

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

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December 28, 2018

Governor Ducey
Arizona State Senate
Arizona State House of Representatives

RE: PSPRS Board of Trustees Annual Statutory Reporting Requirements

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 2019-20, the funding status as of June 30, 2018 and the rate of return for the year ended June 30, 2018 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, 2018 actuarial valuations, which contain contribution rates for next fiscal year, are available on the PSPRS website at www.psprs.com. Each employer's funding ratio has also been posted on the PSPRS website. The system's comprehensive annual financial report is expected to be posted on the website by December 31, 2018.

Legislation was passed in 2016 that establishes a new tier of benefits for PSPRS members. PSPRS Members first hired on or after July 1, 2017, called Tier 3 members, are 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 (PSPDCRP). 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 are automatically enrolled in the PSPDCRP. Judiciary probation and surveillance officers are now required to make an irrevocable choice to participate in either the CORP defined benefit plan, or in the PSPDCRP.

The following two tables show the employee and employer contribution rates for all plans at the aggregate level:

Employee Contribution Rates – Fiscal Year 2019-20

| | 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 | 10.51% | | |
| 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 hired prior to 7/1/18 | | | Dispatchers 7.96% |
| | | | All Others 8.41% |
| CORP Tier 3 members – DB Plan | | | 10.18% |
| CORP Tier 3 members – DC Plan | | | 8.40% |

Employer Contribution Rates – Fiscal Year 2019-20

| | PSPRS | EORP | CORP |
|------------------------------------|--------------|-------------|-------------|
| PSPRS Tier 1 and Tier 2 members | 52.47% | | |
| PSPRS Tier 1 and Tier 2 legacy* | 37.65% | | |
| PSPRS Tier 3 members who choose DB | 10.09% | | |
| PSPRS Tier 3 members who choose DC | 10.51% | | |
| EORP** | | 61.43% | |
| CORP Tier 1 and Tier 2 | | | 27.59% |
| CORP Tier 1 and Tier 2 legacy* | | | 19.92% |
| CORP Tier 3 – DB Plan | | | 5.09% |
| CORP Tier 3 – DC Plan | | | 6.40% |

*Pursuant to ARS § 38-843(B) and § 38-891(A), 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.

**The EORP contribution rate assumes EORP will continue to receive \$5 million in appropriations from the State plus annual court fees of roughly \$10 million.

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

| | PSPRS | EORP | CORP |
|-----------------------------------|--------------|-------------|-------------|
| Funded Status as of June 30, 2017 | 46.6% | 32.6% | 51.5% |
| Funded Status as of June 30, 2018 | 46.9% | 33.5% | 56.1% |

The improvement in funding status can be attributed to recent pension reforms, including the passage of Propositions 124 and 125 in 2016 and 2018, respectively. Continued improvement will take time, but we are moving in the right direction.

Finally, the assets of all three plans, as well as the two defined contribution disability programs, are commingled for investment purposes. For the year ended June 30, 2018, the portfolio's market rate of return was 7.1%, net of fees, which was slightly below 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 will be found on our website by December 31.

Finally, in accordance with ARS § 38-832(G) and § 38-866(H), the status of the Elected Officials' Defined Contribution Retirement System (EODCRS) and the PSPDCRP, respectively, are as follows along with the shared disability contribution rates for each plan:

Defined Contribution Plan & Disability Program Status – June 30, 2018

| | EODCRS | PSPDCRP |
|---|---------------|---|
| Participants | 191 | 3,271 |
| Defined Contribution Assets | \$4,550,846 | \$51,256,877 |
| Disability Program Assets | \$65,811 | \$122,013 |
| 2019-20 Disability Program Rates (employee & employer pay same rate) | 0.125% | 1.51% Public Safety Officers 0.70% Correction Officers |

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

Respectfully,

Jared A. Smout, CPA, MSIM, MPA
Administrator