

Attachment B

City of Phoenix

City of Phoenix Employee 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 Arizona Revised Statute §38-863.01.

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.

CITY OF PHOENIX EMPLOYEE RETIREMENT SYSTEM (COPERS)

COPERS is a single-employer defined benefit pension plan, covering all full-time general employees of the City except sworn police and fire employees. COPERS is governed by a separate Board, established in the City Charter.

Council formally accepts the assets and liabilities of the City's COPERS trust funds from the June 30, 2024, actuarial valuation report, which are detailed below:

Trust Fund	Assets¹	Liabilities¹	Unfunded Liability¹	Funded Ratio¹
Phoenix	<u>\$3,738,075,318</u>	<u>\$5,147,293,773</u>	<u>\$1,409,218,455</u>	<u>72.62%</u>

For comparative purposes, the City of Phoenix total Unfunded Liability for the prior fiscal year ending June 30, 2023, was \$1.37 billion and the funded ratio was 72.02%.

¹ Amounts differ from Annual Comprehensive Financial Report due to legislation reporting requirements.

COPERS Funding Goal

Fully funded pension plans are the best way to achieve taxpayer equity. However, COPERS is currently 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 \$1.4 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 COPERS funding ratio goal is 100% (fully funded) by June 30, 2039.

Council has taken the following actions to achieve the June 30, 2039 goal:

- Maintain ADC payment from operating revenues – Council is committed to maintaining the full ADC payment (normal cost and UAAL amortization) from operating funds. The budget for the ADC for FY 25 is \$219.4 million.

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 ADC
2. Continue to seek opportunities to advance payments from enterprise and/or specialty funds
3. Evaluate COPERS current year total actual expenditures, if less than the total budget, make an additional payment directly to COPERS
4. Review investment rate of returns on pension assets, monitor actuarial assumption changes and analyze the impact on future actuarially determined contributions
5. Compile sensitivity and scenario analyses on proposed COPERS Board changes to the pension plan
6. 100% funded by 2039