

OPTION TO EXTEND UNFUNDED LIABILITY AMORTIZATION PERIOD

CITY OF MESA

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) PLANS

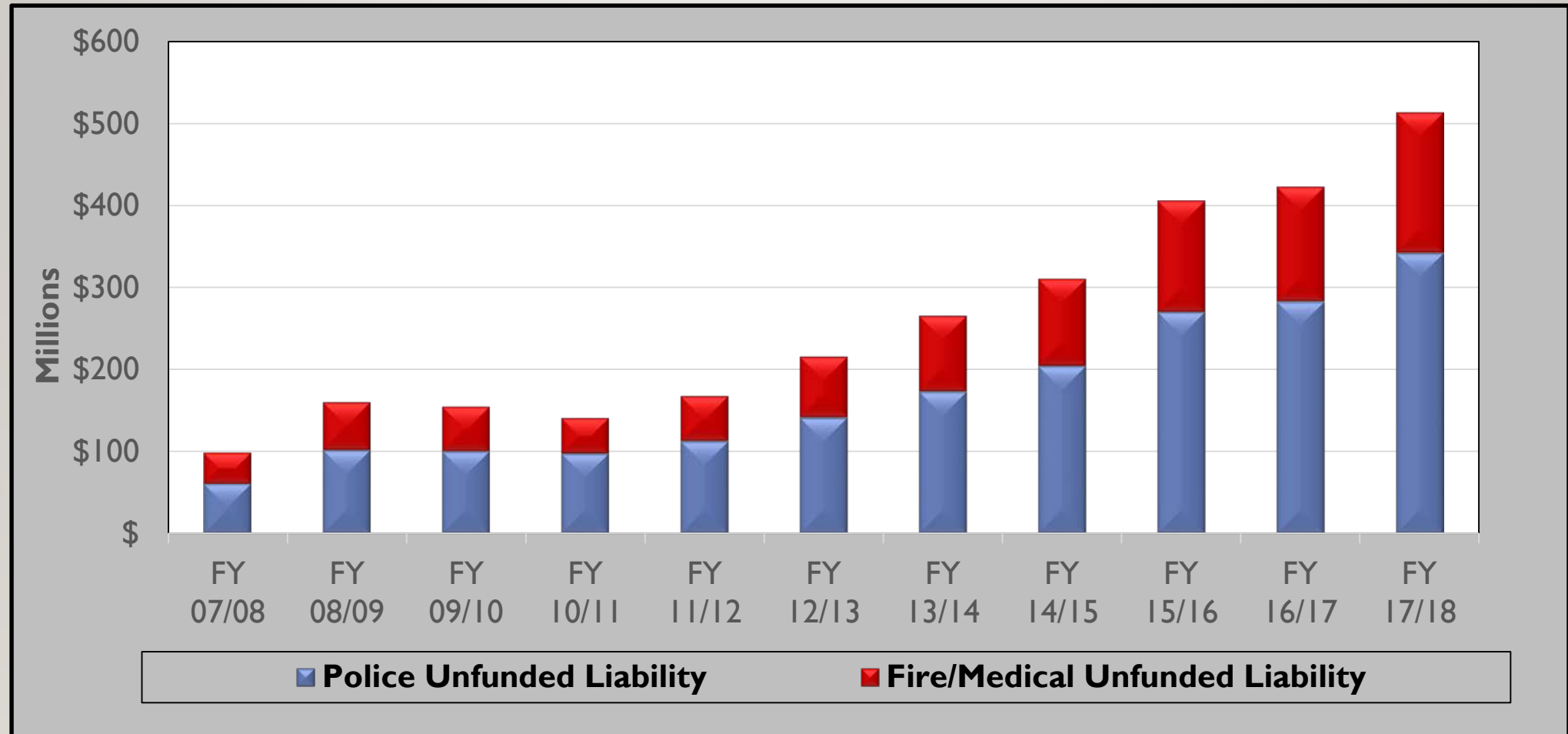
PSPRS UNFUNDED LIABILITY

What is unfunded liability?

The cost of pension benefits already earned by employees but not currently funded.

- Calculated by PSPRS annually
- Based on demographic and financial assumptions such as investment return, retirement age, life expectancy, etc.

MESA PSPRS PLANS - UNFUNDED LIABILITY



PSPRS UNFUNDED LIABILITY

Unfunded liability has increased due to:

- Benefit changes approved by State and/or voters
- Legal rulings regarding benefit changes
- Demographic assumptions (e.g., salary adjustments, number of employees, life expectancy) varied from actual experience
- Return on investment of assets less than assumed

PSPRS UNFUNDED LIABILITY

Unfunded liability will increase due to:

Legal ruling (Hall case)

- Part of employee contributions to be reimbursed (\$15 million)
- Permanent benefit increases to be adjusted for recent retirees (\$0.1 million)
- Interest to be paid on reimbursements (TBD)

Lower assumption of return on investment of plan assets

Unfunded liability may increase due to:

Market corrections, return on investment of assets, demographic changes, etc.

AMORTIZATION PERIOD

What is an amortization period?

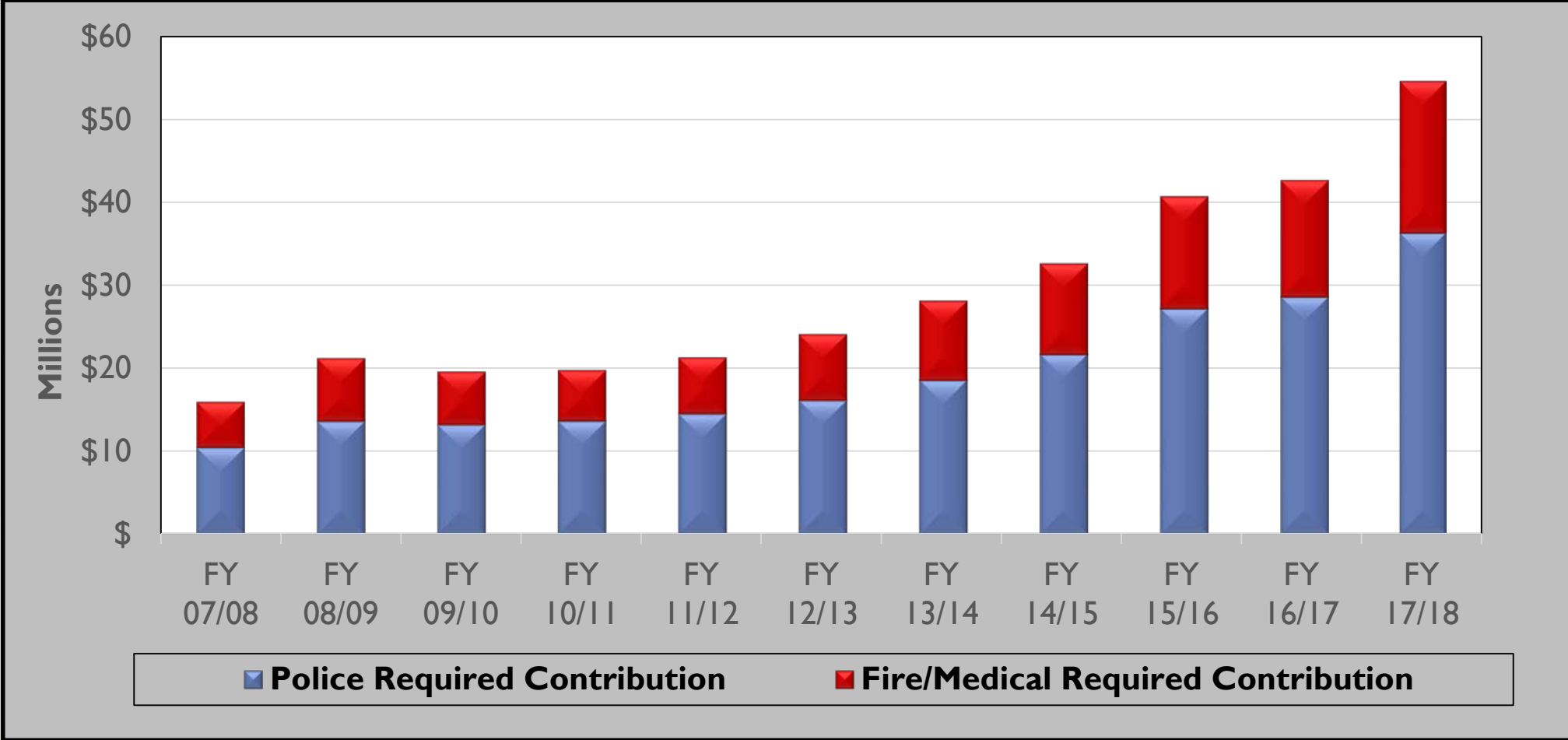
Time period over which the unfunded liability is paid for and the plans become fully funded

FY 2007-08: Closed (fixed end date) 30-year period

FY 2017-18 (current): Closed (fixed end date) 20-year period

FY 2017-18 (proposed): Closed (fixed end date) 30-year period

PSPRS PLANS - ANNUAL REQUIRED CONTRIBUTION



STATE REFORM – HB 2485 (2017)

PSPRS “Admin Bill” Signed by Governor May 3, 2017

- Provides PSPRS participants with option to lengthen amortization period (currently 20 years) to a maximum of 30 years
- Effective as early as FY 2017-18
- To allow for flexibility in managing costs
- Arizona State Retirement System (ASRS) uses 30-year closed period
- Reduction in FY17-18 contribution: \$8.3 million (estimate)

RECOMMENDATIONS

1. Approve resolution requesting PSPRS extension of unfunded liability amortization period to 30 years; however, City policy would target 25-year payment schedule
2. Contribute \$4.3 million towards 25-year target
3. Establish pension stabilization reserve of \$4 million

PENSION STABILIZATION RESERVE

To mitigate budget shocks from future unexpected pension cost increases:

- Set aside \$4 million to absorb future year-to-year cost spikes
- Increase/replenish reserve funding in stable years
- Buffer risks of a market correction, lower return on investment of assets, demographic changes, etc.

CALENDAR

June 15 – Council presentation and consideration of resolution

June 21 – Deadline to notify PSPRS to take effect in FY17-18

June 28 – PSPRS Board meets to consider/approve City's request

