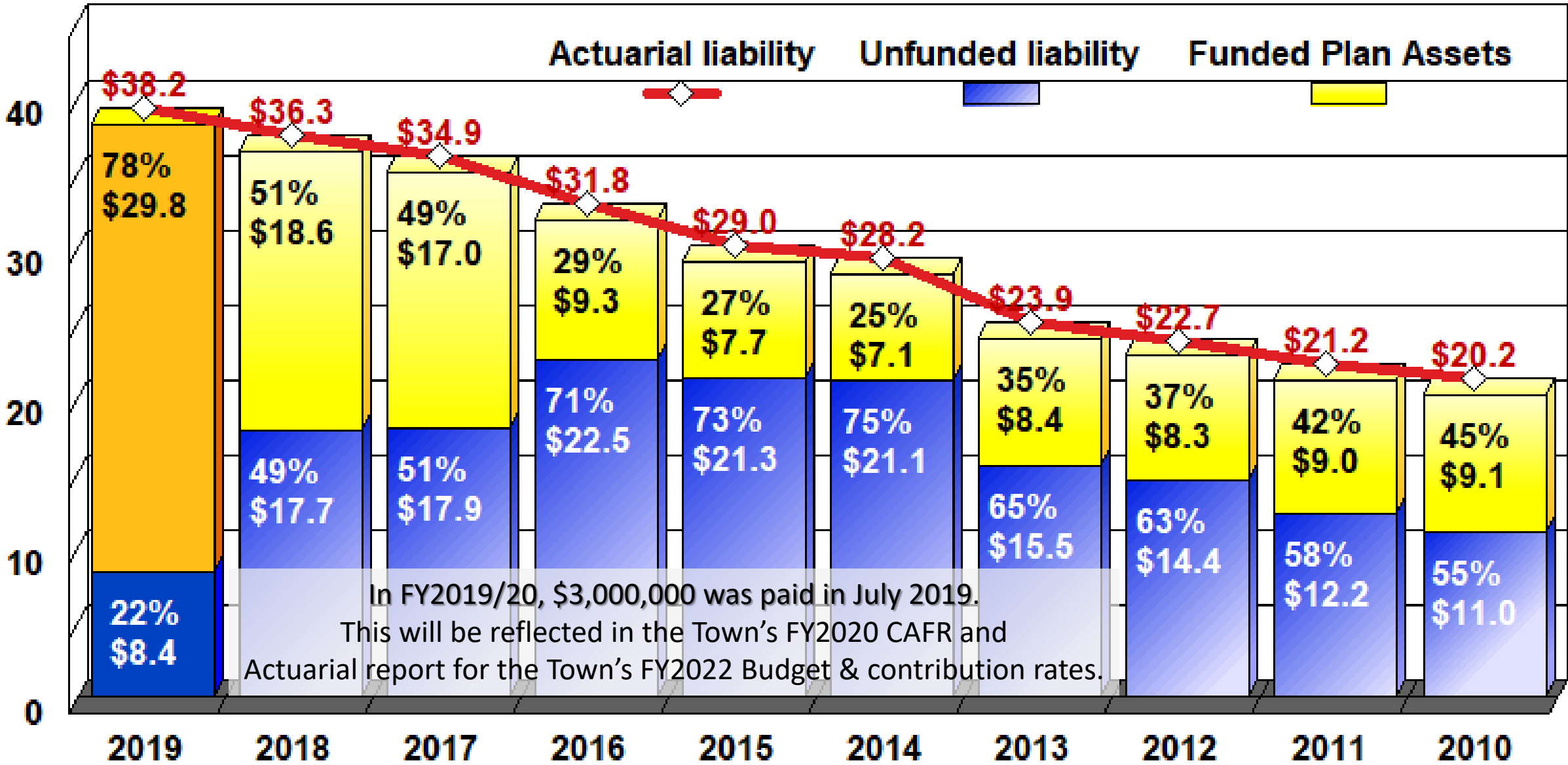
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) FY2020/21



May 14th, 2020

Operating Fund (GF + HURF)

PSPRS (Recent Actuarial)



Operating Fund (GF + HURF)

PSPRS UAAL Rates

Town's CAFR Year	CAFR	PSPRS Measurement & Town's CAFR Year 20xx								
	19	18	17	16	15	14	13	12	11	10
Town's plan assets	\$29.8	\$18.6	\$17.0	\$ 9.3	\$ 7.7	\$ 7.1	\$ 8.4	\$ 8.3	\$ 9.0	\$ 9.1
Unfunded liability	8.4	17.7	17.9	22.5	21.3	21.1	15.5	14.4	12.2	11.0
Actuarial liability	\$38.2	\$36.3	\$34.9	\$31.8	\$ 29.0	\$ 28.2	\$ 23.9	\$ 22.7	\$ 21.2	\$ 20.2
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Rate impact on Town's Budget Year	Budget	20	19	18	17	16	15	14	13	12
Normal base rate	17.5%	14.7%	15.0%	11.0%	11.7%	11.9%	12.4%	13.2%	11.9%	11.8%
Unfunded liability rate	21.4%	44.5%	52.2%	59.2%	60.1%	48.5%	37.8%	35.8%	25.8%	20.1%
Total contribution rate	38.9%	59.2%	67.3%	70.2%	71.8%	60.5%	50.2%	49.0%	37.8%	31.9%

There are many factors to adjusting the “Unfunded liability rate” (UAAL rate);
such as investment earnings, changes in assumptions and tables.

But a one factor the Town can control is the lump sum cash payments, when viable.

Operating Fund (GF + HURF)

PSPRS UAAL Rates Savings

Lump Sum Payment		PSPRS UAAL Rate		Estimated Savings from Lower UAAL Rate by Fiscal Year			
Made in	Amount of	Impacted	Rate	FY2020/21	FY2019/20	FY2018/19	Total
FY2016/17	\$ 5,000,000	FY2018/19	52.2%	\$ 235,337	\$ 226,407	\$ 220,991	\$ 682,735
FY2017/18	1,000,000	FY2019/20	44.5%	258,871	249,048	-	507,919
FY2018/19	9,000,000	FY2020/21	21.4%	776,612	-	-	776,612
Total	\$ 15,000,000			\$ 1,270,820	\$ 475,455	\$ 220,991	\$ 1,967,266

7-Year “smoothing” investment earnings is approximately 6% annually (actual varies year to year)

