



Town of Payson Public Safety Personnel Retirement System Pension Funding Policy

Approved by Council:

July 26, 2018

Revised Date:

June 24, 2021

Town of Payson 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 Town and to comply 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.

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 Town'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.



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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 Town of Payson 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 Town'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
Payson Police	\$8,321,358	\$21,108,841	\$12,787,483	39.40%
Payson Fire	\$9,614,151	\$16,894,159	\$7,280,008	56.90%
Town of Payson Totals	\$17,935,509	\$38,003,000	\$20,067,491	47.19%

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) by June 30, 2036.

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Payson's liability
- The fluctuating cost of an UAAL causes strain on the Town'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:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from



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operating funds. The estimated combined police and fire ARC for FY21-22 is \$1,843,300 and will be paid from operating funds without diminishing Town services.

- Additional payments above the ARC
 - A portion of the August 2017 sales tax increase is committed to making a payment of at least \$500,000 annually in excess of the ARC.
 - In Fiscal 17-18 the Town paid an additional \$500,000 payment above the ARC.
 - In Fiscal 18-19 the Town paid an additional \$600,000 payment above the ARC.
 - In Fiscal 19-20 the Town paid an additional \$600,000 payment above the ARC.
 - In Fiscal 20-21 the Town paid an additional \$600,000 payment above the ARC.
 - The Fiscal 21-22 budget includes an additional \$600,000 payment above the ARC

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2020 Actuarial Valuation.