



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

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December 1, 2023

The Honorable Katie Hobbs, Governor
1700 West Washington
Phoenix, AZ 85007

The Honorable Warren Petersen, President of the Senate
Arizona State Senate
1700 West Washington
Phoenix, AZ 85007

The Honorable Ben Toma, Speaker of the House
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007

RE: PSPRS Board of Trustees Annual Statutory Reporting Requirements

Dear Governor Hobbs, President Petersen, and Speaker Toma:

In accordance with A.R.S. § 38-848.02, please find herein the shared cost structure of employers and employees, the funding status as of June 30, 2023, and the rate of return 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, 2023, actuarial valuations, which contain contribution rates for next fiscal year, are available on the PSPRS website at www.psprs.com. Each employer's funded ratio has also been posted on the PSPRS website. The system's annual comprehensive financial report is expected to be posted to the website by December 31, 2023.

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). Those who chose to participate in the PSPDCRP make a one-time election of their employee contribution, which can range from the default rate of 9% up to the federal limit for 401(a) plans. They also pay a contribution to a separate Tier 3 disability program.

December 1, 2023

PSPRS Board of Trustees Annual Statutory Reporting Requirements

Page 2

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 for CORP members of the PSPDCRP is 7%, but members may elect a contribution rate as low as 5% and as high as the federal limit allows. They also pay a contribution to a separate Tier 3 disability program.

The PSPRS Board of Trustees have implemented multiple changes working with the stakeholders of the plan to improve the accuracy and sustainability of the system and the related required contribution rates including reducing the assumed rate of return, experience study changes, actuarial audit recommendations and the continued phase-in of reduced payroll growth and unfunded liability amortization periods in some plans. The following two tables show the employee and employer contribution rates for all plans at the aggregate level:

Employee Contribution Rates—Fiscal Year 2024-25

	PSPRS	EORP	CORP
PSPRS members hired prior to 7/1/17 (Tiers 1 & 2)	7.65%		
PSPRS Tier 3 members who choose the DB plan	8.97%		
PSPRS Tier 3 members who choose the PSPDCRP	9.00%		
PSPRS Tier 3 members who choose the PSPDCRP, disability	1.50%		
PSPRS Tier 3 members who opt-in, HI subsidy	0.23%		
EORP members hired prior to 7/20/11 (Tier 1)		7.00%	
EORP members hired between 7/20/11 and 12/31/13 (Tier 2)		13.00%	
EODCRS - EORP members hired after 12/31/2013 (Tier 3)		8.00%	
EODCRS, Disability		0.14%	
CORP members hired prior to 7/1/18—Dispatchers (Tiers 1 & 2)			7.96%
CORP members hired prior to 7/1/18 – All Others (Tiers 1 & 2)			8.41%
CORP Tier 3 members – DB Plan (Administrative Office of the Court Probation and Surveillance Officers)			8.38%
CORP Tier 3 members – PSPDCRP			7.00%
CORP Tier 3 members – PSPDCRP, disability			0.44%
CORP Tier 3 members – PSPDCRP, who opt-in HI subsidy			0.23%

December 1, 2023

PSPRS Board of Trustees Annual Statutory Reporting Requirements

Page 3

Employer Contribution Rates – Fiscal Year 2024-25

	PSPRS	EORP	CORP
PSPRS Tier 1 and Tier 2 members (Aggregated Rate)	46.25%		
PSPRS Tier 1 and Tier 2 legacy* (Aggregated Rate - Paid as part of the Tier 3 Employer rate)	31.97%		
PSPRS Tier 3 members (Aggregated Rate)	40.94%		
PSPRS Tier 3 members who choose the PSPDCRP	9.00%		
PSPRS Tier 3 members who choose the PSPDCRP, disability	1.50%		
PSPRS Tier 3 members who opt-in, HI Subsidy	0.23%		
EORP Tier 1 and Tier 2 members **		70.44%	
EORP Tier 1 and Tier 2 legacy* (Paid as part of Employer rate for EODCRS and ASRS eligible Tier 3 members)		46.62%	
EODCRS		6.00%	
EODCRS, Disability		0.14%	
CORP Tier 1 and Tier 2 members (Aggregated Rate)			16.44%
CORP Tier 1 and Tier 2 legacy* (Aggregated Rate - Paid as part of the Tier 3 Employer DC Plan rate)			12.59%
CORP Tier 3 DB Plan (Administrative Office of the Courts – Probation and Surveillance Officers)			40.91%
CORP Tier 3 - PSPDCRP			5.00%
CORP Tier 3 – PSPDCRP, disability			0.44%
CORP Tier 3 – PSPDCRP, who opt-in HI Subsidy			0.23%

*Pursuant to A.R.S. §§ 38-810(C), 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 \$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. In aggregate, rates for PSPRS are essentially flat while rates for CORP are decreasing; individual employer rates will vary. Rates for EORP are decreasing largely due to the additional \$60 million legislative appropriation in FY2023.

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 of the plans is as follows:

	PSPRS	EORP	CORP
Funded Status as of June 30, 2022	66.2%	34.8%	84.8%
Funded Status as of June 30, 2023	67.2%	41.2%	85.8%

December 1, 2023

PSPRS Board of Trustees Annual Statutory Reporting Requirements

Page 4

The significant improvement in funding status, particularly for PSPRS and CORP, can be primarily attributed to the large amount of additional employer contributions. Legislative and voter-approved pension reforms and Board-adopted changes to actuarial assumptions and amortization methods also contribute to the plans' funding level improvements.

PSPRS Tier 3 includes 19 agent multiple employer plans and a risk-sharing pooled plan for all other employers. CORP Tier 3, Defined Benefit Plan, is a risk-sharing pooled plan for Arizona Office of the Courts members. At the aggregate level, the funded status for these plans are as follows:

	PSPRS	CORP
Funded Status as of June 30, 2022	110.8%	110.3%
Funded Status as of June 30, 2023	108.3%	102.3%

The assets of all retirement plans administered by PSPRS are commingled for investment purposes. For the year ended June 30, 2023, the portfolio's market rate of return was 7.7%, net of fees, which was below the benchmark rate of 15.01%.

The corresponding consolidated actuarial valuations for each plan, along with a consolidated Annual Comprehensive Financial Report (ACFR) and individual actuarial valuations for each employer in PSPRS and CORP will be available on our website by December 31.

Finally, in accordance with A.R.S. §§ 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, 2022

	EODCRS	PSPDCRP
Participants	454	14,977
Defined Contribution Assets	\$17,748,672	\$637,283,773
Disability Program Assets	\$287,013	\$7,426,705
Disability Program Rates (employee & employer pay same rate)	0.165%	1.50% Public Safety Officers 0.44% Corrections Officers
Health Subsidy Program Rates (employee & employer pay same rate)		0.23%

Lastly, actions taken by the Legislature and governor's office in recent years, including appropriations passed the last two legislative sessions, can be considered a model for improving pension solvency and reducing expenses for taxpayers. These reforms and actions have contributed to the system's efforts to instill confidence in our pension plans among employers.

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

Respectfully,

Michael F Townsend

Michael Townsend
Administrator

cc: Chad Campbell, Chief of Staff, Office of the Governor
Ben Henderson, Director of Operations, Office of the Governor
Sarah Brown, OSPB Director
Rebecca Dial, OSPB Deputy Director
Zach Milne, OSPB Budget Analyst
Joshua Kredit, Chief of Staff, Arizona State Senate
Fletcher Montzingo, Director of Fiscal Policy, Arizona State Senate
Michael Hunter, Chief of Staff, Arizona House of Representatives
Linsey Goodwin, Policy Advisor, House of Representatives
Richard Stavneak, JLBC Director
Jack Brown, JLBC Deputy Director
Gordon Robertson, JLBC Budget Analyst