

# **City of Avondale**

## **Public Safety Personnel Retirement System**

### **Fiscal Year 2020 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 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 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 Avondale 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, 2018 actuarial valuation, which are detailed below.

<b>Trust Fund</b>	<b>Assets</b>	<b>Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
Avondale Police Dept. (139)	\$ 28,125,315	\$ 46,647,737	\$ 18,522,422	60.3%
Avondale Fire Dept. (059)	24,288,994	34,323,976	10,034,982	70.8%
Totals	<u>\$ 52,414,309</u>	<u>\$ 80,971,713</u>	<u>\$ 28,557,404</u>	<u>64.7%</u>

### **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, 2037.** Council established this goal for the following reasons:

- The PSPRS trust funds represent only the City of Avondale's liability.
- The fluctuating cost of an UAAL causes strain on the City's budget, affecting our ability to provide services.
- 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 fiscal year 2020 is \$4,413,366 and will be payable from operating funds.
- **Additional payments above the ARC**
  - **Prepay both the employer and employee ARC within the first 90 days of the fiscal year** – Pre-funding the full city contribution and a portion of employee contributions has an immediate impact on long-term funding due to the increased investment returns applied directly to the City's PSPRS trust accounts.
    - Employer contributions will be prepaid in full at the amount included in the City's annual budget – The City's annual budget amount is based upon the actuarially determined rate applied to 100% full employment for all positions including budgeted vacant positions, positions filled by an employee in DROP, and all

other eligible positions whereby contributions are not currently required, but have been budgeted for by the City.

- Employee contributions will be prepaid at 50-75% of the estimated employee ARC based upon cash flow needs at the discretion of the Finance and Budget Director.
  
- **Annual pension contributions above the ARC** – As part of City's annual budgetary process, evaluate the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the most current actuarial valuation and the City's general fund financial position and consider funding appropriations in excess of the ARC to incrementally achieve the Council's PSPRS funding ratio goal of 100%.

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2037, in accordance with the amortization timeline set forth by the PSPRS June 30, 2018 Actuarial Valuation.