PSPRS TURNING 50 THIS MONTH

March 14, 2018, will mark the 50th anniversary of PSPRS, the state's public safety retirement plan that would be joined later by CORP and EORP.

Left to right: Bill Moore, James Polito, Richard Yealey, Ed Broad, Vance Bingaman; Seated: Gov. Jack Williams

Off the bat, PSPRS had 19 fire departments, nine police departments and the Arizona Highway Patrol. In the first year there were 2,800 active members, 250 retirees and roughly 100 survivors paying into the plan or drawing benefits.

The official signing occurred when Arizona's 13th governor, Jack Williams, signed Senate Bill 224, which created the agency and its mission – to provide "uniform and consistent" retirement benefits, as well as a one-time legislative appropriation codified by Senate Bill 211.

Williams signed the bills in the presence of four fire departments officials and five police administrators by his side.

The first annual report from PSPRS was filed on June 30, 1969, and included the upbeat message: "We feel that much has been done toward carrying out the intent of the Legislature in providing a uniform, consistent and equitable state-wide program" for members who are "regularly assigned to hazardous duty… and performing a valued service to the citizens of Arizona."

ONE-EYED JACK: THE MAN WITH THE PEN

Throughout his adult life, Williams wore glasses with a signature shaded lens that obscured that he was missing his right eye.

Williams' journey to becoming "One-eyed Jack" is said to have begun in 1914 when he was five years old and suffering from a sudden and severe bout of headaches. Doctors determined that Williams had a tumor behind his eye. They believed his condition was grave enough to warrant an experimental procedure that put Williams among the first patients to undergo experimental chemotherapy. Williams' eye was removed and a visiting physicist placed a radioactive pellet in his eye socket in hopes of fighting the cancer.

"It luckily was successful and that treatment saved my grandfather's life," said Shannon Williams, granddaughter of the two-term Republican governor, in an Arizona Storytellers video.

Williams' granddaughter was stunned to learn as a child that her grandfather by chance became the patient of one of the world's most famous physicists and chemists: Madame Marie Curie, who won two Nobel prizes in her lifetime for her understanding of atomic structure and radiation.

Gov. Williams lived to until his late 80s while Curie's work with radioactive materials sickened her decades before her death in her late 60s.

BENNY'S BEEN WITH PSPRS SINCE DAY 1

The year was 1966. Phoenix Fire Department Captain Benny Ashley – president of the United Phoenix Fire Fighters Local 493 – went down to the Arizona Legislature in pursuit of a goal: To advocate for a better retirement for Arizona public safety workers.

Left to right: John Hughes, Paul Sanders, Benny Ashley, Lindon Vincent, Gov. Jack Williams

Together with leaders from the Arizona Fraternal Order of Police and state legislators like Republican Majority Leader Rep. Burton Barr, Ashley spent two years lobbying for a more robust pension for fire fighters and police officers. At the time, says Ashley, the maximum retirement benefit for a public safety worker was about $250 per month.

Then, in March 1968, with a stroke of the pen from Williams, the Public Safety Personnel Retirement System was born.

Ashley – now 100 years old, making him the oldest member of PSPRS – was there at the signing ceremony. To this day, he recalls the details of the retirement benefits made law by the bill in return for each member contributing eight percent of their pay each paycheck.

"You could retire at 20 years at half pay," Ashley explains. "Then if you stayed on longer, you got one percent for every year over 20 with a maximum … of 30 years."

Ashley retired in 1974 to care for his first wife, who was battling cancer. His pension after serving 31 years with the Phoenix Fire Department? "My pension in '74 was $666 a month," he recalls.

Ashley has been collecting a pension for 43 years now. At age 100, he remains fiercely independent, doing his own car repairs, staying active in his church and frequently visiting the Local 493 and PSPRS offices, where he is a beloved figure.

What has a secure retirement meant to Ashley? "It meant the world to me, to know that I was going to (get that pension payment each month)," he says.

Ashley believes that PSPRS has been a good investment for his home state – which has benefited from public safety workers who have stayed longer and worked harder on the frontlines – and a great investment for his colleagues in Arizona's fire and police departments.

"Fire fighters and police, they set their lives on the line," says Ashley. "They never know if they're going to complete the shift or not. That's got to be worth something. It's a risky job."

CORP PENSION CLOSING DOORS FOR NEW CORRECTIONS HIRES

PSPRS wants to remind employers of corrections officers in Arizona that pension benefits will be replaced with a 401(a) Defined Contribution account for those hired on or after July 1, 2018.

However, the law provides that AOC probation and surveillance officers hired on or after July 1, 2018, can choose between a pension (Defined Benefit plan) and the 401(a) retirement account managed by PSPRS and administered by Nationwide Retirement Solutions.

This reform, signed into law in 2017, will not impact the benefits of corrections officers currently employed in Arizona and already covered by the Corrections Officer Retirement Plan.

Details of the 401(a) plan include a default 7-percent employee contribution with a dollar-for-dollar employer match of 5 percent of members' salary. Unlike reforms to PSPRS, which require employees to work 10 years for full vesting of employer matching contributions, the DC plan provides full vesting in three years.

The 2017 legislation, Senate Bill 1442, also works in tandem with a 2018 referendum to replace CORP's permanent benefit increase (PBI) with a cost-of-living-adjustment similar to what Prop 124 did for the PSPRS plan. Additionally, the bill requires that PSPRS and each employer publish on their websites the funding ratio of each plan in the system. Click here for more information on SB1442.

EMPLOYER & LOCAL BOARD PORTALS ARE UP AND RUNNING

The PSPRS employer and local board portals are now active, meaning that all employers can report and pay contributions electronically and boards can use revamped benefit estimators.

The local board portal is intended for board secretaries – and not board members. Instructions on accessing the portal and using the retirement estimator can be found on the PSPRS employer and local board training webpage.

All employers should be using the employer portal to report contributions and use *Hall-Parker* refund credits. Employers that are not using this system yet must contact PSPRS.

Upgraded features include a member look-up tool to determine members' proper tiers (and contribution rate) and a tool that allows employers to notify PSPRS of any member employment status changes like new hiring, terminations, leave without pay, etc.

Employers are reporting customer satisfaction with the system after making successful contribution entries. The PSPRS Member Services Department is assisting employers with this process and can be contacted at activemembersgroup@psprs.com.

PSPRS OPPOSES BILL TO LOWER ASSUMED EARNINGS RATE

PSPRS is opposing Senate Bill 1262, which it estimates would add $3.5 billion to employer pension expenses over the next 10 years.

If passed, the bill would make setting the assumed earnings rate the duty of the Legislature and not the PSPRS Board of Trustees, whose civilian members boast more than 100 years of combined financial and investment experience.

Under the proposed bill, which is opposed by the League of Arizona Cities and the Towns, the County Supervisors Association and almost all public safety employee groups, PSPRS would be forced to lower the assumed earnings rate (AER) from its current 7.4 percent to roughly 4.5 percent over the next 12 years.

The reduction appears slow and gradual, but even minor tweaking of the AER significantly impacts employer contribution rates, said PSPRS Deputy Administrator Dave DeJonge, a pension expert with 30 years' experience.

"Our analysis shows that for every one percent the assumed earnings rate is lowered, employer contributions would rise about 11 percent on average," said DeJonge, a past-president of the Public Pension Financial Forum, a national organization of chief financial officers and accounting directors of U.S. pensions. "That's just one of the reasons that the assumed earnings rate should be decided by the experts on the PSPRS board and not left to a random formula written into state law."

DON'T DROP YOUR MONEY BEFORE CHECKING DC PLAN

PSPRS members in the deferred retirement plan (DROP) should think twice about taking their DROP balance as a taxable lump sum versus rolling it into the Nationwide 401(a) plan managed by the PSPRS Defined Contribution Committee.

"Members getting set to exit DROP need to understand that through our DC plan they will pay lower fees because we have institutional-sized bargaining power," said DC Committee Chairman Will Buividas. "This is the difference between going to Costco to buying cheaper in bulk, or shopping for groceries at a convenience store."

Currently, DROP balances are automatically deposited in a Nationwide 401(a) established for retirees and the money defaults into a fixed income investment with a guaranteed 2.75 percent return, which is thought to be the highest guaranteed return in public plans throughout Arizona. The fund also has "pass through" target date funds and a variety of other options, including low-cost index funds.

REMINDER: PSPRS SAYING GOODBYE TO THE PBI

Starting July 1, 2018, public safety retirees will receive a cost-of-living-adjustment (COLA) based on annual adjustments to the Consumer Price Index by the U.S. Department of Labor. These raises are capped at 2 percent each year by Prop 124, which voters overwhelmingly passed in May 2016.

Prop 124 replaced the permanent benefit increase based on PSPRS investment earnings. The most recently distributed PBIs for public safety retirees were due to an actuarial adjustment brought on by the *Hall-Parker* lawsuits.

To qualify for a COLA this coming July, members must be retired by May 31 with their effective date being June 1. Members whose last day of work falls in June will have an effective date of July 1 and will not qualify for this year's COLA. The COLA to be paid out each July will be based on the CPI for the calendar year ending just six months prior and will be prorated in the first year of retirement.

LOCAL BOARD EDUCATION CAMPAIGN STARTS IN MARCH

New local board members and those looking for a refresher course should consider attending PSPRS events intended to help board members effectively handle their duties.

The seminars begin in March and end in June. PSPRS is concentrating on helping non-metro agencies throughout the state. There are events currently slated for Yuma, Benson, Kingman, Globe and Payson. A schedule can be viewed on the training page of the PSPRS website.

Registration is not required, although attendees and potential attendees are encouraged to provide PSPRS with suggestions on topics or services to cover by emailing localboards@psprs.com or calling Local Board Coordinator Don Mineer at 602-296-2543.

YOU CAN ALWAYS COUNT ON VOLATILITY

The February stock market roller coaster ride saw major equity indexes fall as much as 1,000 points, marking the largest single day drop in history. But, within days the market nearly recovered much of its value, leaving observers rethinking whether the market would continue its long bull run.

The PSPRS investment strategy is built around mitigating against the type of volatility displayed by publicly traded stocks this month. This risk-averse strategy is in place to protect members' pensions and to protect employers to the greatest extent possible from rapid year-over-year contribution rate increases that can and would threaten budgets for many agencies.

PSPRS currently holds about 30 percent of its $9.7 billion portfolio in publicly traded stocks. This represents half the level of publicly traded stocks typically held by pensions and institutional investors. This lowered reliance on stocks and increased investments in alternative asset classes makes the PSPRS portfolio 72 percent less volatile than the common Standard and Poor (S & P) 500 index.

A WORD FROM PSPRS CHAIRMAN BRIAN TOBIN

It's the narrative that just won't die – PSPRS/EORP/CORP funding levels are low because of "poor investment performance."

You've read it in the paper for years. However, it's more than likely that funding levels would be *even lower* if our previous investment returns were *higher*.

Sounds weird, we know. It is counterintuitive. But the permanent benefit increase for retirees had an annual cap under state law. Any funds leftover after the increases were paid out did not go back into the trust to be reinvested – instead, they were distributed to retirees in subsequent years. Given that practice, higher returns meant larger amounts of money paid out in following years – even years during or following investment losses and regardless of whether the system ever "broke-even" after previous losses.

Increasing the living standard of retirees, especially rural retirees, was the well-intended point of the PBI, but the mechanism written into law made it next to impossible to recover from events like the Dot Com Crash and the Great Recession.

These are the facts. And these are the reasons that Prop 124, which replaced the PSPRS PBI with a cost-of-living-adjustment, was supported nearly unanimously by Republicans, Democrats, and, most importantly, employers and associations that represent first responders.

These are also among the reasons that the PSPRS Board of Trustees is supportive of current efforts to replace the PBI for CORP and EORP retirees. EORP, according to our actuaries, is set to go bankrupt within nine years if changes are not made to the employer contribution rate, currently fixed at 23.5 percent annually by state law.

We know these decisions may not be popular with every one of our members and retirees, but we trust that one and all will recognize that protecting the trust from severe damage threatening the retirements of thousands of our members is our uppermost priority.