

RESOLUTION NO. R2020.70

**A RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF TEMPE, ARIZONA,
ADOPTING THE CITY OF TEMPE'S
PENSION FUNDING POLICY FOR FISCAL
YEAR 2020-21.**

WHEREAS, Arizona Revised Statute 38-863.01 requires each governing body of an employer/member of the Arizona Public Safety Personnel Retirement System to formally adopt a pension funding policy annually;

WHEREAS, the City of Tempe maintains statutorily-mandated accounts for its sworn Police and Fire Medical Rescue employees in the Arizona Public Safety Personnel Retirement System;

WHEREAS, the City of Tempe has chosen to include all statutorily-mandated pension system accounts in its annual pension funding policy; and

WHEREAS, the City of Tempe's annual pension funding policy satisfies the statutory requirements for the Public Safety Personnel Retirement System Pension Funding Policy.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, as follows:

That the pension funding policy presented on the following three (3) pages is hereby adopted for Fiscal Year 2020-21.

**PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF TEMPE,
ARIZONA, this 25th day of June, 2020.**



Mark W. Mitchell, Mayor

ATTEST:



Carla R. Reece, City Clerk

APPROVED AS TO FORM:



Judith R. Baumann, City Attorney

City of Tempe
Pension Funding Policy
Fiscal Year 2020-21

I. Comprehensive Pension Policies

- a. **Formal Acceptance as Required by ARS 38-863.01** – The City Council of the City of Tempe formally accepts the assets, liabilities and current funding ratios of the statutorily-mandated pension system accounts, detailed below, from June 30, 2019 actuarial evaluations.
- b. **Funding Ratio Target** – The City of Tempe targets a funding ratio of 100% for statutorily-established pension system accounts for which the City has authority to affect fund status and contribution rates (PSPRS Tiers 1 & 2). For City of Tempe pension system accounts whose funded status and contribution rates are controlled by the respective system administrators (Public Safety Personnel Retirement System [PSPRS] Tier 3, Elected Officials' Retirement System [EORS] and Arizona State Retirement System [ASRS]), the City will continue to recommend that those systems adopt reasonable policies to target 100% funded status. To maintain an average funding ratio of 100%, understanding that economic conditions can impact short-term performance, the City endeavors to maintain funding ratios between 85% and 115% in all funds throughout changing economic conditions.
- c. **Forecasting/Budgeting** – The City of Tempe performs annual analyses of each statutorily-established pension system account for inclusion in the City's long-range financial forecasts and operating budgets. The City's long-range projections of pension liabilities are based on historic data and forward-looking actuarial projections. Actuarial projections are obtained from the State-sponsored pension systems and from City-contracted/performed actuarial analyses.
- d. **Funding Strategies** – The City of Tempe budgets and pays, at least, all statutorily-required pension contributions every year. The required contributions are based on amortizations of unfunded actuarial accrued liabilities over the assumed amortization periods of the respective accounts (amortization periods of Tempe's pension accounts are provided below). Therefore, the City of Tempe is targeting full funding of its pension funds within the amortization period assumed by each fund. However, the City of Tempe is not satisfied with the across-the-board assumptions that PSPRS applies to all member organizations' accounts and the unwillingness of the PSPRS system to provide individual actuarial analyses that would provide accurate contribution requirements to individual member organizations. The City of Tempe recently acquired actuarial software that will enable the City to interactively change some of the actuarial assumptions made by PSPRS. This will give the City a better idea of the funding requirements necessary to improve the funding ratios and reduce the unfunded liabilities related to Tiers 1 and 2, based on Tempe-specific conditions.

II. Arizona State Retirement System (ASRS)

- a. **Description** – Multiple-employer; defined-benefit plan; equal contributions mandated by the System from all employers and all employees; statutorily-required participation for all non-sworn, non-elected regular city, county, state and school district employees.
- b. **Assumptions** – Interest earnings rate = 7.5%; Amortization period = 15 years
- c. **Funded Ratio** – 74.0% as of 6/30/19

- d. **Unfunded Accrued Actuarial Liability** -- \$111,031,198 (City of Tempe's share as of 6/30/19)
 - e. **System-mandated Contribution Rates** (employee and employer):
 - FY 2020-21 12.22%

III. Public Safety Personnel Retirement System (PSPRS)

- a. **Description** – Agent-multiple-employer; defined-benefit (with a defined-contribution option for Tier 3 employees); statutorily-established contributions for all employees in Tiers 1 & 2 with employer contribution rates that fluctuate and vary between employers and units (Police and Fire) within each employer; equal contribution rates for Tier 3 employees and their respective employers for the Tier 3 defined benefit plan, with contribution rates that fluctuate and vary between member organizations.
- b. **Assumptions** – Interest earnings rate = 7.3% for Tiers 1 &2, 7.0% Tier 3; Amortization period = 17 years for Tiers 1 &2, 10 years Tier 3.

c. **Funded Ratios (as of 6/30/19):**

Tempe Police -- Tiers 1&2	Tempe Police – Tier 3	Tempe Fire – Tiers 1&2	Tempe Fire – Tier 3
41.9%	170.6%	44.9%	167.5%

d. **Unfunded Accrued Liabilities:**

Tempe Police -- Tiers 1&2	Tempe Police – Tier 3	Tempe Fire – Tiers 1&2	Tempe Fire – Tier 3
\$208,341,861	(\$59,636)	\$114,581,657	(\$31,710)

e. **Contribution Rates for 2020-21:**

	Tempe Police -- Tiers 1&2	Tempe Police – Tier 3	Tempe Fire – Tiers 1&2	Tempe Fire – Tier 3
Employee	7.65%	9.60%	7.65%	10.67%
Employer	71.30%	65.45%**	76.05%*	70.34%**

* The City's required contribution for Fire is offset by approximately 4% via Fire Insurance Premium Fees paid by taxpayers.

** The Tier 3 employer contribution rate includes the rate shared by Tier 3 employees, plus a portion of the Tier 1 &2 amortized unfunded liability, which is spread over the employers' contributions for all employees.

IV. Elected Officials' Retirement System (EORS)

- a. **Description** – Multiple-employer; defined-benefit plan for officials hired before January 1, 2014; defined-contribution plan for officials hired on or after January 1, 2014.
- b. **Assumptions** – Interest earnings rate = 7.3%; Amortization period = 25 years
- c. **Funded Ratio** – 33.6% as of 6/30/19 (system-wide)
- d. **Unfunded Accrued Actuarial Liability** -- \$1,462,084 (City of Tempe's share as of the latest published actuarial report 6/30/2018)
- e. **System-mandated Contribution Rates (FY 2020-21):**
 - Employer 61.43%
 - Employee 7.00%