

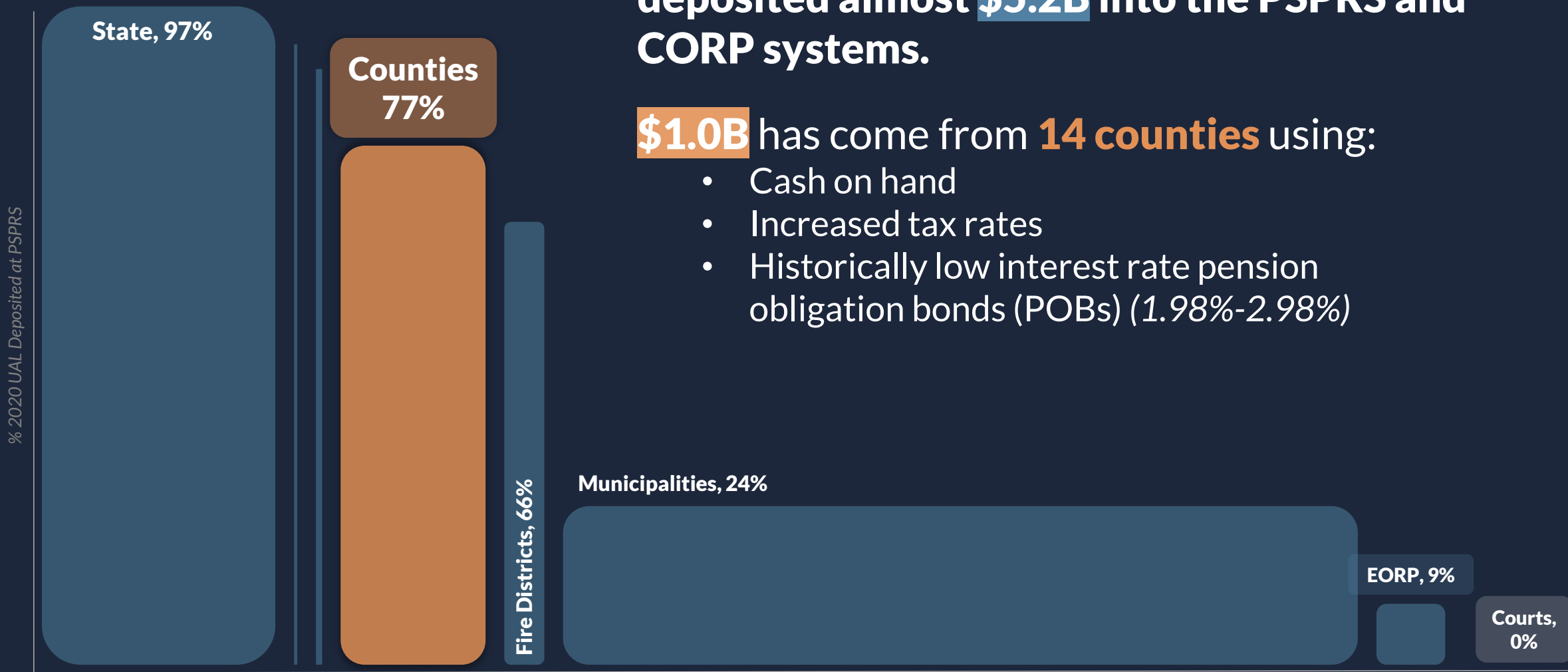


Public Safety Pension Debt Repayment

Since FY 2021, individual employers have deposited almost **\$5.2B** into the PSPRS and CORP systems.

\$1.0B has come from **14 counties** using:

- Cash on hand
- Increased tax rates
- Historically low interest rate pension obligation bonds (POBs) (1.98%-2.98%)

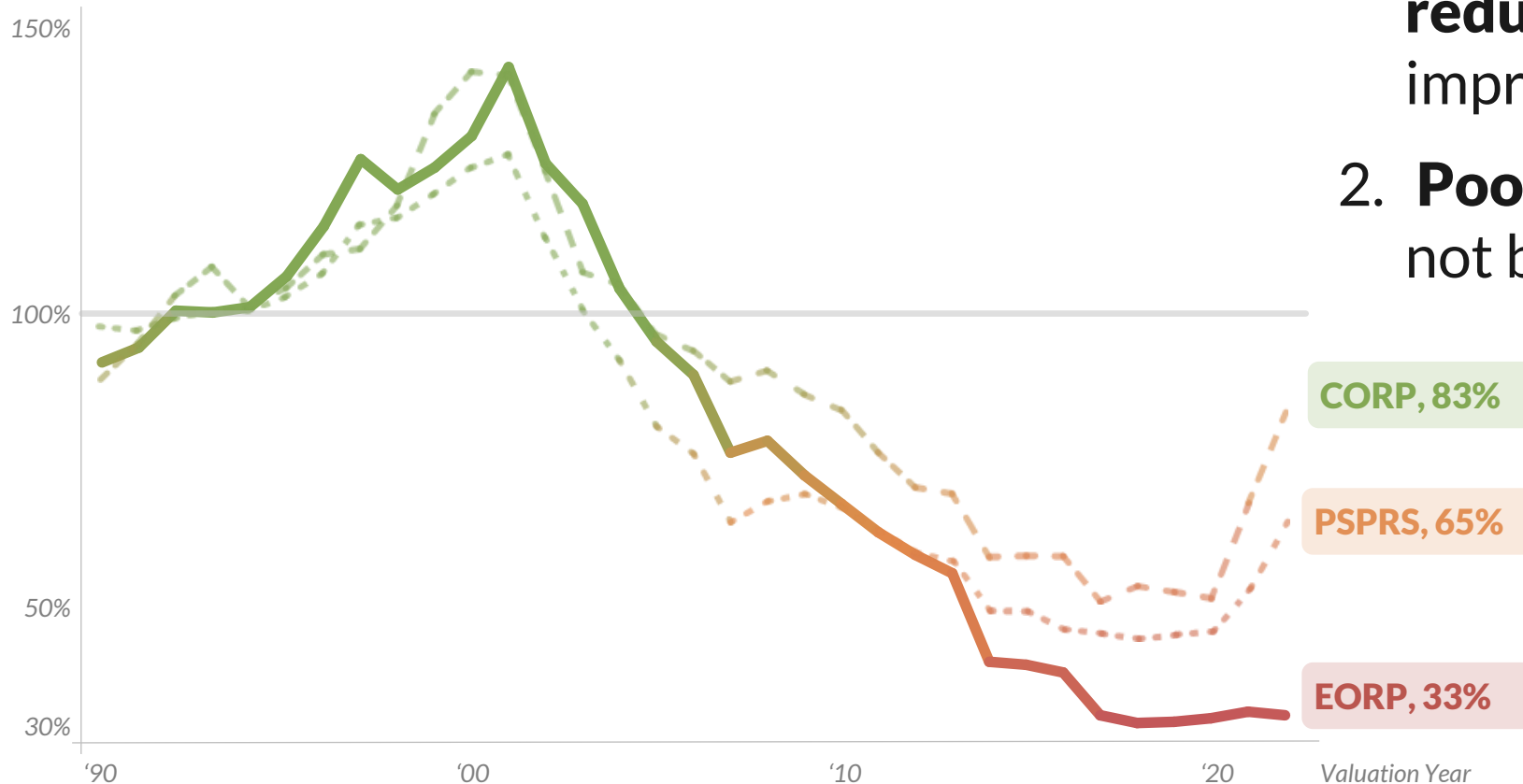




Public Safety Pension Health

Funded status of PSPRS & CORP plans has improved due to **pension reform** and **historic employer action** to pay down debt.

Aggregate Plan Funded Status
1990 to 2022, actuarial valuation year



Two ongoing challenges:

1. Pressure to **modify benefits, reduce contributions** due to improved funded status.
2. **Pooled plans**, like EORP, have not been addressed.



Benefit Modifications: Policy Lens

Key County Perspective

- Counties **still carry pension debt** through POBs, remaining UAL.
- Pension benefits are **irrevocable once extended**, policies should be considered carefully.
- Want to **efficiently deploy limited taxpayer resources** to most effective tools for specific issues.
- Pensions are a **very broad, blunt tool** to address workforce challenges.

CSA Pension Modification

Evaluation Framework

1. Is this the **appropriate policy solution** to this problem? Are there other policy avenues that should be evaluated?
2. Is there a **demonstrable taxpayer value**?
3. What is the funding mechanism? Is it **sustainable long-term**?
4. Are their potential cost drivers that may cause **long-term issues** with providing the benefit?



EORP Unfunded Liability

The Problem

\$609M Unfunded Liability

As of June 30, 2022 actuarial valuation with \$60M state deposit.

- Pooled plan, **no employer can deposit funds** to reduce unfunded liability.
- Counties worked with PSPRS to administratively reduce total repayment cost, but it is still estimated to exceed \$1.0B.

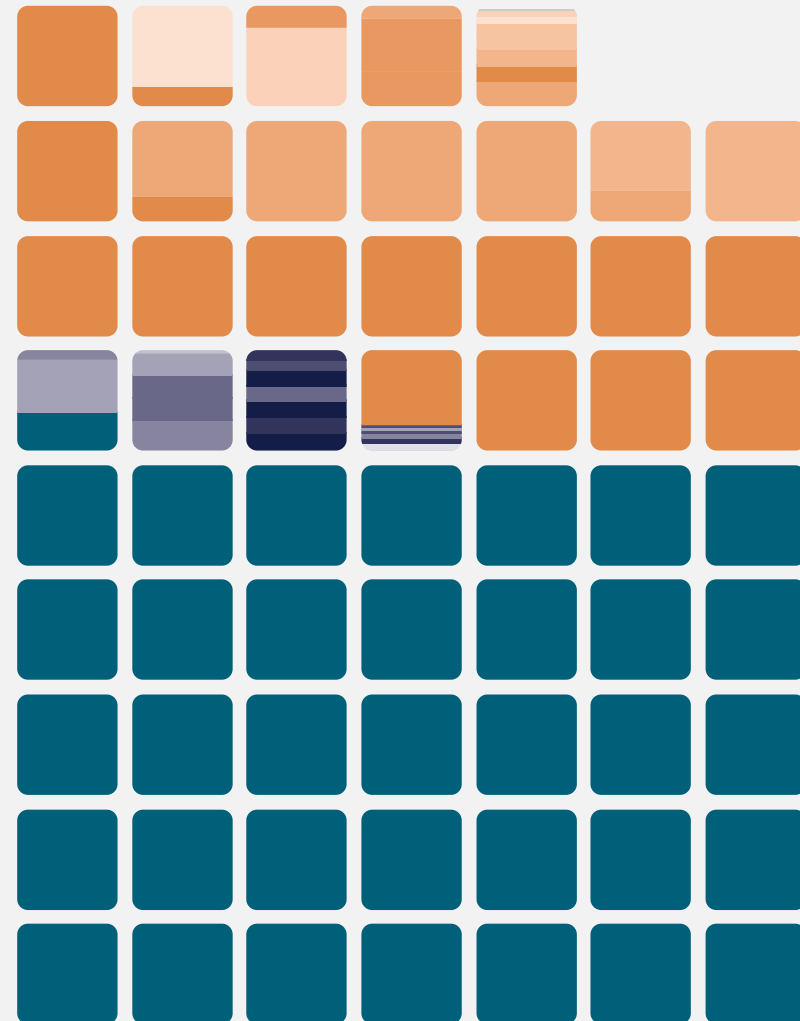
No employer can act alone to address the EORP unfunded liability under current statute.

Share of EORP UAL, accounting for cost sharing, subsidies as of June 30, 2022.

County

State

Municipal



Potential Solutions

Full Repayment

State deposits full unfunded liability amount, local government repays state for their proportionate share.

Benefits

- Lowest total cost
- Addresses all UAL

Challenges

- Requires coordination across all employers
- State financial context likely will not allow for action

Authorize Pre-funding Model

Modify statute to allow PSPRS to implement ASRS-style pre-funding program for pooled plans.

Benefits

- Allows individual employers to act
- Lowers total repayment cost for those that utilize tool

Challenges

- Limited to those that have financial means to accelerate payment
- PSPRS requires several years to implement administration



Public Safety Pensions

Urges the **PSPRS Board of Trustees** to:

- **Complete the phase-in** of a debt repayment schedule that properly funds the System by balancing short-term costs with long-term benefits, and **maintain the target funding** for all plans to the Present Value of Future Benefits and
- Continue to **work with stakeholders** on changes that may **allow for reduced repayment costs** of the System's **pooled plans**, and
- Utilize the Advisory Committee to **perform data driven analysis of proposed changes** with all system stakeholders, and

Respectfully requests the **Arizona State Legislature and Governor**:

- **Exercise restraint** in enacting policies that increase costs or reduce contributions into the system without a clear, measurable benefit to taxpayers, and
- **Protect the structure created through pension reform** to control costs, specifically the 50/50 contribution sharing and the requirement to fully fund any new benefits when enacted.