1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.

Mr. Ken Strobeck
Committee Chairman

Chairman Strobeck called the meeting to order at 2:03 p.m. The Pledge of Allegiance was recited.

2. Call to the Public.

This is the time for the public to comment. Members of the Committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01 (H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

There was no reply to the Call to the Public at 2:04 p.m.

A second Call to the Public was announced at 3:47 p.m. Mr. Jim Mann, Executive Director of the Fraternal Order of Police spoke regarding the local board and consolidation. Mr. Mann shared some history and has been attending PSPRS Committee Meetings for 18 year and
feels that we currently have good tools for the reviews. Years ago, we used a State Board and confidence for members of the retirement has been shaken. Mr. Mann would like the committee to be cognizant of changes that can cause breaks in the system.

A third call to the Public was announced at 3:55 p.m. Mr. Doug Cole, Lobbyist, High Ground shared that legislature passed House Concurrent Resolution 2032, Public Safety Retirement Systems and the reference GRS used in their presentation on how the voters changed the permanent benefit increase to a COLA, by way of a constitution vote; with Prop. 124 in May of 2016. HCR 2032 does the same for CORP and EORP and will be on the November ballot. Ballot arguments are due July 11, 2018.

Mr. Ken Strobeck

3. Review, discussion and possible Approval of the Advisory Committee Meeting Minutes from October 18, 2017.

Mr. Ken Strobeck

MOTION:1-05/29/18
Motion: At 2:07 p.m.
Motion to approve the Advisory Committee Meeting Minutes from October 18, 2017 as written.
Moved by: Mr. Polk
Seconded by: Mr. Byrd
Discussion: None
In Favor: Unanimous
Motion: Passes

4. Appropriate Action on the nomination and election of the Chairman as well as the nomination and appointment of the Vice Chairman of the Advisory Committee.

Mr. Ken Strobeck

MOTION:2-05/29/2018
Motion: At 2:22 p.m.
Motion to support Mr. Ken Strobeck as Chairman of the Advisory Committee.
Moved by: Mr. Polk
Seconded by: Mr. Sullivan
Discussion: None
In Favor: Unanimous
Motion: Passes

According to the approved Charter of the Advisory Committee, the Chair appoints the Vice Chair and Mr. Strobeck therefore appointed Mr. Mr. Kenny Tims to serve as Vice Chair.

5. Introduction of Phil Coleman, Employer Relationship Manager.

Mr. Jared A. Smout
Administrator

Mr. Smout introduced Phil Coleman, the new Employer Relationship Manager. Mr. Coleman provided details regarding his work career and his future plans with PSPRS.
6. Discussion with representatives from Gabriel, Roeder, Smith & Company (GRS) regarding actuarial assumptions, methods, and other general matters.

Mr. James D. Anderson, FSA, EA, MAAA
Senior Consultant
Mr. Francois Pieterse, A.S.A, M.A.A.A.
Consultant

A presentation of Arizona PSPRS Advisory Committee Education Actuary 101 was conducted (*see attachment) by Mr. Anderson and Mr. Pieterse. The different types of retirement plans were presented. Those plans consist of pure defined benefit plans, pure defined contribution plans and hybrid plans. Risk characteristics were discussed for each type of plan.

Actuarial methods, mathematics and the concept of present value were discussed. Actuarial calculations almost always begin with the calculation of a present value. The present value of an amount of money payable in the future is the amount of money that, if we had it today, would accumulate to the amount that will be payable in the future. The long term solution to the equation was also discussed. During this discussion, how assets are measured were shared.

For assets that have to be used today, Market Value is the most sensible measure. In the long term, the Market is always right, in the short term, the Market is often volatile and subject to temporary conditions and mood swings that distort the value. In pension funding, a volatile measurement of assets would tend to produce volatile contribution rates and funding progress measurements, both of which are undesirable. Commonly in pension funding, some type of smoothed market measurement is applied to the assets, and the result is called the “Actuarial Value of Assets” or the “Funding Value of Assets.”

Some PSPRS Specifics and Experience Study Background were presented. PSPRS is a defined benefit plan. Benefits are defined in the statute and are paid at some future point in time when certain age and service requirements are met. Actuary calculates the value of these benefits as of the valuation date and the Actuary must make assumptions about future events (investment return, wage inflation, withdrawal, disability, retirement, mortality, etc.). The assumptions must be reasonable individually and in the aggregate. The assumptions should also be reviewed periodically in light of recent plan experience and economic environment. Understated liabilities/costs can lead to inability to pay benefits when due, or sharp increases in required contributions in the future. Overstated liabilities/costs can lead to benefit levels kept below the level that could be supported by the computed rate, or a larger burden on the current generation of participants, employers and taxpayers. A single set of assumptions is not suitable indefinitely, these change along with our understanding of things, and actuarial assumptions require regular update for this reason.

Changes to the valuations for 2016 and 2017 were presented. The changes that were implemented in the June 30, 2017 valuation include investment return change from 7.5% to 7.4%, wage inflation changed from 4% to 3.5%, mortality updates to the RP-2014 tables, incorporating MP-2016 fully generational projection scales and updated withdrawal, disability and retirement assumptions. The changes that were implemented in the June 30, 2016 valuation include demographic data that was tabulated from the last 5 annual gain/loss analyses. General move rates about half way to observed rates over the most recent experience period. The philosophy shared was don’t overreact to results from any single experience period. It is better to make a series of small changes in the right direction, rather than a single large change that could turn out, with hindsight, to be very wrong. Gabriel, Roeder, Smith & Company (GRS) expressed that they are not investment experts, they consider the following items when making assumption selections, historical patterns, forward expectations of Investment Consultants, investment policies, funding levels, gain sharing, mechanisms/cost of living increases, comparison to other systems,
and actuarial standards of practice. These assumptions are a Board decision with input from Investment Experts and the Actuary.

7. Review, discussion and possible **Recommendation** of reducing the assumed earnings rate.

> Mr. James D. Anderson, FSA, EA, MAAA  
> Mr. Francois Pieterse, A.S.A, M.A.A.A.

PSPRS staff met with the actuaries on April 17, 2018 to conduct a study session. The topics that currently need to be addressed with the Board of Trustees in the next scheduled meeting are as follows:

Layered amortization: Currently, PSPRS’ amortization period is 19 years as of June 30, 2017. The legislature allowed any employer the opportunity to take a one-time extension to 30 years. Layered amortization means that with each additional year; if the employer has any additional liability, that piece is also at 30 years (or 19 years if that is where the employer is at).

CORP Tier 3 Rates: Initially, we asked the Board to apply the same assumptions we adopted for Public Safety Tier 3. The memo provided shows a table outlining the difference between PSPRS Tier 3 and CORP Tier 3. (*see attached)

8. Update and discussion from the Ad hoc group.

> Mr. Brian Moore  
> Phoenix Fire Department Local Board Member  
> Mr. Stan Hoover  
> Fraternal Order of Police and PSPRS Retiree  
> Mr. Nick Ponder  
> Pension Policy Analyst, Arizona League of Cities

The objective from the Advisory Committee was to establish the Ad hoc group to discuss both presentations made in September and October of 2017 and see if there was some common ground. In the subsequent seven months, the ad hoc committee has been able to meet 4 times for approximately 2 hours each time. All members of the Ad hoc group have indicated they have the same objective, which is to support our first responders and the risks they take to serve their communities as well as ensuring there is integrity in the system and only legitimate cases of accidental disability are being award disability retirement.

During the first Ad hoc Committee meeting it was discussed that Labor took exception to some omissions or lack of clarity in the League presentation. Employer groups took exception to the utilization of data from the labor side in the October meeting in that data was not comparable to League presentation data because different variables were being used. Clarification was given on where labor stood on consolidation and how that differed from their position at the time of the Cortex study.

In the subsequent meetings it was determined that the Ad hoc group had three areas of agreement. The first agreement is that some framework for consolidation does need to be established. Second, within the said framework, PSPRS Administration must have authority to enforce compliance of Local Boards. Third agreement is that some functions of Local Boards are unnecessary and can be handled by employer human resources or PSPRS Administration.

Five consolidation options were presented. The Ad hoc group shared that they have not coalesced around only one option at this point. It was agreed upon that the Ad hoc group will continue to meet to further research these options that have been identified, to negotiate a proposal of ideas that can be streamlined and to bring them back to the Advisory Committee for their recommendations to the full PSPRS Board of Trustees.
8. Discussion, feedback and possible **Recommendation** on legislative initiatives.

   *Mr. Jared A. Smout*
   *Administrator*

   The administrator informed the committee regarding the template for statutes that govern our system. He presented an overview of some proposed changes and asked for any questions, comments or feedback.

9. Schedule future meeting date(s).

   The next meeting is to be determined.

10. Adjournment.

   The meeting was adjourned at 4:02 p.m.

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Mr. Ken Strobeck, Chairman