Attachment B
City of Phoenix
Public Safety Personnel Retirement System
Pension Funding Policy

The intent of this policy is to clearly communicate the City of Phoenix pension funding objectives and commitment to our employees and the sound financial management of the City and to comply with new 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.
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> **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 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 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. The Elected Official Retirement Plan (EORP) is also administer by PSPRS and as of June 30, 2018 the net pension liability was $8.7 million. Given EORP is relatively minimal dollars, only Police and Fire are included in the actuarial valuation below.

The City Council formally accepts the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2018 actuarial valuation, which are detailed below.

Trust Fund	**Assets**	**Accrued Liability**	**Unfunded Actuarial Accrued Liability**	**Funded Ratio**
Phoenix Police	1,344,454,164	3,303,680,881	1,959,226,717	40.7%
Phoenix Fire	750,476,360	1,777,382,882	1,026,906,522	42.2%
City of Phoenix Totals	2,094,930,524	5,081,063,763	2,986,133,239	41.23%

The amounts above represent Tier 1 and Tier 2. There are no unfunded liabilities for Police Tier 3 members. The unfunded liability for Fire Tier 3 members is $7.5 million, making the plan 95.5% funded.

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 of Phoenix plans is $2.98 billion which should be paid over time to avoid a significant burden to current taxpayers by either significantly decreasing municipal services or increasing taxes. This taxpayer burden must be balanced between being fiscally responsible and being committed to providing pensions to retirees over the long-term. The fluctuating cost of the UAAL affects our ability to provide services and employee wage compensation.

The City of Phoenix PSPRS funding ratio goal is 100% (fully funded) by June 30, 2041.

The adopted amortization period allows for the date to be June 30, 2041 based on a 23 years remaining amortization period. Council adopted the 2041 amortization date goal for the following reasons:

- The PSPRS trust funds represent the City of Phoenix's liability
- The fluctuating cost of an UAAL affects our ability to provide services and employee wage compensation
- A 2041 date allows us to meet our pension funding obligations while still having resources available for community services and employee wage compensation.

The City Council has taken the following actions to achieve the June 30, 2041 goal:

- Maintained 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 FY19 is $235 million and for FY 20 is $257 million. This will be paid from operating funds without diminishing City services.
- Established the Pension Reserve Fund for PSPRS currently at $35 million to stabilize and ensure future pension payments.
- Evaluated prior year budget compared to actual expenditures and made an excess payment to either the Pension Reserve fund or directly to PSPRS to accelerate pension payments.

Going forward, the City Council will evaluate any potential new revenue sources for the purpose of paying down the pension liability.

Attachment C
City Of Phoenix Employee Retirement System (COPERS)
Pension Funding Policy

The intent of this policy is to clearly communicate the City of Phoenix pension funding objectives and commitment to our employees and the sound financial management of the City.

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.

The City Council formally accepts the assets, liabilities, and current funding ratio of the City's COPERS trust funds from the June 30, 2018 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Phoenix	2,562,847,008	4,226,045,811	1,663,198,803	60.64%

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 workforce. As shown above, the UAAL for the City is $1.66 billion which should be paid over time to avoid a significant burden to current taxpayers by either significantly decreasing municipal services or increasing taxes. This taxpayer burden must be balanced between being fiscally responsible and being committed to providing pensions to retirees over the long-term. The fluctuating cost of the UAAL affects our ability to provide services and employee wage compensation.

The City of Phoenix COPERS funding ratio goal is 100% (fully funded) by June 30, 2038.

The adopted amortization period allows for the date to be June 30, 2038 based on a 20 years remaining amortization period. The City Council adopted the 2038 amortization date goal for the following reasons:

- The COPERS trust funds represent the City of Phoenix's liability
- The fluctuating cost of an UAAL affects our ability to provide services and employee wage compensation
- The amortization goal is consistent with the City Charter and COPERS funding policy.
- A 2038 date allows us to meet our pension funding obligations while still having resources available for community services and employee wage compensation

The City Council has taken the following actions to achieve the June 30, 2038 goal:

- Maintained ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated ARC for FY19 is $177.2 million and for FY20 is $185.7. This will be able to be paid from operating funds without diminishing City services.
- Advanced enterprise funds to pay down pension liability.
- Annually evaluated prior year budget compared to actual expenditures and made an excess payment to COPERS after PSPRS payments have been taken into consideration.

Going forward the City Council will evaluate any potential new revenue sources for the purpose of paying down the pension liability.