

Highlands Fire District  
Public Safety Personnel Retirement System (PSPRS)  
Pension Funding Policy as of July 1, 2022

**Section 1: Introduction:**

The intent of this policy is to clearly communicate the Board's pension funding objectives and its commitment to our employees and the sound financial management of the Highlands Fire District (District) and to comply with the statutory requirements of ARS 38-863.01.

The Highlands Fire District is a member of the Public Safety Personnel Retirement System (PSPRS) for full-time firefighters. Firefighter contributions that are used to help pay for the pension plan are managed by PSPRS.

This policy will demonstrate how the District will meet its financial obligation for funding firefighter pension plans, explain how and when funding requirements for the plan will be met, and define the funded ratio targets and timelines for reaching the ratio for the plans.

This funding policy is reviewed and adopted by the Board in accordance with ARS 38-863.01, this policy was reviewed and adopted by the Board on June 21, 2022.

Terminology:

**Unfunded Actuarial Accrued Liability (UAAL)** – The difference between trust assets and the estimated future cost of pensions earned by employees. The 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)** – The 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 the 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 referred to as the amortization period. The ARC is a percentage of the current payroll.

**Normal Costs** – The portion of the actuarial present value of benefits for the base cost in the current plan year.

**Funded Ratio** – 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 District's fire operations employees who are regularly assigned hazardous duty participate in the PSPRS.

## Section 2: 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 of the benefit of all members under its administration; and 2) serve as the statewide uniform administrator for the distribution of benefits. PSPRS provides annual actuarial reports to determine the current status of each year. The Actuarial Valuation Report for Highlands Fire District (199) is available on the PSPRS website.

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 Highlands Fire District has one trust fund for fire operations employees. The Board formally accepts the assets, liabilities, and current funding ratio of the District's PSPRS trust funds from the June 30, 2021 actuarial valuation, which are detailed below:

Report as of June 30, 2021

Pension Trust Fund	AVA	AAL	UAAL	Funded Ratio
Tier 1 & 2 Members	\$9,244,674	\$15,095,820	\$5,851,146	61.2%
Tier 3 Members (Risk Pool)	\$45,863,401	42,733,537	\$(3,129,864)	107.3%

Actuarial Value of Assets (AVA)

Actuarial Accrued Liability (AAL)

Unfunded Actuarial Liability (UAAL)

Funded Ratio (AVA/AAL)

Updated Report as of July 15, 2021 for Tier 1 & 2 Members

Pension Trust Fund	Assets	Liability	Unfunded	Funded Ratio
Tier 1 & 2 Members	\$15,095,820	\$15,095,820	\$0	100%

## Section 3: PSPRS Funding Accomplishments and 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.

As of July 15, 2021, the District's PSPRS plan was 100% fully funded. The Board took action to sell Certificates of Participation (COPs) and refinance the District's UAAL at a lower interest rate. On July 15, 2021, the District paid \$7,251,008 from the transaction with the intention of bringing the Tier 1 & 2

Trust UAAL to 100% Funded Ratio. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

At a minimum, the District intends to maintain minimum Annual Required Contribution (ARC) for its PSPRS members. The District is committed to maintaining the full ARC payment (normal cost and UAAL) from ongoing operating revenues.

As of July 15, 2021, the District's PSPRS plan was 100% fully funded. The Board took action to sell Certificates of Participation (COPs) and refinance the District's UAAL at a lower interest rate. On July 15, 2021, the District paid \$7,251,008 from the transaction with the intention of bringing the Tier 1 & 2 Trust UAAL to 100% Funded Ratio. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

Future goals will be in place to best assure PSPRS plans remain fully funded. The District has

The PSPRS trust funds represent only the Highlands Fire District's liability.

- The fluctuating cost of the UAAL causes strain on the District's budget, potentially affecting service levels.
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

The District Board has taken the following action to meet this goal:

- Maintain ARC payment from operating revenues. The Board is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY 2021 is \$587,452 and will be able to be paid from operating funds without diminishing Fire District services.
- Additional payments above the ARC may be made based on annual evaluation of prior year budget compared to actual expenditures. Additional payments above the ARC may be directed by the Board. Payments will not exceed \$250,000 and will be made by June 30<sup>th</sup> of the following fiscal year.