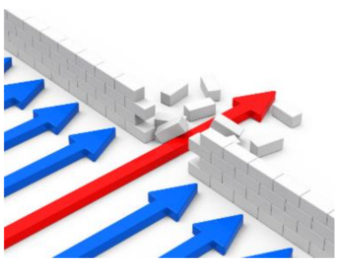
PSPRS FY2023 Fourth Quarter Newsletter

INVESTMENT RETURNS GROW TRUST TO RECORD LEVEL



PSPRS-managed plan investments produced a 7.6 percent net of fee return for the 2023 fiscal year ending June 30, 2023, to push plan assets to a record $19.5 billion.

The returns were largely due to strong performance in domestic and international stocks, which produced 18.9 and 12.9 percent returns, respectively. Overall, investment returns produced $1.4 billion of value for the PSPRS-managed plan trust, which also grew from employers making additional contributions to pay down unfunded pension debts.

Trustee Harry Papp, chairman of the PSPRS Investment Committee, regarded the returns, which meet or exceed the trust's 7.2 percent assumed rate of return across all measured timeframes, as another positive development for agency stakeholders.

"The PSPRS investment team continues to produce for its members, retirees, and employers while keeping risk in check," said Papp. "We're pleased to see the trust's investment returns exceed our assumptions as this will have a positive impact on employer funding status and contribution rates."

Throughout the fiscal year, PSPRS continued its cautious approach to investing large amounts of additional employer contributions aimed at reducing unfunded pension liabilities. The proceeds continue to be invested in private credit opportunities, short-term treasury bonds and other instruments.

"We've been very careful with investing employer pension debt contributions and the returns were productive from both a short and long-term perspective," said PSPRS Chief Investment Officer Mark Steed. "The investment team and consultants deserve credit for their performance in carrying out the investment policies of the Board of Trustees."

'ADVANCE REIMBURSEMENT' COMING TO CANCER INSURANCE

In August, the PSPRS Board of Trustees approved a sweeping change to the PSPRS Cancer Insurance Plan to begin adding advanced reimbursement payments to cover member and retirees out of pocket expenses associated with treatments for cancer.

The change, set to become effective in January 2024, provides an additional $1,000 to the $15,000 cancer diagnosis payments and sets up incremental reimbursement payments when member/retiree out-of-pocket expenses exceed set financial thresholds.

"Switching to an advance reimbursement schedule makes this an easier system to navigate for members and retirees already struggling with the distress and expenses of a cancer diagnosis," said PSPRS Administrator Mike Townsend. "The board's change also helps make this valuable insurance plan operate more efficiently and effectively."

The advance reimbursement policy change follows a detailed review of the Cancer Insurance Plan conducted by PSPRS staff and Segal Consulting. The assessment found that reimbursements made up more than 60 percent of claims processed but accounted for only 8 percent of annual total claim payments. Advanced reimbursement is expected to add 3 percent to the plan's annual claim expenses while reducing time-consuming reimbursement claims by more than 75 percent.

The plan policy change also directs PSPRS staff to transition to the advanced reimbursement process for those diagnosed with cancer prior to January 1, 2024. All members and retirees who file or will file cancer insurance diagnosis claims are encouraged to save documentation for uncovered cancer related care to apply for potential advanced reimbursement payments.

The PSPRS Board of Trustees also approved a revised Cancer Insurance Plan funding policy designed to keep plan premium payments low (at $50 a year since 2012), draw upon CIP investment income for plan support and maintain a reserve balance of at least three years of expenses.

ADDITIONAL EMPLOYER CONTRIBUTIONS REACH $5 BILLION

Additional pension debt contributions from Arizona's public safety and corrections employers broke the $5 billion mark in a span of a little more than three years.

More than 125 employers have made additional contributions of at least $1 million to the PSPRS and CORP pension plans since the beginning of the 2021 fiscal year. Additional pension debt contributions from employers helped push combined pension debt payments to a total of $5.2 billion.

Administrator Townsend congratulated employers – many of whom "struggled for years with rising pension costs" – and noted that their actions and investment returns have produced dramatic results for the public safety and corrections officers plans.

"The assets under management have almost doubled over the last three years while employer funding levels have risen and employer contribution rates and required amounts are falling," said Townsend, who provided additional color on the achievement in an interview with *Pensions & Investments* magazine.

Aggregate funding levels for the public safety and corrections officer retirement plans have increased by 39 and 60 percent, respectively, since fiscal year 2020. Aggregate employer contribution rates have fallen by 20 percent for PSPRS and 43 percent for CORP during the same time period.

Updated financial reports on system status, including the impact of $500 million of additional contributions made during the fiscal year that ended June 30, 2023, will become available later this year.

"Our board prioritized employer outreach about the true costs of pension debt and making conservative changes to actuarial assumptions and policies in order to protect the financial progress that employers are making," said PSPRS Board of Trustees Chairman Scott McCarty. "We're very pleased with the speed of the recovery of the PSPRS and CORP retirement plans, which has been a team effort, and we're looking forward to the results of the coming fiscal year 2023 valuations."

STATE APPROPRIATION TO BENEFIT ELECTED OFFICIALS PLAN

A somewhat forgotten piece of legislation passed during the 2022 legislative session delivered the rare and only additional pension debt contribution to the Elected Officials Retirement Plan. Senate Bill 1002 (Laws 2022, Chapter 323) offered EORP members a temporary early retirement option and an appropriation of $60 million to cover related costs and help boost the plan's sagging funding level.

EORP, unlike the public safety and corrections officers retirement plans, which hold individual employer accounts, is a pooled plan with commingled assets, liabilities, and resulting contribution rates that makes it unsuitable for additional contributions from individual employers.

During the 2023 legislative session, lawmakers considered HB2430, which proposed a $609 million general fund appropriation to pay down unfunded EORP pension liabilities along with a repayment plan for cities, towns and county employers. The stakeholder-led bill passed the House of Representatives but stalled in the Senate Appropriations Committee on a 5-5 vote.

The $60 million appropriation provided to the elected officials plan during the 2023 fiscal year covered approximately 9 percent of the plan's $669 million unfunded liabilities. The elected officials plan, which was closed to new members in 2014, was 33 percent funded as of June 30, 2022.

"The appropriation will have a positive impact on EORP's funding status that can't be overlooked," said Administrator Townsend. "The state has paid down more than $2 billion of unfunded pension liabilities in the last several years and we'll continue to work with the Legislature to provide education and funding options related to EORP."

BE PROACTIVE, IT'S THE BEST DEFENSE AGAINST ID THEFT

The PSPRS information technology department takes a 360-degree approach to protect member data. This includes system monitoring 24 hours a day, working with the U.S. Department of Homeland Security and using advanced artificial intelligence.

While PSPRS takes these precautions, retirees are still vulnerable to online scams. Retirees tend to have good credit scores, established deposit accounts and regularly scheduled pension payments that makes them prime targets for fraudsters. Don't be a victim. Protect yourself using these tips:

- **Check statements and other financial records regularly.** Monthly bank statements, credit card statements and credit reports can help to catch fraud sooner.
- **Check your email regularly.** Fraudsters may try to change demographic or direct deposit information on your accounts after gaining access to your email. By regularly checking your inbox you may catch suspicious activity right away.
- **Don't use the same username and password for multiple accounts.** Once a fraudster gets a hold of it, they now have access to multiple accounts. Additionally, make usernames and passwords difficult to guess. For additional resources check out these cybersecurity tips.
- **Don't provide personal information to anyone.** Legitimate businesses will never call and ask for personal information. If a caller is asking for personal information, hang up.
- **Don't store or save personal information electronically.** Storing information like your social security number, usernames and passwords in your email is a bad idea. Once a fraudster has access to your email it's one quick step to stealing your identity. Instead, use a password manager service such as Keeper, Bitwarden or KeePass. Many of these services also let you add notes or other documentation for better protection.
- **Don't click on links.** Fraudsters are able to mimic an email address to make emails appear to be from a familiar person or entity. Avoid clicking on an email or text message link when you weren't expecting an email, as it could lead to a virus being downloaded into your device giving fraudsters access to all your information.
- **Use Multi-Factor Authentication.** Most email providers allow an additional security procedure called multi-factor authentication or MFA. MFA is an authentication method that requires the user to provide two or more verification factors to gain access making it more difficult for a fraudster to access.

For your protection, PSPRS continues to review and advance our security on a regular basis. If you think your email, or other sensitive information has been stolen or compromised, contact Member Services at (602) 255-5575 right away to place a hold on your account or upcoming payments until all information can be confirmed.

AGAIN: SEND FY24 EMPLOYER PENSION FUNDING POLICIES

This is another reminder for public safety and corrections employers to submit their funding policies to PSPRS to assist in complying with financial reporting laws.

The requirement is due to SB1649 (Laws 2021, Chapter 251). The law requires PSPRS to post employer funding policies to the agency website and implement plan "stress-testing" and reporting requirements. (Similarly, HB2097 (Laws 2018, Chapter 112), mandates that employers publish their pension funding policies to their own websites.)

PSPRS requests that employers email existing copies of their fiscal year 2024 pension funding policies to employerservices@psprs.com. Questions can be directed to PSPRS Employer Relations Manager Harold Greene at hgreene@psprs.com.

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