



COUNTY SUPERVISORS ASSOCIATION

PSPRS Pensions: Funding Status & Options

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Overview

- 01 Pension Funding Basics**
- 02 Current Status**
- 03 Options for Repayment**



Can these be reduced?

How do we control growth?

Should we use a higher or lower rate?

What happens when we're wrong?

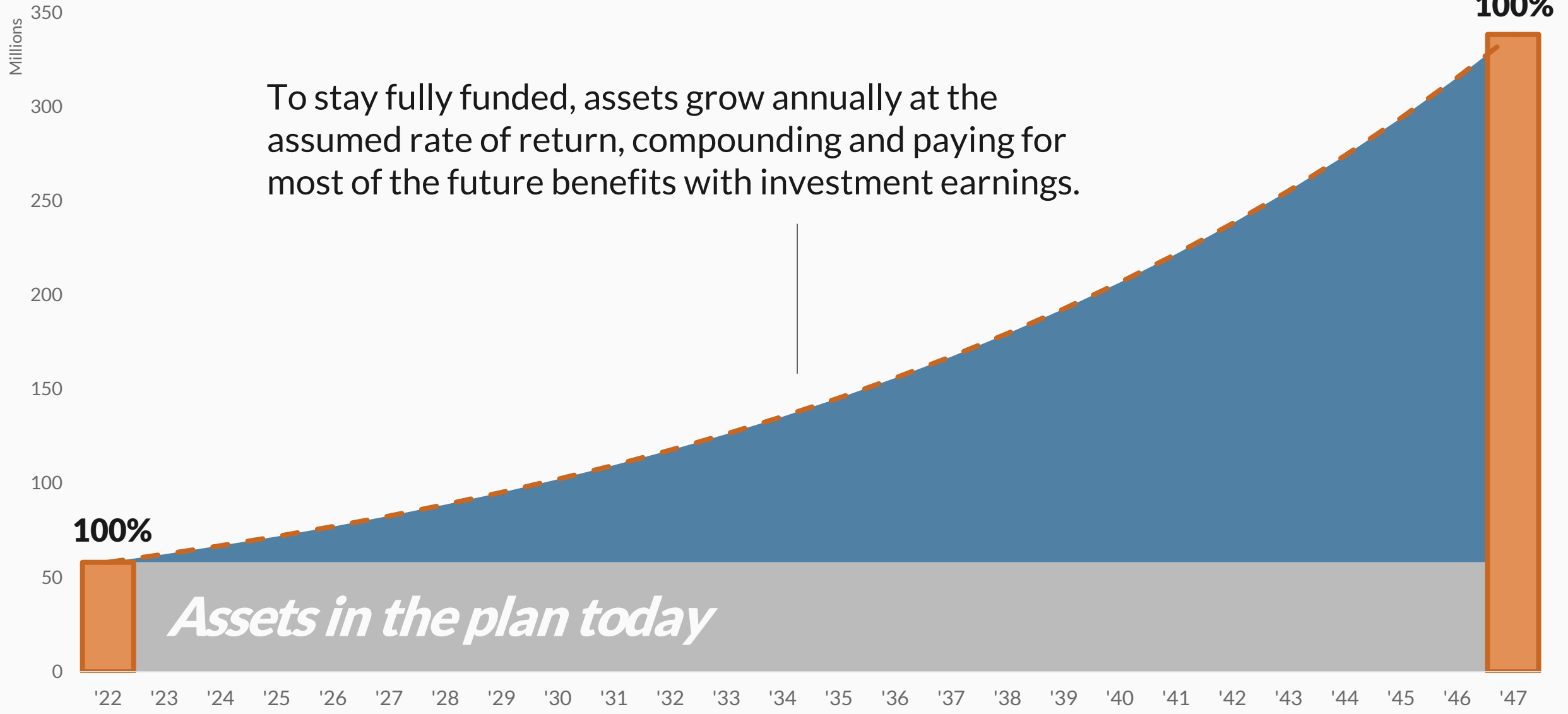
What's the right funded status?

Does timing matter?



How does the system work?

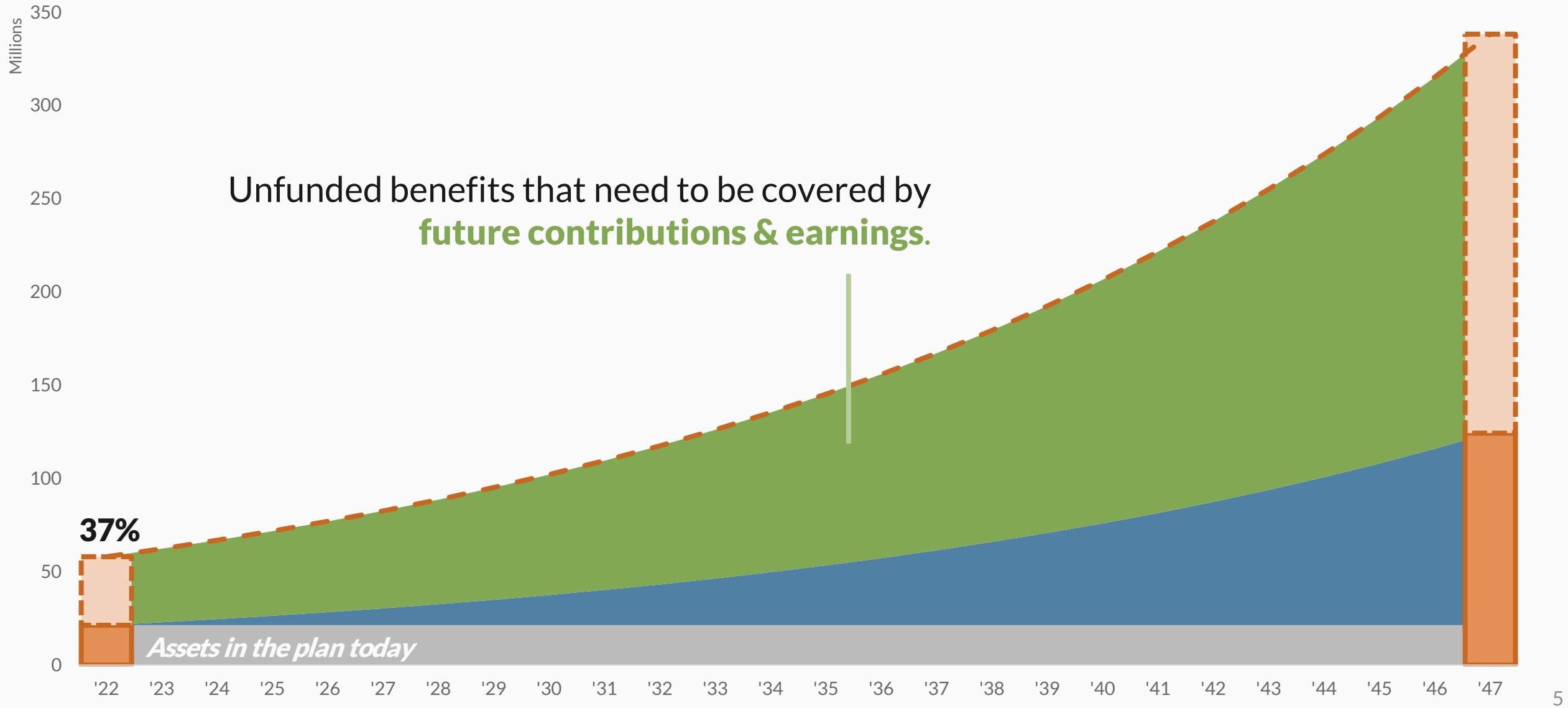
Total Plan Value of Benefits vs. Assets & Investment Earnings Fully Funded Plan





How does the system work?

Total Plan Value of Benefits vs. Assets & Investment Earnings Cochise County Sheriff Dept. Plan





What can be addressed independently?

PSPRS

Tiers I & II - Legacy Debt



Tier III - DB Risk Pool



CORP

Tiers I & II - Legacy Debt



New corrections officers have DC only option.

CORP - Probation

Tiers I & II - Pooled Legacy Debt



Tier III - DB Pool



EORP

Tiers I & II - Pooled Legacy Debt



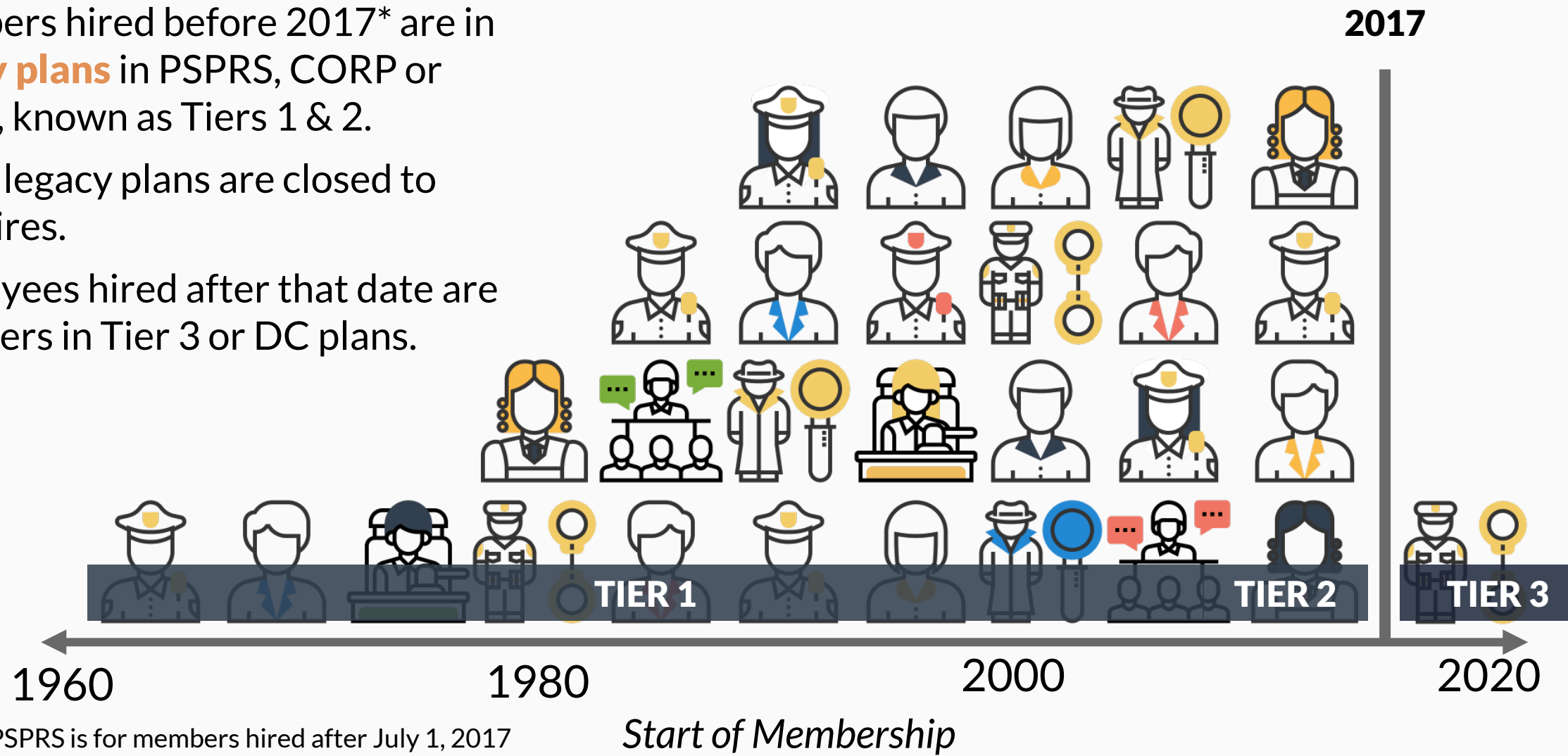
New elected officials/judges have DC only option.



Who is this debt owed to?

The system wide debt is owed to members hired prior to 2017.*

- Members hired before 2017* are in **legacy plans** in PSPRS, CORP or EORP, known as Tiers 1 & 2.
- These legacy plans are closed to new hires.
- Employees hired after that date are members in Tier 3 or DC plans.

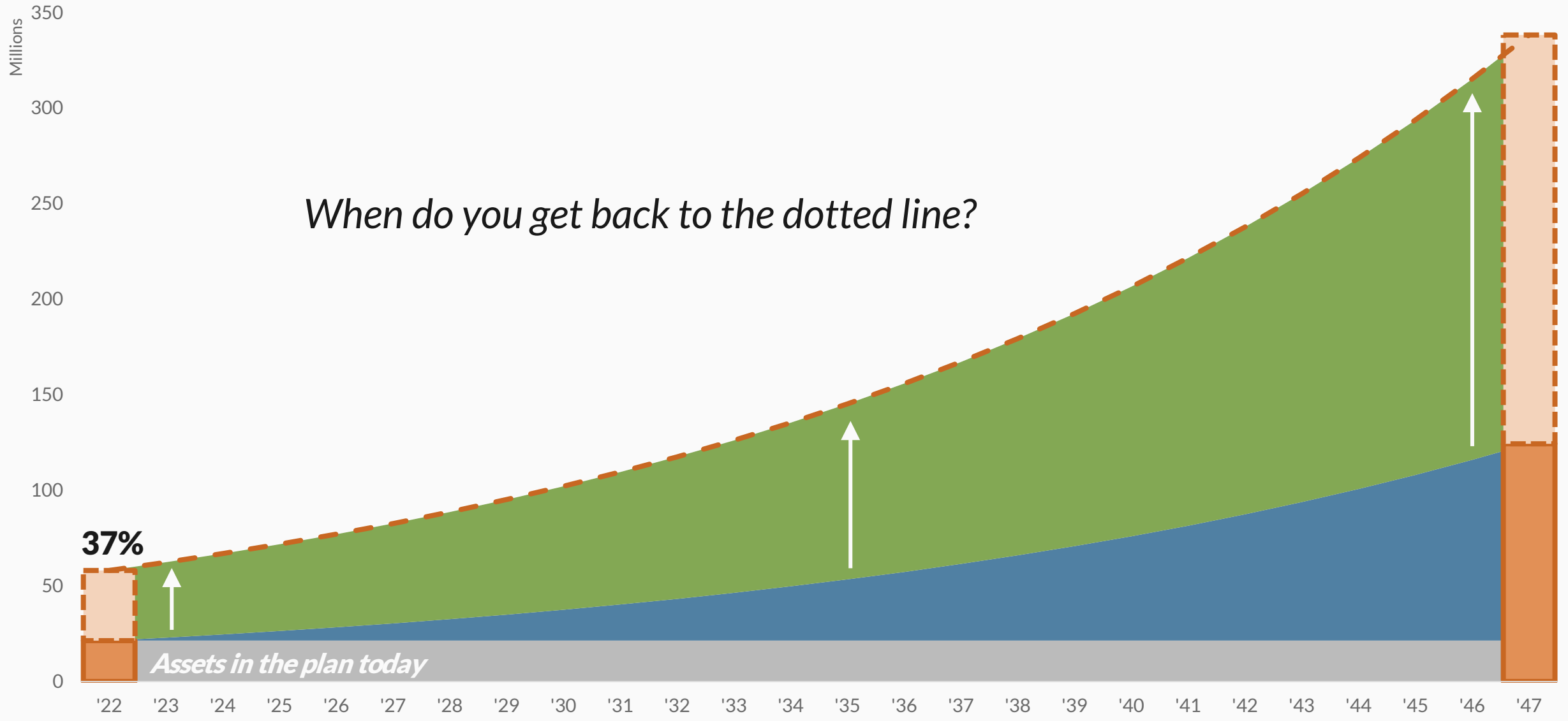


* Legacy plan in PSPRS is for members hired after July 1, 2017
 Legacy plan in EORP is for members hired after January 1, 2012,
 Legacy plan in CORP is for members hired before July 1, 2018.



How does the system work?

Total Plan **Value of Benefits** vs. **Assets & Investment Earnings** Cochise County Sheriff Dept. Plan





What are other jurisdictions considering?

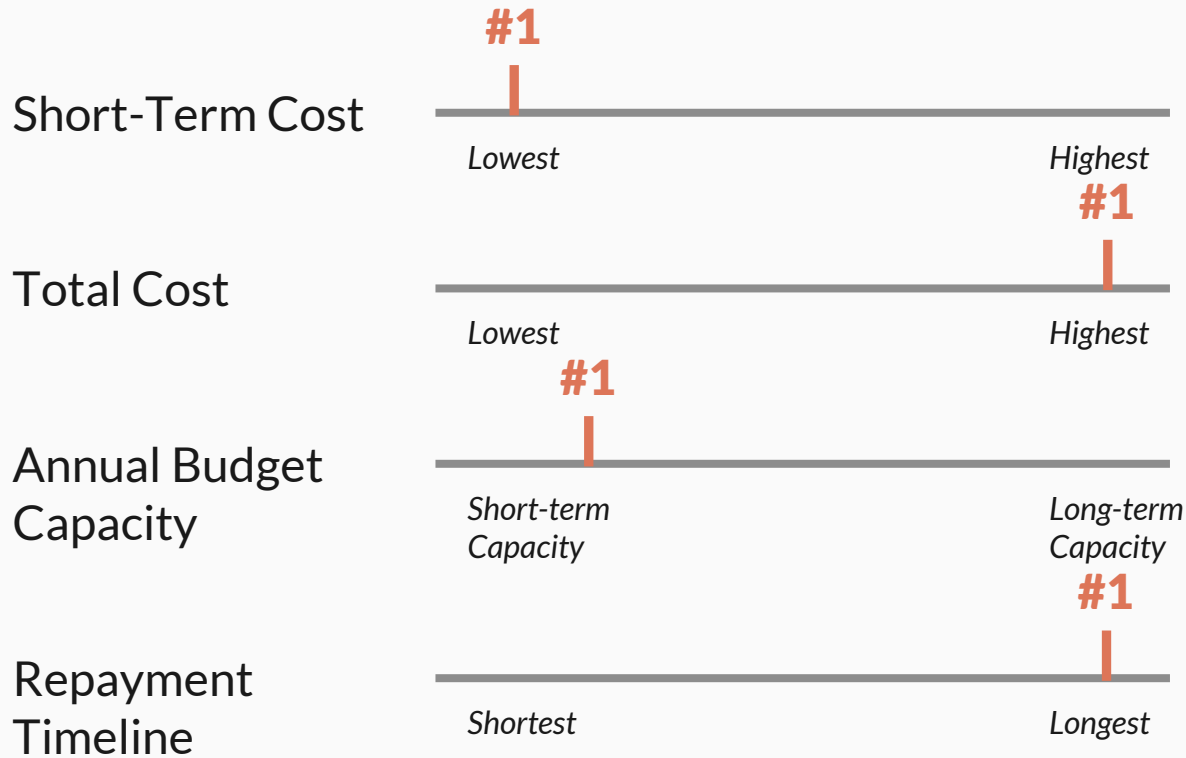
1. Continue making minimum payments only
2. Shorten extended repayment period
3. Use cash to payoff UAAL quickly
4. Issue bonds to payoff UAAL



1: Current Repayment Schedule

Overview

- Follow PSPRS amortization plan (26-years for PSPRS, 16-years for CORP).
- Existing UAAL paid off by FY 2047 for PSPRS and FY 2037 for CORP.



Pros

- Compared to other alternatives*
- Lowest short-term contributions
 - No one-time cash required

Cons

- Compared to other alternatives*
- Long-term budget impact
 - Highest annual cost in later years

Negative Amortization? **Yes**

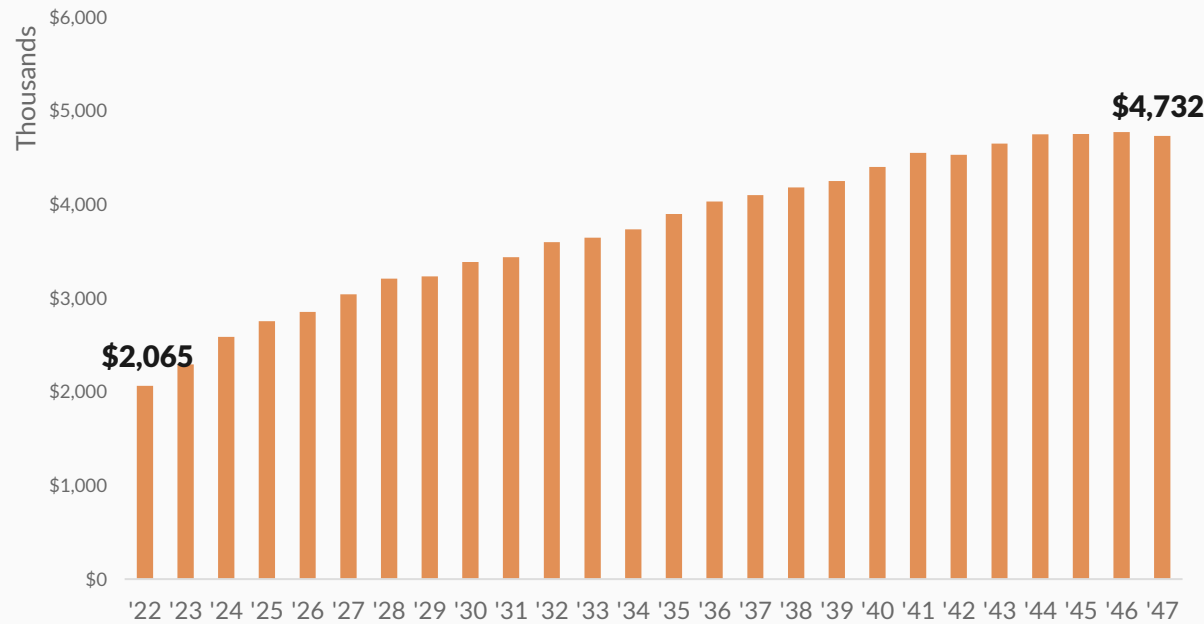


1: Current Repayment Schedule

PSPRS

Tiers I & II Legacy Debt

Minimum Annual Required Contribution



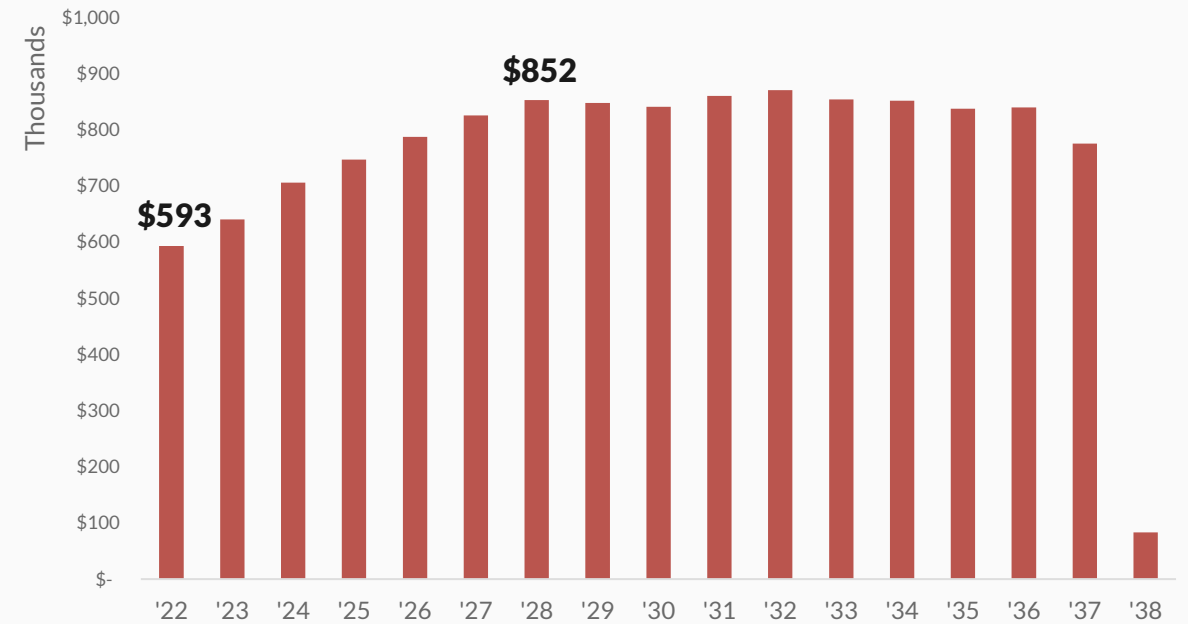
Total Cost v. Current UAAL



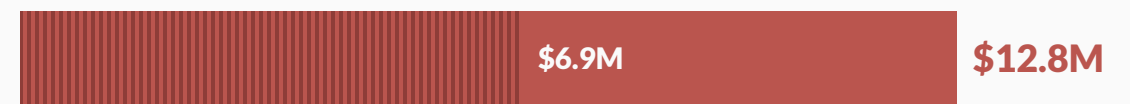
CORP

Tiers I & II Legacy Debt

Minimum Annual Required Contribution



Total Cost v. Current UAAL



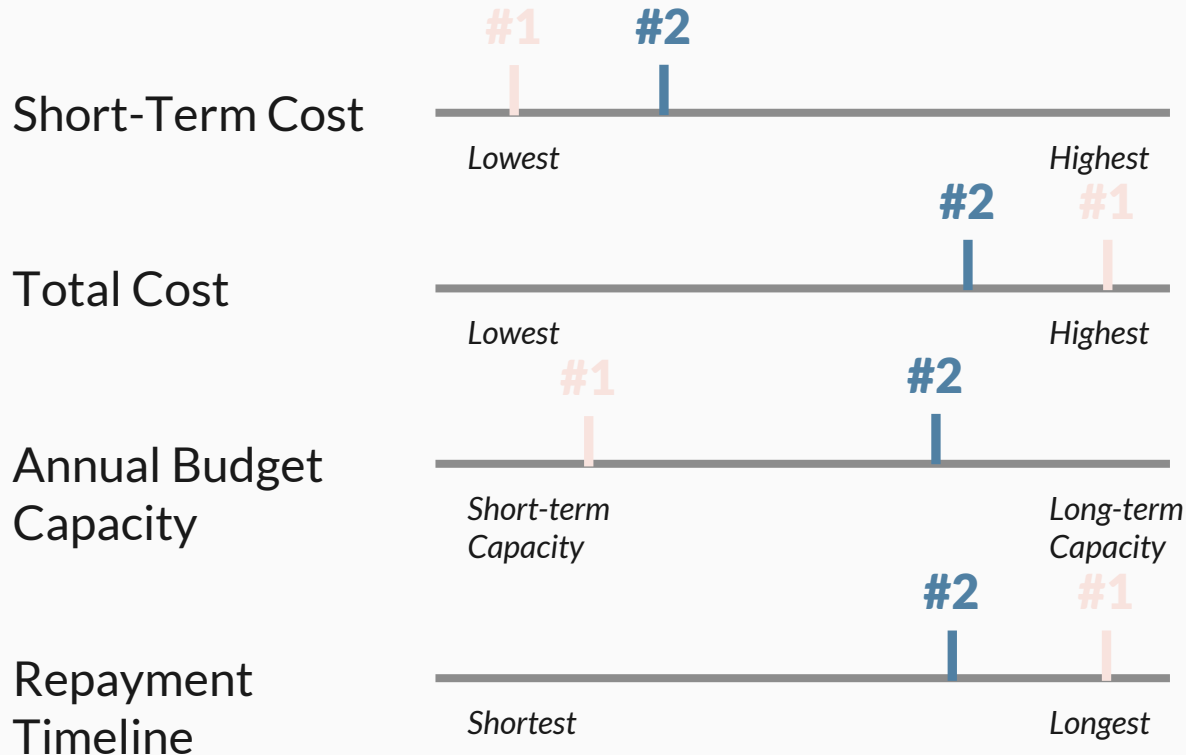


2: Shorten Repayment Period

Overview

- Reduce PSPRS repayment period from 26-years to 16-years.
- Existing UAAL paid off by FY 2037.

Note: could shorten to any length, including decreasing the CORP repayment period.



Pros

Compared to current

- Creates ongoing budget capacity earlier

Compared to other alternatives

- Doesn't require a large commitment of one-time cash or bond issuance

Cons

Compared to current repayment plan:

- Higher ongoing revenue (budget) demand

Compared to other alternatives

- Requires ongoing revenue/ budget commitment

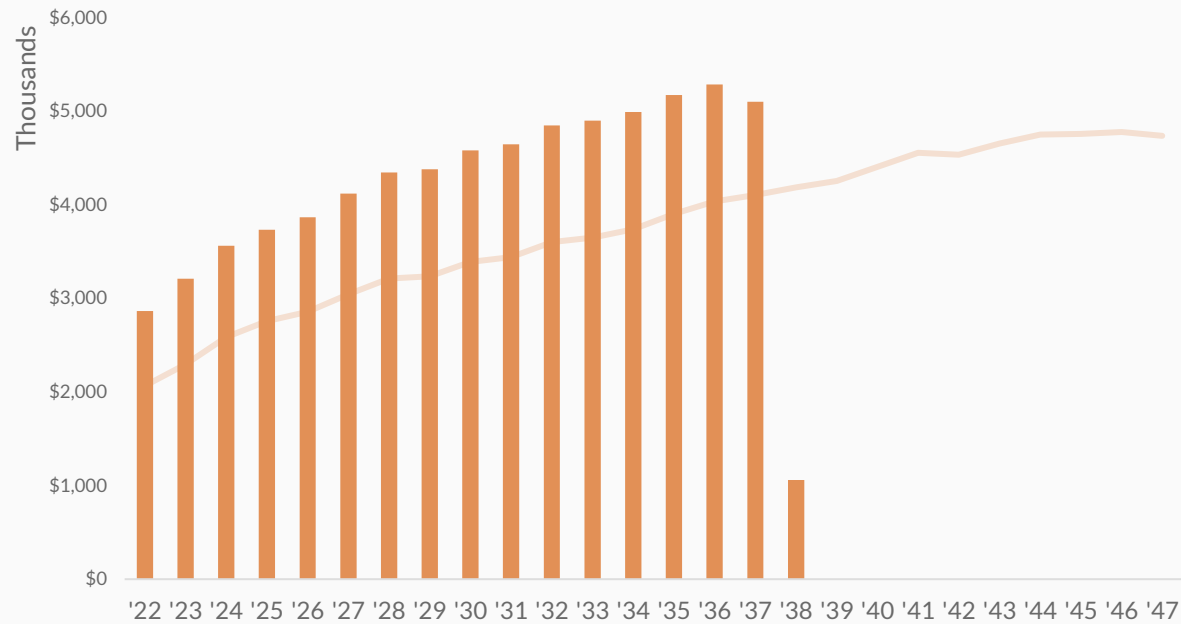


2: Shorten Repayment Period

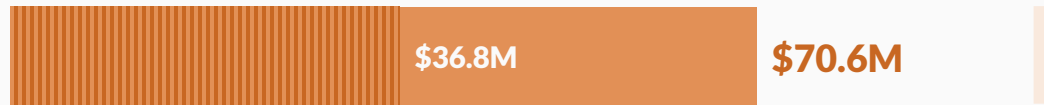
PSPRS

Tiers I & II Legacy Debt

Annual Contribution



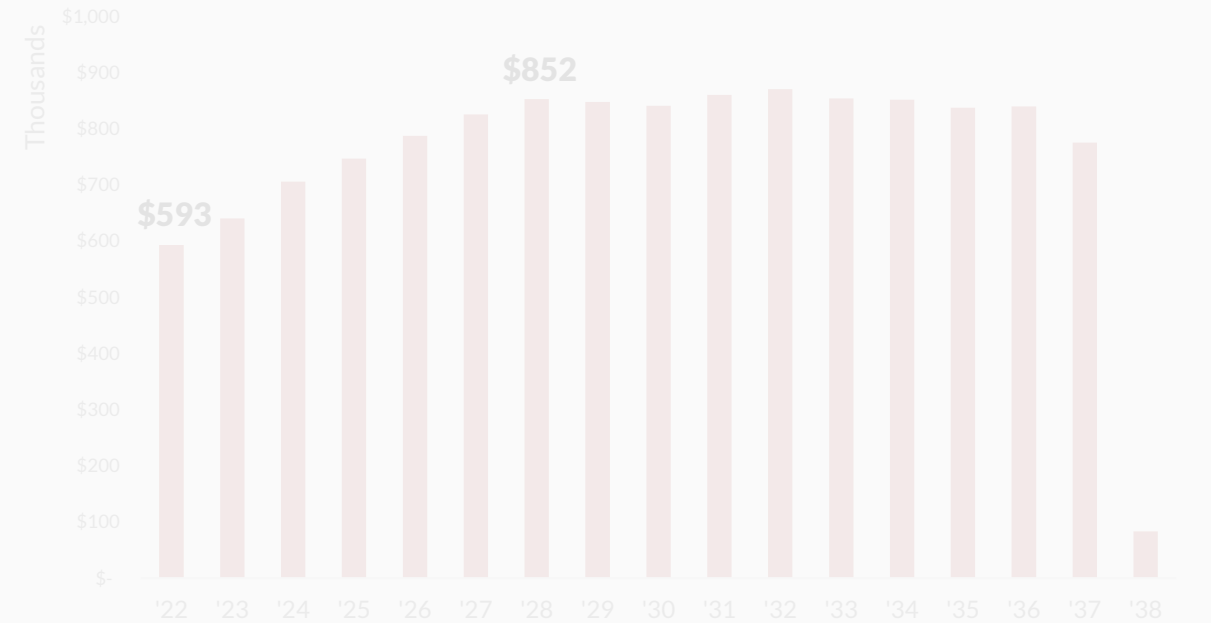
Total Cost v. Current UAAL



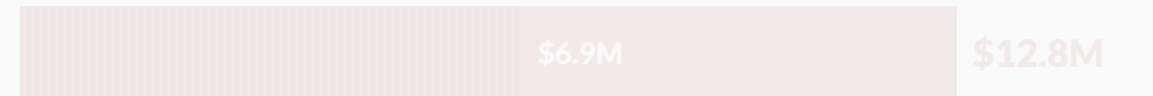
CORP

Tiers I & II Legacy Debt

Minimum Annual Required Contribution



Total Cost v. Current UAAL

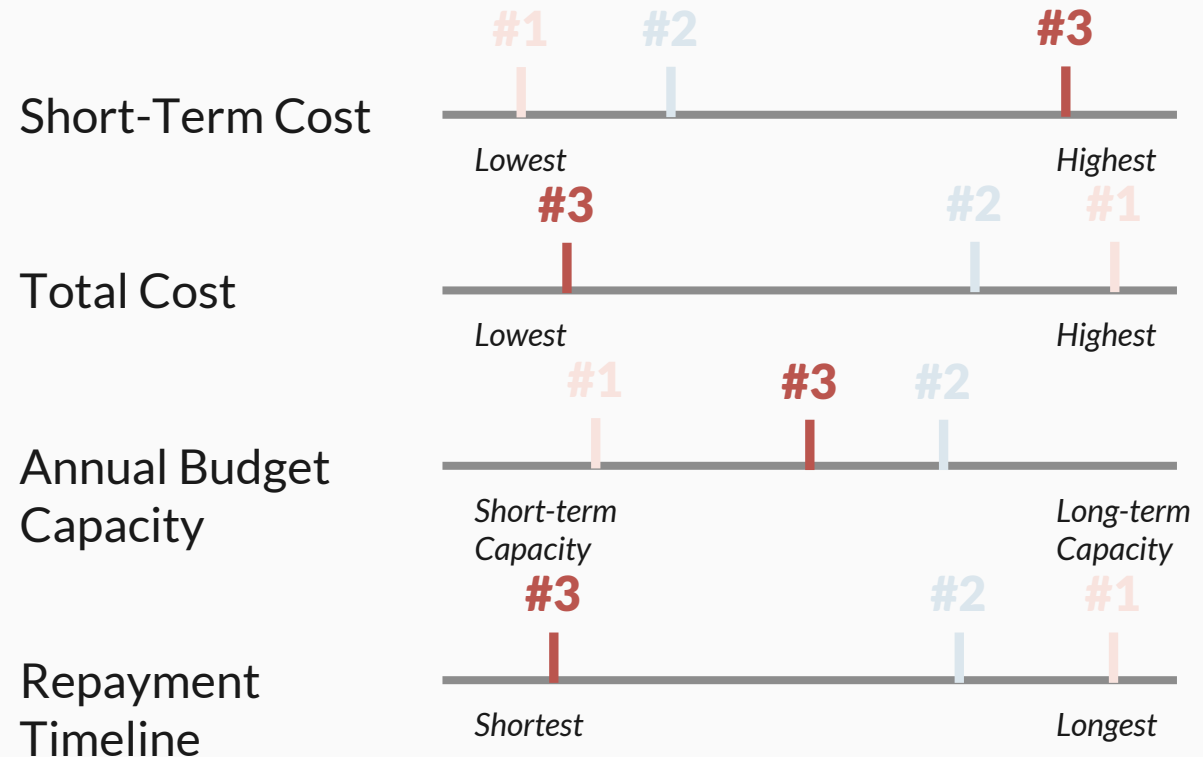




3: Full Repayment in 5-Years with Cash

Overview

- Deposit \$7.5M annually for PSPRS and \$1.2M annually for CORP, in addition to ARC payment.
- Existing UAAL is paid off by FY 2027 for PSPRS and CORP.



Negative Amortization? **No**

Pros

Compared to current

- Doesn't impact ongoing budget

Compared to other alternatives

- Uses the lowest-interest-rate money

Cons

Compared to current & current repayment plans:

- Requires cash on hand
- Dedicates existing cash-reserves – they aren't available for other costs

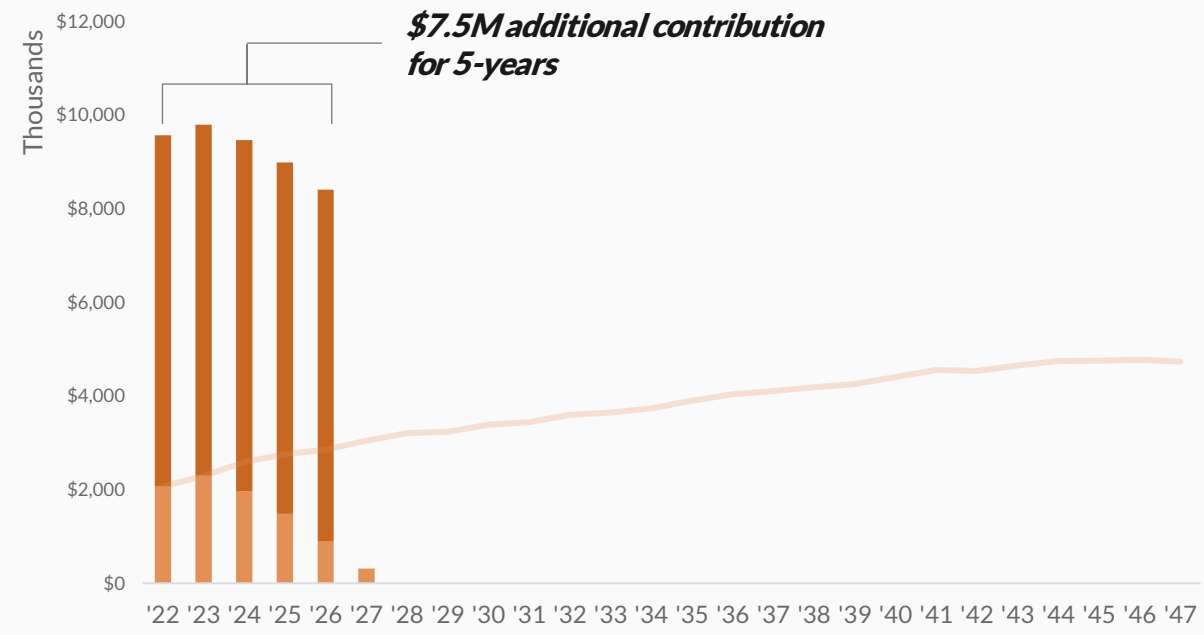


3: Full Repayment in 5-Years with Cash

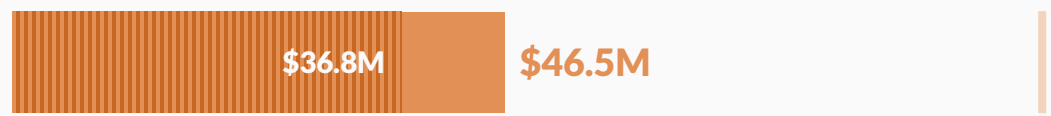
PSPRS

Tiers I & II Legacy Debt

Annual Contribution



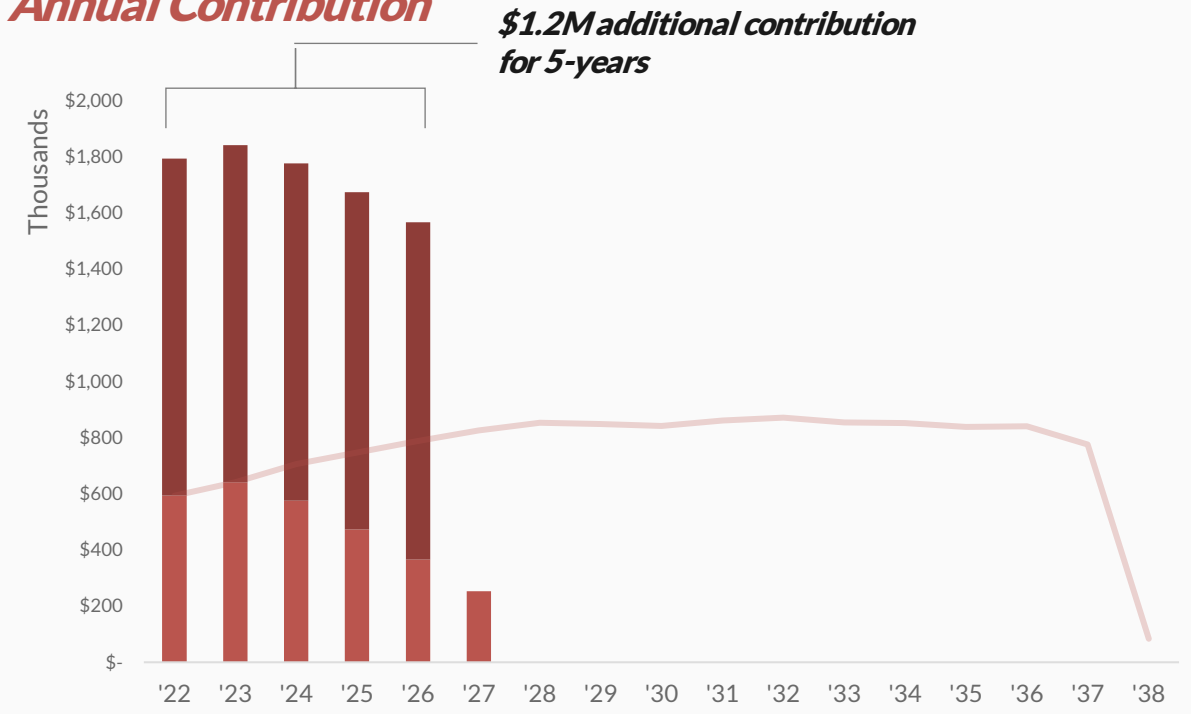
Total Cost v. Current UAAL



CORP

Tiers I & II Legacy Debt

Annual Contribution



Total Cost v. Current UAAL

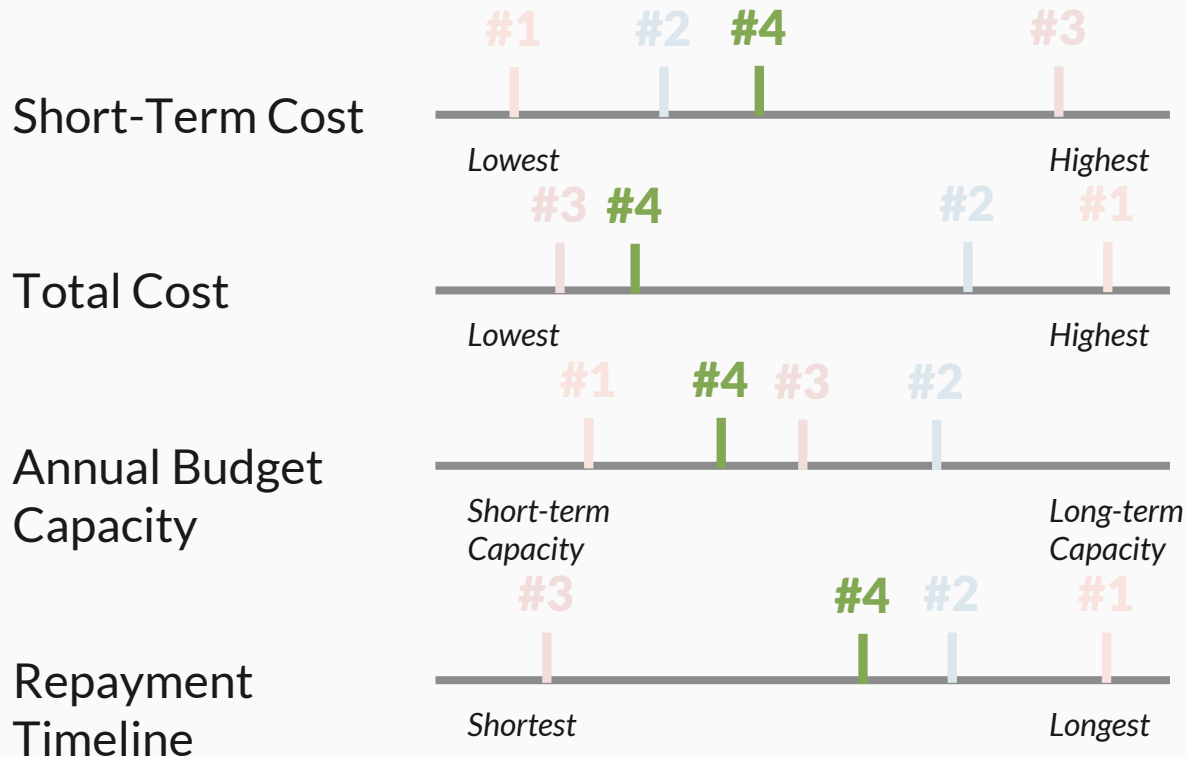




4: Bond for Full Unfunded Liability

Overview

- Issue bonds for full UAAL amount (assumed 3.0% interest rate), 16-year repayment period.
- Deposit bond proceeds into PSPRS or CORP account in FY 2022.
- Assumes debt service payments on bonds are level overtime.



Negative Amortization? **No**

Pros

Compared to current

- Creates ongoing budget capacity immediately

Compared to other alternatives

- Doesn't require cash on hand

Cons

Compared to current repayment plan:

- Requires debt issuance
- More expensive if the plan doesn't perform above the bond interest rate

Compared to other alternatives

- Lower ongoing budget capacity
- Paying an interest rate for the money

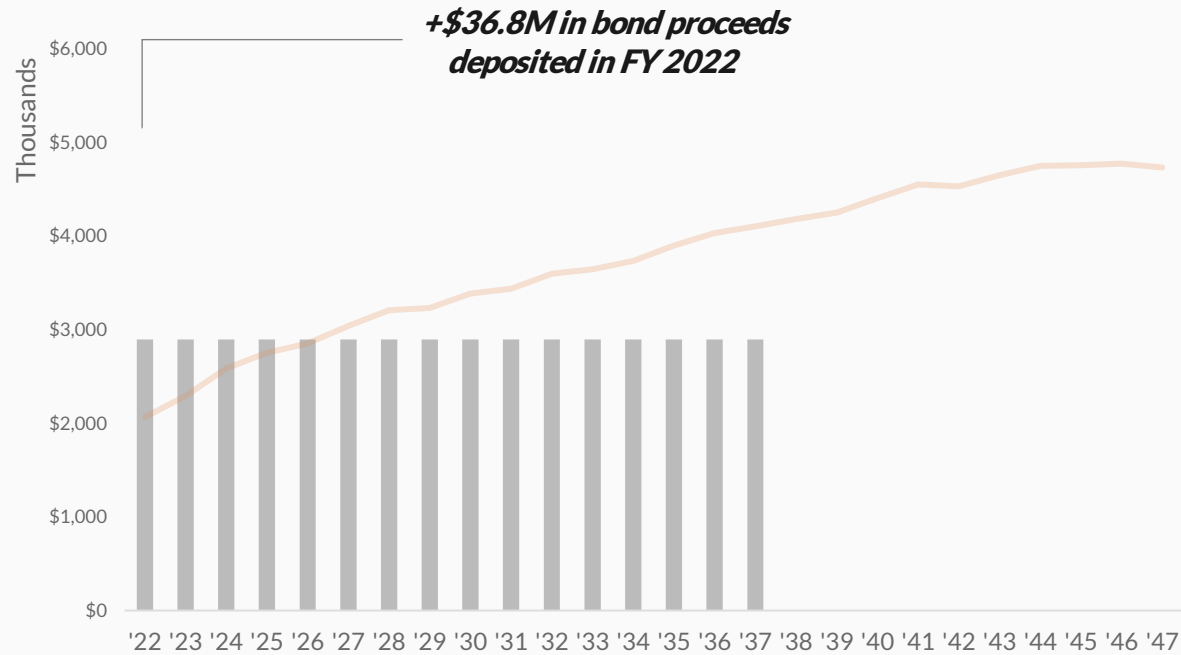


4: Bond for Full Unfunded Liability

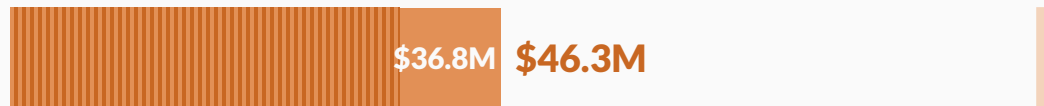
PSPRS

Tiers I & II Legacy Debt

Annual Contribution & Debt Service Payments



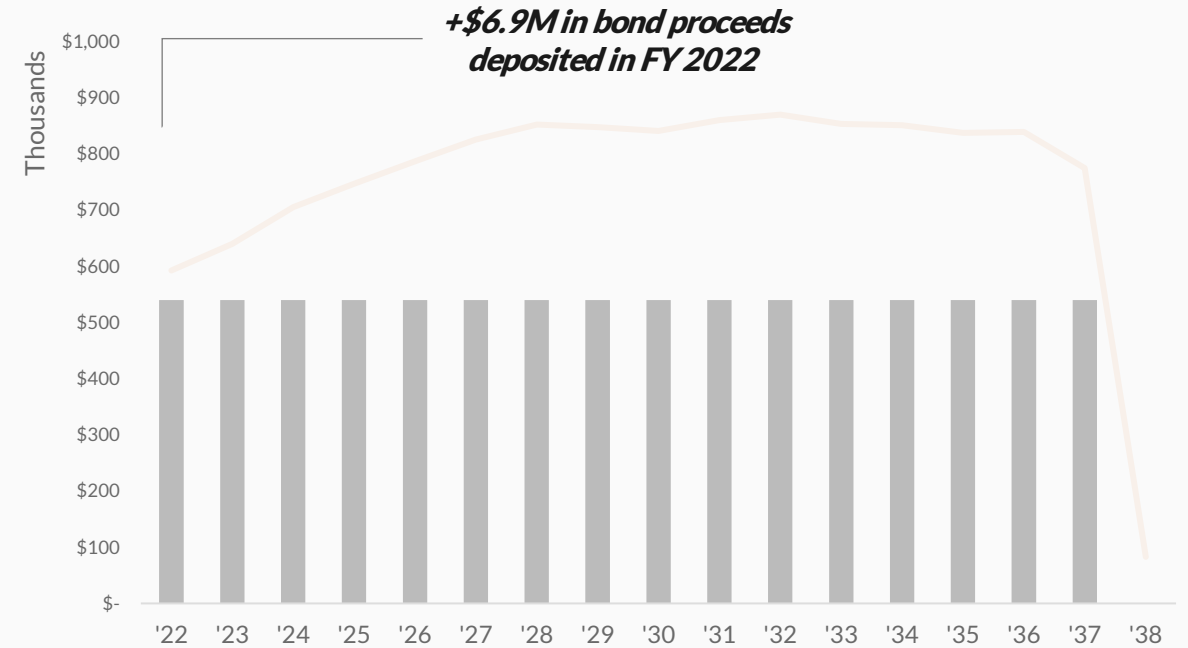
Total Cost v. Current UAAL



CORP

Tiers I & II Legacy Debt

Annual Contribution & Debt Service Payments

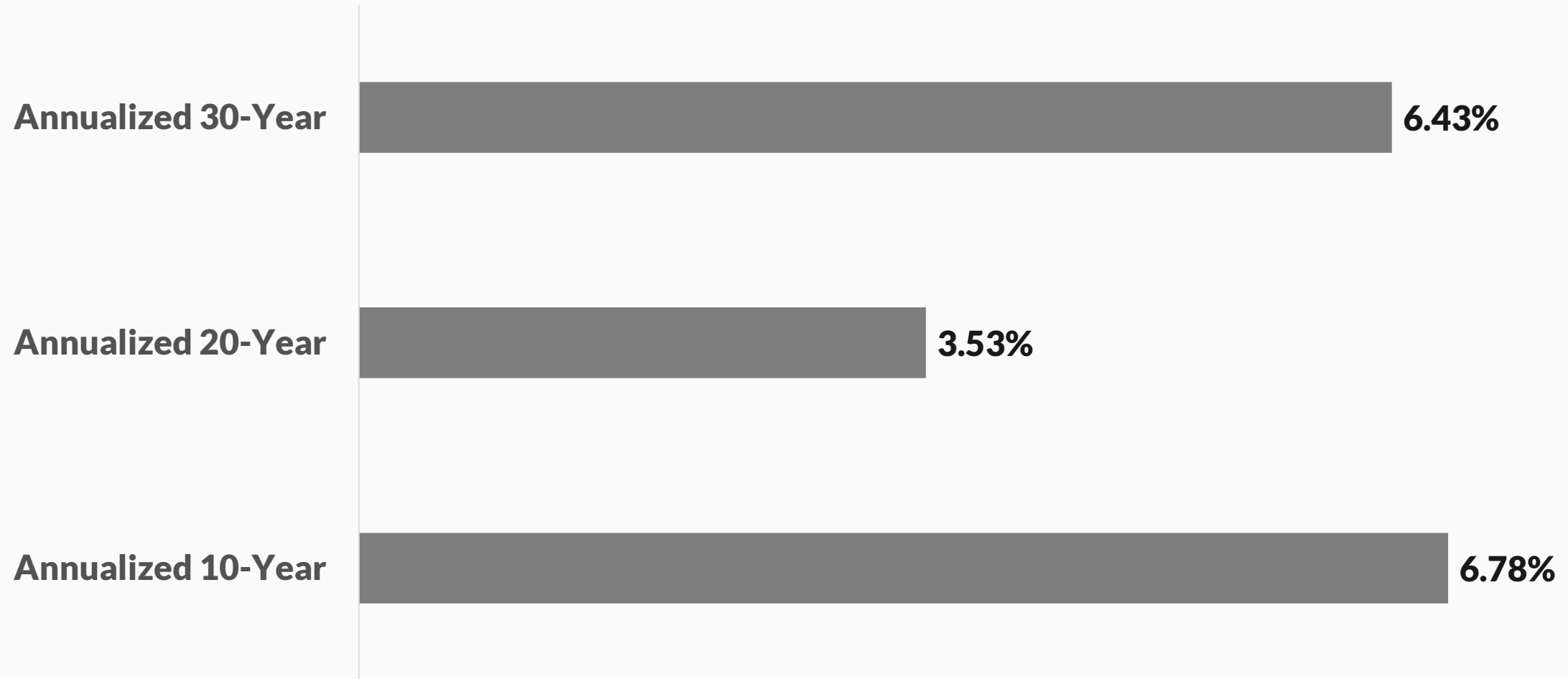


Total Cost v. Current UAAL





Historic Fiscal Year Performance *Net of Fees as of 6/30/20*



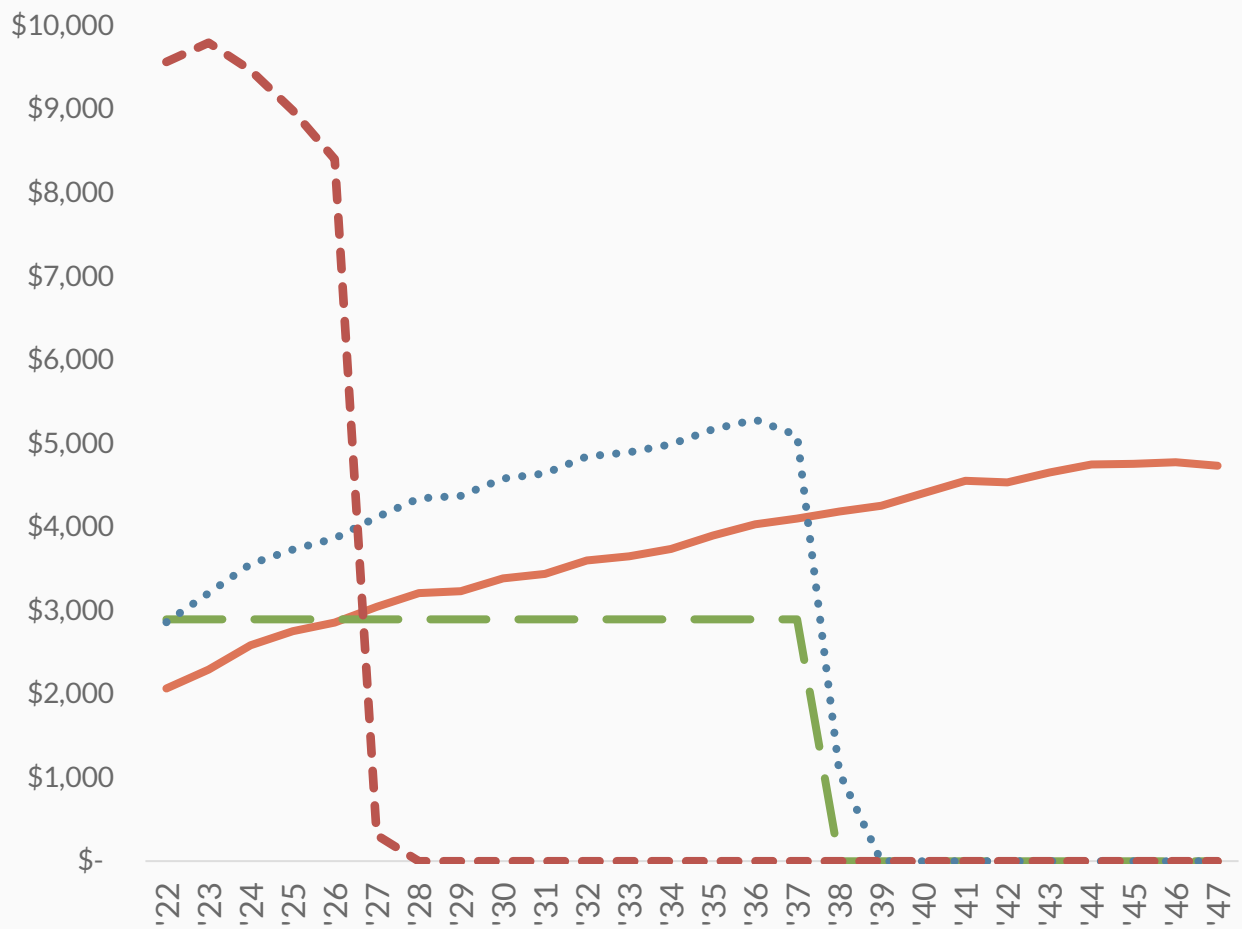


Summary

Annual Cost

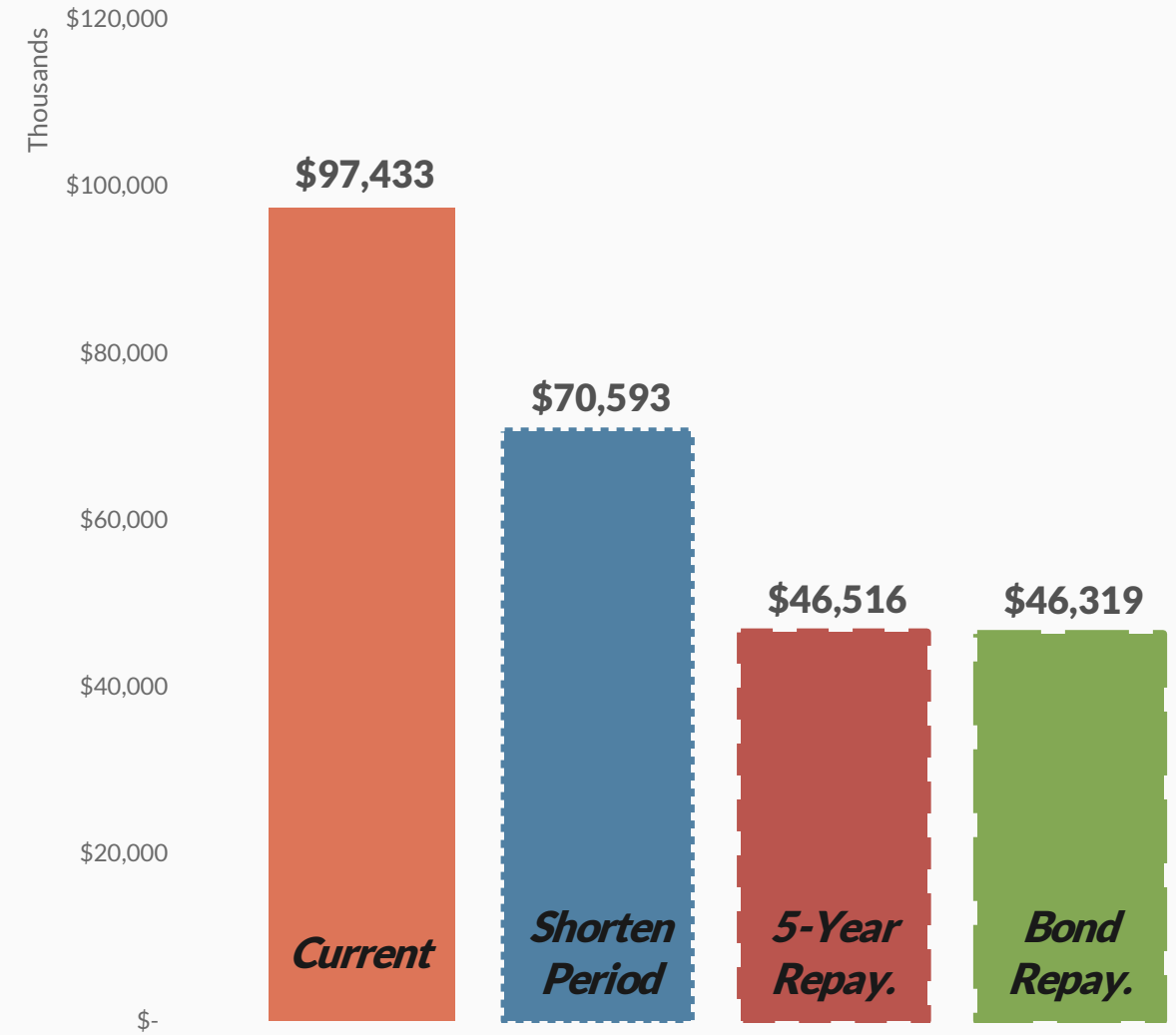
PSPRS Tiers I & II Legacy Debt

— Current — Bond Repayment ··· Shorten Amortization - - - 5-Year Repayment



Total Cost

PSPRS Tiers I & II Legacy Debt





Questions to consider when evaluating path forward:

- What are the county's objectives related to cost-containment?
 - Contain short-term annual costs? Long-term annual costs? Total overall cost?
- What are the county's desire or capacity to use existing resources to address the UAAL?
 - What is the desire or capacity to increase revenues to address the UAAL?
- Over what time period does the county want to address this issue?
 - When does the county want to be fully funded?



UAAL will fluctuate annually.

- PSPRS plan for dealing with these new amounts of UAAL is much better than the plan for legacy debt.
- Consider creating contingency reserve fund to deal with these fluctuations and eliminate new debt quickly.

Plan experience is going to happen if you are underfunded or overfunded.

- If PSPRS only makes 5% annually for the next 25 years, it's still better to have more money in the plan earning 5%.

High PSPRS payments will continue until legacy UAAL is paid off.

- Tier 3/DC plans will help to reduce long-term employer costs for new members.
- Staying engaged with the System and proposed changes are key to making these plans successful long-term.