PSPRS, CORP PLAN FUNDING LEVELS CONTINUE TO CLIMB

Aided by additional employer pension debt contributions, PSPRS and CORP funding levels posted double-digit improvements, according to 2022 fiscal year valuations from system actuaries Foster and Foster.

The funding level of the public safety plan increased to 65.2 percent, marking a 10 percent year-to-year gain and the highest level since 2010. The gain in the corrections pension plan was more significant, as the CORP funding level hit 84.8 percent after climbing more than 13 percent from its level in fiscal year 2021.

"The funding level gains are an enormous achievement for employers, members, retirees, and Arizona taxpayers," said PSPRS Administrator Mike Townsend. "The improvements to the system, and the commitment of our Board of Trustees and staff have encouraged employers determined to pay down debts to take those steps over the past few years."

In total, public safety and corrections employers paid down $2.85 billion of unfunded pension liabilities over the last year. The amount eclipsed the previous record set at $1.58 billion in fiscal year 2021 and pushed overall additional public safety and corrections contributions from July 1, 2020, to August 31, 2022, to $4.8 billion.

"Right now, the majority of our employers have well-funded plans as a result of their initiative and commitment to members and taxpayers," said PSPRS Board of Trustees Chairman Scott McCarty. "The focus of the board is to continue working with employers to improve funded status for those underfunded plans and provide tools and information to maintain the improvements for those who paid additional contributions."

While the health of PSPRS and CORP rebounded, the pooled Elected Officials Retirement Plan funded status fell slightly to 34.8 percent. In 2022, the Legislature committed a $60 million appropriation to EORP that was delivered after the June 30, 2022, end of the fiscal year.

Individual employer valuations are scheduled to be posted to www.psprs.com by the end of the year.

MARKETS DROP IN FY2022 WHILE TRUST CONTINUES TO GROW

After posting record-setting returns in FY2021, the PSPRS trust investments fell -4 percent on a net of fee basis at the end of FY2022. Even so, the trust's total value reached $17.7 billion. The growth was largely due to additional contributions made by employers to pay down unfunded pension obligations.

"The PSPRS portfolio performed far better than the major stock and bond indices and the agency's investment team avoided investment commitments in markets that they rightly predicted would fall in value," said Trustee Harry Papp, chairman of the PSPRS Investment Committee. "We're satisfied that the trust performed as designed and we look forward to more cooperative markets."

While both domestic and international stock markets fell by double digits, PSPRS-managed assets were largely shielded due to low exposure to stock market index funds and large holdings in cash. Plan investments in private equity, venture capital, real estate, real assets, and private credit significantly outperformed benchmarks and protected against further reductions in trust assets.

"Our diversification into private markets helped the trust handle the volatility caused by inflation and corresponding federal interest rate hikes, supply chain disruptions and other international affairs," said PSPRS Chief Investment Officer Mark Steed. "We're still well-positioned against additional volatility and to take advantage of opportunities that strengthen the long-term sustainability of the pension trust."

PSPRS generated more than $3.1 billion in annual investment returns for fiscal year 2021, a 27.8 percent net-of-fee return that marks a new record for the pension system.

PSPRS BOARD REDUCES TIER 3 CONTRIBUTION RATES

Starting July 1, 2023, most Tier 3 members and employers will see some savings as the PSPRS Board of Trustees voted to lower Tier 3 contribution rates by an average of half of 1 percent.

Since the inception of Tier 3 benefits for public safety and corrections members, trustees have taken a cautious approach to setting contribution rates designed to keep the plans fully funded. Encouraged by current funding levels in excess of 100 percent, trustees voted in November to reduce Tier 3 contribution rates on most plans for the first time.

"Our goals were to apply a consistent standard that saves members and employers money while keeping the Tier 3 plans safe from volatile investment markets or other challenges that could force the board to increase contribution rates in the future," said PSPRS Board of Trustees Chairman Scott McCarty. "We sought the appropriate balance between not charging members and employers too much and not leaving the young pension plans too vulnerable to the next recession."

Currently, there are 19 public safety employers with their own Tier 3 plans while smaller employers with less than 250 members use a pooled plan with shared assets, liabilities and equal contribution rates.

The Administrative Office of the Courts employs probation and surveillance officers, which are the only Tier 3 corrections members eligible to receive a defined benefit pension, as state, county and local government Tier 3 corrections officers receive defined contribution benefits through the 401a plan.

The board's action applies the actuarially determined contribution rate and adds a 0.75 percent "buffer" rate that is paid by members and employers. The decision results in lower contribution rates for all Tier 3 members and employers with the exception of the Gila River Fire Department, whose rates will not change.

INSIDE CONTRIBUTION RATE REPORTING AND TIMING

While the inner workings for determining employer funding levels and required contribution rates are a bit complicated, the timing, process and requirements for the PSPRS Board of Trustees are dictated by statute and straightforward.

By having the requirements in state law, PSPRS and similar public pension funds meet the IRS requirements for plan documents that govern management and finances. The basic statutory duty for PSPRS is to provide employers and local boards with actuarial valuations for public safety and corrections plans.

State law obligates employers to make actuarially determined contributions to cover the normal cost of members' accruing benefits plus the amount necessary to finance employers' unfunded pension obligations.

Both normal cost and the unfunded liability contribution rate, known as the Unfunded Actuarial Liability payment, are expressed through a level percentage of member salaries.

The PSPRS Board of Trustees approves its actuarially determined contribution rates, which must be reported to state officials by December 1 of each year. The rates become effective the following fiscal year beginning July 1. Individual employer valuations with employer and member contribution rates are also posted to the PSPRS website in December to allow employers to budget, and, if necessary, communicate any questions, potential errors or unique circumstances to PSPRS management.

PSPRS management, working with the system's actuaries, can adjust required contributions for an employers in unique circumstances if that adjustment is necessary to be consistent with actuarial funding policy, adopted assumptions and actuarial standards. Employers should not make any assumptions as to adjustments being made to ARS required contributions outside the process of working with PSPRS management.

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

SAVE THE DATE: 2023 EMPLOYER & LOCAL BOARD CONFERENCE

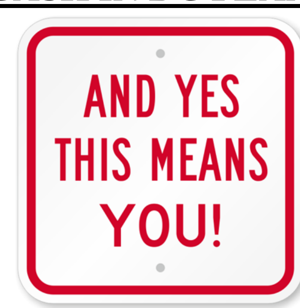
The PSPRS 2023 Employer & Local Board Conference will be held Wednesday, March 1, 2023. The in-person event will be held at the Desert Willow Conference Center.

Registration for the event will open in January 2023 at the cost of $75 per person. Payments, which cover attendee breakfast and lunch, can be made with ACH, wire transfers and check.

The conference will feature PSPRS trustees and staff, who will deliver updates on system policies, finances, legislation and operations.

"It's hard to believe that this will be our first in-person conference in three years," Administrator Townsend said. "We're looking forward to catching up in person with local board members and employers from across the state and putting on a great program."

NOT A SCAM OR SPAM: MANY EMPLOYERS HAVE CASH IN DC PLAN



In October, PSPRS notified 90 public safety and corrections employers of existing balances in the Nationwide Retirement Solutions 401(a) DC-plan. To date, only two employers have taken advantage of contribution credits made available from funds "forfeited" by members who terminate prior to becoming fully vested in their employers' matching contributions.

These employer contributions not yet vested are considered to be "forfeited" by the employee and are not credited to the employee's account when they terminate.

Impacted employers can view their credit balance here and access directions for applying the credits here. Please contact Nationwide at nrscontr@nationwide.com, or call 1 (877) 496-1630, option 1, for assistance.

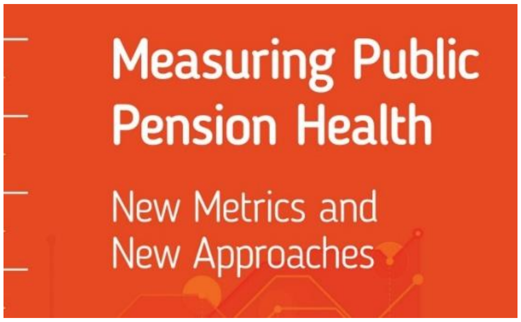
EXTENDED PUBLIC SAFETY DROP FAQ AVAILABLE

In response to frequent questions about extended DROP service made possible by legislation passed earlier this year, PSPRS has created a frequently asked questions tip sheet and updated its public safety DROP webpage.

Common questions include eligibility requirements for extending DROP to up to seven years from five, interest accrual and deferred retirement balance transfers to 401(a) defined contribution accounts maintained by Nationwide Retirement Solutions.

DROP is available to only Tier 1 public safety members. The changes to state law do not impact the "Reverse DROP" benefit available to members of the CORP defined benefit pension plan.
Learn more by downloading the PSPRS extended DROP FAQ or visiting the public safety DROP webpage.

CHAIRMAN McCARTY HELPS PENSION EVALUATION GROUP



A pension sustainability study assisted by PSPRS Board Chairman Scott McCarty is making the rounds in U.S. pension circles. McCarty and Brown University professor Tom Sgouros led the Pension Accounting Working Group that examined new methods for determining pension financial health and risk.

The group's study, entitled *Measuring Public Pension Health: New Metrics and New Approaches* was facilitated and published by the National Conference on Public Employee Retirement Systems. The pair presented a summary of the study at the organization's Public Safety Pension Conference in late-October.

"We tried to go beyond the usual accounting measurements to introduce more three-dimensional ideas to measure and manage public pensions," said McCarty, co-chair of the working group. "The fact is that two pensions can look the same on financial reports despite having different risks and safeguards. We wanted to capture and articulate key factors that don't show up on spreadsheets."

The Pension Accounting Working Group developed several new pension sustainability recommendations and measurements, including the use of scorecards for pension funding and investment policies, and "scaled liability" analysis to evaluate employer pension debt in relation to the size of the employer's economy. The study also analyzed the use of employer unfunded actuarial liability stabilization payments to ensure that pension funding levels do not decrease from year to year, as well as the practice of "risk weighting" to assess the inherent risk of loss associated with various asset classes in pension trust investment portfolios.

LOCAL BOARD NOTICE: NOTIFY PSPRS OF BOARD, STAFF CHANGES

Notifying PSPRS of new local board members and staff, including secretaries and counsel, helps PSPRS communicate with its stakeholders – and it's the law.

Local board secretaries must inform PSPRS of new local board members and staff within 10 days of election, appointment or hiring by completing and sending the Local Board Member and Employer Information Update form to localboards@psprs.com. Upon receiving updates, PSPRS informs local board secretaries of training requirements for new members and staff are then required to complete mandatory training within 180 days of their appointment.

Training consists of watching several short videos on open meeting laws, fiduciary duties and legal review, and ethics. Links to the training videos, which are posted to the PSPRS YouTube channel, and confirmation instructions are sent to local board secretaries by PSPRS. For more information about changes to local board and employer duties please visit the PSPRS HB2381 webpage.

FAREWELL AND BEST WISHES TO PHIL COLEMAN

Longtime PSPRS Employer Relations Manager Phil Coleman retired to return home to family and friends in his home state of Minnesota in November after five years with PSPRS.

Coleman was a key speaker at PSPRS conferences and webinars and an experienced hand in answering calls and questions from hundreds of system employers.

For those interested, PSPRS is seeking to hire a new employer relations manager. Position duties and details can be found on the PSPRS career opportunities webpage. In the meantime, employers can direct questions to Joann Lowey, PSPRS Local Board Relationship Manager.