

Attachment B

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.

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.

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, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2020 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Phoenix Police	1,368,290,122	3,492,835,270	2,124,545,148	39.17%
Phoenix Fire	765,370,023	1,867,271,442	1,101,901,419	40.99%
City of Phoenix Totals	2,133,660,145	5,360,106,712	3,226,446,567	39.81%

For comparative purposes, the City of Phoenix total Unfunded Actuarial Accrued Liability for the prior fiscal year ending June 30, 2019 was \$3.03 billion and the funded ratio was 40.34%.

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 \$3.2 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 ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds.
- Additional payments above the ARC
 - City Council has approved paying the ARC based on a 20-year remaining amortization schedule. The budget for the ARC for FY 21 is \$283.6 million, which is \$39.7 million more than the actuarial amount.
 - Established the Pension Reserve Fund to ensure annual payment during downturns in the economy. Currently, there is \$41 million in the reserve fund.

To achieve this goal, the City may utilize the following strategies:

1. Maintaining the City's legal commitment to employees and retirees by paying at least 100% of the annual required contribution.
2. Evaluating prior year budget compared to actual expenditures and make an excess payment to either the Pension Reserve Fund or directly to PSPRS to accelerate pension payments to directly pay down the liability
3. Allocating budgetary resources of revenues from recreational (non-medical) marijuana sales to directly pay down the PSPRS liability through accelerated pension payments. Specific marijuana categories would only include direct revenues from the City's general fund sales tax of recreational marijuana and the City's Public Safety allocation to paying down PSRPS pension liability.

4. Authorizing City staff to develop a financing plan issuing Pension Obligation Bonds if bond interest rates are under 3.5 percent, the City applies all savings from issuing POBs to PSPRS and rating indications from rating agencies are neutral.
5. Reviewing investment rate of returns on pension assets, actuary assumptions and to forecast future annual required contributions.
6. Compiling sensitivity and scenario analyses on proposed changes to the pension plan.

Attachment C

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 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.

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, liabilities, and current funding ratio of the City’s COPERS trust funds from the June 30, 2020 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Net Pension Liability	Funded Ratio
Phoenix	<u>2,681,173,000</u>	<u>4,414,114,000</u>	<u>1,732,941,000</u>	<u>60.74%</u>

For comparative purposes, the City of Phoenix total Unfunded Actuarial Accrued Liability for the prior fiscal year ending June 30, 2019 was \$1.74 billion and the funded ratio was 60.43%.

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 \$1.7 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 ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The budget for the ARC for FY 21 is \$202.3 million.

To achieve this goal, the City may utilize the following strategies:

1. Maintaining the City's legal commitment to employees and retirees by paying at least 100% of the annual required contribution.
2. Evaluating prior year budget compared to actual expenditures and make an excess payment directly to COPERS to accelerate pension payments to directly pay down the liability.
3. Continuing to seek opportunities to advance payments from either enterprise and/or special revenue funds. Aviation is currently preparing advance payments of \$100 million and \$70 million in FY21 and FY22, respectively.
4. Reviewing investment rate of returns on pension assets, actuary assumptions and to forecast future annual required contributions.
5. Compiling sensitivity and scenario analyses on proposed changes to the pension plan.