

# **City of Tucson**

## **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 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.

**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.

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 Tucson 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.

<b>Trust Fund</b>	<b>Assets</b>	<b>Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
Tucson Police	\$353,765,911	\$1,018,042,701	\$664,276,790	34.7%
Tucson Fire	\$212,643,050	\$627,679,043	\$415,035,993	33.9%
<b>City of Tucson Totals</b>	<b>\$566,408,961</b>	<b>\$1,645,721,744</b>	<b>\$1,079,312,783</b>	<b>34.4%</b>

### PSPRS Funding Goal

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current 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.

**The Council's funding ratio goal is 100% (fully funded) by June 30, 2046 and will strive to achieve this goal sooner by making additional payments above the ARC.**

Council established this goal for the following reasons:

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

Council has taken the following actions to achieve this goal:

- The City opted to take advantage of the extended amortization period from an original 19-year amortization to a 29-year period and did not take advantage of PSPRS's credit service model option related to the *Parker-Hall* case to apply toward future retirement payments.
- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The initial actuarial estimated combined ARC for Fiscal Year 2018/19 was \$87,589,812 after the City opted to extend the amortization period from 19-years to 29-years the estimated ARC was revised to \$70,648,900. The Fiscal Year 2019/20 estimated ARC is \$69,036,685 and Fiscal Year 2020/21 estimated

ARC is \$75,662,090. The City will be able to pay the estimated amounts from operating funds without diminishing City services.

- Additional payments above the ARC
  - The City plans to make additional payments above the estimated ARC for Fiscal Year 2018/19 in the amount of \$8,330,535 and Fiscal Year 2019/20 in the amount of \$3,527,490 and will be able to be paid from operating funds without diminishing City services.

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2046, in accordance with the amortization timeline set forth by the PSPRS June 30, 2018 Actuarial Valuation.