EMPLOYERS CUT $2,849,167,111 OF PENSION DEBTS IN FY2022

Arizona state, county, municipalities, and fire districts eliminated $2.85 billion of unfunded pension debts through appropriations, bonding and tax measures, and budgetary maneuvers.

The state budget included almost $1.15 billion of appropriations to drastically reduce state public safety and corrections employer pension debts. The largest individual state contributions were made for the Arizona Department of Corrections, Rehabilitation and Reentry and the Department of Public Safety, which were $475 million and $420 million, respectively.

All told, more than 100 employers made additional pension debt contributions, including 78 public safety and corrections employers that contributed at $1 million or more in fiscal year 2022 ending June 30, 2022. Tempe led all cities with police and fire pension debt contributions totaling $341 million, while Pima County's $268 million sheriff's office and corrections debt pay-down topped county governments. The Central Arizona Fire and Medical Authority in Prescott Valley led all fire district debt payments with a $42 million contribution.

"Clearing this much unfunded pension debt off the books in a single year takes an incredible amount of resolve and initiative among employers throughout the state," said Administrator Mike Townsend. "It also takes faith in our commitment to protect members' retirement benefits and to help employers and taxpayers save money. We're grateful for the opportunity to work towards a lasting positive impact for all stakeholders."

The $2.85 billion in additional employer contributions in fiscal year 2022 easily surpassed the 2021 fiscal year total of $1.58 billion and the FY2020 total of $120 million. Fiscal year 2022 employer valuations and the system's consolidated annual reports for public safety, corrections, and elected officials plans will be completed and published before the end of the calendar year.

PSPRS OPENS FOR APPOINTMENT-ONLY CONSULTATIONS

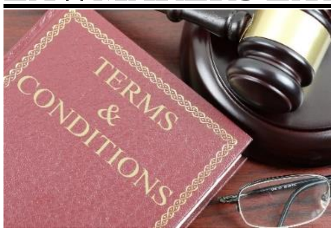
For the first time since March 2020, the PSPRS office in Phoenix is open for plan benefits and services consultations. PSPRS requires that members, retirees, and survivors schedule appointments prior to visiting the office to ensure staff availability, efficiency and the highest level of service.

"We're extremely pleased to open the office to the members and retirees and families whom we have the privilege of serving," said PSPRS Member Services Director Robert Ortega.

"The scheduling of appointments allows us to focus on delivering the best and most convenient individual customer service that we can."

To make in-person or online consultation appointments please call PSPRS at (602) 255-5575 or email our Call Center Team. PSPRS department email and phone contact lists are available here.

LAWMAKERS EXTEND DROP TO SEVEN YEARS



State lawmakers and Governor Ducey approved legislation that makes conditional service extensions to DROP participation. The conditions for extending DROP service to seven from five years are different for members who are currently in DROP and for those who will enter in the future.

The PSPRS Board of Trustees did not take a position on the law, Senate Bill 1268, which underwent a series of amendments before passing. The legislation was primarily supported by law enforcement organizations as a means to help encourage member retention in response to attrition and slowing recruitment.

The new law allows members currently in DROP to seek their employers' approval to extend their service beyond the traditional 60-month (five-year) limitation and contains an emergency clause to make the law effective immediately upon the governor's July 6 approval.

The law does not alter the basic eligibility requirements of the regular five-year DROP for Tier 1 public safety members, but adds several conditions to enable future DROP members to continue service beyond the five-year limit. In order to be eligible for extending DROP service up to seven years, future DROP members must be at least 51 years old and have 24.5 years of credited service at the time they enter DROP.

Eligible members who elect to extend their service will also have their pension balance and accrued interest transferred into a 401(a) account after five years in DROP. Subsequent monthly pension payments will be deposited by PSPRS into participating members' 401(a) accounts maintained by Nationwide Retirement Solutions over the course of participating members' remaining service, not to exceed 24 months. The PSPRS assumed rate of return will not be applied to DROP accounts after five years of service in DROP.

Members currently in DROP on the date the legislation was signed by the Governor are eligible for extended DROP, however the transfer to Nationwide has an effective date of January 1, 2023. Those members in extended DROP will have their pension balance and accrued interest remain with PSPRS and will not accrue additional interest from the expiration of the 60-month DROP through December 31, 2022.

EORP NEWS: A NEW RETIREMENT OPTION AND APPROPRIATION

The retiring of public debts was of huge interest to the Legislature and extended past state public safety and corrections employers and into the pooled Elected Officials Retirement Plan.

With the passing and signing into law of SB1002 (Laws 2022, Chapter 323), the Legislature and executive branch signed a $60 million check to EORP in order to offer an early retirement option for members. It is anticipated that not all eligible members will participate, resulting in any amounts not needed to offset the early retirement option would result in reducing the unfunded liabilities and decrease employer contribution rates.

The law, which the PSPRS Board of Trustees did not take a position on, loosens EORP members' age and credited service normal retirement requirements for a limited time period that ends July 30, 2022. Under its provisions, EORP's Tier 1 and 2 members who give notice of resignation by July 30 with an effective date no later than September 30, 2022, can retire at 55 years old with 10 years of credited service or 59.5 years old with five years of credited service.

Age and credited service requirements, as well as Tier 1 and Tier 2 EORP retirement benefit calculations, can be viewed here. Members and employers are encouraged to read the full text of the law.

TAXATION CHANGES FOR CANCER INSURANCE PREMIUMS

Cancer insurance premiums, paid by public safety employers on behalf of their members, are now taxable as part of member's imputed income for the fiscal year 2023.

This change was part of the 2022 PSPRS "admin" bill. By taxing the premiums, cancer diagnosis payments will become tax free over the next three years. This change will also reduce delays as payments will no longer be processed by employers but will be payable directly from PSPRS to members.

As dictated by IRS rules, the transition to non-taxable claim payments will take place as follows: FY2022 – diagnosis payments are 100% taxable, in FY2023 they are two-thirds taxable, and in FY2024 they are one-third taxable. In year four, FY2025, and going forward all claim payments will be tax free.

Annual cancer insurance premiums will continue to be billed by July 31 and public safety employers must remit payment by August 31. For FY2023, PSPRS recommends employers plan to tax members for their cancer insurance premiums after SB1084 (Laws 2022, Chapter 73) becomes law on September 24, 2022.

LEGISLATION SUMMARY 2022

Several laws impacting PSPRS that were supported by the Board of Trustees were signed into law this year and are summarized below. Stakeholders, especially employers and local boards, are encouraged to read each law and not rely on summaries.

All legislation becomes effective September 24, 2022, unless otherwise stated.

The laws bring notable changes to the PSPRS cancer insurance program, return-to-work requirements, and allow employers with excess funding levels to have reduced normal cost contributions to the system.

SB1081 (Laws 2022, Chapter 72) PSPRS; Advisory Committee

- Allows the President of the Senate and Speaker of the House of Representatives to each appoint one member to the PSPRS Advisory Committee
- Removes the requirement for legislative appointees to be a legislator or legislative staff member

SB1084 (Laws 2022, Chapter 73) Public Retirement Systems; Administration

- Requires public safety employer cancer insurance premium payments to be treated as taxable member wages for the purpose of allowing members to avoid taxes on cancer claim benefits
- Makes tribal game rangers eligible for PSPRS plan membership
- Changes PSPRS required financial reporting dates for the shared cost structure of employees and employers, assets and liabilities, operations reports, investments reports, status of the defined contribution system performance, as well as contribution rates for the ensuing fiscal year, to December 1 from December 31

SB1085 (Laws 2022, Chapter 221) PSPRS; Funded Ratio; Asset Transfers

- Allows the PSPRS Board of Trustees to suspend or reduce an employer's normal contribution rate if that employer becomes more than 100 percent funded at the present value of future benefits (Note: Not actuarially determined funded status)
- Allows employers to request a transfer of excess assets from an employer account that has no liabilities or beneficiaries to another employer account

HB2063 (Laws 2022, Chapter 24) PSPRS; CORP; Reemployment; Time Period

- Reduces separation of services requirement to six from 12 months

- Removes current “entry-level, non-supervisory” position requirement in state law
- Forbids “pre-arranged reemployment agreement” with members and employers

HEALTH CARE SUBSIDY OPEN ENROLLMENT FOR TIER 3 DC-ONLY

The health insurance subsidy enrollment period for Tier 3 Defined Contribution-only plan members opened July 1 and current members and new hires will have 90 days to opt-in through the PSPRS Members Only portal.

The benefit, which is already provided to Tier 1, 2, and 3 members with pension or hybrid benefit plans, helps pay for health and dental insurance premium payments for public safety and corrections members upon retirement. Participation is voluntary.

The 90-day window gives currently enrolled DC-only members (use of the 401(a) account overseen by Nationwide Retirement Solutions) an opt-in deadline of September 28, 2022. New Tier 3 DC-only members will have 90 days from their hiring date to make this election. Decisions to opt-in or decline the benefit are irrevocable under IRS rules and contributions are not refundable. Failure to make an election within 90-days will default to opt-out.

Under SB1045 (Laws 2021, Chapter 330) the costs for the plan are split equally between Tier 3 DC-only members and employers, with an actuarially determined contribution rate of 0.17% (less than 1 percent).

PSPRS has communicated with employers and impacted members and shared a new code for reporting contributions to PSPRS on behalf of members. Those hired on or after July 1, 2022 will make this decision when they elect their other benefits. Employers are encouraged to discuss the health insurance subsidy with future Tier 3 DC-only hires.

BOARD OF TRUSTEES CHANGES ACTUARIAL ASSUMPTIONS

The PSPRS Board of Trustees voted to continue making conservative adjustments to its actuarial assumptions aimed at lowering long-term employer costs and saving Arizona tax payers money. The changes may result in increased short-term contribution requirements for employers.

The board’s May meeting vote continued the phased-in reduction of assumed payroll growth for PSPRS, CORP, and EORP, while the board lowered its assumed rate of return to 7.2 percent from 7.3 percent.

“The board’s vote continues the policy goal of reducing employer payroll growth assumptions that for many employers were unrealistic and a contributing factor to unfunded pension liabilities,” said Board of Trustees Chairman Scott McCarty. “This is a policy that’s designed to improve funding levels, lower contribution rates, and it’s projected to save taxpayers more than $1 billion over the next two decades.”

The PSPRS Board of Trustees implemented its phased-in reduction of payroll growth assumptions in the summer of 2020 in order to avoid negative amortization for employers, which occurs when pension contributions are insufficient to offset the growth in unfunded pension liabilities.

Pension liabilities, calculated annually, are influenced by a variety of demographic, benefit and investment return assumptions and experiences. Click here to watch the PSPRS video on pension financing.

The board’s May vote to lower the system’s assumed earnings rate is the first rate reduction since July 2018. The board also implemented small adjustments to assumptions for inflation, member salaries, and rates for retirement, termination, disability and mortality.

PBS ARIZONA HORIZON TALKS TO ADMINSTRATOR TOWNSEND

In May, Administrator Mike Townsend shared an overview of PSPRS on Arizona Horizon, the weekday PBS show that focuses on public policy issues.

Host Ted Simons asked questions about the work PSPRS is doing to improve it investment strategy and to help reduce the financial burden facing taxpayers.

The difference "with pension systems is we're not looking at one or two years, we're looking at decades," shared Administrator Townsend. "We're making progress…by putting the right structures in place, right staff and right tools, to manage this…and to ensure savings for taxpayers over the next 30 years." Watch the full segment to learn more.

LOCAL BOARD NOTIFICATION REQUIREMENTS & TRAINING

Reminder: PSPRS must be notified within 10 days of a change to local board members, secretaries or counsel via the Local Board Member and Employer Information Update (REVISED) form.

New appointees are then required to complete mandatory training within 180 days of their appointment. Training covers open meeting laws, fiduciary duties and legal review, and ethics and is available on the PSPRS YouTube channel. Learn more on the PSPRS HB2381 webpage.