



PSPRS FY2017 Third Quarter newsletter

## **PENSION REFORM EDUCATION CAMPAIGN ROLLS OUT VIDEOS**

Educating members, local boards and employers about the pension reforms set to take effect on July 1, 2017, is among the most important tasks right now for PSPRS. To help explain the complexities we've launched a series of animated videos.

The first video, released in late-March, provides an overview of PSPRS events that led to the reforms passed in 2016, and covers the basics of the retirement benefit options for Tier 3 public safety employees hired on or after July 1, 2017.



PSPRS hired Spawning Fish, LLC, a Flagstaff-based small business that specializes in explaining complicated subject matter through short, animated videos, to assist our campaign.

## **NEW BENEFIT FOR ELIGIBLE TIER 2 PSPRS MEMBERS COMING**



Readers of the PSPRS newsletter should be catching on by now – there are big changes coming to PSPRS starting July 1, 2017. It marks the first of the fiscal year and the introduction of a new Defined Contribution plan available for Tier 2 public safety employees who do not contribute to Social Security.

Eligible Tier 2 employees hired on or after Jan. 1, 2012, and before July 1, 2017, are automatically enrolled into the supplemental retirement benefit, which is a 401(a) funded through pre-tax

contributions of 3 percent of the employee salary plus a matching employer contribution. The DC plan – called the Public Safety Personnel Defined Contribution Retirement Plan – is overseen by a new DC Committee, appointed by the Board of Trustees, who has chosen Nationwide Retirement Solutions as the third-party administrator. The plan will offer a variety of investment options including low-cost index funds, mutual funds and target date funds.

While Tier 2 members have the ability to opt-out of this new benefit, the DC Committee strongly encourages they do not. Please click the photo for a video explaining the benefits of this new Defined Contribution program. After viewing the video, should you still desire to opt-out of this additional benefit, you may do so through the Members Only portal on the PSPRS website by June 30, 2017. Registration will be required for first-time users.

### **EMPLOYERS GET RISK POOLING FOR TIER 3**

Pension reforms passed in 2016 called for studying whether employer risk pooling made sense for Tier 3 members who will start on or after July 1, 2017. On May 1, Governor Ducey signed off on the final iteration of legislation that created an employer risk pool.

Currently, PSPRS operates as an agent, multiple-employer entity, meaning each employer has separate assets, incurs and pays for their own liabilities and receives their own actuarial reports and employer contribution rates. Senate Bill 1063 switches things up a bit for the coming Tier 3 membership. Starting July 1, 2017, all employers will pool their Tier 3 retiree, death and disability liabilities. Additionally, all individual employer plans who currently have 250 or less public safety employees will have their assets and liabilities pooled (for Tier 3 members only) while plans with more than 250 members will remain independent and continue as individual agent plans. However, all Tier 3 costs will be split 50/50 between the employees and employers within the pool and for each independent plan.

[Click here](#) for more information about SB1063. Several key provisions of the law are as follows:

- Except for state agencies and counties, if only one employer plan exceeds 250 members, the companion plan is also exempted from the pool
- Tribal governments can decline risk pooling by notifying PSPRS before January 1, 2018
- Tribal governments will have 90 days after joining PSPRS to opt-out of risk pooling
- Employers will be “charged back” (billed by PSPRS) for decisions that create active member contribution expenses/deviations that are greater than 20 percent of the average cost of risk-pooling employers

Due to the outcome of SB1063 and the most recent actuarial experience study (completed in March 2017 for the 5-year period ended June 30, 2016), Tier 3 DB rates to begin July 1, 2017, have been revised to account for the risk pool’s and each individual group’s unique demographics. The Board of Trustees also adopted in March a lower assumed earnings rate (7.00%) than that for Tiers 1 and 2. Those revised rates are being compiled and will be provided on the employer portal, along with all other rates that are effective July 1, early next week.

### **GOVERNOR DUCEY SIGNS TIER 2 EARLY RETIREMENT FIX**

Lots of laws require tune-ups and some even wind up with holes that create policy problems. One gaping canyon in state law was the lack of a legal means to offer Tier 2 public safety employees early retirement.

That changed on May 2 when Governor Doug Ducey signed Senate Bill 1115, which allows Tier 2 employees (those hired on or after Jan. 1, 2012, and before July 1, 2017) to retire with at least 15 years of credited service when they reach age 52 and a half. The previous hole in the law was recognized for years before Senator Debbie Lesko introduced SB1115 and helped push the bill through both the Senate and House with unanimous support. [Click here](#) for more information about SB1115.

### **‘ADMIN-BILL’ MAY PROVIDE EMPLOYERS RELIEF**

The last bill signed into law this year impacting PSPRS was House Bill 2485, also known as the PSPRS “admin-bill” that provides technical clarifications to 2016 pension reforms and offers employers some relief after years of escalating contribution rates. The bill reverses a reform provision passed last year that shortened PSPRS’ available amortization period to 20 from 30 years, which eliminated the ability to

“refinance” unfunded liability payments over a longer time period with the intent of reducing contribution rates. Now, under the new law, local governments will have the ability to seek a one-time increase in their individual amortization period – up to 30 years – by an appeal to the PSPRS Board of Trustees through formal resolution.

[Click here](#) for more information about HB2485. Several key provisions of the law are as follows:

- Clarifies benefits for Tier 3 employees killed or disabled in the line of duty during their initial 90-day period before their selected benefit structure takes effect
- Provides that lump sum deferred retirement option plan (DROP) payments be directly deposited into the PSPRS Defined Contribution plan before members may withdraw or transfer funds
- Allows PSPRS retirees to purchase health insurance through a welfare benefit trust and continue their eligibility for existing subsidies
- Specifies that a vendor hired to provide financial advice to members be a federally registered investment advisor who must also act as a fiduciary and in the best interests of members

## **REFORM COMING TO CORRECTIONS RETIREMENT PLAN**



In one of multiple pension-related bills signed into law, lawmakers and the governor closed the Corrections Officer Retirement Plan for corrections officers hired on or after July 1, 2018. The reform puts corrections officers into the 401(a) Defined Contribution (DC) plan managed by the PSPRS DC Committee, but provides probation and surveillance officers the option to choose between a pension (Defined Benefit) and the DC plan.

Details of the DC plan include a default 7 percent employee contribution with an employer match of 5 percent. Unlike reforms to PSPRS, which require employees to work 10 years for full vesting/ownership of employer matching contributions, the CORP plan provides full vesting within only three years.

The legislation, Senate Bill 1442, also works in tandem with a 2018 referendum to replace CORP’s permanent benefit increase (PBI) with a simple cost-of-living-adjustment (COLA) similar to what Prop 124 did for the PSPRS plan. Additionally, this bill requires that PSPRS and each employer publish on their websites the funding ratio of each plan in the system. [Click here](#) for more information on SB1442.

## **MAY 16<sup>th</sup> EMPLOYER-LOCAL BOARD WEBINAR RESCHEDULED**

A pension reform education event scheduled for May 16<sup>th</sup> at PSPRS’ Phoenix office will now be held on June 13 from 10 am to noon.

PSPRS staff is preparing to help employers and local boards master new enrollment procedures for members, as well as contribution/transmittal processes that will go live July 1, 2017. Those interested in attending must contact PSPRS Member Services Director Robert Ortega at [rortega@psprs.com](mailto:rortega@psprs.com) or 602-296-2560.

Those interested in participating in this educational session via webinar can register at <https://attendee.gotowebinar.com/register/7511358048082297090>

[Click here](#) for previous pension reform webinars and materials.

## **SERVICE PURCHASE PRICE QUOTE POLICY CHANGES**

Beginning July 1, prices quoted for members' service purchases by PSPRS will be valid for 60 days, which is a reduction from the current policy of 90 days.



The reduction follows the 2016 introduction of Payroll Deduction Agreements (PDAs) that allow members to purchase service through after-tax deductions on their paychecks. PSPRS can generate quotes for members interested in purchasing eligible time and offer members payment options. Members have 60 days to make their decision and are afforded an extra 30 days (for 90 days total) to fill out paperwork in the event they elect the payroll deduction method.

Members who are interested in learning more about service purchases can [click here](#) for a video tutorial from Active Member Services Team Lead Tony Jenkins.

## **SERVICE PURCHASE RATE CHANGE TO TAKE EFFECT IN JULY**

The current discount rate used to determine the price of service purchases will change on July 1, 2017, and this will mean an increase in price for members looking to buy time.

The current rate, 7.4 percent, was set to match the PSPRS assumed earnings rate. Going forward, the new rate will be the rate of the 10-year Treasury Note plus 2 percent, which currently combine for 4.46 percent, or the assumed earnings rate, whichever is lower.

The discount rate may seem counterintuitive, as the higher rate produces a lower cost. However, the true purpose of a discount rate is to create a current value (the price) by working backwards – thus the term “discount” – from the value of a future benefit, which, in this case, would be a higher monthly pension or early retirement.

## **FORFEITED SERVICE NOW AVAILABLE FOR PURCHASE**

An administrative policy has recently been changed to allow for the purchase of previously forfeited time that was not completely transferred from another retirement system or plan.

Transferring service credits from another state retirement system or plan usually does not transfer one-for-one. In the past, if a member wanted all their service credits to transfer, they would have to pay the difference between the value of those credits in the new system or plan and the assets being transferred from the old system or plan. If they could not afford to do this at the time of transfer, the extra service credits had to be forfeited.

This administrative policy change now allows for those service credits to be paid through a payroll deduction agreement (PDA) or for the member to request to purchase those dangling credits at a later date prior to retirement.

## **PSPRS ADMINISTRATOR RESPONDS TO THE REPUBLIC**

In April, the *Republic* took aim at PSPRS, which it declared to be among the “worst” of more than 70 pension plans identified in a report on investment fees published by the Pew Charitable Trusts. PSPRS Administrator Jared Smout asked the *Republic* for the opportunity to respond with a guest column. The column, [available here](#), was published May 1.

## **UPDATES ON HALL-PARKER LAWSUITS**

PSPRS and EORP members anticipating a refund of excess contributions from the *Hall-Parker* lawsuits will have to wait a little longer due primarily to legal necessities and simple logistics.



The next hearing for the *Hall* lawsuit is scheduled for June 6 and attorneys hope they can find common ground on interest rates and methods of payment at that hearing. If not, PSPRS is looking into the possibility of returning the excess contributions before interest is determined. Unfortunately, not all employers have been able to revert the rate, thereby making it difficult to have a clear cutoff date for beginning to calculate the excess amounts for those members.

As it stands, refunds are expected to be provided by employers to Tier 1 employees impacted by the lawsuits. EORP/PSPRS, in turn, is expected to provide credit memos to employers who then can withhold future contributions to PSPRS until the withholdings are equal to the combined amount owed to their employees (and at that time employer contributions will resume). However, it is not required that employers utilize these credit memos should they desire to keep those assets on account.

Finally, the Board of Trustees will be presented at their May 31 meeting with a status report and the different options that may be available to employers for returning the excess contributions to their employees. It is anticipated that a more definitive timeline and written communication of the process will be available after that meeting, but it is strongly encouraged that employers begin preparing now. As always, PSPRS will work with each individual employer as needed to ensure as smooth of a process as possible.

## **A THANK YOU TO PLAN EMPLOYERS AND MEMBERS**

PSPRS staff extends its gratitude to employers of PSPRS-managed plans who have taken part in training sessions this year and also to our members who have been patient throughout the *Hall-Parker* process.

More than 300 representatives of employers have participated in pension reform training sessions held in Phoenix, Tucson and Flagstaff this year. The sessions have covered a staggeringly wide assortment of benefit changes, new benefits, legislation, litigation and even technical requirements, and PSPRS has often been unable to provide immediate answers to many difficult questions.

PSPRS has also handled countless calls regarding the *Hall-Parker* litigation from our members, who have been respectful to staff and understanding of some of the logistical challenges at hand. Our Accounting Department, headed by John Hendricks, has reviewed 49,000 online member accounts in order to identify the roughly 19,000 members of PSPRS-managed plans, including 15,000 active employees, who are entitled to a refund of excess contributions. The next accounting task will be determining accurate payment amounts for impacted members, many of whom may have transferred employers, retired or taken leaves of absence from one or more of the 230-plus employers across the state over the last five years. We appreciate our members' service to the state and their great attitude towards our staff and their work.



*Left to right: PSPRS Accounting Department; David Pliskin, John Hendricks (seated), Brian Dunham and Alison Lidstone.*