

PERSONNEL POLICIES

3. EMPLOYMENT	Approval Date	Effective Date
Public Safety Personnel Retirement System Pension Funding Policy	06/18/2024	07/01/2024

Purpose:

The intent of this policy is to clearly communicate the City’s pension funding objectives and its commitment to our employees and the sound financial management of the City and to comply with the new statutory requirements of Title 38, Chapter 5, Article 4, Section 38-863.01, Arizona Revised Statutes, approved on April 3, 2018. The City Council establishes this Funding Policy to help ensure the financial sustainability of the City’s plans.

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, retirement, termination, and disability rates, as well as assumed salary increase and cost of living adjustment rates. etc.) being different from the assumptions used in previous actuarial valuations.

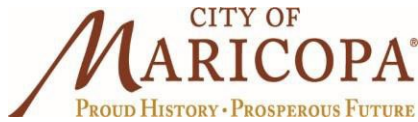
Annual Required Contribution (ARC) – Is the annual amount required to pay into the pension funds, as determined through annual actuarial valuations. It is comprised of two primary components: normal pension cost – which is the estimated cost of pension benefits earned by employees in the current year; 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.

In 2012, the Governmental Accounting Standards Board (GASB) approved two financial standards: GASB Statement No. 67, “Financial Reporting for Pension Plans” replaces the requirements of Statement No. 25; GASB Statement No. 68, “Accounting and Financial Reporting for Pensions” replaces the requirements of Statements No. 27 and No. 50. Prior to the changes, the Annual Required Contribution (ARC) rate was used as a basis for funding decisions.

The new GASB statements separate accounting cost (expense) from funding cost (contributions), necessitating the creation of this funding policy. The Government Finance Officers Association (GFOA) recommends the adoption of a pension funding policy and has numerous recommendations regarding the funding of pension plans. Those recommendations are incorporated into this policy.



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Furthermore, the League of Arizona Cities and Towns Pension Task Force recommends adoption of a policy as well.

Scope:

Public Safety Personnel Retirement System (PSPRS)

The City's police and fire employees who are regularly assigned hazardous duty participate in the 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 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 City of Maricopa has two trust funds, one for police employees and one for fire employees.

Council formally accepts the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2023, actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Maricopa Police	\$22,473,699	\$26,517,931	\$4,044,232	84.7%
Maricopa Fire	\$33,266,757	\$39,109,493	\$5,842,736	85.1%
Total Police & Fire	\$55,740,456	\$65,627,424	\$9,886,968	84.9%

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PSPRS Funding Goal

Pensions that are substantially less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current and future 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. Currently, while Maricopa is underfunded, the City is materially meeting the goal of intergenerational equity.

The Council's PSPRS funding ratio goal is 100% by June 30, 2036.

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the City of Maricopa's liability;
- The fluctuating cost of an UAAL could cause strain on the City's budget, affecting the City's ability to provide services;
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

Responsibilities:

Council plans to take 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. The estimated combined ARC for FY25 is \$2,220,900 and will be paid from operating funds without diminishing City services.
- Maintain adequate assets so that current plan assets plus future contributions and investment earnings are sufficient to fund all benefits expected to be paid to members and their beneficiaries.
- Maintain intergenerational equity. Pension costs are paid by the generation of taxpayers who receive the services.
- Maintain stability of the City's contribution amounts.
- Maintain public policy goals of accountability and transparency. Each policy element is clear in intent and effect, and each should allow an assessment of whether, how and when the funding requirements of the plan will be met.

This policy shall be reviewed by the City Council annually.