PSPRS FY2022 Second Quarter Newsletter (revised June 17, 2022)

CANCER INSURANCE PREMIUM PAYMENT PROCESS TO CHANGE

With SB1084, the PSPRS "admin" bill, signed into law the process public safety employers must use to make cancer insurance premium payments on behalf of members is changing.

The coming changes will not impact corrections employers and corrections members who participate in the PSPRS cancer insurance program.

Payment process details will be determined by the Board of Trustees through consultations with the PSPRS Advisory Committee and communicated to employers prior to invoicing public safety employers for the fiscal year 2023 premiums. Signed legislation becomes active 90 days after the official ending date of the legislative session, known as "sine die," while current state law provides that cancer insurance premium payment billing for employers occurs in July.

"The Advisory Committee, which includes employer and member representatives, will participate as the starting point to inform stakeholders of the new process and how to communicate that to individual employers," said Administrator Mike Townsend. "PSPRS will work with employers to transition into this new process and to educate membership."

Under SB1084 (Laws 2022, Chapter 73), public safety employers will process cancer insurance premium payments made to PSPRS on behalf of members as wages subject to federal and state income and employment taxes. This benefit, known as imputed income, will not be included in salary payments to members and will not count as pensionable income.

The legislation was supported by the PSPRS Board of Trustees. The premium payment changes allow members who file cancer insurance claims to avoid having to pay taxes on cancer-related benefit payments after a phase-in period. Expense reimbursements provided to members for out-of-pocket costs under the cancer insurance program are not impacted.

CHECK IT OUT: UPDATED CANCER INSURANCE WEBPAGES

As part of its ongoing awareness efforts, PSPRS has updated its public safety and corrections officer cancer insurance webpages. The redesigned pages cover cancer insurance eligibility, premiums, benefits, applying for benefits, coverage in retirement, processing and taxation of claim payments.

ALMOST HERE: TIER 3 DC-ONLY RETIREE INSURANCE SUBSIDY

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

Starting July 1, 2022, existing and newly hired Tier 3 DC 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 public safety members and corrections officers.[1]

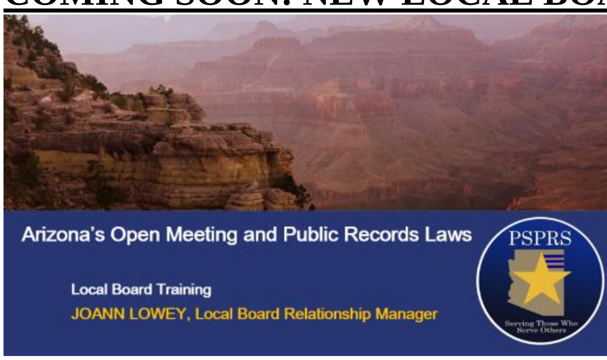
This benefit is already applied to all Tier 1, 2, and 3 members with defined benefit pensions and "hybrid" plan (pension and 401(a) accounts) benefits. Upon retirement, members receive a monthly subsidy to offset health insurance costs.

The subsidy is currently set between $100 and $260 depending on dependents and Medicare-eligibility. To be eligible for retirement in Tier 3 corrections, members must be 52.5 years old with 10 years of credited service, and for public safety, members must be 52.5 years old with 15 years of credited service.[2]

PSPRS will communicate with employers the availability and implementation of the health insurance subsidy for Tier 3 members who receive 401(a) DC benefit (only). Communications will include a new contribution code for payroll reporting and notice of agency communications to impacted members and those hired on or after July 1, 2022.

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.

COMING SOON: NEW LOCAL BOARD MEMBER/STAFF TRAINING



Whether you are a first time local board member or have served before, new training on Arizona's open meeting and public records laws, fiduciary duties & legal review, and ethics awareness detail the responsibilities of your role.

This training is mandatory for local board members, secretaries, and counsel appointed or elected – or reappointed or reelected – after December 31, 2021, and must be completed within 180 days.

PSPRS encourages all local board members, secretaries and attorneys to review the trainings which will be made available on the PSPRS YouTube site shortly. Local board secretaries will receive communications from PSPRS if new or reappointed board members, secretaries and staff must undergo training.

PSPRS will work closely with local board secretaries to track completions from their local board members as each member completes the trainings.

---

[1] *The contribution rate for public safety officers is 0.17% percent, not 0.19 percent as previously stated.*

[2] *The age to retire is 52.5 years old for public safety and corrections officers, not 55.5 years old as previously stated.*

PAPER CHECKS ARE DEAD: SWITCH TO E-BILLING NOW

Several dozen public safety and corrections employers are still making contribution payments to PSPRS with paper checks – and even sending multiple checks through the mail for different tiers and plans every pay period.

The sign-up process to pay directly into the PSPRS account with Wells Fargo E-Bill Express, which employers already use to access contribution invoices, is easy and simply involves updating employer bank account information. The banking program also allows employers to assign different access privileges for staff for internal controls and audit compliance.

Benefits include the ability to make one combined payment across member tiers and plans. The electronic payment process eliminates the chance of typos, payment amount errors and the need for manual corrections or end-of-year adjustments. It also helps employers avoid the 10 percent interest charged to employers for late payments under state law.

"Anyone who has bought something from Amazon or ordered a pizza online can make contributions through Wells Fargo E-Billing Express," said Alison Lidstone, PSPRS senior accountant. "It's easier than writing and mailing checks. It's safer, more accurate and ensures timely payments. The employers whom we have helped make this switch are shocked at how much easier it makes their job."

Authorized employer payroll personnel can sign in to E-Billing Express to add employer bank account and routing information to simplify their contribution payments. Those requesting assistance can contact Wells Fargo customer service at billexpress@wellsfargo.com or reach out to the PSPRS Finance Department at finance@psprs.com or call 602-255-5575.

ICYMI: PSPRS GROWTH RATE LED LARGE U.S. PENSIONS

Aided by record-setting investment returns and employer pension debt payments, the rate of growth of PSPRS-managed plan assets exceeded that of all large U.S. pensions, according to the *Pensions & Investments* annual 1,000 Largest Retirement Plans report.

The publication's data and reporting noted that the combined PSPRS-plan pension trust and defined contribution plan assets under management grew at a rate of 44 percent to reach $16.1 billion last fiscal year. The growth by percentage exceeded that of all public pensions in the top 200 of the largest 1,000 U.S. retirement plans surveyed by the media outlet.

The growth rate of PSPRS was sufficient to make the agency the 175th largest U.S. retirement plan, up from its previous position of 217. The PSPRS increase was second, among the largest 200 plans tracked by *Pensions & Investments,* only to the defined contribution plan maintained by Microsoft, the multi-trillion dollar software development corporation.

The publication's survey covered retirement plans' aggregate size and growth but dozens of individual PSPRS and CORP employers' additional contributions also created a noticeable effect in terms of reducing unfunded liability contributions.

In total, public safety and corrections employers will pay $92 million less in required unfunded liability payments for the fiscal year 2023. The number of employers whose unfunded liability contributions exceed normal cost contributions also fell considerably.

"One of our board's highest priorities has been reducing employers' unfunded liabilities that require contributions to make up the shortfalls," said Administrator Townsend. "Between the incredible amount of additional employer contributions and investment returns last year, the amount of employers with debt payments that exceed normal cost contributions fell by almost 10 percent. That's a great accomplishment and we expect those numbers will continue to fall in the coming years."

ADDITIONAL CONTRIBUTIONS TOP $1.5 BILLION (AGAIN)

Public safety and corrections employers have continued paying down unfunded pension debts at a rapid pace throughout the current fiscal year ending June 30, 2022. Additional contributions for the 2022 fiscal year reached $1.59 billion by the end of March, surpassing the record set the previous year.

Fiscal year to date, 52 public safety and two corrections employers made pension debt contributions of at least $1 million. Tempe Police and the Pima County Sheriff's Office topped the list with each paying down more than $200 million of unfunded pension liabilities. Pima County's $64 million debt payoff led corrections employer contributions. Dozens of smaller employers, including fire districts, have also made unfunded pension liability payments.

All told, public safety and corrections employers have paid down almost $3.2 billion over the last 21 months. More than $2.5 billion in public safety pension debts were retired while $610 million of corrections debts have been eliminated.

"The employers looking into and taking action to reduce and eliminate their pension debts deserve a lot of credit," said PSPRS Board of Trustees Chairman Scott McCarty. "Their initiative is saving taxpayers money and protecting current and future benefits for their retirees and members."

HOW IT WORKS: PENSION CONTRIBUTION PREPAYMENTS

Some PSPRS-managed plan employers have taken to prepaying their pension contributions in order to save money and take advantage of interest that accrues through investment returns.

The payments are typically made at the beginning of each fiscal year and allow employers to forego the routine of making employer contributions each pay period.

Occasionally, the process of prepaying contributions leaves an excess balance at the end of the year. This happens when an employer's actual payroll falls short of the actuarially determined required contribution amounts that are included in employer valuations. When this happens, prepayment surpluses are credited towards the employers' reserve balance – and do not carry forward into the next fiscal year.

"Any unused contributions at the end of a fiscal year increase employers' balances and positively affect employers' actuarial valuations and contribution rates in the subsequent fiscal years," said PSPRS Chief Financial Officer John Moorman. "What we cannot do is hold the prepaid contribution balance or apply it as an employer contribution in the next fiscal year."

TRY OUR CALL BACK OPTION, HANG UP & WE'LL CALL YOU

The PSPRS call center receives almost 4,000 calls a month, which is why members, retirees and stakeholders can experience some delays in getting through to a representative. To spare callers the inconvenience of being left on hold indefinitely, PSPRS has added a new automatic callback function.

Now, callers waiting on hold for at least five minutes are given the option to enter their phone number in order to receive a call back from a PSPRS call center representative. During times of heavy call volume, the automatic callback option will be immediately available for callers.

"Our automatic callback function is relatively new and we're seeing some reluctance from our members and retirees to try it out," said Larry Lopez, PSPRS retirement specialist supervisor and call center manager. "Using the option significantly reduces the time members spend on hold while we work to provide the best service possible to each of our callers in the order they contacted us."

Typically, PSPRS call center volume has seasonal peaks for retiree open enrollment and the April 15 tax filing deadline. Morning callers tend to experience the shortest wait times, as call volume increases throughout the day.

ICYMI: ANNUAL EMPLOYER-LOCAL BOARD VIDEOS AVAILABLE

PSPRS would like to thank employers and local boards for their attendance at this year's event held on February 17. Presented by Administrator Townsend, Chairman McCarty and trustees, the system's actuarial consultants and PSPRS staff subject matter experts, the video recordings and event presentations are available on our YouTube channel and website.

PSPRS EARNS 2ND TRANSPARENCY AWARD FROM PENSION GROUP

For the second year in a row, PSPRS has been honored with the Certificate of Transparency by the National Conference on Public Employee Retirement Systems (NCPERS). The award recognizes pensions that "contribute to the public's understanding of public retirement systems," through participation in an annual survey to assist NCPERS research and publication efforts.

Participants in the *2021 NCPERS Public Retirement Systems Study* included 156 state and local government pension funds. NCPERS evaluates information provided on plan design, investment allocation and returns, actuarial assumptions, and plan governance practices.

"Our board and staff are committed to system transparency and NCPERS provides excellent educational resources for its members, policymakers and the public," said Administrator Townsend. "This award is a welcome acknowledgement that we are providing that transparency and it serves as a reminder of our continued responsibility to the public at large."

YOU GOT (THIS) MAIL!

All PSPRS employers, local boards, members, and retirees can sign up to receive the PSPRS newsletter and updates. If you received this newsletter from a colleague – or are tired of forwarding emails – please use or share this link to help others join our mailing list by completing this form.

Those approaching retirement are especially encouraged to subscribe with personal email addresses (PSPRS does not share contact information with third parties) to avoid missing out on future communications.