

# City of Page 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 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 Page 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.

<b>Trust Fund Tier 1&amp;2</b>	<b>Assets</b>	<b>Accrued Liability</b>	<b>Gross Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
Page Police	9,054,207	8,946,550	(107,657)	101.2%
Page Fire	3,667,254	4,267,200	250,579	94.1%
City of Page Totals	12,721,461	13,213,750	(105,151.21)	97.65%

**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 PSPRS funding ratio goal is 100% (fully funded) as of February 28, 2021.**

Council established and met this goal for the following reasons:

- The PSPRS trust funds represent only the City of Page'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:

Additional payments above the ARC

- In order to achieve a fully funded pension liability, the City Council decided to make additional payments to eliminate this balance beginning FY 2018. We made an additional payment in FY 2018 in the amount of \$1,000,000; In FY 2019, we made an additional payment of \$1,468,000; and in FY 2020, made an additional payment of \$1,146,786, clearing the City of Page's outstanding liability at that time.
- In FY 2021, the City budgeted and paid for the annual liability amount of \$147,053 as stated in the FY 2021 Arizona Public Safety Personnel Retirement System Actuarial Valuation Report.
- In FY 2022, the City had a cumulative credit balance of \$523,556 on both Unfunded Liabilities for the Police and Fire Department, therefore we did not make an additional payment in fiscal year 2023.

The City of Page has met its funding goal and continues to budget for the annual unfunded liability that may present itself from year to year going forward.

- In FY 2024, the City of Page made a \$200,000 payment toward the \$250,579 unfunded liability amount that was reported on the FY 2023 Actuarial Reports.