

City of El Mirage 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 El Mirage 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.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
El Mirage Police	\$15,652,724	\$25,463,079	\$ 9,810,355	61.5%
El Mirage Fire	\$ 8,539,928	\$ 9,571,414	\$ 1,031,486	89.2%
City of El Mirage Totals	\$24,192,652	\$35,034,493	\$10,841,841	69.1%

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 City of El Mirage's liability
- 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 operating funds. The estimated combined ARC for FY21 is \$390,505 for Fire and \$1,249,842 for Police and will be able to be paid from operating funds without diminishing City services.
- Additional payments above the ARC
 - Council has advised that unspent Council Contingency be considered at the end of each fiscal year to pay down any unfunded liability. This would occur by specific Council Action at a public meeting each fiscal year.
 - Council has resolved that ten million dollars (\$10,000,000) be placed into a special account for the purpose of making two million dollar (\$2,000,000) annual payments, to PSPRS to reduce the UAAL, each fiscal year on or about July 1 beginning in 2021.
 - Any interest earned from the investment of these funds will also be used to reduce the UAAL.

- The Council will review, on an annual basis, the progress of reducing the UAAL and determine if additional deposits can be made into the special account to either increase the additional annual contribution or extend the number of years of additional annual contributions.
- Reduction of the special account balance for any purpose other than reducing the UAAL will require a resolution of Council approved by a supermajority through a roll call vote process.

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2036, **if not sooner**, in accordance with the amortization timeline set forth by the PSPRS June 30, 2020 Actuarial Valuation.