

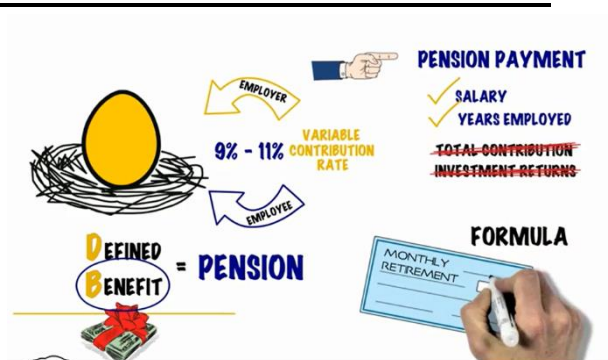


## **ADDITIONAL TIER 3 MEMBER EDUCATION VIDEOS RELEASED**

To assist employers and prospective public safety members, PSPRS has released three videos that cover the Tier 3 benefit structure.

The first video provides an overview of the defined benefit (DB) and defined contribution (DC) retirement options for Tier 3 members.

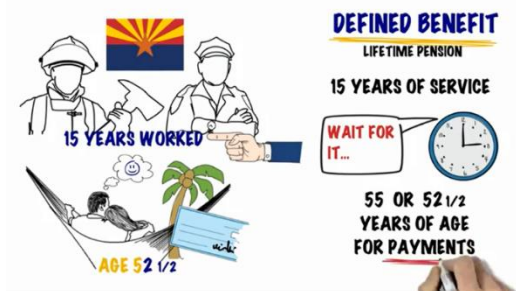
Human resource managers should familiarize themselves with the basics, the first being that new members have 90 days from their “date of hire” to choose which retirement plan they will belong to – the DB or DC plan.



Due to logistical differences among more than 230 employers, PSPRS has not set a rule stipulating exactly when the 90-day period begins for new hires. Employers are responsible for setting this starting date, and some employers are choosing to include public safety training periods (Ex.: “The academy”) while others are electing for the first day of full-time service as the “date of hire.”

All new hires will register their decision via the updated Members Only portal on the PSPRS website. Doing so requires members to create an account, watch three educational videos (including the overview, as seen above) and complete a step-by-step acknowledgment form. PSPRS benefits for Tier 3 members will default to the Defined Benefit plan in the event that members fail to select an option within their first 90 days.

## **TAKING A DEEPER DIVE INTO DB AND DC PLAN DETAILS**



The other Tier 3 benefit videos take deeper dives into the [Defined Benefit](#) (left) and [Defined Contribution](#) retirement options.

Public safety pension members, policymakers, and critics alike should take note that the Tier 3 reforms are, in fact, designed to save the system and employers money. Similarly to plans for Tier 2 employees hired after January 1, 2012, the third tier benefit structure will make members work more years and contribute more of their paychecks to

draw pension benefits. In the same vein, the Defined Contribution plan makes employers provide a full dollar-for-dollar match of 9 percent of contributing members' salaries but the plan does spare employers the long-term costs of a pension.

PSPRS recommends employers, especially human resource staff and recruiters, and local boards watch the Tier 3 benefit videos. On a side note, a [recent study](#) conducted by the National Institute on Retirement Security concluded 2015 new hires favored pension plans over defined contribution options by a 3-to-1 ratio.

## **PSPRS INVESTMENTS GENERATE 12 PERCENT RETURN**

The PSPRS investment portfolio generated 11.85 percent growth during the 2017 fiscal year, marking an outstanding rebound as flat markets held gains to less than one percent the previous year. The return added \$1 billion to the trust even as PSPRS-managed plans distributed \$1 billion in benefits to retirees and survivors. The total value of the PSPRS trust at fiscal year-end is \$9.3 billion.



The gains are welcome, especially as many employers struggle with high public safety pension expenses and low funding levels. Given the low-risk strategy of the portfolio, PSPRS has emerged as nothing short of an elite performer for maximizing investment return while operating with minimal risk. The fund ranks among the top 1-to-4 percentile of 55 pension funds for three common risk and volatility measurements (annual standardized deviation, Sharpe Ratio and Sortino Ratio) during the past 3 and 5-year periods.

“We’re extremely pleased to achieve double-digit returns while we continue to operate with less risk than 96 percent of our peer pension plans,” said PSPRS Chief Investment Officer Ryan Parham. “This level of return without heavy investment in domestic stocks is great news for PSPRS employers and testament to the skill of our investment team.”

## **TOBIN FORMS SUBCOMMITTEE TO ADDRESS EORP WOES**



PSPRS Board Chairman Brian Tobin has created a committee to consult stakeholders and examine potential policy fixes for the Elected Officials’ Retirement Plan.

The EORP plan has less than 40 percent of the assets needed to cover the benefits of its retirees and active members. Late last year, actuaries contracted by PSPRS warned that EORP would go belly-up within 10 years without direct intervention. The plan was closed to new members in 2013, and, aside from investment earnings, is funded through a fixed employer contribution rate of 23.5 percent, a \$5 million annual appropriation from the state and a portion of court fees.

This summer, a Maricopa County Superior Court judge ruled that the static rate was unconstitutional and insufficient to cover EORP liabilities and that the Legislature would have to devise a fix that recognizes actuarial information based on accepted accounting principles.

“Time is running out to stop the implosion of the elected officials plan,” said Tobin. “This subcommittee is about reaching out to stakeholders and coming up with concrete proposals to deliver to the same policymakers at the Legislature who reformed our public safety retirement plan.”

The first meeting of the subcommittee was held September 5 at 1 pm at the PSPRS office in Phoenix. The subcommittee is consulting with representatives of counties, cities and towns, the governor’s office and the judiciary, as well as select lawmakers who have played active roles in recent pension reforms.

## **HALL-PARKER REFUNDS CAN SUMMON THE TAXMAN**

PSPRS members and employers must be aware that refunds of excess contributions in light of *Hall* and *Parker* litigation will create tax implications if the refunds are taken as cash. Complicating the matter is the fact that only some, but not all, employers are offering members the opportunity to defer their refunds into 401 or 457 supplemental accounts, which postpone additional taxes and build retirement savings.

In accordance with IRS requirements, the refunds are not treated as disbursements from a qualified retirement plan. Instead, they are treated as wages from the employer and will be reported on the member's W-2 at the end of the year.

Because of that, PSPRS recommends that members speak with professional accountants or tax experts. Members with questions can contact [Public Safety Financial/Galloway](#), which under state law and through a competitive bidding process, has been contracted by the PSPRS Defined Contribution Committee to educate members about PSPRS benefits and financial literacy.

PSPRS does not endorse any fee-based services and members are free to consult with any advisors of their choosing. PSPRS staff cannot provide guidance regarding taxes or offer specific financial advice.

## **PSPRS CONTRIBUTION REPORTING NEARS COMPLETION**



As a result of recent legislation and updated public pension auditing requirements, it was necessary for PSPRS to make changes to the file format employers use when submitting PSPRS contributions, effective July 1, 2017.

Most employers have made the switch to the new file format, and PSPRS staff is in the process of reviewing more than 1,000 test contribution files submitted by employers. There are still a few hundred files to test, but we hope to roll out the new Employer Payroll Portal in the coming weeks so that employers can begin submitting and verifying their own files in "live" production at that time.

The new portal will allow employers to catch and resolve issues immediately. It will also allow employers to move away from having to send paper membership and termination forms to PSPRS. Employers will be notified once the Employer Payroll Portal is ready, and a webinar will soon be announced for those who will use the portal. An online how-to manual will also be available.

## **DON'T DELAY: EMPLOYERS MUST REGISTER FOR E-BILL**

PSPRS is also getting ready to unveil its new and updated invoicing and payment processes and the only way employers will receive invoices for contributions payable to PSPRS will be through the Wells Fargo E-Bill Express website.

If you have not registered, please do so by having your principal contact for contribution payments email contact information including phone number to [finance@psprs.com](mailto:finance@psprs.com) for authentication purposes.

As a reminder, there is no charge to employers for using the E-Bill Express website to view or download contribution invoices or to make electronic payments to PSPRS.

Please direct any questions to PSPRS Senior Financial Accountant Brian Dunham, at [brian.dunham@psprs.com](mailto:brian.dunham@psprs.com) or 602-296-2549.



## **PSPRS BEATING PRIVATE MUTUAL FUNDS**

An analysis of PSPRS fund performance over the past three years showed that the \$9.3 billion public safety trust outperformed the vast majority of private mutual funds with similar risk profiles.

The comparison conducted through Morningstar found PSPRS ranked eighth in three-year performance among a peer group of 120 mutual funds with low-risk investment allocations. All funds in the peer universe held between 30 and 50 percent of their respective portfolios in publicly traded stocks. Retail funds, including consumer 401(k) accounts, are typically comprised of 60 to 70 percent stocks.

“We’re really excited about the next few years,” said PSPRS Deputy Chief Investment Officer Mark Steed. “We expect to achieve the assumed earnings rate while operating with about half the downside risk the portfolio had 10 years ago.”

The analysis also found that the PSPRS trust endured far lower reductions in value during downturn months. The Morningstar peer fund review can be [found here](#).

## **MOST DC/DROP MONEY REMAINS IN DEFAULT OPTION**

Most of the PSPRS 401(a) defined contribution accounts that serve Tier 2 members and those who exited DROP are losing potential gains by not being moved out of the default fixed income option.

Some 2,200 accounts were opened since July as part of the 2016 reforms that provided a supplemental DC retirement account option for Tier 2 members who do not pay into Social Security through their employer. Non-taxed DROP account balances are also automatically rolled over into the accounts maintained by Nationwide and managed by the PSPRS Defined Contribution Committee.

Currently, the default option for the DC accounts is a Nationwide fixed income investment with a guaranteed 2.75 percent return, which is thought to be the highest guaranteed return in public plans offered in Arizona. However, there are about two dozen investment options, including low cost index funds and “pass through” target-date funds. Fees on all investment options are competitively low.

“It’s never too early to choose the right investments that fit your needs and risk profile,” said PSPRS Defined Contribution Committee Chairman Will Buividas. “We’ve made the process as easy as possible and we’ve bargained for low fees so our members can maximize their returns.”

Members must call Nationwide at 1-855-297-8228 to receive an account number to register for online access to make changes to their DC investment accounts.

## **PBI ON THE WAY FOR CORP AND EORP RETIREES**

CORP and EORP members can soon expect a bump in their pensions, as 2017 fiscal year investment returns exceeded the legal threshold and both systems have yet to be reformed with cost-cutting measures like Prop 124.

Permanent Benefit Increases, known as PBIs, will be made within the next several months and CORP and EORP retirees can expect payments retroactive to July 1. This year’s PBI, which excludes PSPRS retirees, is the first increase in three years. It is available because investment returns exceeded 9 percent in fiscal year 2017.

Prop 124 replaced the PBI with a cost-of-living adjustment (COLA) capped at 2 percent starting July 1, 2018 for PSPRS retirees. Unlike the PBI, the COLA is based on the cost of living, not on investment returns for the year.



## **GOVERNOR DUCEY APPOINTS NINTH AND FINAL TRUSTEE**

The ninth and final member of the PSPRS Board of Trustees was appointed this month by Governor Ducey. Harry Papp, a portfolio manager and securities analyst with almost 40 years' experience, joins the board in time to participate in the September trustee meeting.

The qualifications for trustees who are not members of PSPRS-managed plans are [extensive and laid out in state law](#). Papp's qualifications, like non-members Bill Davis, Bryan Raines, Dean Scheinert and Don Smith, are extensive. He's a chartered financial analyst and managing partner of L. Roy Papp & Associates, LLP, as well as a former acquisition manager for G.D. Searle & Co.

"Mr. Papp will make an excellent addition to a board of trustees that has both an outstanding investment background and the perspective of our membership," PSPRS Administrator Jared Smout said. "Members, employers and taxpayers can certainly have confidence that this is the right team to lead the system's recovery."

Papp has also lent his experience to a wide variety of private endeavors, including service on boards or committees of the ASU Foundation, Blue Cross Blue Shield, Desert Botanical Garden, the Heard Museum, the Institute of Human Origins at ASU, the Phoenix Art Museum and the Phoenix Zoo.

## **UPDATES ON HALL-PARKER LAWSUITS**

Eligible PSPRS and EORP members are anticipating or receiving refunds of excess contributions from the *Hall-Parker* lawsuits.

In all, the lawsuits will remove about \$225 million from PSPRS-managed trusts. Despite the hefty price, the actuarial impact for most employers is expected to be minor due to the spreading of the loss over 20 or 30 years (depending on employer). Employers will still save approximately \$475 million in long-term costs due to the passage of Prop 124.

Both [pre and post-judgment interest](#) for impacted EORP members have been determined by the courts in the *Hall* lawsuit. A similar ruling is soon expected for the *Parker* lawsuit, which impacts the public safety plan.

## **"BENNY" ENTERS THE CENTURY CLUB**

PSPRS was recently blessed to have its oldest living public safety retiree, Alfred "Benny" Ashley, visit the office. Having turned 100, Benny sought to say hello and thank you to PSPRS paralegal Michelle Pechan, who had sent a birthday card to the Phoenix Fire Department retiree.

Benny's career as a fireman began in 1942, some 26 years before the formation of PSPRS, which he also served as a lobbyist for in the early 1970s and through his official retirement as captain in 1973.

Local TV reported on [Benny's 100<sup>th</sup> birthday party](#) held by Phoenix Fire Department and the station noted the Navy veteran still changes the brakes on his car.

While centenarian Benny is the oldest Arizona public safety retiree, the title of oldest retiree across all three PSPRS-managed plans is held by H. Gerard "Jerry" Everall of EORP. Everall, a former state representative from Prescott, is months away from turning 103.

## **PSPRS ON THE ROAD AND AT THE LEGISLATURE**

PSPRS staff and even trustees got some face time before an interim ad hoc legislative committee formed with the stated purpose of educating officials and the public about the impact of public safety retirement expenses on local governments.



The committee, headed by Prescott representatives Noel Campbell and David Stringer, met in Flagstaff, Bisbee, Phoenix and Prescott, the latter of which was held as a “town hall” after state support was pulled due to concerns about influencing local elections.

PSPRS staff gave presentations at all meetings and invited questions. On Aug. 10, PSPRS Board Chairman Brian Tobin, Administrator Jared Smout and Deputy CIO Mark Steed spoke before the subcommittee at the Capitol for more than an hour. The topics included pension reform, actuarial assumptions, investment strategy and performance, investment fees, DROP and pension-related lawsuits.

The meetings have prompted Campbell and a few others to call for amending the state constitution’s pension clause in order to reduce retiree benefits. However, legal experts and political observers like the League of Arizona Cities and Towns say that state and federal contract clauses make Campbell’s plan impossible.

Video of the Aug. 10 hearing can be [found here](#).

## **WRONG AGAIN... AND AGAIN**



Last month, the *Republic* reported that PSPRS real estate investments managed by the Desert Troon Companies suffered \$160 million in “unrealized losses” in the 2016 fiscal year.

The problem is that the information is wrong – and the *Republic* was told as much by PSPRS staff. In fact, audio recordings confirm PSPRS staff told the *Republic* no fewer than 10 times during an on-the-record interview that PSPRS annual reports could not be used to conclude that Desert Troon properties suffered staggering “losses” because the reports were not a profit/loss statement and they also reflected the reduction of total assets from sales of properties. After the *Republic* emailed follow-up questions about Troon’s “losses,” PSPRS again corrected the record and even provided word-for-word transcripts of 10 previous statements made directly to the *Republic*.

Despite these efforts, the *Republic* misreported that the related investments suffered “unrealized losses” of \$160 million in 2016.