

Attachment C

City of Phoenix

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 City 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.

Actuarially Determined Contribution (ADC) – Is the annual amount determined to pay into the pension funds, as calculated 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 ADC 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.

The City's police and 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 City of Phoenix has two trust funds, one for police employees and one for fire employees.

Council formally accepts the assets and liabilities of the City's PSPRS trust funds from the June 30, 2021 actuarial report, which are detailed below:

Trust Fund	Assets	Liabilities	Unfunded Liability	Funded Ratio
Phoenix Police	\$1,370,878,000	\$3,683,190,000	\$2,312,312,000	37.22%
Phoenix Fire	756,000,000	1,987,068,000	1,231,068,000	38.05%
City of Phoenix Totals	\$2,126,878,000	\$5,670,258,000	\$3,543,380,000	37.50%

For comparative purposes, the City of Phoenix total Unfunded Liability for the prior fiscal year ending June 30, 2020 was \$3.23 billion and the funded ratio was 39.81%.

PSPRS Funding Goal

Fully funded pension plans are the best way to achieve taxpayer equity. However, most funds in PSPRS are significantly underfunded due to historical low returns on plan assets, people in general living longer and decreases in governmental workforces. As shown above, the UAAL for the City is \$3.5 billion which should be paid over time to avoid a huge burden to current taxpayers by either significantly decreasing services or an increase in taxes. This taxpayer burden must be balanced with being fiscally responsible and committed in providing pensions to retirees.

The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2042.

Council has taken the following actions to achieve the June 30, 2042 goal:

- Maintain ADC payment from operating revenues – Council is committed to maintaining the full ADC payment (normal cost and UAAL amortization) from operating funds.
- Additional payments above the ADC
 - City Council has approved paying the ADC based on a 19-year remaining amortization schedule. The budget for the ADC for FY 22 is \$285.4 million, which is \$41.9 million more than the actuarial amount.
 - Established the Pension Stabilization Reserve Fund to ensure annual payment during downturns in the economy. As of fiscal year ended June 30, 2021, there was \$42.4 million in the reserve fund.

To achieve this goal, the City's funding policy is as follows:

1. Maintain the City's legal commitment to employees and retirees by paying 100% of the actuarially determined contribution
2. Evaluate Police and Fire current year total actual expenditures, if less than the total budget, make an additional payment either directly to PSPRS or to the Pension Stabilization Reserve Fund

3. Continue to allocate budgetary resources of revenues from recreational (non-medical) marijuana sales (general fund portion of City's direct sales tax and public safety allocation only) to make an additional payment directly to PSPRS to accelerate the pay down of the liability
4. Continue to monitor market conditions for feasibility of issuing Pension Obligation Bonds (POBs) if market conditions are favorable and;
 - a) Interest rate is under 3.5%
 - b) Sufficient assets are available to sell (if applicable)
 - c) Apply all savings from issuing POBs to PSPRS pension liability
 - d) Rating indications are neutral
5. Review investment rate of returns on pension assets, monitor actuarial assumption changes and analyze the impact on future actuarially determined contributions
6. Compile sensitivity and scenario analyses on proposed PSPRS Board changes to the pension plan
7. 100% funded by 2042