



PSPRS FY2019 Second Quarter Newsletter

PROP 125 UPDATE: TRUSTEES MAKE THE PBI REFORM CASE



Board Chairman Brian Tobin and Vice Chairman Will Buividas made the case for reforming the CORP and EORP permanent benefit increase (PBI) to an industry standard cost-of-living-adjustment through an October *Arizona Republic* op-ed and news report.

[Tobin explained the full PSPRS Board of Trustees' decision to support Prop 125](#), which he characterized as the “finishing touches” of pension reforms meant to build long-term

sustainability for PSPRS, CORP and EORP, while protecting employers, taxpayers and the retirement benefits promised to members.

Buividas was [quoted in the Republic as saying Prop 125 was needed](#) to reverse the declining health of the pension plans and help local employers meet their other obligations to residents.

To address common questions, PSPRS has added a [Prop 125 Frequently Asked Questions](#) page to its website. “We need to be clear on what Prop 125 does, and, just as important, what Prop 125 doesn’t do,” said Tobin. “It’s a simple change that will put CORP and EORP back on track while protecting members’ pensions and allowing for consistent pension increases.”

In March, Tobin took to the *Republic* to urge the Legislature to change state law to increase employer contributions to EORP, which were later adopted and signed into law. Without the change, PSPRS actuaries predicted that EORP would have gone bankrupt within 10 years.

PSPRS BOARD ROLLS BACK DROP, SERVICE PURCHASE REFORMS

Following years of costly litigation, retroactive pension increases and contribution refunds, the PSPRS Board of Trustees voted to instruct staff to devise a plan to roll back other pension reform measures threatened by some as unconstitutional.

The board’s decision was aimed at avoiding new lawsuits attacking 2011 and later reforms that continued contributions and reduced DROP interest rates for Tier 1b public safety members and also increased the cost and conditions necessary to purchase or “buyback” credited service. The board and other legal observers believe that defending those legislative changes would be a lost cause in light of the *Hall-Parker* decision reached by the Arizona Supreme Court.

PSPRS staff will present a draft plan for approval to the Board of Trustees later this month. If approved, staff would begin the process of identifying those affected and devising operational details necessary to make amends.

“This will be a complex process that may take some time,” said PSPRS Administrator Jared Smout. “We will actively communicate any updates as they unfold to our membership and we definitely appreciate our members’ patience in the meantime.”

PSPRS INVESTMENTS GENERATE \$660 MILLION AFTER FEES

Last fiscal year, PSPRS investments generated a 7.1 percent return that produced roughly \$660 million for PSPRS, CORP and EORP coffers. The return helped push PSPRS past the \$10 billion assets under management mark for the first time in the agency’s 50 year history.

PSPRS Board Chairman Brian Tobin said in a late September notice that the returns were consistent with investment goals of keeping risk in check and protecting stakeholders.

“It can be hard to show the value of a low-risk approach in a bull market but we have to keep perspective if we want to avoid the same mistakes that led to significant losses in the past,” Tobin said. “This strategy protects our members, Arizona employers and millions of taxpayers while the system continues to recover.”

PSPRS investments have generated \$3 billion in returns over the last five years. The most recent returns are not sufficient under state law to trigger Permanent Benefit Increases for CORP and EORP retirees.

PSPRS has a funding ratio of 47 percent, compared to CORP (52 percent) and EORP (33 percent).

PSPRS-CORP-EORP MEMBERS HONORED THROUGH STAFF FILM

Attendees, staff and trustees were treated to a 14-minute staff film marking the history, purpose and members of PSPRS-managed retirement plans. The film, which was produced, filmed, and narrated by PSPRS in-house audio/visual expert Paul Hemmes, left audience members silent as it covered events like the 2007 murder of Phoenix Police Officer Nick Erfle and the fate of the Granite Mountain Hot Shots.



Included in the film are Julie Erfle, Amanda Marsh, retired Fraternal Order of Police Director Jim Mann and corrections advocate and Senior Parole Officer Richard Mehner, as well as former Arizona Supreme Court Chief Justice Rebecca Berch and Governor Doug Ducey.

“The amount of work that Paul put into the video is incredible and this was time spent outside the office, at home at night and during weekends. I guess it doesn’t hurt that he’s got a little experience in movie producing,” said PSPRS Administrator Jared Smout, speaking to Hemmes’ hobby and side job as a writer and director of full-length horror movies (available on Amazon).

MARK STEED BECOMES PSPRS CHIEF INVESTMENT OFFICER



Mark Steed, former PSPRS deputy chief investment officer and chief of staff, climbed the ladder last month to become the chief investment officer of the \$10 billion pension system.

The search for a CIO was prompted by the June retirement of Ryan Parham, who led the transformation of the PSPRS portfolio into a highly diversified national model for risk-adjusted returns.

During the late September PSPRS Board of Trustees meeting, Trustee Harry Papp, who led the CIO search efforts, told fellow board members and attendees that “there was absolutely clear consensus” about Steed and added “that we absolutely did not just pick the inside guy.” NEPC investment consultant Allan Martin described the search as “thorough and complete a process that I have ever seen.”

DON’T FORGET: ANNUAL EMPLOYER-LOCAL BOARD SEMINAR

Tickets are still on sale for the PSPRS annual all-day educational seminar for employers and local boards that will be held in Phoenix on December 4.

PSPRS wishes to thank its employers and local board members who participated in surveys that were used to determine the educational agenda for the event. The programs will include but are not limited to all operational updates, new member registration, benefits processing, contribution reporting and also an audience Q & A with staff.

“Our goal is to make this event as useful as possible for everybody involved with the administration of PSPRS, CORP and EORP members,” said PSPRS Deputy Director Dave DeJonge. “We’re responding to what employers, including HR, payroll and finance, and local board members have told us they want to learn more about. We’re looking forward to what we think will be our best annual event yet.”

Registration can be [completed online](#) although employers still must deliver payment via check. Seats are first come, first served. Deadline for payments is November 9.

LOW FEE INDEX OR ACTIVELY MANAGED MUTUAL FUNDS?

PSPRS portfolio manager Bill Thatcher continues to generate industry attention, as the Journal of Index Investing will soon publish his updated “style purity” hypothesis on index investing.

With a background in investing for high net worth individuals, endowments, and, lastly, a public pension, Thatcher is well-versed in index funds and is a firm believer in the low cost option for individuals who aren’t investment experts. But, [Thatcher’s research](#) proves there is a time and place for actively managed mutual funds. Click the photo for Thatcher’s presentation before the PSPRS Board of Trustees.

