

# **Fry Fire District Public Safety Personnel Retirement System Pension Funding Policy**

The intent of this policy is to clearly communicate the Fire Board's pension funding objectives and its commitment to our employees and the sound financial management of the Fry Fire District and to comply with 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 Fry Fire District fire 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 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 Fry Fire District has one trust fund for fire employees.

The Fire Board formally accepts the assets, liabilities, and current funding ratio of the Fry Fire District PSPRS trust funds from the June 30, 2019 actuarial valuation, which are detailed below.

### Liabilities and Funded Ratios – Tiers 1 & 2

	June 30, 2019	June 30, 2018
<b>Pension</b>		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	\$ 17,947,085	
DROP Members	875,238	
Vested Members	360,987	
Active Members	<u>14,095,253</u>	
Total Actuarial Present Value of Benefits	33,278,563	
Actuarial Accrued Liability (AAL)		
All Inactive Members	19,183,310	17,493,297
Active Members	<u>8,516,233</u>	<u>9,158,269</u>
Total Actuarial Accrued Liability	27,699,543	26,651,566
Actuarial Value of Assets (AVA)	12,447,371	11,612,456
Unfunded Actuarial Accrued Liability		
Gross Unfunded Actuarial Accrued Liability	15,252,172	15,039,110
Stabilization Reserve	<u>0</u>	<u>0</u>
Net Unfunded Actuarial Accrued Liability	15,252,172	15,039,110
Funded Ratio (AVA / AAL)	44.9%	43.6%

### Liabilities and Funded Ratios – Tier 3

	June 30, 2019	June 30, 2018
<b>Pension</b>		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	0	
Vested Members	203,244	
Active Members	<u>120,826,663</u>	
Total Actuarial Present Value of Benefits	121,029,907	
Actuarial Accrued Liability (AAL)		
All Inactive Members	203,244	
Active Members	<u>7,753,481</u>	
Total Actuarial Accrued Liability	7,956,725	1,831,715
Actuarial Value of Assets (AVA)	9,305,220	1,635,349
Unfunded Actuarial Accrued Liability	(1,348,495)	196,366
Funded Ratio (AVA / AAL)	116.9%	89.3%

#### 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.

#### State-wide reforms and legislation

##### Proposition 207, the Smart and Safe Arizona Act

In 2020, Arizona voters approved Prop 207 entitled the “Smart and Safe Arizona Act”. As part of this initiative a Smart and Safe, Arizona Fund would be established and receive monies from the 16% excise tax as well as licensing and registration fees.

As a fire department with individuals enrolled in Public Safety Personnel Retirement System (PSPRS) Fry Fire District is eligible to receive money based on the number of PSPRS individuals and taxes collected. Per the Arizona State Treasurer, funds will be distributed biannually, June 30 and December 31.

##### **Senate Bill 1298/Certificates of Participation:**

In 2021, Senate Bill 1298 was passed with an emergency clause to immediately allow fire districts to utilize its current ability to lease purchase and/or issue “Certificates of Participation” (CoP’s) for the purpose of paying a district’s accumulated UAAL. Conversely, the PSPRS assumed earnings/discount rate is 7.30% and is applied to all liabilities. In 2021, the District sold the CoP’s and refinanced their unfunded pension debt to PSPRS.

**The Fire Board's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2046.**

Fire Board established this goal for the following reasons:

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

Fire Board has taken the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – the Fire Board is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds.
- Additional payments above ARC – the Fire Board will annually evaluate the prior year's budget compared to actual expenditures which may permit excess payments.
- The District issued CoP's for the purpose of refinancing the District's PSPRS UAAL at lower financing rates than the PSPRS "assumed earnings/discount rate," over a level "year over year" payment schedule. The District's ARC payment will, as a budget line, also include the annual payments for financing the "CoP's."
- It is the policy of the Fry Fire District Board to use the money received from the Smart and Safe Arizona Fund to pay the District's PSPRS related liabilities.

Based on these actions the Fire Board plans to achieve its goal of 100% funding by June 30, 2046, in accordance with the amortization timeline set forth by the PSPRS June 30, 2019 Actuarial Valuation.