

Town of Pinetop-Lakeside 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 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 Town's police 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 Town of Pinetop-Lakeside has one trust fund for police employees.

Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2022 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Pinetop-Lakeside Police	8,945,144	9,396,143	450,999	95.2%
Town of Pinetop-Lakeside Totals	8,945,144	9,396,143	450,999	95.2%

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 always 100% (fully funded).

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Pinetop-Lakeside'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 achieving the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY22 is \$508,981 and will be able to be paid from operating funds without diminishing Town services.
- Additional payments above the ARC:
Concerned about the status of our PSPRS unfunded liability, on July 1, 2021, Council approved revenue bonds in the amount of \$6,765,000 to completely pay off our unfunded liability at that date.

Based on these actions from Council, the Town was able to go from a 30.4% funded ratio at June 30, 2021 to a 95.2% funded ratio as of June 30, 2022.

PASSED AND ADOPTED this 17th day of August 2023, by the Mayor and Council of the Town of Pinetop-Lakeside, Arizona.

Stephanie Irwin

Stephanie Irwin
Mayor

ATTEST:

Kristi Salskov
Kristi Salskov, CMC
Town Clerk



APPROVED AS TO FORM

William Sims
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