NEW FISCAL YEAR, NEW EMPLOYER CONTRIBUTION RATES

With the June 30 fiscal year end in sight, employers need to be aware of changing contribution rates beginning July 1.

Contribution rates that will become effective can be found in the June 30, 2023, employer valuation reports. For additional information on the timing of contribution rate reporting please check the first quarter 2023 PSPRS newsletter.

While year-to-year aggregate public safety and corrections employer contribution rates held steady, the pension costs to most employers have fallen considerably over the last four fiscal years. The coming employer contribution rate for the Elected Officials Retirement Plan will also decline due to a $60 million legislative appropriation.

“By the end of fiscal year 2023, public safety and corrections employers paid down almost $5 billion of unfunded pension liabilities,” said PSPRS Administrator Mike Townsend. “Now, the average PSPRS and CORP employer contribution rate is about 30 percent lower while required contribution amounts are expected to fall by $250 million. That’s a huge accomplishment for a pension system in four short years.”

PSPRS-managed plan funding level increases and reduced contribution rates have occurred while the PSPRS Board of Trustees has adopted increasingly conservative actuarial assumptions for payroll growth and investment return projections.

“The priorities set out by the Board of Trustees include continual employer education, improving the financial health of our plans and adopting policies that protect our membership, employers and taxpayers,” Townsend said.

PUBLIC SAFETY TIER 2 401(a) MATCHING RATE TO FALL

Public safety employers must be aware of the expiring provision in 2016 pension reform that created hybrid pension and defined contribution plan benefits for Tier 2 and Tier 3 public safety members who work for employers that do not participate in Social Security.

The specific provision created an elevated 4 percent employer matching contribution rate schedule for Tier 2 hybrid members based on their year of hiring. Starting July, the matching contribution rates for the 401(a) plan falls to 3 percent for all impacted Tier 2 public safety members as the last remaining class – those hired in 2012 – will see their 4 percent employer matching rate reduced. (Tier 2 members are those hired from January 1, 2012, to June 30, 2017.)

PSPRS pension administration systems will take the new rate into account for contribution import process verification, but employers will need to set the new rate into internal payroll systems for proper processing of contribution deductions and contribution reports remitted to PSPRS.

EMPLOYERS: EXCESS PREPAYMENT BALANCE NOTICE

As a reminder to employers, PSPRS will apply any remaining contribution prepayment balances towards employers' reserve balances at the approaching June 30 end of the fiscal year.

Excess balances occur when employer contribution prepayment amounts exceed actuarially determined required contributions that are included in employer valuations. These excess balances cannot be held for use in the following fiscal year and must be applied to employers' reserve balances that impact valuations and contribution rates.

Some PSPRS-managed plan employers have taken to prepaying their pension contributions to take advantage of interest that accrues through investment returns. The payments are typically made at the beginning of each fiscal year and allow employers to forego the routine of making employer contributions each pay period.

PSPRS LEGISLATION GETS APPROVAL AS SESSION ENDS

While the Legislature wrapped up for the year, several bills impacting PSPRS made it through the process and onto Governor Katie Hobb's desk for signature.

House Bill 2378, which extends the continuation of PSPRS, CORP, EORP and all related operations by six years was signed into law in June after sailing through the Senate.

The continuation followed a mandated "sunset" auditing of PSPRS by the Arizona Auditor General's Office. The review found substantial increases in aggregate and individual public safety and corrections employer funding status since the Auditor General's last review in 2014.

The annual PSPRS "admin bill," which typically includes technical corrections for IRS compliance and other matters, was signed in April. House Bill 2203 changes how pension liabilities are handled for members transferring to new employers and also removes a provision that forbids PSPRS DC plan participants from taking loans against their 401(a) account balance.

All legislation that does not include an emergency clause becomes effective 90 days after the Legislature officially adjourns (sine die). With a June 15 sine die, PSPRS legislation becomes effective September 14.

Stakeholders, especially employers and local boards, are encouraged to read each law and not rely on summaries.

HB2203 (Laws 2024, Chapter 116) Public retirement plans; liabilities; administration

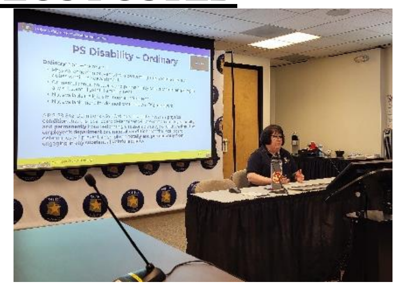
- Lateral transfers: Changes statute to allow transfer of a member's liabilities and the same amount of assets to the new employer, leaving any underfunded or overfunded amounts with the original employer.
- Elected Officials Defined Contribution Retirement System interest calculation: Changes statute to note that the EODCRS late contribution interest calculation is applied annually to align with other related statutes.
- Supplemental plan inclusion: Changes 401(a) supplemental plan statutes to note that EODCRS and Public Safety Personnel Defined Contribution Retirement Plan participants can also use the supplemental 401(a) plan offered by PSPRS.

- Escheatment (abandoned monies) process: Requires the PSPRS Board of Trustees to adopt a process for managing plan money presumed to be abandoned by owners. The policy is required to include how to notify presumed owners and how to distribute money if ownership can be proven. Provides that money can be presumed abandoned if not claimed after two years of distribution, an attempt at distribution, a date set by the plan or a trust agreement requiring distribution, or a date specified by U.S. tax law requiring distribution to avoid a tax penalty.
- DC plan loans: Removes statutory provision that barred PSPDCRP participants from taking out a loan against their 401(a) plan balance.

SB2378 (Laws 2024, Chapter 207) Continuation; PSPRS

- Allows the PSPRS Board of Trustees to continue management of PSPRS, CORP, EORP and the elected officials and public safety defined contribution plans until July 1, 2030.

EMPLOYER & LOCAL BOARD WORKSHOP VIDEOS POSTED



PSPRS has published a recording of the June 6 Employer and Local Board Workshop to its YouTube channel and agency webpage.

Attended by more than 180 employer representatives, staff shared information and provided how-to training, system knowledge and an opportunity to ask questions about member data management, pension payment and contribution processes. Deferred retirement, cancer insurance and other system benefits and issues were also covered. The replay and deck are available in our Employer & Local Boards dropdown on the Education & Training page.

PUBLIC SAFETY: CANCER INSURANCE PREMIUMS DUE AUGUST 31

Cancer Insurance Program (CIP) premiums will be billed to all PSPRS and CORP employers in July. Payments are due no later than August 31, or penalties may apply. Public safety members are taxed on this employer paid benefit while corrections members pay their own premiums and are not taxed.

The process of making PSPRS cancer diagnosis claim payments tax free to public safety members required a phased-in reduction of taxes on claim payments. This process is governed by the Internal Revenue Service. PSPRS advises public safety members that cancer diagnosis claim payments are 33 percent taxable in 2024, and tax-free in 2025. Members have up to two years to submit cancer insurance claims to PSPRS and federal taxes are based on the date the claim is paid, therefore there may be an advantage to delaying claim submissions until January 1, 2025.

More information is available on the Cancer Insurance Premium page on the PSPRS website, or by email to cancerinsurance@psprs.com.

PSF/GALLOWAY CONTINUE BENEFITS SEMINARS

As a reminder PSPRS has contracted with Public Safety Financial/Galloway to educate members on their retirement options. Upcoming events are shared on our website under Employer & Local Boards on the Education & Training page.

PSF/Galloway provides education specifically targeted to Arizona public safety and corrections members, as well as sessions on the deferred retirement option plan (DROP). Online webinars include general financial wellness and Tier 3 programs. They can also host events at employer sites for new members. PSF/Galloway can be contacted by phone at (480) 325-8668, in-person at 1138 N. Alma School Rd., Suite 201, Mesa, AZ 85201, or online at https://galloway911.com.

Please note that PSPRS does not endorse fee-based asset management services for members.

EMPLOYER NOTICE: SEND FY25 PENSION FUNDING POLICIES

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

State law requires PSPRS to post employer funding policies to the agency website and mandates that employers publish their pension funding policies to their own websites.

PSPRS requests that employers email existing copies of their fiscal year 2025 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.