

PSPRS Contingency Reserve Fund Policy

June 16, 2020





Contingency Reserve Fund Policy

Section 1: Background

Section 2: Purpose

- The purpose of this policy is to mitigate the impact of 1) investment return volatility and 2) changes in select actuarial assumptions (as defined herein) on Pension COPS proceeds deposited with PSPRS plans for Flagstaff Police and Flagstaff Fire (“Plans”).

Section 3: Establishment of Funds and Initial Deposit

- Defines two CRF Funds for Police and Fire
- Impacts to each fund managed separately



Contingency Reserve Fund Policy

Section 4: Rules for Investments

- Follows State Statute and Investment Policy
- Defines investments will be principal protected and gross funded
- Defines investment period to assure liquidity when needed
- Allows for future option of ACT 151 Trust fund should the State Legislature allow



Contingency Reserve Fund Policy

Section 5: Rules for Draws

- Establishes the minimum balance
- Restrict to interest earnings portion first
- Allows for funds above 5% may supplement Annual Required Contribution only if PSPRS plan is fully funded
- Market draws are based on investment returns
- Actuarial draws are based on actuarial changes to assumed earnings rate, payroll growth, and/or changes to mortality tables



Contingency Reserve Fund Policy

Section 6: Rules for Replenishment

- Restricts General Fund savings from financing to only be used for replenishment of the fund or one-time expenditures for five fiscal years
- Utilizes annual unspent PSPSR appropriations
- Sets a 7 year requirement to replenish the CRF



Contingency Reserve Fund Policy

Section 7: Sizing of the Contingency Reserve Funds

- Provides for review of sizing at least every five years
- Determines initial deposits for Police and Fire CRFs
 - Market:
 - Sizes the initial deposit base on 10% investment loss
 - Funds 3 years of the increased unfunded actuarial liability change
 - Actuarial
 - Sizes the initial deposit to mitigate actuarial changes to assumed earnings rate, payroll growth changes, and mortality table changes
 - Funds used to address increases in the unfunded actuarial liability



Contingency Reserve Fund Policy

Section 8: Rules to Dissolve Fund

- Upon the repayment of the final debt service payment, staff will seek Council direction to the disposition or continuance of the CRF.
- The City could redirect the CRF to apply to fund OPEB or other retiree benefits, or General Fund.



Contingency Reserve Fund Policy

Staff Recommendation

- Adopt the ordinance to set forth a PSPRS Contingency Reserve Fund Policy

Questions/Comments?