

Board of Trustees

Brian P. Tobin, Chairman
William T. Buividas, Vice Chairman
William C. Davis, Trustee
Edward J. McNeill, Trustee
Harry A. Papp, Trustee
Bryan Raines, Trustee
Mike Scheidt, Trustee
Dean M. Scheinert, Trustee
Donald A. Smith, Jr., Trustee

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM**CORRECTIONS OFFICER RETIREMENT PLAN****ELECTED OFFICIALS' RETIREMENT PLAN**

3010 East Camelback Road, Suite 200
 Phoenix, Arizona 85016-4416
 Telephone: (602) 255-5575
 Fax: (602) 255-5572
www.psprs.com

Administration

Jared A. Smout
 Administrator
Dave DeJonge
 Deputy Administrator
Ryan Parham
 Chief Investment Officer

December 30, 2017

Governor Ducey
 Arizona State Senate
 Arizona State House of Representatives
 Joint Legislative Budget Committee

RE: Board of Trustees Report to the Legislature pursuant to ARS §§ 38-848 and 38-848.02

Dear Governor and Legislators:

In accordance with ARS § 38-848.02, please find herein the shared cost structure of employers and employees for fiscal year 2018-19, the funding status as of June 30, 2017 and the rate of return for the year ended June 30, 2017 for the Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP). This letter also serves as notice, in accordance with ARS § 38-848, that the system's June 30, 2017 comprehensive annual financial report and contribution rates for next fiscal year are now available on the PSPRS website at www.psprs.com. Each employer's funding ratio has also been posted on the PSPRS website.

Legislation was passed in 2016 that establishes a new tier of benefits for PSPRS members, effective July 1, 2017. PSPRS Members first hired on or after July 1, 2017, called Tier 3 members, will be required to make an irrevocable choice to participate in either the PSPRS defined benefit (DB) plan, or in the new Public Safety Personnel Defined Contribution Retirement Plan (PSPDCR). Legislation was passed in 2017 that establishes a new tier of benefits for CORP members, effective July 1, 2018. CORP members, other than judiciary probation and surveillance officers, first hired on or after July 1, 2018 will automatically be enrolled in the PSPDCR. Judiciary probation and surveillance officers will be required to make an irrevocable choice to participate in either the CORP defined benefit plan, or in the PSPDCR.

As a result of losing the *Hall* and *Parker* cases, employee contribution rates for PSPRS and EORP members who were hired before July 20, 2011 had to be rolled back in 2017. The following two tables show the employee and employer contribution rates for all plans at the aggregate level:

Employee Contribution Rates—Fiscal Year 2018-19

	PSPRS	EORP	CORP
PSPRS members hired prior to 7/20/11	7.65%		
PSPRS members hired between 7/20/11 and 6/30/17	11.65%		
PSPRS Tier 3 members who choose DB	10.09%		
PSPRS Tier 3 members who choose DC	10.07%		
EORP members hired prior to 7/20/11		7.00%	
EORP members hired between 7/20/11 and 12/31/13		13.00%	
CORP members			Dispatchers 7.96% All Others 8.41%

Employer Contribution Rates—Fiscal Year 2018-19

	PSPRS	EORP	CORP
PSPRS Tier 1 and Tier 2 members	52.10%		
PSPRS Tier 1 and Tier 2 legacy*	37.24%		
PSPRS Tier 3 members who choose DB	10.09%		
PSPRS Tier 3 members who choose DC	10.07%		
EORP**		23.50%	
CORP			28.78%

*Pursuant to ARS § 38-843(B), the Tier 1 and Tier 2 legacy rate is the amortization of the unfunded liability for those tiers that must be applied to the payroll of all tiers and is borne solely by the employer. It is already included in the Tier 1 and Tier 2 employer rate but must also be paid on both Tier 3 DB and DC payroll.

**While the 23.5% EORP employer contribution is set in statute, it is woefully insufficient to sustain the plan. As such, the plan is severely underfunded and is projected to run out of assets in 9 years. Therefore, it is critical that lawmakers address this issue during the 2018 session. Although many solutions are possible to increase the funding levels of EORP, based only on the same projected payroll that the 23.5% applies, a more appropriate rate would be 61.5% and should be allowed to self-adjust each year.

PSPRS and CORP are agent, multiple-employer plans so each employer has its own assets and liabilities. EORP is a cost-sharing plan, so assets and liabilities are shared among all employers. At the aggregate level, the funded status for the plans is as follows:

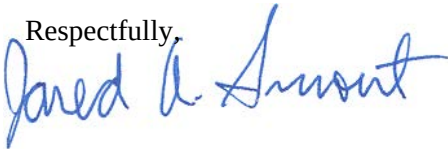
	PSPRS	EORP	CORP
Funded Status as of 6/30/17	46.6%	23.6%	51.5%

Finally, the assets of all three plans are commingled for investment purposes. For the year ended June 30, 2016, the portfolio's market rate of return was 11.85%, net of fees, which was above our assumed earnings rate of 7.4%.

The corresponding consolidated actuarial valuations for each plan, along with a consolidated Comprehensive Annual Financial Report (CAFR) and individual actuarial valuations for each employer in PSPRS and CORP can be found on our website.

Should you have any questions about this information, please do not hesitate to contact me.

Respectfully,



Jared A. Smout, CPA, MSIM, MPA
Administrator