



Town of Payson
Public Safety Personnel Retirement
System Pension Funding Policy 704

Approved by Council:

July 26, 2018

Revised Date:

July 12, 2024

Town of Payson
Public Safety Personnel Retirement System
Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to our employees and the sound financial management of the Town and to comply with statutory requirements of Arizona Revised Statute §38-863.01.

Several terms are used throughout this policy:

Unfunded Actuarial Accrued Liability (UAAL) – Is the difference between trust assets and the estimated future cost of pensions earned by employees. This UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations.

Annual Required Contribution (ARC) – Is the annual amount an employer is required to pay into a pension fund, based on annual actuarial valuations. The ARC is comprised of two components: 1) the normal pension costs – which is the estimated cost of pension benefits per employees in the current year; and 2) the amortized UAAL – which is the amortized cost of the unfunded pensions, from previous years, collected over a period of time. The ARC is a percentage of the current payroll.

Funded Ratio – Is a ratio of fund assets to actuarial accrued liability. The higher the ratio the better funded the pension is with 100% being fully funded.

Intergenerational equity – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.

The Town's police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

Public Safety Personnel Retirement System (PSPRS)

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to comingle assets of all plans under its administration, thus achieving economy of scale for more cost efficient investments; and to invest those assets for the benefit of all members under its administration: 2) serve as the statewide uniform administrator for the distribution of benefits.



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Under an agent multiple-employer plan each agency participating in the plan has an individual trust fund reflecting that agency's assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets. Each fund has its own Funded Ratio, Annual Contribution Rate, and unique annual actuarial valuation. The Town of Payson has two trust funds in PSPRS, one for police employees and one for fire employees.

Below are the Town of Payson's two PSPRS trust funds Assets, Accrued Liabilities, and current Funded Ratio from the June 30, 2023 actuarial valuation.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Payson Police	\$11,950,073	\$23,532,424	\$11,582,351	50.8%
Payson Fire	\$13,503,736	\$21,331,541	\$7,827,805	63.3%
Town of Payson Totals	\$25,453,809	\$44,863,965	\$19,410,156	56.7%

Pensions that are less than fully funded place the cost of previous unfunded pension liabilities on current and future taxpayers. Pension plans that are fully funded are the best way to achieve taxpayer and member intergenerational equity. Since the Town's Police and Fire PSPRS trust funds are currently funded at 51% and 63% respectively, the Town has adopted the following goal.

The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036.

Council established this goal for the following reasons:

- To eliminate the Town's PSPRS unfunded liability
- The annual cost of the Town's UAAL puts a strain on the Town's budget, affecting its ability to fund other services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Council has taken the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined police and fire PSPRS Annual Required Contribution (ARC) for FY24-25 is \$3.1 million, which will be paid from operating funds without diminishing Town services.



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- Additional payments above the ARC – A portion of the August 2017 sales tax increase is committed to making annual payments of at least \$500,000 in excess of the ARC.
 - In Fiscal 17-18 the Town paid an additional \$500,000 payment above the ARC.
 - In Fiscal 18-19 the Town paid an additional \$600,000 payment above the ARC.
 - In Fiscal 19-20 the Town paid an additional \$600,000 payment above the ARC.
 - In Fiscal 20-21 the Town paid an additional \$600,000 payment above the ARC.
 - In Fiscal 21-22 the Town paid an additional \$600,000 payment above the ARC
 - In Fiscal 22-23 the Town paid an additional \$600,000 payment above the ARC
 - In Fiscal 23-24 the Town paid an additional \$600,000 payment above the ARC
 - The Fiscal Year 24-25 Budget includes an additional \$600,000 payment above the ARC

Based on these actions the Council plans to achieve its goal of 100% Funded Liability by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS.