

# **City of Glendale**

## **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 A.R.S. 38-863.01.

Several terms are used throughout this policy:

**Unfunded Actuarial Accrued Liability (UAAL)** – the difference between current trust assets and the estimated future cost of pensions earned by employees. UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used by the actuaries in their actuarial valuations.

**Annual Required Contribution (ARC)** – 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 pay off the unfunded portion of pensions earned by employees in previous years. The UAAL is paid down over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

**Funded Ratio** – the 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** – A funding approach concept that 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 comingle 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 agency's assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that agency's fund, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The City of Glendale 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	Funded Ratio
			Actuarial Accrued Liability	
Glendale Police	\$189,492,922	\$383,392,139	\$193,899,217	49.4%
Glendale Fire	136,785,127	232,542,221	95,757,094	58.8%
City of Glendale Totals	\$326,278,049	\$615,934,360	\$289,656,311	53.0%

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 for all cities and counties in PSPRS are significantly underfunded and falling well short of the goal of intergenerational equity.

**The Council’s PSPRS funding ratio goal will be 100% (fully funded) by June 30, 2037.**

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the City of Glendale’s liability so the City is not assuming any other jurisdictions’ liabilities.
- 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 FY22 is \$31,250,487 which can be paid from operating funds without diminishing City services.
- The Council will issue Certificates of Participation in FY22 to make a one-time payment to PSPRS to pay down a significant portion of the City’s unfunded pension liability for Police and Fire to achieve an estimated 90% funded level for each plan.
- The Council will establish a Pension Stabilization Reserve Fund. The fund will be restricted and used solely for addressing future pension and unfunded liability needs of the City.
- Additional payments above the ARC
  - The Council will evaluate the budget annually for additional opportunities to make one-time contributions to fund the unfunded liability when such payment makes economic and fiscal sense.

The Council plans on fully paying off the unfunded liability using an initial 20-year amortization period (which started in 2017), and will achieve its goal of 100% funding in the 16 years remaining (by June 30, 2037) in accordance with the amortization timeline set forth in the PSPRS June 30, 2020 Actuarial Valuation.