



# **Public Safety Personnel Retirement System—Member Contributions Refund Update**

July 17, 2017



# Background

- Public Safety Personnel Retirement System (PSPRS) administers:
  - PSPRS (police/fire)
  - Corrections Officer Retirement Plan (CORP)
  - Elected Officials' Retirement Plan (EORP)
- Governed by Board of Trustees – Protect financial health of the Plans
- City has employees and retirees in all three Plans



# Reform Legislation

- State Legislature enacted pension reform legislation: SB 1609 (July 2011)
  - Changed existing contribution and benefit structures of all State retirement systems
- Reforms included:
  - Increases to EORP and PSPRS employee contributions (aka MOE) toward pensions
  - Reductions of permanent benefit increases (PBI) for retired PSPRS, EORP, and CORP members



# Reform Lawsuits

- Hall v. EORP (November 2011)
  - Increases in EORP employee contributions
  - Reduction of EORP permanent benefit increases
- Parker v. PSPRS (January 2012)
  - Similar to Hall v. EOPR
  - Stayed until the Hall case was settled
  - Parties agreed to apply remedies of the Hall case



# Arizona Supreme Court Ruling

- Ruled certain EORP reforms were unconstitutional (November 2016)
  - Employees already hired, but not yet retired by the effective date of the 2011 law
    - Increases in EORP employee contributions
    - Reduction of EORP permanent benefit increases
    - Entitled to interest on excess contributions
- Denied motion to reconsider ruling (March 2017)
- Ruling remanded to trial court to begin implementing remedies



# PSPRS Board of Trustees

- Affirmed Hall v. EORP decision and applied ruling to affected PSPRS members
- PSPRS/EORP employees hired prior to July 20, 2011:
  - Refund excess contributions
  - Contribution rates revert back to pre-SB 1609 rates (beginning April 2017)
- Members hired on or after July 20, 2011 continue to contribute at their current rates



# PSPRS Board of Trustees

- CORP member contributions not affected by SB 1609; no refunds of excess contributions
- PSPRS, EORP and CORP members who retired after July 2011
  - Eligibility for retroactive permanent benefit increases based on retirement date
- Members entitled to pre- and post-judgment interest



# Refund Estimates - Statewide

## Estimated Return of Maintenance of Effort (MOE) Contributions and PBI Payouts

<b>MOE</b>	<b>Count</b>	<b>MOE</b>	<b>Interest (5%)</b>	<b>Total</b>
<b>EORP</b>	830	\$ 16,454,550	\$2,452,565	\$ 18,907,115
<b>PSPRS</b>	18,293	206,078,605	25,380,815	231,459,420
<b>PBI</b>	<b>Count</b>	<b>Retro PBI</b>	<b>Interest (5%)</b>	<b>Total</b>
<b>EORP</b>	126	\$ 847,409	\$ 62,506	\$ 909,915
<b>PSPRS</b>	562	1,795,300	149,798	1,945,098
<b>CORP</b>	545	417,103	34,028	451,131

Source: Public Safety Personnel Retirement System Board of Trustees Meeting,  
May 31, 2017





# Refund Estimates - Avondale

## Estimated Return of Maintenance of Effort (MOE) Contributions

Avondale Plan	Count	MOE	Interest (5%)	Total
PSPRS - Fire	54	\$ 718,401.48	\$ 87,225.21	\$ 805,626.69
PSPRS - Police	78	889,323.29	112,124.89	1,001,448.18
EORP	5	15,591.27	2,323.89	17,915.17
<b>Total</b>		<b>\$1,623,316.04</b>	<b>\$201,673.99</b>	<b>\$1,824,990.04</b>

Source: PSPRS Estimates of Excess Contributions to be Returned as of May 31, 2017.



# Refund Process

- PSPRS identified affected members
- Avondale returned contribution rates to pre-SB 1609 levels (April 2017)
- PSPRS:
  - Received Avondale's last higher rate contributions (April 2017)
  - Estimated excess contributions and pre-judgment interest for individual members
  - Posted estimates to the PSPRS employer and employee portals



# Refund Process

- City must pay refunds (IRS regulations)
- City working with Police and Fire Associations
  - Refund options and timing
- Developing a refund packet with forms
  - Completed and signed by employees/members
  - Alerts employees/members to tax consequences
  - Authorizes method of processing of refunds
- Timing
  - Excess contributions: Begin in August
  - Interest: Unknown (must be settled by trial court)



# Refund Process

- Excess contributions (earned income)
  - Deferrals (457 plans, HSA accounts, etc.)
  - Lump sum payments
  - Processed through payroll
- Interest (not earned income)
  - Lump sum payments only
  - Paid through accounts payable
  - Employees/members must complete W-9 and will receive 1099-INT



# Contribution Credits

- City must elect credit option
- City receives credits equal to qualifying refund payments
  - Excess contributions/pre-judgment interest (eligible)
  - Post-judgment interest (ineligible)
- City applies credits against future contribution withholding payments until credit are used
  - Resumes contribution payments



# Employer Costs

- Reversion of member contribution rates to pre-SB 1609 levels increased City payroll costs
  - EORP: 7.0% to 13.0%
  - PSPRS: 7.65% to 11.65%
- Refunds and retroactive PBI adjustments will increase City's unfunded pension liability
  - Actuary must determine liability and affect on employer contribution rates
  - Increases to employer contribution rates are not yet known



# Employer Costs

- HB 2485 (May 2017)
  - Allowed 30-year period to amortize unfunded pension liability
  - Provides employer relief to increasing contribution rates
  - City retained 20-year amortization period
    - Marginal decrease in contribution rates by using 30-year period
    - Extended amortization period results in increased cost to City
    - City is able to pay higher contribution rates



# Challenges

- No trial court-ordered remedies yet
- Interest rates must be settled by the Courts
  - Post-judgment interest accrues until refunds occur
- PSPRS may update refund estimates
- Collaboration and exchange of information
  - City, local boards and PSPRS
- Complexity of processing refunds
  - Pre- and post-processing election changes to payroll
  - Requires manual payroll calculations
  - Process as special payroll





**Questions?**