CITY OF SURPRISE
Regular City Council Work Session
16000 N. Civic Center Plaza
Surprise, AZ 85374
Tuesday, February 18, 2020 @ 4:30 PM
COUNCIL CHAMBERS

A. Call To Order

B. Roll Call

C. Pledge of Allegiance

D. Proclamation and Community Acknowledgements

E. City Manager Report

F. City Clerk Report

G. Call To The Public

INSTRUCTIONS: In order to address the City Council, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the City Clerk before the meeting begins.
Download the Call to the Public form (PDF download requires Adobe Acrobat Reader)
Fill out the Call to the Public form online If submitting form electronically, please submit to City Clerk at least one hour before the meeting start time.
The Call to the Public form is also available at the front counter.

Note: A.R.S. 38-431.01(H)- During this time members of the public may address City Council only on issues within the jurisdiction of the City Council which are not an item on the agenda. At the conclusion of the open call, City Council may respond to criticism, may ask staff to review the matter or may ask that the matter be put on a future agenda. No discussion or action shall take place on any item raised.

Approval of items on the Consent Agenda – all items with an asterisk (*) are considered to be routine matters and will be enacted by one motion and one roll call vote to the City Council. There will be no separate discussion on these items unless a Councilmember requests, in which event the item will be removed from the consent agenda and considered in its normal sequence on the agenda.

Please be aware that Council Members may not discuss or respond to matters raised during call to the public that are not specifically identified on the agenda. Council Members may however, in their discretion, discuss or respond to relevant matters raised during a noticed public hearing or agenda item.

H. Regular City Council Work Session Agenda

CONSENT AGENDA:

REGULAR AGENDA ITEM - PUBLIC HEARING:

REGULAR AGENDA ITEM - NON-PUBLIC HEARING:

1.	Citywide	Presentation and discussion on proposed updates to the Comprehensive Citywide Fee Schedule updating aquatic admission fees.	None Donna Miller Parks and Recreation

2.	Internal	Presentation and discussion pertaining to an update of PSPRS Pension Liability.	None Andrea Davis Finance

I. Other Business and Future Agenda Items

J. City Council Reports

K. Executive Session

For information Purposes; Upon a public majority vote of a quorum of the City Council, the Council may hold an executive session, which will not be open to the public, but for only the following purposes:

- discussion or consideration of personnel matters (A.R.S. §38-431.03 (A)(1));
- discussion or consideration of records exempt by law from public inspection (A.R.S. §38-401.03 (A)(2));

L. Adjournment

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SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: February 13, 2020 at 12:10 PM

SPECIAL NOTE: PERSONS WITH SPECIAL ACCESSIBILITY NEEDS, INCLUDING LARGE PRINT MATERIALS OR INTERPRETER, SHOULD CONTACT THE CITY CLERK'S OFFICE @ 623.222.1200 OR TTY 623.222.1002, BY NO LATER THAN 24 HOURS IN ADVANCE OF THE REGULAR SCHEDULED MEETING TIME.

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: February 18, 2020
Submitting Department: Parks and Recreation
Staff Recommendations: None

Contact Person: Donna Miller, DIRECTOR - CRS
District: Citywide

Consent: No   Regular: Yes   Public Hearing: No   Report/Discussion: No

Agenda Wording:

Presentation and discussion on proposed updates to the Comprehensive Citywide Fee Schedule updating aquatic admission fees.

Motion:

None; discussion only.

Background:

The Parks and Recreation Department collects various fees for recreation programs, services, and rentals. In Fiscal Year 2019, the Parks and Recreation Department created a Standard Operating Procedure to formalize the Parks and Recreation Pricing Model and other pricing considerations. Parks and Recreation staff have completed an analysis on aquatic admission fees are recommending fee increases. The fees haven't been increased since 2006; however operating expenses for the pools including staff, supplies and services have continued to increase. The analysis also included a Market Study and the current aquatic admission fees fall below the average market rate.
Admission Fees are subject to the Municipal Public Notice Requirements per Arizona Revised Statues A.R.S. 9-499.15 (F).

Objective Analysis:

The establishment of standard operating procedures for fees ensures a consistent process is followed for the addition or adjustment of program fees and charges. Parks and Recreation staff review fees annually as part of the budget process per standard operating procedures.

Policy Compliant:

This action is compliant with the City of Surprise Comprehensive Financial Management Policies and the User Fees SOP.

Financial Impact:

The financial impact will include increased revenue to the City. It is estimated that the recommended fee increases will bring in an additional $41,000 annually.

Budget Impact:

There is no budget impact at this time. All fees associated with existing programs are currently budgeted.

FTE Impact:

There is no FTE impact.

ATTACHMENTS:

1. New aquatic admission fees 2020 (002)

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Proposed New Aquatic Admission Fees

Parks and Recreation Department

Overview

- Recommendation:
  - Increase Aquatics Admission Fees

- Per Fee Policy, staff reviews fees annually based on direct cost and market analysis. Admissions are a nominal fee because there is a considerable community benefit associated with the program.
- Last increase for aquatics admission fees- 2006
- Expenses for staffing, supplies and services continue to increase.
- New fees approved by the Parks & Recreation Advisory Commission-January 27, 2020.
- Estimated annual increase in revenue- $41,000.

Aquatic Admission Fees

Municipality	Youth	Adult
Surprise	$1	$2
Buckeye	$2	$2
Glendale	$2.50	$5
Goodyear	$1.50	$1.50
Peoria	$2	$4
Litchfield Park	$3	$3
Surprise Proposed	$2	$3

.

Pool Pass

Municipality	Youth	Adult	Family
Surprise	$20	$40	$80
Buckeye	$50	$50	$150
Glendale	n/a	n/a	n/a
Goodyear	$25	$25	$50
Peoria	$30	$30	$100
Litchfield Park	$60	$60	$120
Surprise Proposed	$40	$60	$120

Next Steps

- February 19, 2020-April 30, 2020- 60 Day Required Posting per Arizona Revised Statues (A.R.S.) 9-499.15.
- May 5, 2020- Council Meeting to approve fees
- May 6, 2020- New Fees go into effect

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QUESTIONS OR COMMENTS?

Thank You

CITY OF SURPRISE
Regular City Council Work Session

Council Meeting Date: February 18, 2020

Contact Person: Andrea Davis, DIRECTOR - FINANCE

Submitting Department: Finance

District: Internal

Staff Recommendations: None

Consent: No	Regular: Yes	Public Hearing: No	Report/Discussion: No

Agenda Wording:
Presentation and discussion pertaining to an update of PSPRS Pension Liability.

Motion:
None; discussion only.

Background:
Qualifying City of Surprise police and fire-medical employees participate in the Public Safety Personnel Retirement System (PSPRS). PSPRS is administered as an agent multiple-employer pension plan in which each participating agency has an individual trust fund reflecting their assets and liabilities. The City of Surprise has two trust funds, one for police employees and one for fire-medical employees. Each fund has its own funded ratio, contribution rate, and annual actuarial valuation.

Based on the actuarial valuations dated June 30, 2019, the Surprise Police PSPRS Trust Fund has assets of $46,472,444, unfunded liability of $28,293,914 and a funded ratio of 62.2%. The Surprise Fire-Medical Trust Fund has assets of $50,604,247, unfunded liability of $12,860,003, and a funded ratio of 79.7%.

Objective Analysis:
An annual review of the City's PSPRS funding strategy will assist in maintaining stability of the City's PSPRS funds.

Policy Compliant:
This item is compliant with City and Council policies.

Financial Impact:
None at this time; however topics covered in this presentation may lead to future actions which may have a financial impact.

Budget Impact:
None at this time; however topics covered in this presentation may lead to future actions which may have a budgetary impact.

FTE Impact:
This item does not impact the overall full-time equivalent count.

ATTACHMENTS:
1. 110) 2019 PSPRS Valuation Report - Surprise Police
2. 120) 2019 PSPRS Valuation Report - Surprise Fire
3. Finance SOP- Pension Funding 060419 final with resolution

ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

SURPRISE POLICE DEPT. (110)

ACTUARIAL VALUATION
AS OF JUNE 30, 2019

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING JUNE 30, 2021

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

December 5, 2019

Board of Trustees
Arizona Public Safety Personnel Retirement System
Phoenix, AZ

Re: Actuarial Valuation Report as of June 30, 2019 for Surprise Police Dept. (110)

Dear Members of the Board:

We are pleased to present to the Board this report of the annual actuarial valuation of the Arizona Public Safety Personnel Retirement System (PSPRS). The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year.

This report was prepared at the request of the Board and is intended for use by PSPRS and those designated or approved by the Board. It documents the valuation of the consolidated plan and provides summary information for PSPRS participating employers. This report may be provided to parties other than PSPRS only in its entirety and only with the permission of the Board. Foster & Foster is not responsible for the unauthorized use of this report.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects laws and regulations issued to date pursuant to the provisions of Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes, as well as applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience. Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the valuation, we did not perform an analysis of the potential range of such future measurements.

The computed contribution rates shown in the "Contribution Results" section should be considered minimum contribution rates that comply with the Board's funding policy and Arizona Statutes. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by PSPRS through June 30, 2019 and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

This valuation assumes the continuing ability of the participating employers to make the contributions necessary to fund this plan. A determination regarding whether or not the participating employers are actually able to do so is outside our scope of expertise. Consequently, we did not perform such an analysis.

The undersigned are familiar with the immediate and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the Arizona Public Safety Personnel Retirement System, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the Arizona Public Safety Personnel Retirement System. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at 239-433-5500.

Respectfully Submitted,

Foster & Foster, Inc.

By: ______________________
Bradley R. Heinrichs, FSA, EA, MAAA

By: ______________________
Jason L. Franken, FSA, EA, MAAA

By: ______________________
Paul M. Baugher, FSA, EA, MAAA

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I. SUMMARY OF REPORT

The regular annual actuarial valuation of the Arizona Public Safety Personnel Retirement System for the Surprise Police Dept., performed as of June 30, 2019, has been completed and the results are presented in this Report. The purpose of this valuation is to:

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members. This information is contained in the section entitled "Liability Support."
- Compare accumulated assets with the liabilities to assess the funded condition. This information is contained in the section entitled "Liability Support."
- Compute the employers' recommended contribution rates for the Fiscal Year beginning July 1, 2020. This information is contained in the section entitled "Contribution Results."

1. Key Valuation Results

The funded status as of June 30, 2019 and the employer contribution amounts applicable to the plan/fiscal year ending June 30, 2021 are as follows:

	Tier 1 & Tier 2 Members			Tier 3 Members *		
	Pension	**Health**	**Total**	**Pension**	**Health**	**Total**
Employer Contribution Rate	32.54%	0.32%	32.86%	9.21%	0.14%	9.35%
Funded Status	62.2%	116.8%	62.9%	116.9%	205.3%	118.4%

2. Comparison of Key Results to Prior Year

The chart below compares the results from this valuation with the results of the prior year's valuation, as prepared and reported by Gabriel, Roeder, Smith & Company:

Contribution Rate

	Tier 1 & Tier 2 Members			Tier 3 Members *		
Valuation Date	**Pension**	**Health**	**Total**	**Pension**	**Health**	**Total**
June 30, 2018	30.99%	0.32%	31.31%	9.80%	0.21%	10.01%
June 30, 2019	32.54%	0.32%	32.86%	9.21%	0.14%	9.35%

Funded Status

	Tier 1 & Tier 2 Members			Tier 3 Members		
Valuation Date	**Pension**	**Health**	**Total**	**Pension**	**Health**	**Total**
June 30, 2018	61.8%	98.8%	62.4%	89.3%	110.5%	89.7%
June 30, 2019	62.2%	116.8%	62.9%	116.9%	205.3%	118.4%

** The Tier 3 rates shown are the calculated rates as of the valuation date and do not reflect any Legacy costs that the employer must also contribute.*

3. Reasons for Change

Changes in the results from the prior year's valuation can be illustrated in the following tables along with high-level explanations for the entire System below:

Contribution Rate

	Tier 1 & Tier 2		Tier 3 Members	
	Pension	**Health**	**Pension**	**Health**
Contribution Rate Last Valuation	30.99%	0.32%	9.80%	0.21%
Asset Experience	0.19%	0.01%	0.00%	0.00%
Payroll Base	(0.56%)	0.00%	0.08%	0.00%
Liability Experience	0.14%	0.11%	0.07%	0.00%
Assumption/Method Change	2.12%	0.03%	0.41%	0.00%
Other	(0.34%)	(0.15%)	(1.16%)	(0.07%)
Contribution Rate This Valuation	32.54%	0.32%	9.21%	0.14%

Funded Status

	Tier 1 & Tier 2		Tier 3 Members	
	Pension	**Health**	**Pension**	**Health**
Funded Status Last Valuation	61.8%	98.8%	89.3%	110.5%
Asset Experience	(0.4%)	(0.9%)	0.2%	0.5%
Liability Experience	(1.6%)	(2.3%)	(4.2%)	0.7%
Assumption/Method Change	(1.8%)	(2.6%)	(1.4%)	0.6%
Other	4.2%	23.8%	33.0%	93.0%
Funded Status This Valuation	62.2%	116.8%	116.9%	205.3%

Assets Experience – Asset gains and losses (relative to the assumed earnings rate) are smoothed over seven years for Tiers 1 and 2 and over five years for Tier 3. The return on the market value of assets for the year ending June 30, 2019 was 5.4% for Tiers 1 and 2 and 9.0% for Tier 3. On a smoothed, actuarial value of assets basis, however, the average return was 6.7% for Tiers 1 and 2 and 7.3% for Tier 3. This fell short of the 2018 assumed earnings rate for Tiers 1 and 2 of 7.4% but exceeded the rate for Tier 3 of 7.0%.

Liability Experience – Experience overall was unfavorable, driven by greater than expected active retirements. Gains from greater than expected terminations and lower than expected salary increases partially offset those losses. A decrease in normal costs has a significant impact on the contribution reconciliation for this bucket, as well.

Payroll Base – Under the current amortization policy for Tiers 1 and 2, the contribution rate is developed as a level percentage of payroll. The payroll is expected to increase each year in line with the growth assumption (currently 3.50%). To the extent that actual payroll is lower/greater than expected, the contribution rate will increase/decrease as a result.

Assumption / Method Change – The interest rate (assumed earnings rate) was decreased from 7.40% to 7.30% and the mortality tables were updated to the latest available information. These changes both resulted in liability losses.

Other – This is the combination of all other factors that could impact liabilities year-over-year, with the primary sources being the transition of actuarial services and changes in member data. Note that Tier 3 is primarily driven by contributions that are currently outpacing accruals; this will stabilize as the plan matures.

4. Looking Ahead

The continuing effect of prior asset losses was dampened by the asset smoothing reflected in the actuarial value of assets and further offset by the effect of lower than expected pay increases. There remain unrecognized investment losses that will, in the absence of other gains, put upward pressure on the contribution rate next year.

If the June 30, 2019 pension valuation results were based on the market value of assets instead of the actuarial value of assets, the pension funded percentage for Tiers 1 and 2 would be 60.1% (instead of 62.2%) and the pension employer contribution requirement would be 33.54% of payroll (instead of 32.54%).

The funded status for Tiers 1 and 2 will continue to improve if assumptions are met and contributions at least equal to the rates determined for each employer are made to the fund. The funded status for Tier 3 will stabilize as the population continues to grow, as contributions appear sufficient to keep the liabilities fully funded.

II. CONTRIBUTION RESULTS

Contribution Requirements

Development of Employer Contributions - Tiers 1 & 2 Members				
Valuation Date	June 30, 2019		June 30, 2018	
Applicable to Fiscal Year Ending	2021		2020	
	Rate	**Dollar**	**Rate**	**Dollar**
Pension				
Normal Cost				
Total Normal Cost	22.47%	$2,500,116		
Employee Cost	(7.65%)	(851,071)		
Employer (Net) Normal Cost	14.82%	1,649,045	14.90%	
Amortization of Unfunded Liability	17.72%	2,111,781	16.09%	
Total Employer Cost (Pension)	32.54%	3,760,826	30.99%	
Health				
Normal Cost	0.43%	$47,355	0.31%	
Amortization of Unfunded Liability	(0.11%)	(13,109)	0.01%	
Total Employer Cost (Health)	0.32%	34,246	0.32%	
Total Employer Cost (Pension + Health)	**32.86%**	**3,795,072**	**31.31%**	**3,506,728**
Total Minimum Contribution Requirement (if applicable)	0.00%		0.00%	
Alternate Contribution Rate (ACR) *	17.72%		16.10%	
Underlying Payroll (as of valuation date)		11,125,116		

** The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health and is charged when retirees return to active status.*

The results above are shown both prior to and after the application of the statutory minimum contribution requirement of 8% of payroll (5% of payroll if the actual employer contribution is less than 5% for the 2006/2007 Fiscal Year) and are based on the current amortization schedule approved by the Board of Trustees for your individual plan (see "Actuarial Assumptions and Methods").

A.R.S. 38-843, subsection I allows for the employer to request a one-time increase in the amortization period up to a maximum of 30 years. The costs below are provided to assist with that decision, where needed. If the current approved amortization period is greater than those below, that request has already been made for this plan and the following is provided to facilitate earlier payoff, if desired.

	Rate	**Dollar**
Total Pension Employer Cost (25-year amortization)	28.81%	3,312,413
Total Pension Employer Cost (30-year amortization)	27.42%	3,146,760

Development of Employer Contributions – Tier 3 Members		
Valuation Date	June 30, 2019	June 30, 2018
Applicable to Fiscal Year Ending	2021	2020

Defined Benefit (DB) Retirement Plan

	Rate	**Dollar**	**Rate**	**Dollar**
Pension				
Total Normal Cost	18.41%	$ 205,881	19.46%	
Amortization of Unfunded Liability	0.00%	0	0.14%	
Total Pension Cost	18.41%	205,881	19.60%	
Employee (EE) Pension Cost	9.21%	102,941	9.80%	
Employer (ER) Pension Cost	9.21%	102,941	9.80%	
Health				
Total Normal Cost	0.28%	3,131	0.42%	
Amortization of Unfunded Liability	0.00%	0	0.00%	
Total Health Cost	0.28%	3,131	0.42%	
Employee (EE) Health Cost	0.14%	1,566	0.21%	
Employer (ER) Health Cost	0.14%	1,566	0.21%	
Total				
Total Calculated Tier 3 Required EE/ER Individual Cost	9.35%	104,507	10.01%	
Board Approved Tier 3 Required EE/ER Individual Cost [1]	9.94%	111,160	9.94%	
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	17.72%	212,279	16.10%	
Total Calculated Tier 3 Required ER Defined Benefit Cost	27.07%	316,786	26.11%	
Total Board Approved Tier 3 Required ER Defined Benefit Cost	**27.66%**	**323,439**	**26.04%**	**174,141**
Underlying Payroll (as of valuation date)		1,118,312		

[1] The Board decided to keep Tier 3 rates level (as calculated with the June 30, 2018 valuation) for the fiscal year ending June 30, 2021.

[2] Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.

Development of Employer Contributions – Tier 3 Members		
Valuation Date	June 30, 2019	June 30, 2018
Applicable to Fiscal Year Ending	2021	2020

Defined Contribution (DC) Retirement Plan

	Rate	Dollar	Rate	Dollar
Tier 2 & 3 DB / Non-Social Security				
Employee Cost	3.00%		3.00%	
Employer Cost [1]	3.00%		3.00%	
Tier 3 DC Only				
Employee Cost	9.00%	$0	9.00%	
Employee Disability Program Cost	1.41%	0	1.51%	
Total Employee Cost	**10.41%**	**0**	**10.51%**	
Employer Cost	9.00%	0	9.00%	
Employer Disability Program Cost	1.41%	0	1.51%	
Total Employer Cost (before Legacy)	**10.41%**	**0**	**10.51%**	
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	17.72%	0	16.10%	
Total Employer Cost	**28.13%**	**0**	**26.61%**	
Underlying Payroll (as of valuation date)		0		

[1] *Employer rate is 4% for Tier 2 members for a period of time depending on the individual's membership date.*

[2] *Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.*

Contribution Rate Summary

	Tier 1		Tier 2		Tier 3		
Membership Date On or After	7/1/1968		7/20/2011		7/20/2011		7/1/2017
Participates in Social Security	N/A	N/A	Yes	No	Yes	No	N/A
Available Retirement Plan [1]	DB Only	DB Only	DB Only	Hybrid	DB Only	Hybrid	DC Only
Employee Contribution Rate							
PSPRS DB Rate	7.65%	11.65%	11.65%	11.65%	9.94%	9.94%	
PSPRS DC Rate				3.00%		3.00%	9.00%
PSPDCRP Disability Program Rate							1.41%
Total EE Contribution Rate	7.65%	11.65%	11.65%	14.65%	9.94%	12.94%	10.41%
Employer Contribution Rate							
PSPRS DB Normal Cost	15.25%	15.25%	15.25%	15.25%	9.94%	9.94%	
PSPRS DB Tier 1 & 2 Legacy Cost [2]	17.61%	17.61%	17.61%	17.61%	17.72%	17.72%	17.72%
PSPRS DC Rate [3]				4.00%		3.00%	9.00%
PSPDCRP Disability Program Rate							1.41%
Total ER Contribution Rate	32.86%	32.86%	32.86%	36.86%	27.66%	30.66%	28.13%

[1] Employers that pay into Social Security on behalf of their members do not participate in the Hybrid Plan.

[2] Per statute (ARS § 38-843(B)), any positive unfunded liability for Tiers 1 and 2 is to be applied to all Tier 3 (DB and DC) payrolls.

[3] The 4.00% employer match for Tier 2 Hybrid members is for a short period of time depending on the membership date of the employee at which point the rate will change to 3.00% (ARS § 38-868(C)).

Exhibit summarizes employee and employer contributions based on Statute and the results of June 30, 2019 actuarial valuation. Pension and health components are combined, where applicable.

Impact of Additional Contributions

	Additional Contribution (000s)										
	$0	**$1,000**	**$2,000**	**$3,000**	**$4,000**	**$5,000**	**$6,000**	**$7,000**	**$8,000**	**$9,000**	**$10,000**
Impact On											
Funded Status 06/30/2019	62.2%	63.5%	64.8%	66.2%	67.5%	68.8%	70.2%	71.5%	72.9%	74.2%	75.5%
FYE 2021 Contribution Rate	32.86%	32.24%	31.63%	31.02%	30.41%	29.80%	29.19%	28.58%	27.97%	27.36%	26.75%

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2019 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2019. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

Historical Summary of Employer Rates

			Pension			Health		
	Valuation Date June 30	**Fiscal Year Ending June 30**	**Normal Cost**	**Unfunded Amortization**	**Total**	**Normal Cost**	**Unfunded Amortization**	**Total**
TIERS 1 & 2	2018	2020	14.90%	16.09%	30.99%	0.31%	0.01%	0.32%
	2019	2021	14.82%	17.72%	32.54%	0.43%	(0.11%)	0.32%
TIER 3 [1]	2018 [2]	2020	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
	2019 [3]	2021	9.21%	0.00%	9.21%	0.14%	0.00%	0.14%
	2019 [2]	2021	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%

[1] *Does not reflect Legacy costs that the employer must also contribute.*

[2] *Rates shown are Board approved EE/ER rates*

[3] *Rates shown are calculated EE/ER rates*

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III. Liability Support

Liabilities and Funded Ratios by Benefit - Tiers 1 & 2

	June 30, 2019	June 30, 2018
Pension		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	$ 32,181,235	
DROP Members	4,738,667	
Vested Members	297,317	
Active Members	59,192,833	
Total Actuarial Present Value of Benefits	96,410,052	
Actuarial Accrued Liability (AAL)		
All Inactive Members	37,217,219	30,716,061
Active Members	37,549,139	34,964,483
Total Actuarial Accrued Liability	74,766,358	65,680,544
Actuarial Value of Assets (AVA)	46,472,444	40,576,043
Unfunded Actuarial Accrued Liability		
Gross Unfunded Actuarial Accrued Liability	28,293,914	25,104,501
Stabilization Reserve	0	0
Net Unfunded Actuarial Accrued Liability	28,293,914	25,104,501
Funded Ratio (AVA / AAL)	62.2%	61.8%
Health		
Present Value of Benefits		
Retirees and Beneficiaries	$ 326,552	
DROP Members	91,193	
Active Members	1,056,910	
Total Present Value of Benefits	1,474,655	
Actuarial Accrued Liability (AAL)		
All Inactive Members	417,745	
Active Members	681,342	
Total Actuarial Accrued Liability	1,099,087	1,173,986
Actuarial Value of Assets (AVA)	1,284,084	1,159,762
Unfunded Actuarial Accrued Liability	(184,997)	14,224
Funded Ratio (AVA / AAL)	116.8%	98.8%

Liabilities and Funded Ratios by Benefit - Tier 3

	June 30, 2019	June 30, 2018
Pension		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	0	
Vested Members	203,244	
Active Members	120,826,663	
Total Actuarial Present Value of Benefits	121,029,907	
Actuarial Accrued Liability (AAL)		
All Inactive Members	203,244	
Active Members	7,753,481	
Total Actuarial Accrued Liability	7,956,725	1,831,715
Actuarial Value of Assets (AVA)	9,305,220	1,635,349
Unfunded Actuarial Accrued Liability	(1,348,495)	196,366
Funded Ratio (AVA / AAL)	116.9%	89.3%
Health		
Present Value of Benefits		
Retirees and Beneficiaries	0	
Active Members	1,814,082	
Total Present Value of Benefits	1,814,082	
Actuarial Accrued Liability (AAL)		
All Inactive Members	0	
Active Members	136,597	
Total Actuarial Accrued Liability	136,597	39,635
Actuarial Value of Assets (AVA)	280,404	43,798
Unfunded Actuarial Accrued Liability	(143,807)	(4,163)
Funded Ratio (AVA / AAL)	205.3%	110.5%

The liabilities shown on this page are the liabilities for all Tier 3 members grouped together in the Risk Sharing group. These liabilities are NOT the liabilities for Surprise Police Dept. Tier 3 members.

Derivation of Experience (Gain)/Loss

		Tiers 1 & 2		Tier 3	
		Pension	**Health**	**Pension**	**Health**
(1)	Unfunded Actuarial Accrued Liability as of June 30, 2018	25,104,501	14,224	196,366	(4,163)
(2)	Normal Cost Developed in Last Valuation	1,609,844	33,493	65,537	1,404
(3)	Actual Contributions	4,065,062	42,535	3,684,117	225,397
(4)	Expected Interest On (1), (2), and (3)	1,829,138	1,985	(114,499)	(8,395)
(5)	Expected Unfunded Actuarial Accrued Liability as of June 30, 2019 (1)+(2)-(3)+(4)	24,478,421	7,167	(3,536,713)	(236,551)
(6)	Changes to UAAL Due to Assumptions, Methods and Benefits	2,103,228	24,230	91,273	(391)
(7)	Change to UAAL Due to Actuarial (Gain)/Loss	1,712,265	(216,394)	2,096,945	93,135
(8)	Unfunded Actuarial Accrued Liability as of June 30, 2019	28,293,914	(184,997)	(1,348,495)	(143,807)

Amortization of Unfunded Liabilities - Tiers 1 & 2

	Pension	Health
Unfunded Liability to Amortize		
Unfunded Actuarial Accrued Liability	28,293,914	(184,997)
Maintenance of Effort	755,345	0
Anticipated Contribution Towards Unfunded	2,038,916	1,267
Unfunded Liability to Amortize [1]	29,029,774	(199,814)
Amortization Period	17	20
Projected Payroll	13,115,466	13,115,466
Rate of Amortization of Unfunded Liability	17.72%	(0.11%)

[1] *Adjusted with interest to beginning of next fiscal year.*

Amortization of Unfunded Liabilities - Tier 3

	Date Established	Outstanding Balance	Years Remaining	Amortization Rate [2]
Pension	06/30/2018	182,154	9	0.05%
	06/30/2019	(1,530,649)	10	(0.38%)
	Total	(1,348,495)		0.00%
Health	06/30/2018	(3,862)	9	0.00%
	06/30/2019	(139,945)	10	(0.03%)
	Total	(143,807)		0.00%

[2] *By Statute, negative amortization rates are not subtracted in Tier 3 rate calculations.*

IV. Asset Support

Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2019

Market Value Basis

	Tiers 1 & 2		Tier 3	
	Pension	**Health**	**Pension**	**Health**
Additions				
Contributions				
Member Contributions	$ 121,556,582	$ 0	$ 7,390,215	$ 0
Employer Contributions	844,585,444	0	7,425,607	0
Health Insurance Contributions	0	4,853,600	0	448,692
Total Contributions	966,142,026	4,853,600	14,815,822	448,692
Investment Income				
Net Increase in Fair Value	303,530,849	14,803,383	732,462	24,444
Interest and Dividends	82,589,482	2,347,594	199,300	3,876
Other Income	61,188,380	1,941,632	147,656	3,205
Less Investment Expenses	(44,360,237)	(1,597,190)	(107,047)	(2,637)
Net Investment Income	402,948,474	17,495,419	972,371	28,888
Transfers In	285,197	0	31,689	0
Total Additions	1,369,375,697	22,349,019	15,819,882	477,580
Deductions				
Distributions to Members				
Benefit Payments	818,430,053	0	0	0
Health Insurance Subsidy	0	16,732,865	0	0
Refund of Contributions	15,556,115	0	77,140	0
Total Distributions	833,986,168	16,732,865	77,140	0
Administrative Expenses	7,233,020	301,997	18,010	499
Transfers Out	144,434	0	0	0
Other	0	0	0	0
Total Deductions	841,363,622	17,034,862	95,150	499
Net Increase / (Decrease)	528,012,075	5,314,157	15,724,732	477,081
Net Position Held in Trust				
Prior Valuation	7,284,786,674	328,284,037	3,198,018	77,352
Beginning of the Year Adjustment	(1,807,999)	2,953,522	0	0
End of the Year	7,810,990,750	336,551,716	18,922,750	554,433

Development of Pension Actuarial Value of Assets - Tiers 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 395,715,454
A2. Expected Amount for Immediate Recognition	555,730,379
A3. Amount Subject to Amortization	(160,014,925)

	Year Ended June 30						
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
2019 Experience (A3 / 7)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)
2018 Experience	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,351)	
2017 Experience	33,380,149	33,380,149	33,380,149	33,380,149	33,380,148		
2016 Experience	(64,250,729)	(64,250,729)	(64,250,729)	(64,250,726)			
2015 Experience	(36,894,248)	(36,894,248)	(36,894,251)				
2014 Experience	33,458,496	33,458,496					
2013 Experience	9,542,556						
Total Amortization	(53,889,400)	(63,431,956)	(96,890,455)	(59,996,201)	4,254,524	(29,125,626)	(22,859,275)

C. Actuarial Value of Assets	**Total**	**Employer**
C1. Actuarial Value of Assets, 06/30/2018	7,444,902,139	
C2. Noninvestment Net Cash Flow	132,296,621	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	8,079,039,739	
C4. Market Value of Assets, 06/30/2019	7,810,990,750	44,930,566
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	8,079,039,739	46,472,444

D. Rates of Return	
D1. Market Value Rate of Return	5.4%
D2. Actuarial Value Rate of Return	6.7%

Development of Health Actuarial Value of Assets - Tiers 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 17,193,422
A2. Expected Amount for Immediate Recognition	24,722,408
A3. Amount Subject to Amortization	(7,528,986)

	Year Ended June 30						
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
2019 Experience (A3 / 7)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,572)
2018 Experience	(304,653)	(304,653)	(304,653)	(304,653)	(304,653)	(304,656)	
2017 Experience	1,532,136	1,532,136	1,532,136	1,532,136	1,532,136		
2016 Experience	(3,221,043)	(3,221,043)	(3,221,043)	(3,221,044)			
2015 Experience	(1,796,589)	(1,796,589)	(1,796,586)				
2014 Experience	1,653,381	1,653,381					
2013 Experience	451,740						
Total Amortization	(2,760,597)	(3,212,337)	(4,865,715)	(3,069,130)	151,914	(1,380,225)	(1,075,572)

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, 06/30/2018	339,920,235	
C2. Noninvestment Net Cash Flow	(11,879,265)	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	350,002,781	
C4. Market Value of Assets, 06/30/2019	336,551,716	1,234,735
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	350,002,781	1,284,084

D. Rates of Return	
D1. Market Value Rate of Return	5.3%
D2. Actuarial Value Rate of Return	6.6%

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Development of Pension Actuarial Value of Assets - Tiers 3

A. Investment Income	
A1. Actual Investment Income	$ 954,361
A2. Expected Amount for Immediate Recognition	732,184
A3. Amount Subject to Amortization	222,177

	Year Ended June 30				
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**
2019 Experience (A3 / 5)	44,435	44,435	44,435	44,435	44,437
2018 Experience	(370)	(370)	(370)	(371)	
2017 Experience	0	0	0		
2016 Experience	0	0			
2015 Experience	0				
Total Amortization	44,065	44,065	44,065	44,064	44,437

C. Actuarial Value of Assets	**Total**	**Employer**
C1. Actuarial Value of Assets, 06/30/2018	3,199,499	
C2. Noninvestment Net Cash Flow	14,770,371	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	18,746,119	
C4. Market Value of Assets, 06/30/2019	18,922,750	9,392,896
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	18,746,119	9,305,220

D. Rates of Return	
D1. Market Value Rate of Return	9.0%
D2. Actuarial Value Rate of Return	7.3%

Development of Health Actuarial Value of Assets - Tiers 3

A. Investment Income	
A1. Actual Investment Income	$ 28,389
A2. Expected Amount for Immediate Recognition	20,853
A3. Amount Subject to Amortization	7,536

	Year Ended June 30				
B. Amortization Schedule	2019	2020	2021	2022	2023
2019 Experience (A3 / 5)	1,507	1,507	1,507	1,507	1,508
2018 Experience	0	0	0	(2)	
2017 Experience	0	0	0		
2016 Experience	0	0			
2015 Experience	0				
Total Amortization	1,507	1,507	1,507	1,505	1,508

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, 06/30/2018	77,354	
C2. Noninvestment Net Cash Flow	448,692	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	548,406	
C4. Market Value of Assets, 06/30/2019	554,433	283,486
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	548,406	280,405

D. Rates of Return	
D1. Market Value Rate of Return	9.4%
D2. Actuarial Value Rate of Return	7.4%

V. MEMBER STATISTICS

06/30/2019 Valuation Data Summary

	Tiers 1 & 2	Tier 3
Actives		
Number	114	17
Average Current Age	41.5	31.1
Average Age at Employment	30.3	30.0
Average Past Service	11.2	1.1
Average Annual Salary	$96,353	$65,783
Actives (Transferred from Another Employer)		
Number	2	0
Average Current Age	31.0	N/A
Average Age at Employment	26.2	N/A
Average Past Service	4.9	N/A
Average Annual Salary	$70,409	N/A
Retirees		
Number	21	0
Average Current Age	57.2	N/A
Average Annual Benefit	$54,764	N/A
Drop Retirees		
Number	5	N/A
Average Current Age	48.9	N/A
Average Annual Benefit	$55,133	N/A
Beneficiaries		
Number	4	0
Average Current Age	61.6	N/A
Average Annual Benefit	$34,270	N/A
Disability Retirees		
Number	22	0
Average Current Age	47.4	N/A
Average Annual Benefit	$39,501	N/A
Inactive / Vested		
Number	15	0
Average Current Age	40.2	N/A
Average Accumulated Contributions	$7,643	N/A
Total Number	183	17
Former Members (transferred to another employer)	1	0

Counts and Pay Summary by Service - Tiers 1 & 2

	Past Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total Count**	**Total Pay**	**Average Pay**
15 - 19	0	0	0	0	0	0	0	0	0	0
20 - 24	1	0	0	0	0	0	0	1	72,470	72,470
25 - 29	7	3	0	0	0	0	0	10	774,152	77,415
30 - 34	7	7	3	0	0	0	0	17	1,579,854	92,933
35 - 39	8	3	13	1	0	0	0	25	2,344,107	93,764
40 - 44	1	4	11	5	1	0	0	22	2,105,343	95,697
45 - 49	1	1	5	8	3	0	0	18	1,879,823	104,435
50 - 54	0	3	7	5	3	1	0	19	1,977,457	104,077
55 - 59	0	1	1	1	0	0	0	3	290,686	96,895
60 - 64	0	0	1	0	0	0	0	1	101,224	101,224
65+	0	0	0	0	0	0	0	0	0	0
Total	25	22	41	20	7	1	0	116	11,125,116	95,906

Counts and Pay Summary by Service - Tier 3

	Past Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total Count**	**Total Pay**	**Average Pay**
15 - 19	0	0	0	0	0	0	0	0	0	0
20 - 24	4	0	0	0	0	0	0	4	263,504	65,876
25 - 29	3	0	0	0	0	0	0	3	201,618	67,206
30 - 34	7	0	0	0	0	0	0	7	470,291	67,184
35 - 39	0	0	0	0	0	0	0	0	0	0
40 - 44	3	0	0	0	0	0	0	3	182,899	60,966
45 - 49	0	0	0	0	0	0	0	0	0	0
50 - 54	0	0	0	0	0	0	0	0	0	0
55 - 59	0	0	0	0	0	0	0	0	0	0
60 - 64	0	0	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0	0	0
Total	17	0	0	0	0	0	0	17	1,118,312	65,783

VI. Actuarial Assumptions and Methods

Interest Rate

This is the assumed earnings rate on System assets, compounded annually, net of investment and administrative expenses.

Tiers 1 & 2:
7.30% per year.

Tier 3:
7.00% per year.

Salary Increases

See table below. This is annual increase for individual member's salary. These rates, which are based on a 2017 experience study using actual plan experience, consist of 3.5% for wage inflation with the remaining portion for merit / seniority increases.

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	7.50%	7.50%	7.50%	7.50%	7.50%	7.20%
25	7.14%	6.24%	6.60%	7.35%	6.36%	6.60%
30	6.00%	5.16%	5.25%	6.74%	5.48%	5.60%
35	4.77%	4.55%	4.15%	5.56%	4.83%	4.96%
40	3.90%	3.89%	3.60%	4.46%	4.03%	4.44%
45	3.54%	3.56%	3.50%	3.74%	3.60%	3.78%
50+	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

Inflation

2.50%.

Tier 3 Compensation Limit

$110,000 for 2019. Assumed increases of 2.00% per year.

Cost-of-Living Adjustment

1.75%.

Mortality Rates

These rates are used to project future decrements from the population due to death.

Active Lives:
PubS-2010 Employee mortality, loaded 110% for males and females, projected with future mortality improvements reflected generationally using 75% of scale MP-2018. 100% of active deaths are assumed to be in the line of duty.

Inactive Lives
PubS-2010 Healthy Retiree mortality, loaded 110% for males and females, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

Beneficiaries:
PubS-2010 Survivor mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

Disabled Lives:
PubS-2010 Disabled mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

The mortality assumptions sufficiently accommodate anticipated future mortality improvements.

Retirement / DROP Rates

These rates are used to project future decrements from the active population due to retirement. The rates below are based on a 2017 experience study using actual plan experience.

Tier 1 – reaching age 62 before attaining 20 years of service:
Age-related rates based on age at retirement: 60% assumed at age 62, 50% assumed at ages 63 – 69, and 100% assumed at age 70. Rates are the same for all employers.

Tier 1 – reaching age 62 after attaining 20 years of service:
Service-related rates based on service at retirement:

Service	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	27%	24%	35%	14%	18%	23%
21	18%	19%	30%	14%	18%	18%
22	14%	14%	23%	7%	11%	11%
23	10%	10%	10%	7%	7%	8%
24	8%	7%	10%	7%	7%	5%
25	38%	32%	36%	22%	22%	30%
26	36%	32%	30%	26%	26%	30%
27	29%	22%	30%	19%	19%	30%
28	29%	22%	30%	32%	25%	25%
29	29%	22%	30%	30%	25%	16%
30	34%	35%	30%	30%	30%	32%
31	34%	35%	30%	30%	30%	35%
32	65%	65%	70%	55%	55%	60%
33	65%	65%	70%	55%	55%	60%
34+	100%	100%	100%	100%	100%	100%

60% are assumed to enter the DROP program while the remaining 40% are assumed to retire and commence benefits immediately.

Tiers 2 & 3:

Age-related rates based on age at retirement:

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
53	38%	32%	36%	22%	22%	30%
54	36%	32%	30%	26%	26%	30%
55	29%	22%	30%	19%	19%	30%
56	29%	22%	30%	32%	25%	25%
57	29%	22%	30%	30%	25%	16%
58	34%	35%	30%	30%	30%	32%
59	34%	35%	30%	30%	30%	35%
60-63	65%	65%	70%	55%	55%	60%
64+	100%	100%	100%	100%	100%	100%

Termination Rate

These rates are used to project future decrements from the active population due to termination. Service-related rates based on service at termination are shown below. The rates below apply to members prior to retirement eligibility and are based on a 2017 experience study using actual plan experience.

Service	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
1	14.00%	16.00%	16.00%	7.00%	10.00%	9.50%
2	8.50%	9.00%	12.50%	4.50%	5.00%	9.00%
3	6.50%	7.50%	11.50%	3.70%	5.00%	7.50%
4	4.50%	6.00%	9.00%	3.00%	4.00%	7.50%
5	3.60%	6.00%	8.00%	2.50%	4.00%	6.50%
6	3.30%	4.50%	8.00%	1.70%	3.50%	4.50%
7	3.30%	4.50%	7.00%	1.70%	3.00%	4.00%
8	3.30%	3.20%	7.00%	1.70%	2.40%	3.50%
9	2.70%	3.20%	6.50%	1.70%	2.40%	3.50%
10	2.70%	3.20%	6.00%	1.50%	2.40%	3.00%
11	2.70%	3.20%	5.00%	1.10%	2.40%	2.70%
12	1.80%	1.40%	4.00%	0.70%	1.00%	2.00%
13	1.30%	1.40%	3.50%	0.70%	1.00%	2.00%
14	1.30%	1.40%	3.00%	0.70%	1.00%	1.70%
15	1.30%	1.00%	3.00%	0.60%	1.00%	1.20%
16	0.70%	1.00%	2.00%	0.50%	1.00%	1.20%
17	0.70%	1.00%	1.75%	0.50%	0.50%	1.20%
18	0.70%	1.00%	1.75%	0.40%	0.50%	1.20%
19	0.50%	1.00%	1.75%	0.40%	0.50%	1.20%
20+	0.50%	1.00%	1.75%	0.40%	0.50%	0.50%

Disability Rate

These rates are used to project future decrements from the active population due to disability. Sample age-related rates based on age at disability are provided below. These rates are based on a 2017 experience study using actual plan experience. 100% of disablements are assumed to be duty-related.

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	0.08%	0.08%	0.10%	0.03%	0.03%	0.03%
25	0.08%	0.08%	0.10%	0.03%	0.03%	0.03%
30	0.17%	0.16%	0.20%	0.04%	0.03%	0.03%
35	0.22%	0.21%	0.26%	0.09%	0.07%	0.08%
40	0.36%	0.35%	0.44%	0.17%	0.16%	0.17%
45	0.51%	0.49%	0.62%	0.17%	0.43%	0.48%
50	0.78%	0.75%	0.95%	0.43%	0.59%	0.65%
55	1.02%	0.98%	1.23%	1.00%	1.01%	1.13%

Marital Status

For active members, 85% of males and 60% of females are assumed to be married. Actual marital status is used, where applicable, for inactive members.

Spouse's Age

Males are assumed to be three years older than females.

Health Care Utilization

For active members, 70% of retirees are expected to utilize retiree health care. Actual utilization is used for inactive members.

Funding Method

Entry Age Normal Cost Method.

Actuarial Asset Method

Method described below. Note that during periods when investment performance exceeds (falls short) of the assumed rate, the actuarial value of assets will tend to be less (greater) than the market value of assets.

Tiers 1 & 2:
Each year the assumed investment income is recognized in full while the difference between actual and assumed investment income are smoothed over a 7-year period subject to a 20% corridor around the market value.

Tier 3:
Each year the assumed investment income is recognized in full while the difference between actual and assumed investment income are smoothed over a 5-year period subject to a 20% corridor around the market value.

Funding Policy Amortization Method	***Tiers 1 & 2:*** Any positive UAAL (assets less than liabilities) is amortized according to a Level Percentage of Payroll method over a closed period of 17 years. Any negative UAAL (assets greater than liabilities) is amortized according to a Level Dollar method over an open period of 20 years. ***Tier 3:*** Any positive UAAL (assets less than liabilities) is amortized according to a Level Dollar method over a closed period of 10 years. No amortization is made of any negative UAAL (assets greater than liabilities).
Payroll Growth	3.50% per year. This is annual increase for total employer payroll.
Stabilization Reserve	Beginning with the June 30, 2007 valuation and with each subsequent valuation, if the actuarial value of assets exceeds the actuarial accrued liability, one half of this excess in each year is allocated to a Stabilization Reserve. This Reserve is excluded from the calculation of the employer contribution rates. The Reserve accumulates as long as the plan is overfunded. Once the plan becomes underfunded, the Stabilization Reserve will be used to dampen increases in the employer contribution rates.

Changes to Actuarial Assumptions and Methods Since the Prior Valuation

- The interest rate (assumed earnings rate) for Tiers 1 & 2 was lowered from 7.40% to 7.30%.
- The mortality rates were updated to reflect the PubS-2010 tables; previously, rates were based on the RP-2014 tables.

VII. DISCUSSION OF RISK

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition.

Throughout this report, actuarial results are determined under various assumption scenarios. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. Whenever possible, the recommended assumptions in this report reflect conservatism to allow for some margin of unfavorable future plan experience. However, it is still possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position.

Below are examples of ways in which plan experience can deviate from assumptions and the potential impact of that deviation. Typically, this results in an actuarial gain or loss representing the current-year financial impact on the plan's unfunded liability of the experience differing from assumptions; this gain or loss is amortized over a period of time determined by the plan's amortization method. When assumptions are selected that adequately reflect plan experience, gains and losses typically offset one another in the long term, resulting in a relatively low impact on the plan's contribution requirements associated with plan experience. When assumptions are too optimistic, losses can accumulate over time and the plan's amortization payment could potentially grow to an unmanageable level.

- <u>Investment Return</u>: When the rate of return on the Actuarial Value of Assets falls short of the assumption, this produces a loss representing assumed investment earnings that were not realized. Further, it is unlikely that the plan will experience a scenario that matches the assumed return in each year as capital markets can be volatile from year to year. Therefore, contribution amounts can vary in the future.
- <u>Salary Increases</u>: When a plan participant experiences a salary increase that was greater than assumed, this produces a loss representing the cost of an increase in anticipated plan benefits for the participant as compared to the previous year. The total gain or loss associated with salary increases for the plan is the sum of salary gains and losses for all active participants.
- <u>Payroll Growth</u>: The plan's payroll growth assumption, if one is used, causes a predictable annual increase in the plan's amortization payment in order to produce an amortization payment that remains constant as a percentage of payroll if all assumptions are realized. If payroll does not increase according to the plan's payroll growth assumption, the plan's amortization payment can increase significantly as a percentage of payroll even if all assumptions other than the payroll growth assumption are realized.
- <u>Demographic Assumptions:</u> Actuarial results take into account various potential events that could happen to a plan participant, such as retirement, termination, disability, and death. Each of these potential events is assigned a liability based on the likelihood of the event and the financial consequence of the event for the plan. Accordingly, actuarial liabilities reflect a blend of financial consequences associated with various possible outcomes (such as retirement at one of various possible ages). Once the outcome is known (e.g. the participant retires) the liability is adjusted to reflect the known outcome. This adjustment

produces a gain or loss depending on whether the outcome was more or less favorable than other outcomes that could have occurred.

- Contribution risk: This risk results from the potential that actual employer contributions may deviate from actuarially determined contributions, which are determined in accordance with the Board's funding policy. The funding policy is intended to result in contribution requirements that if paid when due, will result in a reasonable expectation that assets will accumulate to be sufficient to pay plan benefits when due. Contribution deficits, particularly large deficits and those that occur repeatedly, increase future contribution requirements and put the plan at risk for not being able to pay plan benefits when due.

Impact of Plan Maturity on Risk

For newer pension plans, most of the participants and associated liabilities are related to active members who have not yet reached retirement age. As pension plans continue in operation and active members reach retirement ages, liabilities begin to shift from being primarily related to active members to being shared amongst active and retired members. Plan maturity is a measure of the extent to which this shift has occurred. It is important to understand that plan maturity can have an impact on risk tolerance and the overall risk characteristics of the plan. For example, plans with a large amount of retired liability do not have as long of a time horizon to recover from losses (such as losses on investments due to lower than expected investment returns) as plans where the majority of the liability is attributable to active members. For this reason, less tolerance for investment risk may be warranted for highly mature plans with a substantial inactive liability. Similarly, mature plans paying substantial retirement benefits resulting in a small positive or net negative cash flow can be more sensitive to near term investment volatility, particularly if the size of the fund is shrinking, which can result in less assets being available for investment in the market.

To assist with determining the maturity of the plan, we have provided some relevant metrics in the table following titled "Plan Maturity Measures and Other Risk Metrics." For a better understanding of the overall Plan and the impact of these risks, please refer to the consolidated PSPRS valuation report.

Plan Maturity Measures and Other Risk Metrics

	Tiers 1 & 2		Tier 3	
	06/30/2018	**06/30/2019**	**06/30/2018**	**06/30/2019**
Support Ratio				
Total Actives	119	116	11	17
Total Inactives	63	67	0	0
Actives / Inactives	188.9%	173.1%	N/A	N/A
Asset Volatility Ratio				
Market Value of Assets (MVA)		44,930,566		9,392,896
Total Annual Payroll		11,125,116		1,118,312
MVA / Total Annual Payroll		403.9%		839.9%
Accrued Liability (AL) Ratio				
Inactive Accrued Liability	30,716,061	37,217,219		203,244
Total Accrued Liability	65,680,544	74,766,358		7,956,725
Inactive AL / Total AL	46.8%	49.8%		2.6%
Funded Ratio				
Actuarial Value of Assets (AVA)	40,576,043	46,472,444	1,635,349	9,305,220
Total Accrued Liability	65,680,544	74,766,358	1,831,715	7,956,725
AVA / Total Accrued Liability	61.8%	62.2%	89.3%	116.9%
Net Cash Flow Ratio				
Net Cash Flow *		2,991,381		176,781
Market Value of Assets (MVA)		44,930,566		9,392,896
Net Cash Flow / MVA		6.7%		1.9%

* *Determined as total contributions minus benefit payments. Administrative expenses are typically included but are considered part of the net interest rate assumption for this plan.*

VIII. SUMMARY OF CURRENT PLAN

The following is a summary of the benefit provisions provided in Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes.

Membership	Full-time employees of an eligible group, prior to attaining age 65, who are engaged to work for more than six months in a calendar year.
Benefit Tiers	Benefits differ for members based on their hire date:

Tier	Hire Date
1	Hired before January 1, 2012
2	Hired on or after January 1, 2012 but before July 1, 2017
3	Hired on or after July 1, 2017

Compensation	Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System. For Tier 3 members, compensation is limited by statutory cap ($110,000 with adjustments by the Board).
Average Monthly Benefit Compensation	***Tier 1:*** The highest compensation paid to member during three consecutive years out of the last 20 years of Credited Service, divided by months. ***Tier 2:*** The highest compensation paid to member during five consecutive years out of the last 20 years of Credited Service, divided by months. ***Tier 3:*** The highest compensation paid to member during five consecutive years out of the last 15 years of Credited Service, divided by months.
Credited Service	Total periods of service, both before and after the member's date of participation, for which the member made contributions to the fund.
Normal Retirement Date	***Tier 1:*** First day of month following attainment of 1) 20 years of service or 2) 62nd birthday and completion of 15 years of service.

Tier 2:
First day of month following the attainment of age 52.5 and completion of 15 years of service.

Tier 3:
First day of month following the attainment of age 55 and completion of 15 years of service.

Benefit

Tier 1:
50% of Average Monthly Benefit Compensation, adjusted based on Credited Service as follows (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Adjustment
15 years, but less than 20	Reduced 4% per year less than 20
20 years, but less than 25	Plus 2% per year between 20 and 25
25+ years	Plus 2.5% per year above 20

Tier 2:
Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Tier 3:
Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Form of Benefit

For married retirees, an annuity payable for the life of the member with 80% continuing to the eligible spouse upon death. For unmarried retirees, the normal form is a single life annuity.

Early Retirement	***Only applicable to Tier 3 members:***
Date	Attainment of age 52.5 and 15 years of Credited Service.
Benefit	Actuarial equivalent of Normal Retirement benefit.
Disability Benefit – Accidental (duty-related)	
Eligibility	Total and permanent disability incurred in performance of duty.
Benefit Amount	A maximum of: a.) 50% of Average Monthly Benefit Compensation, and; b.) The monthly Normal Retirement pension that the member is entitled to receive if he or she retired immediately.
Disability Benefit – Ordinary (not duty-related)	
Eligibility	Total and permanent disability not incurred in performance of duty.
Benefit Amount	Normal Retirement pension that the member is entitled to receive prorated on Credited Service (maximum 20 years) over 20.
Disability Benefit – Other	
Temporary	Benefit equals 1/12 of 50% of compensation during year preceding date of disability. Payments terminate after 12 months.
Catastrophic	Benefit equals 90% of Average Monthly Benefit Compensation. After 60 months member receives greater of 62.5% Average Monthly Benefit Compensation and accrued normal pension.
Pre-Retirement Death Benefit	
Service Incurred	100% of Average Monthly Benefit Compensation, reduced by child's pension.
Non-Service Incurred	80% of benefit based on calculation for accidental disability retirement.
Child's Pension	10% of pension for each child (maximum 20% paid) based on calculation for accidental disability retirement. Payable to dependent child under age 18 (23, if full-time student).
Guardian's Pension	Same as spouse's pension. Payable (along with child's pension) when no spouse is being paid and there is at least one child under 18 (23, if full-time student).
Vesting (Termination)	
Vesting Service Requirement	***Tier 1*:** 10 years of Credited Service.

Tiers 2 & 3:
15 years of Credited Service.

Non-Vested Benefit

Tier 1:
Lump sum payment of accumulated contributions, plus additional amount based on years of Credited Service.

Service	Additional % of Contributions
Less than 5 years	0%
5 years	25%
6 years	40%
7 years	55%
8 years	70%
9 years	85%
10+ years	100%

Tiers 2 & 3:
Lump sum payment of accumulated contributions, with interest at rate determined by the Board.

Vested Benefit

Tier 1:
Deferred retirement annuity based on two times member's accumulated contributions, deferred to age 62. Member is not entitled to survivor benefits, benefit increases, or group health insurance subsidy.

Tiers 2 & 3:
Calculated same as normal retirement pension. Payable if contributions left in fund until reach age requirement. Member is entitled to survivor benefits, benefit increases, and group health insurance subsidy.

Cost-of-Living Adjustment

Payable to retired member or survivor of retired member

Tiers 1 & 2:
Compound cost-of-living adjustment on base benefit. First payment is made on July 1, 2018, with annual adjustments effective every July 1 thereafter.

Cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. Maximum increase of 2%.

Tier 3:
Compound cost-of-living adjustment on base benefit beginning earlier of first calendar year after the 7th anniversary of retirement or when the retired member reaches 60 years of age.

A cost-of-living adjustment shall be paid on July 1 each year that the funded ratio for members hired on or after July 1, 2017 is 70% or more.

The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The cost-of-living adjustment will not exceed:

- 2%, if funded ratio for members who are hired on or after July 1, 2017 is 90% or more;
- 1.5%, if funded ratio for members who are hired on or after July 1, 2017 is 80-90%;
- 1%, if funded ratio for members who are hired on or after July 1, 2017 is 70-80%.

Deferred Retirement Option Plan (DROP):

Eligibility: Tier 1 and 20 years of Credited Service.

DROP Period: Maximum 60 months.

Member Contributions: Cease upon DROP entry.

Benefit Amount: Calculated based on Credited Service and average monthly compensation as of the beginning of the DROP period, credited to DROP participation account for DROP period.

Interest on DROP Participation Account:

Beginning Year	Interest Rate
July 1, 2015	7.50%
July 1, 2016	7.40%
July 1, 2017	7.40%
July 1, 2018	7.30%
July 1, 2019	7.30%

Payment of DROP Participation Account: Payable as lump sum distribution to Public Safety Personnel Defined Contribution Retirement Plan at end of DROP period or at termination.

Payment Monthly Benefit: System commences payment of benefit amount at the earlier of 1) the end of the DROP period and 2) at termination.

Post-Retirement Health Insurance Subsidy

Eligibility: Retired member or survivor who elect health coverage provided by the state or participating employer.

Maximum Subsidy Amounts (monthly)

	Member Only	With Dependents
Medicare Eligible	$100	$170
One w/ Medicare	N/A	$215
Not Medicare Eligible	$150	$260

Employee Contributions

Members hired before July 20, 2011:
7.65%

Members hired on/after July 20, 2011, but before July 1, 2017:
11.65%. Amounts in excess of 7.65% are not used to reduce the employer contribution ("maintenance of effort").

Tier 3:
50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.

Employer Contributions

Tiers 1 & 2:
Normal Cost plus amortization of unfunded actuarial accrued liability over a closed period not to exceed 20 years (subject to one-time election to extend to closed period not to exceed 30 years). Contribution will never be less than 8% of payroll.

Tier 3:
50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.

Changes to Benefit Provisions Since the Prior Valuation

- DROP members with less than 20 years of credited service on January 1, 2012 are now given interest at the assumed earnings rate instead of the 7-year smoothed rate of return.

IX. ACTUARIAL FUNDING POLICY

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board for the Arizona Public Safety Personnel Retirement System (PSPRS). The Board establishes this Funding Policy to help ensure the systematic funding of future benefit payments for members of the Retirement System.

This funding policy was reviewed by the Board annually for several years following initial adoption until the 2017 experience study. Subsequently, it shall be reviewed every five years in conjunction with the experience study, although some adjustments may be warranted sooner to properly reflect the new Tier 3 benefits.

Funding Objectives

1. Maintain adequate assets so that current plan assets plus future contributions and investment earnings are sufficient to fund all benefits expected to be paid to members and their beneficiaries.

2. Maintain stability of employer contribution rates, consistent with other funding objectives.

3. Maintain public policy goals of accountability and transparency. Each policy element is clear in intent and effect, and each should allow an assessment of whether, how and when the funding requirements of the plan will be met.

4. Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provides services to them, rather than deferring those costs to future members and employers.

5. Provide a reasonable margin for adverse experience to help offset risks.

6. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liability (UAAL).

Elements of Actuarial Funding Policy

1. Actuarial Cost Method

a. The Entry Age Normal level percent of pay actuarial cost method of valuation shall be used in determining the Actuarial Accrued Liability (AAL) and Normal Cost. Differences in the past between assumed experience and actual experience ("actuarial gains and losses") shall become part of the AAL. The Normal Cost shall be determined on an individual basis for each active member.

2. Asset Smoothing Method

a. The investment gains or losses of each valuation period, resulting from the difference between the actual investment return and assumed investment return, shall be recognized annually in level amounts over seven years in calculating the Actuarial Value of Assets.

b. The Actuarial Value of Assets so determine shall be subject to a 20% corridor relative to the Market Value of Assets.

3. Amortization Method

a. The Actuarial Value of Assets are subtracted from the computed AAL. Any unfunded amount is amortized as a level percent of payroll over a closed period. If the Actuarial Value of Assets exceeds the AAL, the excess is amortized over an open period of 20 years and applied as a credit to reduce the Normal Cost otherwise payable.

4. Funding Target

a. The targeted funded ratio shall be 100%.

b. The maximum amortization period shall be 30 years.

c. If the funding ratio is between 100% and 120%, a minimum contribution equal to the Normal Cost will be made.

5. Risk Management

a. Assumption Changes

i. The actuarial assumptions used shall be those last adopted by the PSPRS Board based on the most recent experience study and upon the advice and recommendation of the actuary. In accordance with best practices, the actuary shall conduct an experience study every five years. The results of the study shall be the basis for the actuarial assumption changes recommended to the PSPRS Board.

ii. The actuarial assumptions can be updated during the five-year period if significant plan design changes or other significant events occur, as advised by the actuary.

b. Amortization Method

i. The amortization method, Level Percent Closed, will ensure full payment of the UAAL over a finite, systematically decreasing period not to exceed 30 years. The amortization period will be reviewed once the period reaches 15 years.

c. Risk Measures

i. The following risk measures will be annually determined to provide quantifiable measurements of risk and their movement over time.

1. Classic measures currently determined
   - Funded ratio (assets / liability)
2. UAAL / Total Payroll
   - Measures the risk associated with contribution decreases relative impact on the ability to fund the UAAL. An increase in this measure indicates an increase in contribution risk.
3. Total Liability / Total Payroll
   - Measures the risk associated with the ability to respond to liability experience through adjustments in contributions. An increase in this measure indicates an increase in experience risk.

X. GLOSSARY

Actuarial Accrued Liability – Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the actuarial present value of benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Present Value of Benefits – Amount which, together with future interest, is expected to be sufficient to pay all benefits to be paid in the future, regardless of when earned, as determined by the application of a particular set of actuarial assumptions; equivalent to the actuarial accrued liability plus the present value of future normal costs attributable to the members.

Actuarial Assumptions – Assumptions as to the occurrence of future events affecting pension costs. These assumptions include rates of investment earnings, changes in salary, rates of mortality, withdrawal, disablement, and retirement as well as statistics related to marriage and family composition.

Actuarial Cost Method – A method of determining the portion of the cost of a pension plan to be allocated to each year; sometimes referred to as the "actuarial funding method." Each cost method allocates a certain portion of the actuarial present value of benefits between the actuarial accrued liability and future normal costs.

Actuarial Equivalence – Series of payments with equal actuarial present values on a given date when valued using the same set of actuarial assumptions.

Actuarial Present Value - The amount of funds required as of a specified date to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payments between the specified date and the expected date of payment.

Actuarial Value of Assets – The value of cash, investments, and other property belonging to the pension plan as used by the actuary for the purpose of the actuarial valuation. This may correspond to market value of assets, or some modification using an asset valuation method to reduce the volatility of asset values.

Asset Gain (Loss) – That portion of the actuarial gain attributable to investment performance above (below) the expected rate of return in the actuarial assumptions.

Amortization – Paying off an interest-discounted amount with periodic payments of interest and (generally) principal, as opposed to paying off with a lump sum payment.

Amortization Payment – That portion of the pension plan contribution designated to pay interest and reduce the outstanding principal balance of unfunded actuarial accrued liability. If the amortization payment is less than the accrued interest on the unfunded actuarial accrued liability the outstanding principal balance will increase.

Assumed Earnings Rate – The interest rate used in developing present values to reflect the time value of money.

Decrements – Events which result in the termination of membership in the system such as retirement, disability, withdrawal, or death.

Entry Age Normal (EAN) Funding Method – A standard actuarial funding method whereby each member's normal costs (service costs) are generally level as a percentage of pay from entry age until retirement. The annual cost of benefits is comprised of the normal cost plus an amortization payment to reduce the UAL.

Experience Gain (Loss) – The difference between actual unfunded actuarial accrued liabilities and anticipated unfunded actuarial accrued liabilities during the period between two valuation dates. It is a measurement of the difference between actual and expected experience, and may be related to investment earnings above (or below) those expected or changes in the liability due to fewer (or greater) than expected numbers of retirements, deaths, disabilities, or withdrawals, or variances in pay increases relative to assumed pay increases. The effect of such gains (or losses) is to decrease (or increase) future costs.

Funded Ratio – A measure of the ratio of the actuarial value of assets to liabilities of the system. Typically, the assets used in the measure are the actuarial value of assets as determined by the asset valuation method. The funded ratio depends not only on the financial strength of the plan but also on the asset valuation method used to determine the assets and on the funding method used to determine the liabilities.

Market Value of Assets (MVA) – The value of assets as they would trade on an open market.

Normal Cost – Computed differently under different funding methods, generally that portion of the actuarial present value of benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL) – The excess of the actuarial accrued liability over the valuation assets; sometimes referred to as "unfunded past service liability". UAL increases each time an actuarial loss occurs and when new benefits are added without being fully funded initially and decreases when actuarial gains occur.

ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

SURPRISE FIRE DEPT. (120)

ACTUARIAL VALUATION
AS OF JUNE 30, 2019

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING JUNE 30, 2021

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

December 5, 2019

Board of Trustees
Arizona Public Safety Personnel Retirement System
Phoenix, AZ

Re: Actuarial Valuation Report as of June 30, 2019 for Surprise Fire Dept. (120)

Dear Members of the Board:

We are pleased to present to the Board this report of the annual actuarial valuation of the Arizona Public Safety Personnel Retirement System (PSPRS). The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year.

This report was prepared at the request of the Board and is intended for use by PSPRS and those designated or approved by the Board. It documents the valuation of the consolidated plan and provides summary information for PSPRS participating employers. This report may be provided to parties other than PSPRS only in its entirety and only with the permission of the Board. Foster & Foster is not responsible for the unauthorized use of this report.

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects laws and regulations issued to date pursuant to the provisions of Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes, as well as applicable federal laws and regulations. In our opinion, the assumptions used in this valuation, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience. Future actuarial measurements may differ significantly from the current measurements presented in this report for a variety of reasons including changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations. Due to the limited scope of the valuation, we did not perform an analysis of the potential range of such future measurements.

The computed contribution rates shown in the "Contribution Results" section should be considered minimum contribution rates that comply with the Board's funding policy and Arizona Statutes. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by PSPRS through June 30, 2019 and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

This valuation assumes the continuing ability of the participating employers to make the contributions necessary to fund this plan. A determination regarding whether or not the participating employers are actually able to do so is outside our scope of expertise. Consequently, we did not perform such an analysis.

The undersigned are familiar with the immediate and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the Arizona Public Safety Personnel Retirement System, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the Arizona Public Safety Personnel Retirement System. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at 239-433-5500.

Respectfully Submitted,

Foster & Foster, Inc.

By: Bradley R. Heinrichs
Bradley R. Heinrichs, FSA, EA, MAAA

By: Jason L. Franken
Jason L. Franken, FSA, EA, MAAA

By: Paul M. Baugher
Paul M. Baugher, FSA, EA, MAAA

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I. Summary of Report

The regular annual actuarial valuation of the Arizona Public Safety Personnel Retirement System for the Surprise Fire Dept., performed as of June 30, 2019, has been completed and the results are presented in this Report. The purpose of this valuation is to:

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members. This information is contained in the section entitled "Liability Support."
- Compare accumulated assets with the liabilities to assess the funded condition. This information is contained in the section entitled "Liability Support."
- Compute the employers' recommended contribution rates for the Fiscal Year beginning July 1, 2020. This information is contained in the section entitled "Contribution Results."

1. Key Valuation Results

The funded status as of June 30, 2019 and the employer contribution amounts applicable to the plan/fiscal year ending June 30, 2021 are as follows:

	Tier 1 & Tier 2 Members			Tier 3 Members *		
	Pension	**Health**	**Total**	**Pension**	**Health**	**Total**
Employer Contribution Rate	24.78%	0.32%	25.10%	9.21%	0.14%	9.35%
Funded Status	79.7%	110.3%	80.2%	116.9%	205.3%	118.4%

2. Comparison of Key Results to Prior Year

The chart below compares the results from this valuation with the results of the prior year's valuation, as prepared and reported by Gabriel, Roeder, Smith & Company:

Contribution Rate

	Tier 1 & Tier 2 Members			Tier 3 Members *		
Valuation Date	**Pension**	**Health**	**Total**	**Pension**	**Health**	**Total**
June 30, 2018	22.88%	0.32%	23.20%	9.80%	0.21%	10.01%
June 30, 2019	24.78%	0.32%	25.10%	9.21%	0.14%	9.35%

Funded Status

	Tier 1 & Tier 2 Members			Tier 3 Members		
Valuation Date	**Pension**	**Health**	**Total**	**Pension**	**Health**	**Total**
June 30, 2018	79.0%	89.8%	79.2%	89.3%	110.5%	89.7%
June 30, 2019	79.7%	110.3%	80.2%	116.9%	205.3%	118.4%

** The Tier 3 rates shown are the calculated rates as of the valuation date and do not reflect any Legacy costs that the employer must also contribute.*

3. Reasons for Change

Changes in the results from the prior year's valuation can be illustrated in the following tables along with high-level explanations for the entire System below:

Contribution Rate

	Tier 1 & Tier 2		Tier 3 Members	
	Pension	**Health**	**Pension**	**Health**
Contribution Rate Last Valuation	22.88%	0.32%	9.80%	0.21%
Asset Experience	0.23%	0.01%	0.00%	0.00%
Payroll Base	0.43%	0.00%	0.08%	0.00%
Liability Experience	0.06%	0.09%	0.07%	0.00%
Assumption/Method Change	1.63%	0.02%	0.41%	0.00%
Other	(0.45%)	(0.12%)	(1.16%)	(0.07%)
Contribution Rate This Valuation	24.78%	0.32%	9.21%	0.14%

Funded Status

	Tier 1 & Tier 2		Tier 3 Members	
	Pension	**Health**	**Pension**	**Health**
Funded Status Last Valuation	79.0%	89.8%	89.3%	110.5%
Asset Experience	(0.5%)	(0.9%)	0.2%	0.5%
Liability Experience	(1.0%)	6.4%	(4.2%)	0.7%
Assumption/Method Change	(1.6%)	(1.5%)	(1.4%)	0.6%
Other	3.8%	16.5%	33.0%	93.0%
Funded Status This Valuation	79.7%	110.3%	116.9%	205.3%

Assets Experience – Asset gains and losses (relative to the assumed earnings rate) are smoothed over seven years for Tiers 1 and 2 and over five years for Tier 3. The return on the market value of assets for the year ending June 30, 2019 was 5.4% for Tiers 1 and 2 and 9.0% for Tier 3. On a smoothed, actuarial value of assets basis, however, the average return was 6.7% for Tiers 1 and 2 and 7.3% for Tier 3. This fell short of the 2018 assumed earnings rate for Tiers 1 and 2 of 7.4% but exceeded the rate for Tier 3 of 7.0%.

Liability Experience – Experience overall was unfavorable, driven by greater than expected active retirements. Gains from greater than expected terminations and lower than expected salary increases partially offset those losses. A decrease in normal costs has a significant impact on the contribution reconciliation for this bucket, as well.

Payroll Base – Under the current amortization policy for Tiers 1 and 2, the contribution rate is developed as a level percentage of payroll. The payroll is expected to increase each year in line with the growth assumption (currently 3.50%). To the extent that actual payroll is lower/greater than expected, the contribution rate will increase/decrease as a result.

Assumption / Method Change – The interest rate (assumed earnings rate) was decreased from 7.40% to 7.30% and the mortality tables were updated to the latest available information. These changes both resulted in liability losses.

Other – This is the combination of all other factors that could impact liabilities year-over-year, with the primary sources being the transition of actuarial services and changes in member data. Note that Tier 3 is primarily driven by contributions that are currently outpacing accruals; this will stabilize as the plan matures.

4. Looking Ahead

The continuing effect of prior asset losses was dampened by the asset smoothing reflected in the actuarial value of assets and further offset by the effect of lower than expected pay increases. There remain unrecognized investment losses that will, in the absence of other gains, put upward pressure on the contribution rate next year.

If the June 30, 2019 pension valuation results were based on the market value of assets instead of the actuarial value of assets, the pension funded percentage for Tiers 1 and 2 would be 77.1% (instead of 79.7%) and the pension employer contribution requirement would be 25.99% of payroll (instead of 24.78%).

The funded status for Tiers 1 and 2 will continue to improve if assumptions are met and contributions at least equal to the rates determined for each employer are made to the fund. The funded status for Tier 3 will stabilize as the population continues to grow, as contributions appear sufficient to keep the liabilities fully funded.

II. Contribution Results

Contribution Requirements

Development of Employer Contributions - Tiers 1 & 2 Members				
Valuation Date	June 30, 2019		June 30, 2018	
Applicable to Fiscal Year Ending	2021		2020	
	Rate	**Dollar**	**Rate**	**Dollar**
Pension				
Normal Cost				
Total Normal Cost	23.52%	$2,585,747		
Employee Cost	(7.65%)	(840,950)		
Employer (Net) Normal Cost	15.87%	1,744,797	15.49%	
Amortization of Unfunded Liability	8.91%	1,049,221	7.39%	
Total Employer Cost (Pension)	24.78%	2,794,018	22.88%	
Health				
Normal Cost	0.39%	$42,441	0.25%	
Amortization of Unfunded Liability	(0.07%)	(8,243)	0.07%	
Total Employer Cost (Health)	0.32%	34,198	0.32%	
Total Employer Cost (Pension + Health)	**25.10%**	**2,828,216**	**23.20%**	**2,679,078**
Total Minimum Contribution Requirement (if applicable)	0.00%		0.00%	
Alternate Contribution Rate (ACR) *	8.91%		7.46%	
Underlying Payroll (as of valuation date)		10,992,807		

** The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health and is charged when retirees return to active status.*

The results above are shown both prior to and after the application of the statutory minimum contribution requirement of 8% of payroll (5% of payroll if the actual employer contribution is less than 5% for the 2006/2007 Fiscal Year) and are based on the current amortization schedule approved by the Board of Trustees for your individual plan (see "Actuarial Assumptions and Methods").

A.R.S. 38-843, subsection I allows for the employer to request a one-time increase in the amortization period up to a maximum of 30 years. The costs below are provided to assist with that decision, where needed. If the current approved amortization period is greater than those below, that request has already been made for this plan and the following is provided to facilitate earlier payoff, if desired.

	Rate	**Dollar**
Total Pension Employer Cost (25-year amortization)	23.06%	2,587,990
Total Pension Employer Cost (30-year amortization)	22.37%	2,506,737

Development of Employer Contributions – Tier 3 Members		
Valuation Date	June 30, 2019	June 30, 2018
Applicable to Fiscal Year Ending	2021	2020

Defined Benefit (DB) Retirement Plan

	Rate	Dollar	Rate	Dollar
Pension				
Total Normal Cost	18.41%	$ 23,215	19.46%	
Amortization of Unfunded Liability	0.00%	0	0.14%	
Total Pension Cost	18.41%	23,215	19.60%	
Employee (EE) Pension Cost	9.21%	11,608	9.80%	
Employer (ER) Pension Cost	9.21%	11,608	9.80%	
Health				
Total Normal Cost	0.28%	353	0.42%	
Amortization of Unfunded Liability	0.00%	0	0.00%	
Total Health Cost	0.28%	353	0.42%	
Employee (EE) Health Cost	0.14%	177	0.21%	
Employer (ER) Health Cost	0.14%	177	0.21%	
Total				
Total Calculated Tier 3 Required EE/ER Individual Cost	9.35%	11,785	10.01%	
Board Approved Tier 3 Required EE/ER Individual Cost [1]	9.94%	12,535	9.94%	
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	8.91%	12,036	7.46%	
Total Calculated Tier 3 Required ER Defined Benefit Cost	18.26%	23,821	17.47%	
Total Board Approved Tier 3 Required ER Defined Benefit Cost	**18.85%**	**24,571**	**17.40%**	**9,836**
Underlying Payroll (as of valuation date)		126,102		

[1] *The Board decided to keep Tier 3 rates level (as calculated with the June 30, 2018 valuation) for the fiscal year ending June 30, 2021.*

[2] *Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.*

Development of Employer Contributions – Tier 3 Members

Valuation Date	June 30, 2019	June 30, 2018
Applicable to Fiscal Year Ending	2021	2020

Defined Contribution (DC) Retirement Plan

	Rate	Dollar	Rate	Dollar
Tier 2 & 3 DB / Non-Social Security				
Employee Cost	3.00%		3.00%	
Employer Cost [1]	3.00%		3.00%	
Tier 3 DC Only				
Employee Cost	9.00%	$0	9.00%	
Employee Disability Program Cost	1.41%	0	1.51%	
Total Employee Cost	**10.41%**	**0**	**10.51%**	
Employer Cost	9.00%	0	9.00%	
Employer Disability Program Cost	1.41%	0	1.51%	
Total Employer Cost (before Legacy)	**10.41%**	**0**	**10.51%**	
ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities [2]	8.91%	0	7.46%	
Total Employer Cost	**19.32%**	**0**	**17.97%**	
Underlying Payroll (as of valuation date)		0		

[1] *Employer rate is 4% for Tier 2 members for a period of time depending on the individual's membership date.*

[2] *Pursuant to ARS § 38-843(B), the amortization of positive unfunded liabilities for Tiers 1 & 2 shall be applied to all Tier 3 payroll on a level percent basis. However, while it is statutorily required to present the rates in this manner, these are the minimums where alternate methods for paying down that unfunded liability is at the discretion of each employer. Further, to understand the effects of reform in relation to Tier 3, compare the total rate of Tier 3 before application of those legacy costs.*

Contribution Rate Summary

	Tier 1		Tier 2		Tier 3		
Membership Date On or After	7/1/1968		7/20/2011		7/20/2011		7/1/2017
Participates in Social Security	N/A	N/A	Yes	No	Yes	No	N/A
Available Retirement Plan [1]	DB Only	DB Only	DB Only	Hybrid	DB Only	Hybrid	DC Only
Employee Contribution Rate							
PSPRS DB Rate	7.65%	11.65%	11.65%	11.65%	9.94%	9.94%	
PSPRS DC Rate				3.00%		3.00%	9.00%
PSPDCRP Disability Program Rate							1.41%
Total EE Contribution Rate	7.65%	11.65%	11.65%	14.65%	9.94%	12.94%	10.41%
Employer Contribution Rate							
PSPRS DB Normal Cost	16.26%	16.26%	16.26%	16.26%	9.94%	9.94%	
PSPRS DB Tier 1 & 2 Legacy Cost [2]	8.84%	8.84%	8.84%	8.84%	8.91%	8.91%	8.91%
PSPRS DC Rate [3]				4.00%		3.00%	9.00%
PSPDCRP Disability Program Rate							1.41%
Total ER Contribution Rate	25.10%	25.10%	25.10%	29.10%	18.85%	21.85%	19.32%

[1] Employers that pay into Social Security on behalf of their members do not participate in the Hybrid Plan.

[2] Per statute (ARS § 38-843(B)), any positive unfunded liability for Tiers 1 and 2 is to be applied to all Tier 3 (DB and DC) payrolls.

[3] The 4.00% employer match for Tier 2 Hybrid members is for a short period of time depending on the membership date of the employee at which point the rate will change to 3.00% (ARS § 38-868(C)).

Exhibit summarizes employee and employer contributions based on Statute and the results of June 30, 2019 actuarial valuation. Pension and health components are combined, where applicable.

Impact of Additional Contributions

	Additional Contribution (000s)										
	$0	**$1,000**	**$2,000**	**$3,000**	**$4,000**	**$5,000**	**$6,000**	**$7,000**	**$8,000**	**$9,000**	**$10,000**
Impact On											
Funded Status 06/30/2019	79.7%	81.3%	82.9%	84.5%	86.0%	87.6%	89.2%	90.8%	92.3%	93.9%	95.5%
FYE 2021 Contribution Rate	25.10%	24.43%	23.75%	23.08%	22.41%	21.74%	21.07%	20.39%	19.72%	19.05%	18.38%

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2019 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2019. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

Historical Summary of Employer Rates

			Pension			Health		
	Valuation Date June 30	**Fiscal Year Ending June 30**	**Normal Cost**	**Unfunded Amortization**	**Total**	**Normal Cost**	**Unfunded Amortization**	**Total**
TIERS 1 & 2	2018	2020	15.49%	7.39%	22.88%	0.25%	0.07%	0.32%
	2019	2021	15.87%	8.91%	24.78%	0.39%	(0.07%)	0.32%
TIER 3 [1]	2018 [2]	2020	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
	2019 [3]	2021	9.21%	0.00%	9.21%	0.14%	0.00%	0.14%
	2019 [2]	2021	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%

[1] *Does not reflect Legacy costs that the employer must also contribute.*

[2] *Rates shown are Board approved EE/ER rates*

[3] *Rates shown are calculated EE/ER rates*

III. LIABILITY SUPPORT

Liabilities and Funded Ratios by Benefit - Tiers 1 & 2

	June 30, 2019	June 30, 2018
Pension		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	$ 11,764,468	
DROP Members	7,040,618	
Vested Members	20,618	
Active Members	69,121,943	
Total Actuarial Present Value of Benefits	87,947,647	
Actuarial Accrued Liability (AAL)		
All Inactive Members	18,825,704	11,020,375
Active Members	44,638,546	44,752,559
Total Actuarial Accrued Liability	63,464,250	55,772,934
Actuarial Value of Assets (AVA)	50,604,247	44,040,428
Unfunded Actuarial Accrued Liability		
Gross Unfunded Actuarial Accrued Liability	12,860,003	11,732,506
Stabilization Reserve	0	0
Net Unfunded Actuarial Accrued Liability	12,860,003	11,732,506
Funded Ratio (AVA / AAL)	79.7%	79.0%
Health		
Present Value of Benefits		
Retirees and Beneficiaries	$ 138,816	
DROP Members	103,351	
Active Members	1,080,235	
Total Present Value of Benefits	1,322,402	
Actuarial Accrued Liability (AAL)		
All Inactive Members	242,167	
Active Members	702,976	
Total Actuarial Accrued Liability	945,143	1,046,204
Actuarial Value of Assets (AVA)	1,042,756	939,481
Unfunded Actuarial Accrued Liability	(97,613)	106,723
Funded Ratio (AVA / AAL)	110.3%	89.8%

Liabilities and Funded Ratios by Benefit - Tier 3

	June 30, 2019	June 30, 2018
Pension		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	0	
Vested Members	203,244	
Active Members	120,826,663	
Total Actuarial Present Value of Benefits	121,029,907	
Actuarial Accrued Liability (AAL)		
All Inactive Members	203,244	
Active Members	7,753,481	
Total Actuarial Accrued Liability	7,956,725	1,831,715
Actuarial Value of Assets (AVA)	9,305,220	1,635,349
Unfunded Actuarial Accrued Liability	(1,348,495)	196,366
Funded Ratio (AVA / AAL)	116.9%	89.3%
Health		
Present Value of Benefits		
Retirees and Beneficiaries	0	
Active Members	1,814,082	
Total Present Value of Benefits	1,814,082	
Actuarial Accrued Liability (AAL)		
All Inactive Members	0	
Active Members	136,597	
Total Actuarial Accrued Liability	136,597	39,635
Actuarial Value of Assets (AVA)	280,404	43,798
Unfunded Actuarial Accrued Liability	(143,807)	(4,163)
Funded Ratio (AVA / AAL)	205.3%	110.5%

The liabilities shown on this page are the liabilities for all Tier 3 members grouped together in the Risk Sharing group. These liabilities are NOT the liabilities for Surprise Fire Dept. Tier 3 members.

Derivation of Experience (Gain)/Loss

		Tiers 1 & 2		Tier 3	
		Pension	**Health**	**Pension**	**Health**
(1)	Unfunded Actuarial Accrued Liability as of June 30, 2018	11,732,506	106,723	196,366	(4,163)
(2)	Normal Cost Developed in Last Valuation	1,748,697	28,223	5,540	119
(3)	Actual Contributions	3,232,317	34,300	3,684,117	225,397
(4)	Expected Interest On (1), (2), and (3)	880,148	8,740	(118,939)	(8,490)
(5)	Expected Unfunded Actuarial Accrued Liability as of June 30, 2019 (1)+(2)-(3)+(4)	11,129,034	109,386	(3,601,150)	(237,931)
(6)	Changes to UAAL Due to Assumptions, Methods and Benefits	1,224,623	12,836	91,273	(391)
(7)	Change to UAAL Due to Actuarial (Gain)/Loss	506,346	(219,835)	2,161,382	94,515
(8)	Unfunded Actuarial Accrued Liability as of June 30, 2019	12,860,003	(97,613)	(1,348,495)	(143,807)

Amortization of Unfunded Liabilities - Tiers 1 & 2

	Pension	Health
Unfunded Liability to Amortize		
Unfunded Actuarial Accrued Liability	12,860,003	(97,613)
Maintenance of Effort	326,808	0
Anticipated Contribution Towards Unfunded	850,446	8,056
Unfunded Liability to Amortize [1]	13,256,369	(113,084)
Amortization Period	17	20
Projected Payroll	11,910,853	11,910,853
Rate of Amortization of Unfunded Liability	8.91%	(0.07%)

[1] *Adjusted with interest to beginning of next fiscal year.*

Amortization of Unfunded Liabilities - Tier 3

	Date Established	Outstanding Balance	Years Remaining	Amortization Rate [2]
Pension	06/30/2018	182,154	9	0.05%
	06/30/2019	(1,530,649)	10	(0.38%)
	Total	(1,348,495)		0.00%
Health	06/30/2018	(3,862)	9	0.00%
	06/30/2019	(139,945)	10	(0.03%)
	Total	(143,807)		0.00%

[2] *By Statute, negative amortization rates are not subtracted in Tier 3 rate calculations.*

IV. ASSET SUPPORT

Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2019

Market Value Basis

	Tiers 1 & 2		Tier 3	
	Pension	**Health**	**Pension**	**Health**
Additions				
Contributions				
Member Contributions	$ 121,556,582	$ 0	$ 7,390,215	$ 0
Employer Contributions	844,585,444	0	7,425,607	0
Health Insurance Contributions	0	4,853,600	0	448,692
Total Contributions	966,142,026	4,853,600	14,815,822	448,692
Investment Income				
Net Increase in Fair Value	303,530,849	14,803,383	732,462	24,444
Interest and Dividends	82,589,482	2,347,594	199,300	3,876
Other Income	61,188,380	1,941,632	147,656	3,205
Less Investment Expenses	(44,360,237)	(1,597,190)	(107,047)	(2,637)
Net Investment Income	402,948,474	17,495,419	972,371	28,888
Transfers In	285,197	0	31,689	0
Total Additions	1,369,375,697	22,349,019	15,819,882	477,580
Deductions				
Distributions to Members				
Benefit Payments	818,430,053	0	0	0
Health Insurance Subsidy	0	16,732,865	0	0
Refund of Contributions	15,556,115	0	77,140	0
Total Distributions	833,986,168	16,732,865	77,140	0
Administrative Expenses	7,233,020	301,997	18,010	499
Transfers Out	144,434	0	0	0
Other	0	0	0	0
Total Deductions	841,363,622	17,034,862	95,150	499
Net Increase / (Decrease)	528,012,075	5,314,157	15,724,732	477,081
Net Position Held in Trust				
Prior Valuation	7,284,786,674	328,284,037	3,198,018	77,352
Beginning of the Year Adjustment	(1,807,999)	2,953,522	0	0
End of the Year	7,810,990,750	336,551,716	18,922,750	554,433

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

Development of Pension Actuarial Value of Assets - Tiers 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 395,715,454
A2. Expected Amount for Immediate Recognition	555,730,379
A3. Amount Subject to Amortization	(160,014,925)

	Year Ended June 30						
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
2019 Experience (A3 / 7)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)	(22,859,275)
2018 Experience	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,349)	(6,266,351)	
2017 Experience	33,380,149	33,380,149	33,380,149	33,380,149	33,380,148		
2016 Experience	(64,250,729)	(64,250,729)	(64,250,729)	(64,250,726)			
2015 Experience	(36,894,248)	(36,894,248)	(36,894,251)				
2014 Experience	33,458,496	33,458,496					
2013 Experience	9,542,556						
Total Amortization	(53,889,400)	(63,431,956)	(96,890,455)	(59,996,201)	4,254,524	(29,125,626)	(22,859,275)

C. Actuarial Value of Assets	**Total**	**Employer**
C1. Actuarial Value of Assets, 06/30/2018	7,444,902,139	
C2. Noninvestment Net Cash Flow	132,296,621	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	8,079,039,739	
C4. Market Value of Assets, 06/30/2019	7,810,990,750	48,925,283
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	8,079,039,739	50,604,247

D. Rates of Return	
D1. Market Value Rate of Return	5.4%
D2. Actuarial Value Rate of Return	6.7%

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

Development of Health Actuarial Value of Assets - Tiers 1 & 2

A. Investment Income	
A1. Actual Investment Income	$ 17,193,422
A2. Expected Amount for Immediate Recognition	24,722,408
A3. Amount Subject to Amortization	(7,528,986)

	Year Ended June 30						
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
2019 Experience (A3 / 7)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,569)	(1,075,572)
2018 Experience	(304,653)	(304,653)	(304,653)	(304,653)	(304,653)	(304,656)	
2017 Experience	1,532,136	1,532,136	1,532,136	1,532,136	1,532,136		
2016 Experience	(3,221,043)	(3,221,043)	(3,221,043)	(3,221,044)			
2015 Experience	(1,796,589)	(1,796,589)	(1,796,586)				
2014 Experience	1,653,381	1,653,381					
2013 Experience	451,740						
Total Amortization	(2,760,597)	(3,212,337)	(4,865,715)	(3,069,130)	151,914	(1,380,225)	(1,075,572)

C. Actuarial Value of Assets	Total	Employer
C1. Actuarial Value of Assets, 06/30/2018	339,920,235	
C2. Noninvestment Net Cash Flow	(11,879,265)	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	350,002,781	
C4. Market Value of Assets, 06/30/2019	336,551,716	1,002,681
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	350,002,781	1,042,756

D. Rates of Return	
D1. Market Value Rate of Return	5.3%
D2. Actuarial Value Rate of Return	6.6%

Development of Pension Actuarial Value of Assets - Tiers 3

A. Investment Income	
A1. Actual Investment Income	$ 954,361
A2. Expected Amount for Immediate Recognition	732,184
A3. Amount Subject to Amortization	222,177

	Year Ended June 30				
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**
2019 Experience (A3 / 5)	44,435	44,435	44,435	44,435	44,437
2018 Experience	(370)	(370)	(370)	(371)	
2017 Experience	0	0	0		
2016 Experience	0	0			
2015 Experience	0				
Total Amortization	44,065	44,065	44,065	44,064	44,437

C. Actuarial Value of Assets	**Total**	**Employer**
C1. Actuarial Value of Assets, 06/30/2018	3,199,499	
C2. Noninvestment Net Cash Flow	14,770,371	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	18,746,119	
C4. Market Value of Assets, 06/30/2019	18,922,750	9,392,896
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	18,746,119	9,305,220

D. Rates of Return	
D1. Market Value Rate of Return	9.0%
D2. Actuarial Value Rate of Return	7.3%

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

Development of Health Actuarial Value of Assets - Tiers 3

A. Investment Income	
A1. Actual Investment Income	$ 28,389
A2. Expected Amount for Immediate Recognition	20,853
A3. Amount Subject to Amortization	7,536

			Year Ended June 30		
B. Amortization Schedule	**2019**	**2020**	**2021**	**2022**	**2023**
2019 Experience (A3 / 5)	1,507	1,507	1,507	1,507	1,508
2018 Experience	0	0	0	(2)	
2017 Experience	0	0	0		
2016 Experience	0	0			
2015 Experience	0				
Total Amortization	1,507	1,507	1,507	1,505	1,508

C. Actuarial Value of Assets	**Total**	**Employer**
C1. Actuarial Value of Assets, 06/30/2018	77,354	
C2. Noninvestment Net Cash Flow	448,692	
C3. Preliminary Actuarial Value of Assets, 06/30/2019 (A2 + B + C1 + C2)	548,406	
C4. Market Value of Assets, 06/30/2019	554,433	283,486
C5. Final Actuarial Value of Assets, 06/30/2019 (C3 Within 20% Corridor of C4)	548,406	280,405

D. Rates of Return	
D1. Market Value Rate of Return	9.4%
D2. Actuarial Value Rate of Return	7.4%

V. MEMBER STATISTICS

06/30/2019 Valuation Data Summary

	Tiers 1 & 2	Tier 3
Actives		
Number	112	2
Average Current Age	40.8	35.2
Average Age at Employment	27.8	34.3
Average Past Service	13.0	0.9
Average Annual Salary	$96,899	$63,051
Actives (Transferred from Another Employer)		
Number	2	0
Average Current Age	33.3	N/A
Average Age at Employment	27.9	N/A
Average Past Service	5.5	N/A
Average Annual Salary	$70,040	N/A
Retirees		
Number	10	0
Average Current Age	57.1	N/A
Average Annual Benefit	$61,185	N/A
Drop Retirees		
Number	7	N/A
Average Current Age	54.4	N/A
Average Annual Benefit	$64,547	N/A
Beneficiaries		
Number	2	0
Average Current Age	55.3	N/A
Average Annual Benefit	$46,239	N/A
Disability Retirees		
Number	2	0
Average Current Age	43.6	N/A
Average Annual Benefit	$44,454	N/A
Inactive / Vested		
Number	1	0
Average Current Age	42.3	N/A
Average Accumulated Contributions	$15,680	N/A
Total Number	136	2
Former Members (transferred to another employer)	1	0

Counts and Pay Summary by Service - Tiers 1 & 2

	Past Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total Count**	**Total Pay**	**Average Pay**
15 - 19	0	0	0	0	0	0	0	0	0	0
20 - 24	2	0	0	0	0	0	0	2	125,836	62,918
25 - 29	7	1	0	0	0	0	0	8	527,652	65,957
30 - 34	8	5	5	0	0	0	0	18	1,429,013	79,390
35 - 39	2	1	18	0	0	0	0	21	1,889,645	89,983
40 - 44	0	1	14	13	3	0	0	31	3,259,463	105,144
45 - 49	0	0	5	9	9	0	0	23	2,530,712	110,031
50 - 54	0	0	2	6	3	0	0	11	1,230,486	111,862
55 - 59	0	0	0	0	0	0	0	0	0	0
60 - 64	0	0	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0	0	0
Total	19	8	44	28	15	0	0	114	10,992,807	96,428

Counts and Pay Summary by Service - Tier 3

	Past Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total Count**	**Total Pay**	**Average Pay**
15 - 19	0	0	0	0	0	0	0	0	0	0
20 - 24	0	0	0	0	0	0	0	0	0	0
25 - 29	0	0	0	0	0	0	0	0	0	0
30 - 34	1	0	0	0	0	0	0	1	69,357	69,357
35 - 39	1	0	0	0	0	0	0	1	56,745	56,745
40 - 44	0	0	0	0	0	0	0	0	0	0
45 - 49	0	0	0	0	0	0	0	0	0	0
50 - 54	0	0	0	0	0	0	0	0	0	0
55 - 59	0	0	0	0	0	0	0	0	0	0
60 - 64	0	0	0	0	0	0	0	0	0	0
65+	0	0	0	0	0	0	0	0	0	0
Total	2	0	0	0	0	0	0	2	126,102	63,051

VI. Actuarial Assumptions and Methods

Interest Rate

This is the assumed earnings rate on System assets, compounded annually, net of investment and administrative expenses.

Tiers 1 & 2:
7.30% per year.

Tier 3:
7.00% per year.

Salary Increases

See table below. This is annual increase for individual member's salary. These rates, which are based on a 2017 experience study using actual plan experience, consist of 3.5% for wage inflation with the remaining portion for merit / seniority increases.

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	7.50%	7.50%	7.50%	7.50%	7.50%	7.20%
25	7.14%	6.24%	6.60%	7.35%	6.36%	6.60%
30	6.00%	5.16%	5.25%	6.74%	5.48%	5.60%
35	4.77%	4.55%	4.15%	5.56%	4.83%	4.96%
40	3.90%	3.89%	3.60%	4.46%	4.03%	4.44%
45	3.54%	3.56%	3.50%	3.74%	3.60%	3.78%
50+	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%

Inflation

2.50%.

Tier 3 Compensation Limit

$110,000 for 2019. Assumed increases of 2.00% per year.

Cost-of-Living Adjustment

1.75%.

Mortality Rates

These rates are used to project future decrements from the population due to death.

Active Lives:
PubS-2010 Employee mortality, loaded 110% for males and females, projected with future mortality improvements reflected generationally using 75% of scale MP-2018. 100% of active deaths are assumed to be in the line of duty.

Inactive Lives
PubS-2010 Healthy Retiree mortality, loaded 110% for males and females, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

Beneficiaries:
PubS-2010 Survivor mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

Disabled Lives:
PubS-2010 Disabled mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2018.

The mortality assumptions sufficiently accommodate anticipated future mortality improvements.

Retirement / DROP Rates

These rates are used to project future decrements from the active population due to retirement. The rates below are based on a 2017 experience study using actual plan experience.

Tier 1 – reaching age 62 before attaining 20 years of service:
Age-related rates based on age at retirement: 60% assumed at age 62, 50% assumed at ages 63 – 69, and 100% assumed at age 70. Rates are the same for all employers.

Tier 1 – reaching age 62 after attaining 20 years of service:
Service-related rates based on service at retirement:

Service	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	27%	24%	35%	14%	18%	23%
21	18%	19%	30%	14%	18%	18%
22	14%	14%	23%	7%	11%	11%
23	10%	10%	10%	7%	7%	8%
24	8%	7%	10%	7%	7%	5%
25	38%	32%	36%	22%	22%	30%
26	36%	32%	30%	26%	26%	30%
27	29%	22%	30%	19%	19%	30%
28	29%	22%	30%	32%	25%	25%
29	29%	22%	30%	30%	25%	16%
30	34%	35%	30%	30%	30%	32%
31	34%	35%	30%	30%	30%	35%
32	65%	65%	70%	55%	55%	60%
33	65%	65%	70%	55%	55%	60%
34+	100%	100%	100%	100%	100%	100%

60% are assumed to enter the DROP program while the remaining 40% are assumed to retire and commence benefits immediately.

Tiers 2 & 3:

Age-related rates based on age at retirement:

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
53	38%	32%	36%	22%	22%	30%
54	36%	32%	30%	26%	26%	30%
55	29%	22%	30%	19%	19%	30%
56	29%	22%	30%	32%	25%	25%
57	29%	22%	30%	30%	25%	16%
58	34%	35%	30%	30%	30%	32%
59	34%	35%	30%	30%	30%	35%
60-63	65%	65%	70%	55%	55%	60%
64+	100%	100%	100%	100%	100%	100%

Termination Rate

These rates are used to project future decrements from the active population due to termination. Service-related rates based on service at termination are shown below. The rates below apply to members prior to retirement eligibility and are based on a 2017 experience study using actual plan experience.

Service	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
1	14.00%	16.00%	16.00%	7.00%	10.00%	9.50%
2	8.50%	9.00%	12.50%	4.50%	5.00%	9.00%
3	6.50%	7.50%	11.50%	3.70%	5.00%	7.50%
4	4.50%	6.00%	9.00%	3.00%	4.00%	7.50%
5	3.60%	6.00%	8.00%	2.50%	4.00%	6.50%
6	3.30%	4.50%	8.00%	1.70%	3.50%	4.50%
7	3.30%	4.50%	7.00%	1.70%	3.00%	4.00%
8	3.30%	3.20%	7.00%	1.70%	2.40%	3.50%
9	2.70%	3.20%	6.50%	1.70%	2.40%	3.50%
10	2.70%	3.20%	6.00%	1.50%	2.40%	3.00%
11	2.70%	3.20%	5.00%	1.10%	2.40%	2.70%
12	1.80%	1.40%	4.00%	0.70%	1.00%	2.00%
13	1.30%	1.40%	3.50%	0.70%	1.00%	2.00%
14	1.30%	1.40%	3.00%	0.70%	1.00%	1.70%
15	1.30%	1.00%	3.00%	0.60%	1.00%	1.20%
16	0.70%	1.00%	2.00%	0.50%	1.00%	1.20%
17	0.70%	1.00%	1.75%	0.50%	0.50%	1.20%
18	0.70%	1.00%	1.75%	0.40%	0.50%	1.20%
19	0.50%	1.00%	1.75%	0.40%	0.50%	1.20%
20+	0.50%	1.00%	1.75%	0.40%	0.50%	0.50%

Disability Rate

These rates are used to project future decrements from the active population due to disability. Sample age-related rates based on age at disability are provided below. These rates are based on a 2017 experience study using actual plan experience. 100% of disablements are assumed to be duty-related.

Age	Maricopa County Police	Pima County Police	Other Police	Maricopa County Fire	Pima County Fire	Other Fire
20	0.08%	0.08%	0.10%	0.03%	0.03%	0.03%
25	0.08%	0.08%	0.10%	0.03%	0.03%	0.03%
30	0.17%	0.16%	0.20%	0.04%	0.03%	0.03%
35	0.22%	0.21%	0.26%	0.09%	0.07%	0.08%
40	0.36%	0.35%	0.44%	0.17%	0.16%	0.17%
45	0.51%	0.49%	0.62%	0.17%	0.43%	0.48%
50	0.78%	0.75%	0.95%	0.43%	0.59%	0.65%
55	1.02%	0.98%	1.23%	1.00%	1.01%	1.13%

Marital Status

For active members, 85% of males and 60% of females are assumed to be married. Actual marital status is used, where applicable, for inactive members.

Spouse's Age

Males are assumed to be three years older than females.

Health Care Utilization

For active members, 70% of retirees are expected to utilize retiree health care. Actual utilization is used for inactive members.

Funding Method

Entry Age Normal Cost Method.

Actuarial Asset Method

Method described below. Note that during periods when investment performance exceeds (falls short) of the assumed rate, the actuarial value of assets will tend to be less (greater) than the market value of assets.

Tiers 1 & 2:
Each year the assumed investment income is recognized in full while the difference between actual and assumed investment income are smoothed over a 7-year period subject to a 20% corridor around the market value.

Tier 3:
Each year the assumed investment income is recognized in full while the difference between actual and assumed investment income are smoothed over a 5-year period subject to a 20% corridor around the market value.

Funding Policy Amortization Method	***Tiers 1 & 2:*** Any positive UAAL (assets less than liabilities) is amortized according to a Level Percentage of Payroll method over a closed period of 17 years. Any negative UAAL (assets greater than liabilities) is amortized according to a Level Dollar method over an open period of 20 years. ***Tier 3:*** Any positive UAAL (assets less than liabilities) is amortized according to a Level Dollar method over a closed period of 10 years. No amortization is made of any negative UAAL (assets greater than liabilities).
Payroll Growth	3.50% per year. This is annual increase for total employer payroll.
Stabilization Reserve	Beginning with the June 30, 2007 valuation and with each subsequent valuation, if the actuarial value of assets exceeds the actuarial accrued liability, one half of this excess in each year is allocated to a Stabilization Reserve. This Reserve is excluded from the calculation of the employer contribution rates. The Reserve accumulates as long as the plan is overfunded. Once the plan becomes underfunded, the Stabilization Reserve will be used to dampen increases in the employer contribution rates.

Changes to Actuarial Assumptions and Methods Since the Prior Valuation

- The interest rate (assumed earnings rate) for Tiers 1 & 2 was lowered from 7.40% to 7.30%.
- The mortality rates were updated to reflect the PubS-2010 tables; previously, rates were based on the RP-2014 tables.

VII. DISCUSSION OF RISK

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition.

Throughout this report, actuarial results are determined under various assumption scenarios. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. Whenever possible, the recommended assumptions in this report reflect conservatism to allow for some margin of unfavorable future plan experience. However, it is still possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position.

Below are examples of ways in which plan experience can deviate from assumptions and the potential impact of that deviation. Typically, this results in an actuarial gain or loss representing the current-year financial impact on the plan's unfunded liability of the experience differing from assumptions; this gain or loss is amortized over a period of time determined by the plan's amortization method. When assumptions are selected that adequately reflect plan experience, gains and losses typically offset one another in the long term, resulting in a relatively low impact on the plan's contribution requirements associated with plan experience. When assumptions are too optimistic, losses can accumulate over time and the plan's amortization payment could potentially grow to an unmanageable level.

- <u>Investment Return</u>: When the rate of return on the Actuarial Value of Assets falls short of the assumption, this produces a loss representing assumed investment earnings that were not realized. Further, it is unlikely that the plan will experience a scenario that matches the assumed return in each year as capital markets can be volatile from year to year. Therefore, contribution amounts can vary in the future.
- <u>Salary Increases</u>: When a plan participant experiences a salary increase that was greater than assumed, this produces a loss representing the cost of an increase in anticipated plan benefits for the participant as compared to the previous year. The total gain or loss associated with salary increases for the plan is the sum of salary gains and losses for all active participants.
- <u>Payroll Growth</u>: The plan's payroll growth assumption, if one is used, causes a predictable annual increase in the plan's amortization payment in order to produce an amortization payment that remains constant as a percentage of payroll if all assumptions are realized. If payroll does not increase according to the plan's payroll growth assumption, the plan's amortization payment can increase significantly as a percentage of payroll even if all assumptions other than the payroll growth assumption are realized.
- <u>Demographic Assumptions:</u> Actuarial results take into account various potential events that could happen to a plan participant, such as retirement, termination, disability, and death. Each of these potential events is assigned a liability based on the likelihood of the event and the financial consequence of the event for the plan. Accordingly, actuarial liabilities reflect a blend of financial consequences associated with various possible outcomes (such as retirement at one of various possible ages). Once the outcome is known (e.g. the participant retires) the liability is adjusted to reflect the known outcome. This adjustment

produces a gain or loss depending on whether the outcome was more or less favorable than other outcomes that could have occurred.

- Contribution risk: This risk results from the potential that actual employer contributions may deviate from actuarially determined contributions, which are determined in accordance with the Board's funding policy. The funding policy is intended to result in contribution requirements that if paid when due, will result in a reasonable expectation that assets will accumulate to be sufficient to pay plan benefits when due. Contribution deficits, particularly large deficits and those that occur repeatedly, increase future contribution requirements and put the plan at risk for not being able to pay plan benefits when due.

Impact of Plan Maturity on Risk

For newer pension plans, most of the participants and associated liabilities are related to active members who have not yet reached retirement age. As pension plans continue in operation and active members reach retirement ages, liabilities begin to shift from being primarily related to active members to being shared amongst active and retired members. Plan maturity is a measure of the extent to which this shift has occurred. It is important to understand that plan maturity can have an impact on risk tolerance and the overall risk characteristics of the plan. For example, plans with a large amount of retired liability do not have as long of a time horizon to recover from losses (such as losses on investments due to lower than expected investment returns) as plans where the majority of the liability is attributable to active members. For this reason, less tolerance for investment risk may be warranted for highly mature plans with a substantial inactive liability. Similarly, mature plans paying substantial retirement benefits resulting in a small positive or net negative cash flow can be more sensitive to near term investment volatility, particularly if the size of the fund is shrinking, which can result in less assets being available for investment in the market.

To assist with determining the maturity of the plan, we have provided some relevant metrics in the table following titled "Plan Maturity Measures and Other Risk Metrics." For a better understanding of the overall Plan and the impact of these risks, please refer to the consolidated PSPRS valuation report.

Plan Maturity Measures and Other Risk Metrics

	Tiers 1 & 2		Tier 3	
	06/30/2018	**06/30/2019**	**06/30/2018**	**06/30/2019**
Support Ratio				
Total Actives	121	114	1	2
Total Inactives	15	22	0	0
Actives / Inactives	806.7%	518.2%	N/A	N/A
Asset Volatility Ratio				
Market Value of Assets (MVA)		48,925,283		9,392,896
Total Annual Payroll		10,992,807		126,102
MVA / Total Annual Payroll		445.1%		7,448.6%
Accrued Liability (AL) Ratio				
Inactive Accrued Liability	11,020,375	18,825,704		203,244
Total Accrued Liability	55,772,934	63,464,250		7,956,725
Inactive AL / Total AL	19.8%	29.7%		2.6%
Funded Ratio				
Actuarial Value of Assets (AVA)	44,040,428	50,604,247	1,635,349	9,305,220
Total Accrued Liability	55,772,934	63,464,250	1,831,715	7,956,725
AVA / Total Accrued Liability	79.0%	79.7%	89.3%	116.9%
Net Cash Flow Ratio				
Net Cash Flow *		3,427,962		22,394
Market Value of Assets (MVA)		48,925,283		9,392,896
Net Cash Flow / MVA		7.0%		0.2%

* *Determined as total contributions minus benefit payments. Administrative expenses are typically included but are considered part of the net interest rate assumption for this plan.*

VIII. SUMMARY OF CURRENT PLAN

The following is a summary of the benefit provisions provided in Title 38, Chapter 5, Article 4 of the Arizona Revised Statutes.

<u>Membership</u>

Full-time employees of an eligible group, prior to attaining age 65, who are engaged to work for more than six months in a calendar year.

<u>Benefit Tiers</u>

Benefits differ for members based on their hire date:

Tier	Hire Date
1	Hired before January 1, 2012
2	Hired on or after January 1, 2012 but before July 1, 2017
3	Hired on or after July 1, 2017

<u>Compensation</u>

Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System. For Tier 3 members, compensation is limited by statutory cap ($110,000 with adjustments by the Board).

<u>Average Monthly Benefit Compensation</u>

Tier 1:
The highest compensation paid to member during three consecutive years out of the last 20 years of Credited Service, divided by months.

Tier 2:
The highest compensation paid to member during five consecutive years out of the last 20 years of Credited Service, divided by months.

Tier 3:
The highest compensation paid to member during five consecutive years out of the last 15 years of Credited Service, divided by months.

<u>Credited Service</u>

Total periods of service, both before and after the member's date of participation, for which the member made contributions to the fund.

<u>Normal Retirement</u>
Date

Tier 1:
First day of month following attainment of 1) 20 years of service or 2) 62nd birthday and completion of 15 years of service.

Tier 2:
First day of month following the attainment of age 52.5 and completion of 15 years of service.

Tier 3:
First day of month following the attainment of age 55 and completion of 15 years of service.

Benefit

Tier 1:
50% of Average Monthly Benefit Compensation, adjusted based on Credited Service as follows (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Adjustment
15 years, but less than 20	Reduced 4% per year less than 20
20 years, but less than 25	Plus 2% per year between 20 and 25
25+ years	Plus 2.5% per year above 20

Tier 2:
Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Tier 3:
Benefit multiplier (below) times Average Monthly Benefit Compensation times Credited Service (maximum benefit of 80% of Average Monthly Benefit Compensation):

Credited Service	Benefit Multiplier
15 years, but less than 17	1.50%
17 years, but less than 19	1.75%
19 years, but less than 22	2.00%
22 years, but less than 25	2.25%
25+ years	2.50%

Form of Benefit

For married retirees, an annuity payable for the life of the member with 80% continuing to the eligible spouse upon death. For unmarried retirees, the normal form is a single life annuity.

Early Retirement — ***Only applicable to Tier 3 members:***

Date	Attainment of age 52.5 and 15 years of Credited Service.
Benefit	Actuarial equivalent of Normal Retirement benefit.

Disability Benefit – Accidental (duty-related)

Eligibility	Total and permanent disability incurred in performance of duty.
Benefit Amount	A maximum of: a.) 50% of Average Monthly Benefit Compensation, and; b.) The monthly Normal Retirement pension that the member is entitled to receive if he or she retired immediately.

Disability Benefit – Ordinary (not duty-related)

Eligibility	Total and permanent disability not incurred in performance of duty.
Benefit Amount	Normal Retirement pension that the member is entitled to receive prorated on Credited Service (maximum 20 years) over 20.

Disability Benefit – Other

Temporary	Benefit equals 1/12 of 50% of compensation during year preceding date of disability. Payments terminate after 12 months.
Catastrophic	Benefit equals 90% of Average Monthly Benefit Compensation. After 60 months member receives greater of 62.5% Average Monthly Benefit Compensation and accrued normal pension.

Pre-Retirement Death Benefit

Service Incurred	100% of Average Monthly Benefit Compensation, reduced by child's pension.
Non-Service Incurred	80% of benefit based on calculation for accidental disability retirement.
Child's Pension	10% of pension for each child (maximum 20% paid) based on calculation for accidental disability retirement. Payable to dependent child under age 18 (23, if full-time student).
Guardian's Pension	Same as spouse's pension. Payable (along with child's pension) when no spouse is being paid and there is at least one child under 18 (23, if full-time student).

Vesting (Termination)

Vesting Service Requirement	***Tier 1*:** 10 years of Credited Service.

Tiers 2 & 3:
15 years of Credited Service.

Non-Vested Benefit

Tier 1:
Lump sum payment of accumulated contributions, plus additional amount based on years of Credited Service.

Service	Additional % of Contributions
Less than 5 years	0%
5 years	25%
6 years	40%
7 years	55%
8 years	70%
9 years	85%
10+ years	100%

Tiers 2 & 3:
Lump sum payment of accumulated contributions, with interest at rate determined by the Board.

Vested Benefit

Tier 1:
Deferred retirement annuity based on two times member's accumulated contributions, deferred to age 62. Member is not entitled to survivor benefits, benefit increases, or group health insurance subsidy.

Tiers 2 & 3:
Calculated same as normal retirement pension. Payable if contributions left in fund until reach age requirement. Member is entitled to survivor benefits, benefit increases, and group health insurance subsidy.

Cost-of-Living Adjustment

Payable to retired member or survivor of retired member

Tiers 1 & 2:
Compound cost-of-living adjustment on base benefit. First payment is made on July 1, 2018, with annual adjustments effective every July 1 thereafter.

Cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. Maximum increase of 2%.

Tier 3:
Compound cost-of-living adjustment on base benefit beginning earlier of first calendar year after the 7th anniversary of retirement or when the retired member reaches 60 years of age.

A cost-of-living adjustment shall be paid on July 1 each year that the funded ratio for members hired on or after July 1, 2017 is 70% or more.

The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The cost-of-living adjustment will not exceed:

- 2%, if funded ratio for members who are hired on or after July 1, 2017 is 90% or more;
- 1.5%, if funded ratio for members who are hired on or after July 1, 2017 is 80-90%;
- 1%, if funded ratio for members who are hired on or after July 1, 2017 is 70-80%.

Deferred Retirement Option Plan (DROP):

Eligibility: Tier 1 and 20 years of Credited Service.

DROP Period: Maximum 60 months.

Member Contributions: Cease upon DROP entry.

Benefit Amount: Calculated based on Credited Service and average monthly compensation as of the beginning of the DROP period, credited to DROP participation account for DROP period.

Interest on DROP Participation Account:

Beginning Year	Interest Rate
July 1, 2015	7.50%
July 1, 2016	7.40%
July 1, 2017	7.40%
July 1, 2018	7.30%
July 1, 2019	7.30%

Payment of DROP Participation Account: Payable as lump sum distribution to Public Safety Personnel Defined Contribution Retirement Plan at end of DROP period or at termination.

Payment Monthly Benefit: System commences payment of benefit amount at the earlier of 1) the end of the DROP period and 2) at termination.

Post-Retirement Health Insurance Subsidy

Eligibility: Retired member or survivor who elect health coverage provided by the state or participating employer.

Maximum Subsidy Amounts (monthly)

	Member Only	With Dependents
Medicare Eligible	$100	$170
One w/ Medicare	N/A	$215
Not Medicare Eligible	$150	$260

Employee Contributions

Members hired before July 20, 2011:
7.65%

Members hired on/after July 20, 2011, but before July 1, 2017:
11.65%. Amounts in excess of 7.65% are not used to reduce the employer contribution ("maintenance of effort").

Tier 3:
50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.

Employer Contributions

Tiers 1 & 2:
Normal Cost plus amortization of unfunded actuarial accrued liability over a closed period not to exceed 20 years (subject to one-time election to extend to closed period not to exceed 30 years). Contribution will never be less than 8% of payroll.

Tier 3:
50% of total contribution, which is Normal Cost plus a level-dollar amortization of unfunded actuarial accrued liability over a closed period not to exceed 10 years.

Changes to Benefit Provisions Since the Prior Valuation

- DROP members with less than 20 years of credited service on January 1, 2012 are now given interest at the assumed earnings rate instead of the 7-year smoothed rate of return.

IX. Actuarial Funding Policy

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board for the Arizona Public Safety Personnel Retirement System (PSPRS). The Board establishes this Funding Policy to help ensure the systematic funding of future benefit payments for members of the Retirement System.

This funding policy was reviewed by the Board annually for several years following initial adoption until the 2017 experience study. Subsequently, it shall be reviewed every five years in conjunction with the experience study, although some adjustments may be warranted sooner to properly reflect the new Tier 3 benefits.

Funding Objectives

1. Maintain adequate assets so that current plan assets plus future contributions and investment earnings are sufficient to fund all benefits expected to be paid to members and their beneficiaries.

2. Maintain stability of employer contribution rates, consistent with other funding objectives.

3. Maintain public policy goals of accountability and transparency. Each policy element is clear in intent and effect, and each should allow an assessment of whether, how and when the funding requirements of the plan will be met.

4. Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provides services to them, rather than deferring those costs to future members and employers.

5. Provide a reasonable margin for adverse experience to help offset risks.

6. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liability (UAAL).

Elements of Actuarial Funding Policy

1. **Actuarial Cost Method**
   a. The Entry Age Normal level percent of pay actuarial cost method of valuation shall be used in determining the Actuarial Accrued Liability (AAL) and Normal Cost. Differences in the past between assumed experience and actual experience (“actuarial gains and losses”) shall become part of the AAL. The Normal Cost shall be determined on an individual basis for each active member.

2. **Asset Smoothing Method**
   a. The investment gains or losses of each valuation period, resulting from the difference between the actual investment return and assumed investment return, shall be recognized annually in level amounts over seven years in calculating the Actuarial Value of Assets.
   b. The Actuarial Value of Assets so determine shall be subject to a 20% corridor relative to the Market Value of Assets.

3. **Amortization Method**
   a. The Actuarial Value of Assets are subtracted from the computed AAL. Any unfunded amount is amortized as a level percent of payroll over a closed period. If the Actuarial Value of Assets exceeds

the AAL, the excess is amortized over an open period of 20 years and applied as a credit to reduce the Normal Cost otherwise payable.

4. Funding Target

a. The targeted funded ratio shall be 100%.

b. The maximum amortization period shall be 30 years.

c. If the funding ratio is between 100% and 120%, a minimum contribution equal to the Normal Cost will be made.

5. Risk Management

a. Assumption Changes

i. The actuarial assumptions used shall be those last adopted by the PSPRS Board based on the most recent experience study and upon the advice and recommendation of the actuary. In accordance with best practices, the actuary shall conduct an experience study every five years. The results of the study shall be the basis for the actuarial assumption changes recommended to the PSPRS Board.

ii. The actuarial assumptions can be updated during the five-year period if significant plan design changes or other significant events occur, as advised by the actuary.

b. Amortization Method

i. The amortization method, Level Percent Closed, will ensure full payment of the UAAL over a finite, systematically decreasing period not to exceed 30 years. The amortization period will be reviewed once the period reaches 15 years.

c. Risk Measures

i. The following risk measures will be annually determined to provide quantifiable measurements of risk and their movement over time.

1. Classic measures currently determined
    - Funded ratio (assets / liability)
2. UAAL / Total Payroll
    - Measures the risk associated with contribution decreases relative impact on the ability to fund the UAAL. An increase in this measure indicates an increase in contribution risk.
3. Total Liability / Total Payroll
    - Measures the risk associated with the ability to respond to liability experience through adjustments in contributions. An increase in this measure indicates an increase in experience risk.

X. GLOSSARY

Actuarial Accrued Liability – Computed differently under different funding methods, the actuarial accrued liability generally represents the portion of the actuarial present value of benefits attributable to service credit earned (or accrued) as of the valuation date.

Actuarial Present Value of Benefits – Amount which, together with future interest, is expected to be sufficient to pay all benefits to be paid in the future, regardless of when earned, as determined by the application of a particular set of actuarial assumptions; equivalent to the actuarial accrued liability plus the present value of future normal costs attributable to the members.

Actuarial Assumptions – Assumptions as to the occurrence of future events affecting pension costs. These assumptions include rates of investment earnings, changes in salary, rates of mortality, withdrawal, disablement, and retirement as well as statistics related to marriage and family composition.

Actuarial Cost Method – A method of determining the portion of the cost of a pension plan to be allocated to each year; sometimes referred to as the "actuarial funding method." Each cost method allocates a certain portion of the actuarial present value of benefits between the actuarial accrued liability and future normal costs.

Actuarial Equivalence – Series of payments with equal actuarial present values on a given date when valued using the same set of actuarial assumptions.

Actuarial Present Value - The amount of funds required as of a specified date to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payments between the specified date and the expected date of payment.

Actuarial Value of Assets – The value of cash, investments, and other property belonging to the pension plan as used by the actuary for the purpose of the actuarial valuation. This may correspond to market value of assets, or some modification using an asset valuation method to reduce the volatility of asset values.

Asset Gain (Loss) – That portion of the actuarial gain attributable to investment performance above (below) the expected rate of return in the actuarial assumptions.

Amortization – Paying off an interest-discounted amount with periodic payments of interest and (generally) principal, as opposed to paying off with a lump sum payment.

Amortization Payment – That portion of the pension plan contribution designated to pay interest and reduce the outstanding principal balance of unfunded actuarial accrued liability. If the amortization payment is less than the accrued interest on the unfunded actuarial accrued liability the outstanding principal balance will increase.

Assumed Earnings Rate – The interest rate used in developing present values to reflect the time value of money.

Decrements – Events which result in the termination of membership in the system such as retirement, disability, withdrawal, or death.

Entry Age Normal (EAN) Funding Method – A standard actuarial funding method whereby each member's normal costs (service costs) are generally level as a percentage of pay from entry age until retirement. The annual cost of benefits is comprised of the normal cost plus an amortization payment to reduce the UAL.

Experience Gain (Loss) – The difference between actual unfunded actuarial accrued liabilities and anticipated unfunded actuarial accrued liabilities during the period between two valuation dates. It is a measurement of the difference between actual and expected experience, and may be related to investment earnings above (or below) those expected or changes in the liability due to fewer (or greater) than expected numbers of retirements, deaths, disabilities, or withdrawals, or variances in pay increases relative to assumed pay increases. The effect of such gains (or losses) is to decrease (or increase) future costs.

Funded Ratio – A measure of the ratio of the actuarial value of assets to liabilities of the system. Typically, the assets used in the measure are the actuarial value of assets as determined by the asset valuation method. The funded ratio depends not only on the financial strength of the plan but also on the asset valuation method used to determine the assets and on the funding method used to determine the liabilities.

Market Value of Assets (MVA) – The value of assets as they would trade on an open market.

Normal Cost – Computed differently under different funding methods, generally that portion of the actuarial present value of benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL) – The excess of the actuarial accrued liability over the valuation assets; sometimes referred to as "unfunded past service liability". UAL increases each time an actuarial loss occurs and when new benefits are added without being fully funded initially and decreases when actuarial gains occur.

RESOLUTION # 2019-49

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF SURPRISE, ARIZONA ADOPTING THE PUBLIC SAFETY PENSION FUNDING POLICY FOR FISCAL YEAR 2020.

WHEREAS, the addition of Arizona Revised Statute § 38-863.01 requires that each governing body adopt a Public Safety Retirement System (PSPRS) pension funding policy establishing the objectives to maintain financial stability, achieve funding requirements, defining the timeline for reaching the targeted funded ratio, and formally accepting the assets and liabilities as detailed in the most recently available annual actuarial report;

WHEREAS, the City of Surprise affirms that establishing sound financial policies contributes to the prudent management of the City's financial affairs and wishes to comply with the requirements of Arizona Revised Statute § 38-863.01;

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the City of Surprise, Arizona, as follows.

Section 1. The Fiscal Year 2020 Public Safety Pension Funding Policy set forth in *Exhibit A* attached hereto and incorporated by reference herein is adopted.

Section 2. The Finance Director is hereby authorized and directed to take the appropriate steps to incorporate the Public Safety Pension Funding Policy of the City of Surprise and disseminate the policy as necessary.

APPROVED AND ADOPTED this 4th day of June, 2019.

Skip Hall, Mayor

Attest:

Sherry Aguilar, City Clerk

Approved as to form:

Robert Wingo, City Attorney

Resolution #2019-49
RFLS #6477
Rev 4/19

EXHIBIT A

SURPRISE ARIZONA	**Standard Operating Procedure** **PUBLIC SAFETY PENSION FUNDING**

PROCESS: Funding Ratio Goals for the City's Public Safety Pension Funds

POLICY REFERENCE: Arizona Revised Statutes (A.R.S.) § 38-863.01

ISSUE DATE:	LAST AMENDED DATE:	EFFECTIVE DATE:
June 4, 2019	N/A	July 1, 2019

FINANCE DIRECTOR APPROVAL:
Andrea Davis
Digitally signed by Andrea Davis
DN: cn=Andrea Davis, o, ou, email=andrea.davis@surpriseaz.gov, c=US
Date: 2019.06.18 18:12:19 -07'00'

GENERALLY

Qualifying City of Surprise police and fire-medical employees participate in the Public Safety Personnel Retirement System (PSPRS). PSPRS is administered as an agent multiple-employer pension plan and health insurance premium benefit known as an OPEB. 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 invest those assets for the benefit of all members under its administration and 2) serve as the statewide uniform administrator for the distribution of benefits.

Under an agent multiple-employer plan, each agency participating in the plan has an individual trust fund reflecting that agencies' 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 and contribution rate, and each fund has a unique annual actuarial valuation. The City of Surprise has two trust funds, one for police employees and one for fire-medical employees.

PURPOSE

The intent of this document is to demonstrate the Surprise City Council's commitment to clearly communicate pension funding objectives, prudently manage the City's financial resources, and comply with new statutory requirements of Laws 2018, Chapter 112. This document will be reviewed and approved by City Council on an annual basis.

DEFINITIONS

Unfunded Actuarial Accrued Liability (UAAL) – 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) – the annual amount required to pay into the pension funds, as determined through annual actuarial valuations. It is comprised of two primary components: normal pension cost – which is the estimated cost of pension benefits earned by employees in the current year; and, amortization of UAAL – which is the cost needed to cover the unfunded portion of pensions earned by employees in previous years. The UAAL is collected over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

Funded Ratio – 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.

POLICY

1. City Council formally accepts by Resolution 2019-49 the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2018 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Surprise Police	$40,576,043	$65,680,544	$25,104,501	61.8%
Surprise Fire	$44,040,428	$55,772,934	$11,732,506	79.0%
City of Surprise Totals	$84,616,471	$121,453,478	$36,837,007	69.7%

2. PSPRS Funding Goal

   A. The City Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. City Council has established this goal for the following reasons:

      i. The PSPRS trust funds represent only the City of Surprise's liability.

      ii. A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

PROCEDURES

1. City Council plans to take the following actions to achieve this goal:

   A. Maintain full Annual Required Contribution (ARC) payment (normal cost and Unfunded Actuarial Accrued Liability (UAAL) amortization) from operating funds. The estimated combined ARC for FY2020 is $6,226,353.

   B. Fund the fiscal year annual pension cost at the beginning of each fiscal year with the budgeted contribution amounts as estimated based on actuarial reports.

      i. The budgeted contribution amount will be based on the highest potential cost assuming that each qualifying position participating in PSPRS is fully staffed.

   ii. If, during the course of the year, the required contribution amount exceeds the original budgeted amount, the City will contribute the additional funds on a per pay period basis to meet its funding obligations.

C. The City Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2018 Actuarial Valuation.

D. Finance Department staff will provide an annual update on the financial position of the PSPRS trust funds to City Council.