PSPRS FY2022 First Quarter Newsletter

A LOT CAN HAPPEN IN A YEAR… AND EVEN SIX MONTHS

Employer evaluations arrived late last year and brought stunning results for public safety and corrections plans after a tidal wave of additional employer contributions and record-setting investment returns.

The aggregate funding level for PSPRS increased to 55.5 percent, marking a gain of more than 7 percent from the 2020 fiscal year. Likewise, CORP increased its funding level to 70 percent, a 16 percent increase from the prior year. The elected officials plan, EORP, posted modest funding level improvement for the fourth consecutive year. Funding level for the single-employer plan is now about 35 percent.

"The progress is real and what it means is billions of dollars in future savings for taxpayers and employers who paid down their pension debts and added to their retirees' and active members' retirement security," said Administrator Mike Townsend. "The incredible investment returns that PSPRS was able to generate last year only added to that stability and benefited employers across all three plans."

For the 2021 fiscal year ending June 30, 2021, public safety and corrections employers contributed an extra $1.58 billion to pay down unfunded pension debts. In total, 56 employers contributed $1 million or more above their required contributions. The largest contributions came in the form of two equal state appropriations to pay off a combined $1 billion of debt for the Department of Public Safety and the Department of Corrections, Rehabilitation and Reentry.

The drive among employers to pay down unfunded pension debts, often through low-interest debt instruments like bonds, continued through the first six months of fiscal year 2022. In all, about 50 employers contributed $1 million or more to tackle a combined total of more than $1.5 billion dollars of pension debt.

"Employers are wiping out debts with payments ranging from the hundreds of millions to a few thousand dollars," said PSPRS Board of Trustees Chairman Scott McCarty. "We're also seeing Arizona's fire districts using debt financing options to pay down unfunded pension liabilities after the signing of Senate Bill 1298 (Laws 201, Chapter 241) last year."

Additional employer contributions and high investment returns helped push the PSPRS trust's value to $15.7 billion – up from $10.9 billion just a year earlier – as of June 30, 2021.

FY2021 INVESTMENT RETURNS: THAT JUST HAPPENED

PSPRS investment returns also produced a record-setting 28.7 percent net-of-fee return, which generated more than $3 billion for the public safety, corrections and elected officials pension trusts over a 12-month span.

Market conditions were helpful and so was the timing. The 2021 fiscal year included the last half of the 2020 calendar year in which markets rebounded sharply after steep initial losses after the emergence of the coronavirus.

Still, PSPRS stock purchases during market lows in late-2019 and early-2020 played a roll, as did investment staff and board decisions to increase allocations to private lending opportunities and reduce low-interest bond holdings. The changes are estimated to have produced an additional $400 million for the PSPRS trust.

"The markets were obviously very cooperative but our investment staff and consultants deserve a lot of credit for their management, judgment and decision-making," said Mark Steed, PSPRS Chief Investment Officer. "Thanks to their hard work the trust was able to grow substantially while keeping risk in check and an eye open for long-term investments."

The highest performing asset classes included domestic stocks, which generated a 43.7 percent annual return, and private equity buyouts and venture capital, which generated a 53.2 percent annual return.

Net-of-fee investment returns for PSPRS exceed the Board of Trustee's assumed earnings rate, 7.3 percent, for the 1, 3, 5, 7 and 10-year time periods as of June 30, 2021.

HB2381: NEW WEBPAGE FOR RETIREMENT PROCESS CHANGES

Public safety and corrections employers, local boards, and members will soon be required to use a new process for retirement and certain benefit applications. The changes are required under House Bill 2381 (Laws 2021, Chapter 34), which was signed into law last year.

To assist in its educational campaign, PSPRS has published a new HB2381 webpage as a resource. The page includes a series of four videos about the new law, legislative summaries, as well as updated benefit applications and local board notification forms.

Effective January 1, 2022, all retirement applications with the exception of disability and line-of-duty deaths will be sent by employers to PSPRS, which maintains official credited service and contribution records used to determine benefit amounts.

To handle benefit applications filed in late-December and the early months of 2022, PSPRS created a transition period to allow local boards to submit approved benefit applications completed through spreadsheets until March 31, 2022.

HB2381: UPDATED MODEL UNIFORM RULES FOR LOCAL BOARDS

The new state law impacting employer, local board and PSPRS operations also requires the use of updated Model Uniform Rules for local boards to address member claims and disputes. The PSPRS Board of Trustees adopted revised rules after receiving and considering stakeholder feedback.

Click here for revised Model Uniform Rules for public safety local boards.

Click here for revised Model Uniform Rules for corrections local boards.

NEW INTEGRITY HOTLINE FOR FRAUD, WASTE, ABUSE REPORTING

PSPRS recently launched an Integrity Hotline resource for stakeholders to report real and potential compromises to the administration of PSPRS-managed retirement plans.

The hotline allows all stakeholders – employers, local boards, members, retirees, vendors and members of the public – to report suspected occurrences of fraud, waste, abuse and unethical behavior that can deprive membership of resources and rights under state law.

"It's important for our membership and partners to know that this resource is another tool to help ensure that PSPRS, CORP, and EORP are administered properly and ethically," said PSPRS Chief Internal Auditor Cathleen Davis and Chief Compliance Officer Angela Egelhoff, in a joint-statement. "We're excited to work with our stakeholders to launch this initiative to protect our members and the public trust in PSPRS."

Stakeholders can visit the Integrity Hotline webpage for more information and instructions for providing reports through email, and, for anonymous reporting, calling the Integrity Hotline phone number. PSPRS requests that reporting about personnel matters, including disputes, discrimination, harassment, and retaliation be reported to appropriate employer contacts, state and/or federal authorities.

TIER 3 DC-ONLY RETIREE INSURANCE SUBSIDY OPT-IN

Tier 3 corrections officers and Tier 3 public safety members who have or elected to receive Defined Contribution benefits (401a plans through Nationwide Retirement Solutions) only will soon be able to opt-in and contribute towards retiree health insurance subsidies.

This benefit is already applied to all Tier 1, 2 and 3 members with defined benefit (pension) and "hybrid" plan (pension and 401a accounts) benefits. Upon retirement, members receive a monthly subsidy, currently set between $100 and $260 depending on dependents and Medicare-eligibility, to offset health insurance costs.

Starting July 1, 2022, existing and newly hired Tier 3 Defined Contribution plan-only members will have 90 days to opt-in to contribute towards and receive the benefit upon retirement from the public safety and corrections officer retirement plans. The costs are split equally between members and employers, who pay the same rates for members opting into the health insurance subsidy benefit. The actuarially determined contribution rate is set for 0.17% for corrections officers and 0.19% for public safety members.

The addition of retiree health insurance subsidies for Tier 3 DC-only plan benefit members is due to the 2021 passing of Senate Bill 1045 (Laws 2021, Chapter 330). Member decisions to opt-in or decline the benefit are irrevocable under IRS rules.

EMPLOYER REMINDER: PLEASE SEND PENSION FUNDING POLICIES

Another friendly reminder for all employers to submit their funding policies to PSPRS to assist in complying with financial reporting laws passed in recent years.

The requirement is due to Senate Bill 1649 (Laws 2021, Chapter 251), which was signed into law last year. The law requires PSPRS to post employer funding policies to the agency website, and implement plan "stress-testing" and reporting requirements.

PSPRS requests that employers email existing copies of their fiscal year 2022 pension funding policies to employerservices@psprs.com. Questions can be directed to PSPRS Employer Relationship Manager Phil Coleman at pcoleman@psprs.com.

The League of Arizona Cities & Towns developed a pension funding policy template that is available on the organization's website.

COMING SOON: 2022 LOCAL BOARDS & EMPLOYERS EVENT

Enrollment has begun! Local board members and employers can now sign up to attend our annual conference being held on February 17. This year's conference is entirely virtual. Presentations will cover updates on agency operations and finances, board and committee affairs, and the latest on legislative changes, benefits and related administration.

"We're always excited to interact with local boards and employers, and to provide updates that help them do their jobs and make important decisions," Administrator Townsend said. "We look forward to this event, answering questions and receiving feedback on how we can continue to improve our operations and services."

Registering for the event helps PSPRS send attendees required links for the livestream service through Zoom and presentation materials prior to the event. Unregistered attendees will be able to access the livestream link to the event the day of the event.

Please note that the order of presentations has been amended for logistical purposes. PSPRS will post a video recording of the event presentations to its YouTube channel and website.

TIME	TOPIC	SPEAKER
9:00-9:15 A.M.	Updates from the Board of Trustees	Chairman Scott McCarty
9:15-9:30 A.M.	Progress: A year in review and looking forward	Administrator Mike Townsend
9:30-9:45 A.M.	Operations, Governance Policy and Audit Committee Updates	Trustee Dean Scheinert
9:45-10:00 A.M.	Defined Contribution Committee	Trustee Brian Moore
10:00-10:15 A.M.	Advisory Committee	Committee Chair Kenny Tims
BREAK		
10:30-11:15 A.M.	PSPRS Actuarials and Employer Modelers	Brad Heinrichs, Foster & Foster
11:15-Noon	PSPRS Investments	Trustee Harry Papp and Chief Investment Officer Mark Steed
LUNCH BREAK		
1:00-1:30 P.M.	PSPRS Legislation	Doug Cole and Dianne McCallister
1:30-2:00 P.M.	Local Board Perspective: Considering Disability Applications	Trustee Brian Moore and Stan Hoover
BREAK		
2:15-2:45 P.M.	Local Board Disability Application Process	Joann Lowey
2:45-3:15 P.M.	HB2381 Impact on Local Boards and Employers	Phil Coleman
3:15-3:45 P.M.	Payroll Reporting and Demographics	Larry Lopez
3:45-4:15 P.M.	Cancer Insurance and Health Insurance Subsidies	Annette Jorgensen

NOTE: Agenda subject to change