ADMIN. TOWNSEND: REFLECTION ON YEARS OF PROGRESS

It’s the holiday season, the time for financial reporting, employer valuations and self-reflection by pension plans. The progress measured over the 2023 fiscal year is impressive when all factors are taken into account. When we step back just a few short years, the results are astonishing and must be shared with our stakeholders.

The campaign to wipe out public safety and corrections pension debts started about four years ago. Municipal and county leaders, state lawmakers, and local fire districts led this movement and together paid down more than $5 billion of unfunded pension liabilities. This work with employers leverages the legislative reforms and Board of Trustees policy changes to put PSPRS on a path to full funding.

By the end of the 2020 fiscal year, PSPRS had a funding level of about 47 percent. As of June 30, 2023, that number stands at more than 66 percent. For the corrections plan, CORP, the progress is even greater. CORP stands at more than 84 percent funding level – compared to 52 percent just a few years ago.

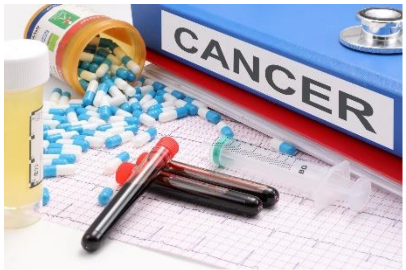
That alone, says Brad Heinrichs, an independent actuary contracted by the board, “rivals the level of improvement of any public pension in the country.” Heinrichs’ firm, Foster & Foster consulting, does actuarial work for 1,000 U.S. pensions.

Combined assets of the Tiers 1 and 2 public safety and corrections plans – the closed “legacy” pensions that drove contribution rates to the brink for many employers – increased by almost $8 billion in the last four years. In July 2025, the aggregate annual public safety employer contributions required will be 20 percent less than what they were three fiscal years ago. For CORP employers, total contributions will have fallen by almost 55 percent. In dollars, that’s a combined, one-year contribution reduction of $260 million.

As it stands, employers who paid down pension debts are seeing more of their contributions cover the benefits earned by members – and far less money spent financing unfunded pension obligations. Even better, the investment policy revisions and management have also contributed to the improved funding with $4 billion in growth in the past four years.

It has been a privilege and an honor to work with employers, policymakers, PSPRS staff, and trustees who together have helped protect retirement benefits for plan members and deliver billions of dollars of savings for taxpayers. We are looking forward to reengaging with employers regarding continued planning to ensure the financial health of PSPRS-managed plans. Happy holidays and Happy New Year from PSPRS.

REMINDER: 'ADVANCE REIMBURSEMENT' FOR CANCER PLAN



The PSPRS Cancer Insurance Plan is switching to an advance reimbursement policy in 2024 to make the system easier for members and retirees already struggling with a cancer diagnosis.

The change allows PSPRS to provide an additional $1,000 to the $15,000 cancer diagnosis payment, as well as incremental reimbursements when member/retiree out-of-pocket expenses exceed set financial thresholds.

All members and retirees who file cancer insurance diagnosis claims are encouraged to save documentation for uncovered cancer related care to apply for potential advanced reimbursement payments.

TRUSTEES INCREASE PSPRS TIER 3 PENSIONABLE INCOME LIMIT

The PSPRS Board of Trustees in November voted to increase the wage index for Tier 3 public safety members. Included in state law, the wage index limits the amount of individual member salaries that are considered pensionable income or subject to employer "matching" contributions to the Defined Contribution 401(a) plan.

Starting in the new year, the pensionable or matching eligible salary limit will be $140,952, which marks a more than 20 percent increase from the previous limit of $115,868. Under law, the wage index for the Tier 3 public safety and corrections officers retirement plans must be reviewed every three years.

The wage index increase was based on the results of a member salary study of 26 employers that was conducted this year by PSPRS staff. A similar survey of corrections officers is set to occur in 2024.

The wage index increase does not require additional action by employer payroll departments responsible for reporting and making member contributions to PSPRS. The limits will be applied automatically to the payroll reporting software that is maintained by PSPRS and used by employers. However, employers with internal contribution limitation settings on their payroll systems are encouraged to make adjustments that take the new wage index limit into account.

RETIREE, SURVIVOR TAX FORMS TO ARRIVE IN FEBRUARY

PSPRS-managed plan retirees and survivors can expect to receive their 2023 tax forms in early February 2024. The 1099-R forms are mailed to home addresses on file no later than January 31.

Each year, PSPRS sends roughly 28,000 forms – and receives more than 400 "return to sender" 1099-Rs that landed at former addresses of retirees. Retirees are encouraged to log on to their Members Only accounts to check their mailing information to ensure tax information arrives promptly. Changing addresses on file requires completing and submitting an address and name change form.

Downloadable electronic copies of 1099-R forms will also be made available in the Members Only portal no later than January 31. PSPRS also distributes 1099-R forms to all individuals who receive lump sum payments during the calendar year, including primary beneficiaries, death benefit recipients and former plan members who have refunded their account balances.

PSPRS CHIEF INVESTMENT OFFICER HONORED BY PENSION PRESS

PSPRS Chief Investment Officer Mark Steed took home not one but two top honors from national financial media outlets in recent months.

Steed's nominations and awards stemmed from his study of how investment performance impacts contribution rate volatility, development of statistical models and data analysis, and his measuring the accuracy and confidence of economic and investment-related forecasts of the PSPRS investment team.

In September, Steed, one of six nominees, was named Innovator of the Year at the 2023 Allocator's Choice Awards event hosted by *Institutional Investor*. Later, in December, *Chief Investment Officer* magazine awarded Steed top honors for innovation for public pensions with $10 billion to $20 billion of assets under management.

"It's a great recognition for what we are doing in Arizona, which is taking every measure that we can to responsibly and better serve our members, retirees and employers," Steed said. "The awards reflect the commitment, capability, and hard work of the entire PSPRS investment team, our consultants and our trustees."

Steed, who has a Master of Science degree in predictive analytics from Northwestern University, started with PSPRS in 2007 as an investment intern. He managed each asset class portfolio before being appointed by trustees to the position of chief investment officer in 2018.

Under Steed's leadership of the investment team, the PSPRS trust has grown to more than $20 billion from less than $10 billion. Investment income and additional employer contributions helped plan assets grow at a faster rate than any large U.S. pension in 2022 and 2021, according to *Pensions & Investments* magazine.

SAVE THE DATE: 2024 EMPLOYER & LOCAL BOARD CONFERENCE

The PSPRS Employer & Local Board Conference will be held Wednesday, March 6, 2024. This in-person event will be held at the Renaissance Phoenix Glendale Hotel & Spa beside Westgate, Glendale, AZ.

Registration for the event will open in January. The cost will remain $75 per person. The conference will feature PSPRS trustees and staff, who will deliver updates on system policies, finances, legislation and operations.

"We can't wait to get everyone together again. PSPRS-managed plans have grown so much in the past year, we look forward to sharing this news and more with our employers and local board members," said Administrator Townsend.

LONGTIME PSPRS BOARD INVESTMENT CONSULTANT RETIRES

PSPRS wishes a fond farewell to the Board of Trustees' fiduciary and investment consultant Allan Martin, who served the board through NEPC consulting and was named among the world's most influential pension consultants.

Martin started in finance in 1969 when half of U.S. public pension money was in stock and bond portfolios of insurance companies and performance measurements, private and international investments were non-existent. At the height of his career, Martin advised pensions with about $180 billion of combined assets.

Hired by the board in 2009, Martin helped the agency explore private lending opportunities that emerged when the housing market crash crippled the banking industry. Martin pushed the agency to index its public equities and helped manage legacy real estate holdings. In time, Martin's influence led to revised governance that gave PSPRS staff investment discretion and left the board responsible for oversight.

"We developed a plan that was sound and well-reasoned," said Martin, noting that PSPRS was on the "forefront of best practices" for pension investment management.

Martin’s advice to diversify the pension portfolio and knack for “filtering noise from significant and critical” signals was appreciated by the board and staff.

Chairman Scott McCarty thanked Martin for his work and everything he did for PSPRS and its members. Harry Papp, vice-chairman BOT also added, “If I was a member of this plan, I would be really pleased that Allan’s tenure has been 15 years, and with the results we have achieved.”

Martin’s retirement plans include voluntary advisory work and writing projects to defend pension plans. NEPC representative Rose Dean, whom Martin credited for giving him the comfort to retire, will continue to serve the board.