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PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
CORRECTIONS OFFICER RETIREMENT PLAN
ELECTED OFFICIALS' RETIREMENT PLAN
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Administration
Bret H. Parke
Interim Administrator
General Counsel
Dave DeJonge
Deputy Administrator
Mark Steed
Chief Investment Officer

November 29, 2019

The Honorable Doug Ducey, Governor of the State of Arizona
The Honorable Karen Fann, President of the Arizona Senate
The Honorable Russell Bowers, Speaker of the Arizona House of Representatives
Mr. Richard Stavneak, Director Joint Legislative Budget Committee

Via email and U.S. mail

RE: PSPRS Board of Trustees Annual Required Reporting

Dear Governor Ducey, President Fann, Speaker Bowers and Director Stavneak:

In accordance with A.R.S. § 38-848.02, please find herein the shared cost structure of employers and employees for fiscal year 2020-21, the funding status as of June 30, 2019 and the rate of return for the year ended June 30, 2019 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 A.R.S § 38-848, that the system's June 30, 2019 actuarial valuations, which contain contribution rates for the next fiscal year and each employer's funding ratio will be posted on the PSPRS website at www.psprs.com shortly. The system's comprehensive annual financial report is expected to be posted on the website within the next few weeks.

PSPRS administers the following plans:

- Public Safety Personnel Retirement System (PSPRS)
- Elected Officials' Retirement Plan (EORP)
- Corrections Officer Retirement Plan (CORP)
- Elected Officials' Defined Contribution Retirement System (EODCRS)
- Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP)

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 Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). Those who choose to participate in the PSPDCRP make a one-time election of their employee contribution, which can range from 7% up to the federal limit for 401(a) plans. The default employee contribution rate is 9%. They also pay a contribution to a separate Tier 3 disability program.

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 required to make an irrevocable choice to participate in either the CORP DB plan, or in the PSPDCRP. The default employee contribution rate is 7%, however, CORP members may elect a contribution rate as low as 5% and as high as the federal limit allows.

The following two tables show employee and employer contribution rates for PSPRS, EORP and CORP at the aggregate level.

Employee Contribution Rates - Fiscal Year 2020-21

	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 the DB plan	10.09%		
PSPRS Tier 3 members who choose the PSPDCRP	10.41%		
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%
CORP members hired prior to 7/1/18 – All Others			8.41%
CORP Tier 3 members – DB Plan			10.18%
CORP Tier 3 members – PSPDCRP			7.65%

Employer Contribution Rates - Fiscal Year 2020-21

	PSPRS	EORP	CORP
PSPRS Tier 1 and Tier 2 members (pension and health)	54.68%		
PSPRS Tier 1 and Tier 2 legacy* (pension)	39.74%		
PSPRS Tier 3 members who choose DB (excludes legacy cost)	10.09%		
PSPRS Tier 3 members who choose DC (excludes legacy cost)	10.41%		
EORP** (pension)		61.43%	
CORP Tier 1 and Tier 2 (pension and health)			31.04%
CORP Tier 1 and Tier 2 legacy* (pension)			24.19%
CORP Tier 3 members who choose DB (excludes legacy cost)			5.09%
CORP Tier 3 members who choose DC (excludes legacy cost			5.65%

*Pursuant to A.R.S. § 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. The legacy costs are included in Tier 1 and Tier 2 employer rates above, but must be added to the Tier 3 DB and DC rates above to determine the total cost of payroll for Tier 3.

**Pursuant to A.R.S. § 38-810. The EORP actuarial determined employer contribution rate assumes EORP will continue to receive $5 million in appropriations from the State and annual court fees of approximately $11 million.

The employer contribution rates shown above include normal cost (the cost of providing benefits to members for one year of service) plus the cost of paying off the unfunded liability in each plan. Rates for PSPRS and CORP are increasing slightly (generally about 2% of pay), largely because the Board adopted new public sector mortality tables that indicate public employees are living longer, and the assumed earnings rate for trust investments was lowered from 7.4% to 7.3%. Rates for EORP are dropping as a percent of pay, as the actuary is now including the payroll for Tier 3 EORP members, from whom we receive legacy costs to help pay down the unfunded liability in that plan, when calculating contribution rates.

PSPRS and CORP are agent, multiple-employer plans whereas each employers' assets and liabilities are separate. EORP is a cost-sharing plan, whereas the assets and liabilities are shared among the employers in the plan. At the aggregate level, the funded status for the plans is as follows:

Funded Status (Tiers 1 and 2)	PSPRS	EORP	CORP
As of June 30, 2018	46.9%	31.3%	56.1%
As of June 30, 2019	47.7%	31.5%	55.2%

The assets of PSPRS, EORP and CORP, including the two defined contribution disability programs are commingled for investment purposes. For the year ended June 30, 2019, the portfolio's market rate of return was 5.5%, net of fees, which was below the assumed earnings rate of 7.3%.

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

Respectfully,

Bret H. Parke
Interim Administrator and General Counsel

cc: Mr. Matthew Gress, Director OSPB
Mr. Bill Greeney, Assistant Director OSPB
Ms. Yan Gao, Budget Analyst OSPB
Mr. Josh Hope, Budget Analyst JLBC
Mr. Adrian Luth, Administrative Assistant, Arizona Senate
Ms. Shannon Rivington, Senior Executive Assistant, Arizona House of Representatives