



**CITY OF SURPRISE**  
**Public Safety Personnel Retirement System Meeting - Fire**  
**16000 N. Civic Center Plaza**  
**Surprise, AZ 85374**  
Wednesday, February 23, 2022 @ 10:15 AM  
**COUNCIL CHAMBERS**

- A. Call To Order
- B. Roll Call
- C. Pledge of Allegiance
- D. Current Events and Reports
- E. Staff Reports
- F. Public Safety Retirement Commission- Fire Agenda

**CALL TO THE PUBLIC:**

**INSTRUCTIONS:** In order to address the Board\Commission, you will need to fill out a Call to the Public Form available at the front counter, and then turn it in to the Secretary before the meeting begins.

**Note:** A.R.S. 38-431.01(H) - During this time members of the public may address the Board\Commission only on issues within the jurisdiction of the Board\Commission which are not an item on the agenda. At the conclusion of the open call, the Board\Commission 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.

**CONSENT AGENDA:**

- |    |          |                                                                                                                                                     |                 |
|----|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 1. | Internal | Considerations and action pertaining to the review and approval of the December 15, 2021 Public Safety Retirement Commission – Fire Meeting Minutes | Human Resources |
|----|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|

**REGULAR AGENDA ITEM - NON-PUBLIC HEARING:**

- |    |          |                                                                                                                                                                             |                 |
|----|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| 2. | Internal | Review and discussion on Fire Department's Actuarial Valuation report effective June 30, 2021 – June 30, 2023                                                               | Human Resources |
| 3. | Internal | Discussion and possible action to review and make changes to current Fire Board Bylaws in relation to the newly adopted Model Uniform Rules as recommended by Legal Counsel | Human Resources |

- G. Other Business and Future Agenda Items
- H. Executive Session

For information purposes: Upon a public majority vote of a quorum of the Public Safety Personnel Retirement Commission ("Commission"), the Commission may hold an executive session, which will not be open to the public, but for only the following purposes: discussion or consideration of records exempt by law from public inspection (A.R.S. §38-431.03(A)(2)); or discussion or consultation for legal advice with the Commission's attorneys (A.R.S. §38-431.03(A)(3)).

**Confidentiality Requirements:** Pursuant to A.R.S. §38-431.03(C)(D), any person receiving executive session information pursuant to A.R.S. §38-431.02 shall not disclose that information except to the Attorney General or County Attorney or by agreement of the Commission, or as otherwise ordered by a court of competent jurisdiction.

The Commission may vote to hold an executive session for the purpose of obtaining legal advice from the Commission's attorney on any matter listed on the agenda pursuant to A.R.S. § 38-431.03(A)(3).

I. Adjournment

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SHERRY ANN AGUILAR, CITY CLERK, MMC

POSTED: February 16, 2022 at 11:20 AM

**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**  
**Public Safety Personnel Retirement System**  
**Meeting - Fire**

Council Meeting Date: February 23, 2022  
Submitting Department: Human Resources  
Staff Recommendations:

Contact Person:  
District: Internal

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

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**Agenda Wording:**

Considerations and action pertaining to the review and approval of the December 15, 2021 Public Safety Retirement Commission – Fire Meeting Minutes

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**Motion:**

I motion to approve the December 15, 2021 Public Safety Retirement Commission – Fire Meeting Minutes

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**Background:**

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**Objective Analysis:**

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**Policy Compliant:**

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**Financial Impact:**

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**Budget Impact:**

**FTE Impact:**

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**ATTACHMENTS:**

1. Fire DRAFT Minutes 12.15.21
-



**PUBLIC SAFETY RETIREMENT SYSTEM  
CITY OF SURPRISE LOCAL BOARD – FIRE**  
Minutes, Wednesday, December 15, 2021  
16000 N. Civic Center Plaza, Surprise, Arizona 85374

The following are the minutes from the Public Safety Retirement Commission – Fire Board Meeting held at 8:00 a.m. Wednesday, December 15, 2021. The meeting was held in City Hall, Council Chambers.

**A. Call To Order**

Chair Hall called meeting to order at 8:00 a.m.

**B. Roll Call:** Skip Hall, Chairperson – Present  
Chandler Brown, Citizen Board Member – Present  
James Conner, Citizen Board Member – Present  
Christopher Preest, Fire Member – Present  
Ricardo Valdez, Fire Member – Absent

**In attendance:** Cynthia Kelley, Board Attorney  
Ariana Reyna, PSPRS Board Secretary

**C. Pledge of Allegiance** –Completed

**D. Current Events Reports** - None

**E. Staff Reports** – None

**F. Call to the Public** - None

**Consent Agenda:**

- 1. Considerations and action pertaining to the review and approval of the October 13, 2021 Public Safety Retirement Commission - Fire meeting minutes – APPROVED**

**Motion to Approve:** Chandler Brown

**Second:** Christopher Preest

**Opposed:** None



**PUBLIC SAFETY RETIREMENT SYSTEM  
CITY OF SURPRISE LOCAL BOARD – FIRE**  
Minutes, Wednesday, December 15, 2021  
16000 N. Civic Center Plaza, Surprise, Arizona 85374

**Regular Agenda:**

**2. Considerations and possible action pertaining to the Subcommittee's report on the reexamination of disability recipients for the Surprise Fire Department pursuant to A.R.S. § 38-844 (E)**

The Board Secretary notified the Board that The Subcommittee, which consist of Fire Board Members Christopher Preest and Rick Valdez, met on November 22 and concluded that no action is needed from the Board.

**G. Other Business and Future Agenda Items – None**

**H. Executive Session – None**

**I. Adjournment**

Motion to adjourn at 8:03 a.m. – **APPROVED**

**Motion:** James Conner

**Second:** Chandler Brown

**Opposed:** None

**Meeting Minutes Approval:**

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Skip Hall, Chair  
Public Safety Retirement Commission – Fire

**CERTIFICATION:**

I, Ariana Reyna, Board Secretary and HR Business Partner for the City of Surprise, Maricopa County, Arizona, do hereby verify that these are true and correct minutes of the Public Safety Retirement Commission – Fire Meeting of **Wednesday, October 13, 2021.**

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Ariana Reyna, Board Secretary  
Public Safety Retirement Commission – Fire



**CITY OF SURPRISE**  
**Public Safety Personnel Retirement System**  
**Meeting - Fire**

Council Meeting Date: February 23, 2022  
Submitting Department: Human Resources  
Staff Recommendations:

Contact Person:  
District: Internal

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

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**Agenda Wording:**

Review and discussion on Fire Department's Actuarial Valuation report effective June 30, 2021 – June 30, 2023

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**Motion:**

The Fire Department's attached actuarial report projects the financial liabilities faced by the pension system including employer funding levels and contribution rates.

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**Background:**

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**Objective Analysis:**

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**Policy Compliant:**

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**Financial Impact:**

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**Budget Impact:**

**FTE Impact:**

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**ATTACHMENTS:**

1. 120 2021\_PSPRS-Valuation-SurpriseFireDept
-

# **ARIZONA PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM**

## **SURPRISE FIRE DEPT. (120)**

ACTUARIAL VALUATION  
AS OF JUNE 30, 2021

CONTRIBUTIONS APPLICABLE TO THE  
PLAN/FISCAL YEAR ENDING JUNE 30, 2023



**FOSTER & FOSTER**  
ACTUARIES AND CONSULTANTS

December 2021

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

*Re: Actuarial Valuation Report as of June 30, 2021 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.

The funding percentages and unfunded accrued liability as measured based on the actuarial value of assets will differ from similar measures based on the market value of assets. These measures, as provided, are appropriate for determining the adequacy of future contributions, but may not be appropriate for the purpose of settling a portion or all of the Plan's liabilities.

In conducting the valuation, we have relied on personnel, plan design, and asset information supplied by PSPRS through June 30, 2021 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.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

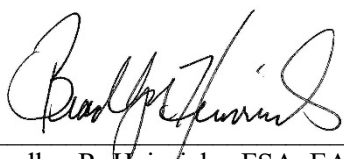
The undersigned are familiar with the immediate and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial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

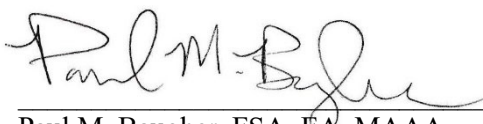
To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the program has any direct financial interest or indirect material interest in the Arizona Public Safety Personnel Retirement System, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of the 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:   
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, 2021, 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, 2022. This information is contained in the section entitled “Contribution Results.”

## 1. Key Valuation Results

The funded status as of June 30, 2021 and the employer contribution amounts applicable to the plan/fiscal year ending June 30, 2023 are as follows:

|                            | Tier 1 & Tier 2 Members |        |        | Tier 3 Members * |        |        |
|----------------------------|-------------------------|--------|--------|------------------|--------|--------|
|                            | Pension                 | Health | Total  | Pension          | Health | Total  |
| Employer Contribution Rate | 25.80%                  | 0.26%  | 26.06% | 9.00%            | 0.12%  | 9.12%  |
| Funded Status              | 81.2%                   | 110.4% | 81.6%  | 107.3%           | 210.0% | 108.9% |

## 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 of June 30, 2020):

### Contribution Rate

| Valuation Date | Tier 1 & Tier 2 Members |        |        | Tier 3 Members * |        |       |
|----------------|-------------------------|--------|--------|------------------|--------|-------|
|                | Pension                 | Health | Total  | Pension          | Health | Total |
| June 30, 2020  | 26.08%                  | 0.31%  | 26.39% | 9.05%            | 0.13%  | 9.18% |
| June 30, 2021  | 25.80%                  | 0.26%  | 26.06% | 9.00%            | 0.12%  | 9.12% |

### Funded Status

| Valuation Date | Tier 1 & Tier 2 Members |        |       | Tier 3 Members |        |        |
|----------------|-------------------------|--------|-------|----------------|--------|--------|
|                | Pension                 | Health | Total | Pension        | Health | Total  |
| June 30, 2020  | 78.0%                   | 106.2% | 78.5% | 101.4%         | 203.9% | 103.0% |
| June 30, 2021  | 81.2%                   | 110.4% | 81.6% | 107.3%         | 210.0% | 108.9% |

\* 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 | 26.08%          | 0.31%          | 9.05%          | 0.13%        |
| Asset Experience                 | (0.13%)         | 0.00%          | (0.17%)        | (0.01%)      |
| Payroll Base                     | (0.66%)         | 0.00%          | 0.01%          | (0.01%)      |
| Liability Experience             | 1.51%           | (0.04%)        | (0.24%)        | 0.00%        |
| Additional Contribution          | (0.87%)         | 0.00%          | 0.00%          | 0.00%        |
| Assumption/Method Change         | 0.22%           | 0.00%          | 0.00%          | 0.00%        |
| Other                            | <u>(0.35%)</u>  | <u>(0.01%)</u> | <u>0.35%</u>   | <u>0.01%</u> |
| Contribution Rate This Valuation | 25.80%          | 0.26%          | 9.00%          | 0.12%        |

| Funded Status                |                 |               |                |               |
|------------------------------|-----------------|---------------|----------------|---------------|
|                              | Tier 1 & Tier 2 |               | Tier 3 Members |               |
|                              | Pension         | Health        | Pension        | Health        |
| Funded Status Last Valuation | 78.0%           | 106.2%        | 101.4%         | 203.9%        |
| Asset Experience             | 0.2%            | (0.2%)        | 3.4%           | 7.8%          |
| Liability Experience         | (2.1%)          | 5.4%          | 4.8%           | 0.0%          |
| Additional Contribution      | 1.7%            | 0.0%          | 0.0%           | 0.0%          |
| Assumption/Method Change     | 0.0%            | 0.0%          | 0.0%           | 0.0%          |
| Other                        | <u>3.4%</u>     | <u>(1.0%)</u> | <u>(2.3%)</u>  | <u>(1.7%)</u> |
| Funded Status This Valuation | 81.2%           | 110.4%        | 107.3%         | 210.0%        |

**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, 2021 was 26.7% for Tiers 1 and 2 and 32.7% for Tier 3. On a smoothed, actuarial value of assets basis, however, the average return was 7.6% for Tiers 1 and 2 and 11.5% for Tier 3. These returns exceeded the 2020 assumed earnings rate for Tiers 1 and 2 of 7.3% and for Tier 3 of 7.0%.

**Payroll Base** – Under the current amortization policy for Tiers 1 and 2, the contribution rate is developed as a level percentage of payroll. Payroll for this purpose includes members of this plan and defined contribution plan's members that would have been in this plan. To the extent that actual payroll is lower/greater than last year's projected payroll, the contribution rate will increase/decrease as a result. The payroll decreased compared to expected, resulting in an increase in the contribution rate.

**Liability Experience** – Experience overall was unfavorable, driven by salary increases that were higher than expected.

**Additional Contribution** – Monies contributed in excess of the required contribution rate in order to pay down the unfunded liability.

**Assumption / Method Change** – The payroll growth assumption was decreased from 3.50% to 3.00%.

**Other** – This is the combination of all other factors that could impact liabilities year-over-year, with the primary sources being changes in benefits for continuing inactives. Note that Tier 3 experience will stabilize as the group matures.

#### **4. Looking Ahead**

The volatility in annual returns, which have produced both gains and losses in recent years, was dampened by the asset smoothing reflected in the actuarial value of assets. The significant gain realized this year will, in the absence of other losses, put downward pressure on the contribution rate next year.

If the June 30, 2021 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 88.8% (instead of 81.2%) and the pension employer contribution requirement would be 21.06% of payroll (instead of 25.80%).

#### **5. Conclusion**

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 recent adoption of a layered amortization approach along with a plan to systematically lower the payroll growth assumption was an excellent step to improve funding and ensure the Plan is on a viable path.

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, 2021  |                  | June 30, 2020  |                  |
| Applicable to Fiscal Year Ending                            | 2023           |                  | 2022           |                  |
|                                                             | Rate           | Dollar           | Rate           | Dollar           |
| <b>Pension</b>                                              |                |                  |                |                  |
| Normal Cost                                                 |                |                  |                |                  |
| Total Normal Cost                                           | 22.37%         | \$ 2,827,598     | 22.70%         | \$ 2,697,397     |
| Employee Cost                                               | <u>(7.65%)</u> | <u>(966,970)</u> | <u>(7.65%)</u> | <u>(909,035)</u> |
| Employer (Net) Normal Cost                                  | 14.72%         | 1,860,628        | 15.05%         | 1,788,362        |
| Amortization of Unfunded Liability                          | <u>11.08%</u>  | <u>1,400,527</u> | <u>11.03%</u>  | <u>1,310,674</u> |
| Total Employer Cost (Pension)                               | 25.80%         | 3,261,155        | 26.08%         | 3,099,036        |
| <b>Health</b>                                               |                |                  |                |                  |
| Normal Cost                                                 | 0.34%          | 42,976           | 0.36%          | 42,778           |
| Amortization of Unfunded Liability                          | <u>(0.08%)</u> | <u>(10,112)</u>  | <u>(0.05%)</u> | <u>(5,941)</u>   |
| Total Employer Cost (Health)                                | 0.26%          | 32,864           | 0.31%          | 36,837           |
| <b>Total Employer Cost (Pension + Health)</b>               | <b>26.06%</b>  | <b>3,294,019</b> | <b>26.39%</b>  | <b>3,135,873</b> |
| Total Minimum Contribution Requirement (if applicable)      | 0.00%          |                  | 0.00%          |                  |
| Alternate Contribution Rate (ACR) *                         | 11.08%         |                  | 11.03%         |                  |
| Underlying Payroll (as of valuation date)                   |                | 12,271,977       |                | 11,480,974       |

\* The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health (subject to an 8% minimum) 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").

| Development of Employer Contributions – Tier 3 Members |               |               |
|--------------------------------------------------------|---------------|---------------|
| Valuation Date                                         | June 30, 2021 | June 30, 2020 |
| Applicable to Fiscal Year Ending                       | 2023          | 2022          |

### Defined Benefit (DB) Retirement Plan

|                                                                          | Rate          | Dollar         | Rate          | Dollar         |
|--------------------------------------------------------------------------|---------------|----------------|---------------|----------------|
| <b>Pension</b>                                                           |               |                |               |                |
| Total Normal Cost                                                        | 17.99%        | \$ 242,940     | 18.10%        | \$ 165,545     |
| Amortization of Unfunded Liability                                       | <u>0.00%</u>  | <u>0</u>       | <u>0.00%</u>  | <u>0</u>       |
| Total Pension Cost                                                       | 17.99%        | 242,940        | 18.10%        | 165,545        |
| Employee (EE) Pension Cost                                               | 9.00%         | 121,470        | 9.05%         | 82,773         |
| Employer (ER) Pension Cost                                               | 9.00%         | 121,470        | 9.05%         | 82,773         |
| <b>Health</b>                                                            |               |                |               |                |
| Total Normal Cost                                                        | 0.24%         | 3,241          | 0.25%         | 2,287          |
| Amortization of Unfunded Liability                                       | <u>0.00%</u>  | <u>0</u>       | <u>0.00%</u>  | <u>0</u>       |
| Total Health Cost                                                        | 0.24%         | 3,241          | 0.25%         | 2,287          |
| Employee (EE) Health Cost                                                | 0.12%         | 1,621          | 0.13%         | 1,144          |
| Employer (ER) Health Cost                                                | 0.12%         | 1,621          | 0.13%         | 1,144          |
| <b>Total</b>                                                             |               |                |               |                |
| Total Calculated Tier 3 Required EE/ER Individual Cost                   | 9.12%         | 123,091        | 9.18%         | 83,917         |
| Board Approved Tier 3 Required EE/ER Individual Cost <sup>1</sup>        | 9.94%         | 134,231        | 9.94%         | 90,912         |
| ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities <sup>2</sup> | 11.08%        | 149,626        | 11.03%        | 100,882        |
| Total Calculated Tier 3 Required ER Defined Benefit Cost                 | 20.20%        | 272,717        | 20.21%        | 184,799        |
| <b>Total Board Approved Tier 3 Required ER Defined Benefit Cost</b>      | <b>21.02%</b> | <b>283,858</b> | <b>20.97%</b> | <b>191,794</b> |
| Underlying Payroll (as of valuation date)                                |               | 1,311,084      |               | 883,682        |

<sup>1</sup> The Board decided to keep Tier 3 rates level (as calculated with the June 30, 2019 valuation) for the fiscal year ending June 30, 2023.

<sup>2</sup> 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, 2021 | June 30, 2020 |
| Applicable to Fiscal Year Ending | 2023          | 2022          |

### Defined Contribution (DC) Retirement Plan

|                                                                          | Rate          | Dollar   | Rate          | Dollar   |
|--------------------------------------------------------------------------|---------------|----------|---------------|----------|
| <b>Tier 2 &amp; 3 DB / Non-Social Security</b>                           |               |          |               |          |
| Employee Cost                                                            | 3.00%         |          | 3.00%         |          |
| Employer Cost <sup>1</sup>                                               | 3.00%         |          | 3.00%         |          |
| <b>Tier 3 DC Only</b>                                                    |               |          |               |          |
| Employee Cost                                                            | 9.00%         | \$ 0     | 9.00%         | \$ 0     |
| Employee Health Subsidy Program Cost                                     | 0.19%         | 0        |               |          |
| Employee Disability Program Cost                                         | <u>1.66%</u>  | <u>0</u> | <u>0.88%</u>  | <u>0</u> |
| <b>Total Employee Cost</b>                                               | <b>10.85%</b> | <b>0</b> | <b>9.88%</b>  | <b>0</b> |
| Employer Cost                                                            | 9.00%         | 0        | 9.00%         | 0        |
| Employer Health Subsidy Program Cost                                     | 0.19%         | 0        |               |          |
| Employer Disability Program Cost                                         | <u>1.66%</u>  | <u>0</u> | <u>0.88%</u>  | <u>0</u> |
| <b>Total Employer Cost (before Legacy)</b>                               | <b>10.85%</b> | <b>0</b> | <b>9.88%</b>  | <b>0</b> |
| ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities <sup>2</sup> | 11.08%        | 0        | 11.03%        | 0        |
| <b>Total Employer Cost</b>                                               | <b>21.93%</b> | <b>0</b> | <b>20.91%</b> | <b>0</b> |
| Underlying Payroll (as of valuation date)                                |               | 0        |               | 0        |

<sup>1</sup> Employer rate is 4% for Tier 2 members for a period of time depending on the individual's membership date.

<sup>2</sup> 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     | 1/1/2012      |               | 7/1/2017      |               |               |
| Participates in Social Security              | N/A           | N/A           | Yes           | No            | Yes           | No            | N/A           |
| Available Retirement Plan <sup>1</sup>       | DB Only       | DB Only       | DB Only       | Hybrid        | DB Only       | Hybrid        | DC Only       |
| <b>Employee Contribution Rate</b>            |               |               |               |               |               |               |               |
| PSPRS DB Rate                                | 7.65%         | 11.65%        | 11.65%        | 11.65%        | 9.94%         | 9.94%         |               |
| PSPRS DC Rate                                |               |               |               | 3.00%         |               | 3.00%         | 9.00%         |
| Employer Health Subsidy Program Cost         |               |               |               |               |               |               | 0.19%         |
| PSPDCRP Disability Program Rate              |               |               |               |               |               |               | 1.66%         |
| <b>Total EE Contribution Rate</b>            | <b>7.65%</b>  | <b>11.65%</b> | <b>11.65%</b> | <b>14.65%</b> | <b>9.94%</b>  | <b>12.94%</b> | <b>10.85%</b> |
| <b>Employer Contribution Rate</b>            |               |               |               |               |               |               |               |
| PSPRS DB Normal Cost                         | 15.06%        | 15.06%        | 15.06%        | 15.06%        | 9.94%         | 9.94%         |               |
| PSPRS DB Tier 1 & 2 Legacy Cost <sup>2</sup> | 11.00%        | 11.00%        | 11.00%        | 11.00%        | 11.08%        | 11.08%        | 11.08%        |
| PSPRS DC Rate <sup>3</sup>                   |               |               |               | 4.00%         |               | 3.00%         | 9.00%         |
| Employer Health Subsidy Program Cost         |               |               |               |               |               |               | 0.19%         |
| PSPDCRP Disability Program Rate              |               |               |               |               |               |               | 1.66%         |
| <b>Total ER Contribution Rate</b>            | <b>26.06%</b> | <b>26.06%</b> | <b>26.06%</b> | <b>30.06%</b> | <b>21.02%</b> | <b>24.02%</b> | <b>21.93%</b> |

<sup>1</sup> Employers that pay into Social Security on behalf of their members do not participate in the Hybrid Plan.

<sup>2</sup> 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.

<sup>3</sup> 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, 2021 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 |
| <b>Impact On</b>           |                                |         |         |         |         |         |         |         |         |         |          |
| Funded Status 06/30/2021   | 81.2%                          | 82.4%   | 83.7%   | 84.9%   | 86.1%   | 87.4%   | 88.6%   | 89.8%   | 91.1%   | 92.3%   | 93.5%    |
| FYE 2023 Contribution Rate | 26.06%                         | 25.31%  | 24.57%  | 23.82%  | 23.08%  | 22.33%  | 21.59%  | 20.84%  | 20.10%  | 19.35%  | 18.61%   |

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2021 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2021. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

### Historical Summary of Employer Rates

|                            | Valuation Date<br>June 30 | Fiscal Year Ending<br>June 30 | Normal Cost | Pension                  | Total  | Normal Cost | Health                   | Total |
|----------------------------|---------------------------|-------------------------------|-------------|--------------------------|--------|-------------|--------------------------|-------|
|                            |                           |                               |             | Unfunded<br>Amortization |        |             | Unfunded<br>Amortization |       |
| <b>TIERS 1 &amp; 2</b>     | 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% |
|                            | 2020                      | 2022                          | 15.05%      | 11.03%                   | 26.08% | 0.36%       | (0.05%)                  | 0.31% |
|                            | 2021                      | 2023                          | 14.72%      | 11.08%                   | 25.80% | 0.34%       | (0.08%)                  | 0.26% |
| <b>TIER 3 <sup>1</sup></b> | 2018                      | 2020                          | 9.68%       | 0.00%                    | 9.68%  | 0.26%       | 0.00%                    | 0.26% |
|                            | 2019                      | 2021                          | 9.68%       | 0.00%                    | 9.68%  | 0.26%       | 0.00%                    | 0.26% |
|                            | 2020                      | 2022                          | 9.68%       | 0.00%                    | 9.68%  | 0.26%       | 0.00%                    | 0.26% |
|                            | 2021 <sup>2</sup>         | 2023                          | 9.00%       | 0.00%                    | 9.00%  | 0.12%       | 0.00%                    | 0.12% |
|                            | 2021                      | 2023                          | 9.68%       | 0.00%                    | 9.68%  | 0.26%       | 0.00%                    | 0.26% |

<sup>1</sup> Rates shown are Board approved EE/ER rates, unless otherwise noted. Does not reflect Legacy costs that the employer must also contribute.

<sup>2</sup> Rates shown are calculated EE/ER rates

## III. LIABILITY SUPPORT

### Liabilities and Funded Ratios by Benefit - Tiers 1 & 2

|                                            | June 30, 2021     | June 30, 2020     |
|--------------------------------------------|-------------------|-------------------|
| <b>Pension</b>                             |                   |                   |
| Actuarial Present Value of Benefits        |                   |                   |
| Retirees and Beneficiaries                 | \$ 12,921,619     | \$ 12,879,018     |
| DROP Members                               | 11,315,629        | 8,368,214         |
| Vested Members                             | 40,122            | 39,608            |
| Active Members                             | <u>80,611,687</u> | <u>73,849,872</u> |
| Total Actuarial Present Value of Benefits  | 104,889,057       | 95,136,712        |
| Actuarial Accrued Liability (AAL)          |                   |                   |
| All Inactive Members                       | 24,277,370        | 21,286,840        |
| Active Members                             | <u>56,770,226</u> | <u>50,382,749</u> |
| Total Actuarial Accrued Liability          | 81,047,596        | 71,669,589        |
| Actuarial Value of Assets (AVA)            | 65,815,546        | 55,933,947        |
| Unfunded Actuarial Accrued Liability       |                   |                   |
| Gross Unfunded Actuarial Accrued Liability | 15,232,050        | 15,735,642        |
| Stabilization Reserve                      | <u>0</u>          | <u>0</u>          |
| Net Unfunded Actuarial Accrued Liability   | 15,232,050        | 15,735,642        |
| Funded Ratio (AVA / AAL)                   | 81.2%             | 78.0%             |
| <b>Health</b>                              |                   |                   |
| Present Value of Benefits                  |                   |                   |
| Retirees and Beneficiaries                 | \$ 114,931        | \$ 160,557        |
| DROP Members                               | 165,354           | 125,257           |
| Active Members                             | <u>1,158,749</u>  | <u>1,119,031</u>  |
| Total Present Value of Benefits            | 1,439,034         | 1,404,845         |
| Actuarial Accrued Liability (AAL)          |                   |                   |
| All Inactive Members                       | 280,285           | 285,814           |
| Active Members                             | <u>824,832</u>    | <u>770,051</u>    |
| Total Actuarial Accrued Liability          | 1,105,117         | 1,055,865         |
| Actuarial Value of Assets (AVA)            | 1,220,577         | 1,121,671         |
| Unfunded Actuarial Accrued Liability       | (115,460)         | (65,806)          |
| Funded Ratio (AVA / AAL)                   | 110.4%            | 106.2%            |

### Liabilities and Funded Ratios by Benefit - Tier 3

|                                           | June 30, 2021      | June 30, 2020      |
|-------------------------------------------|--------------------|--------------------|
| <b>Pension</b>                            |                    |                    |
| Actuarial Present Value of Benefits       |                    |                    |
| Retirees and Beneficiaries                | \$ 440,356         | \$ 429,363         |
| Vested Members                            | 1,850,254          | 743,741            |
| Active Members                            | <u>288,612,448</u> | <u>203,486,437</u> |
| Total Actuarial Present Value of Benefits | 290,903,058        | 204,659,541        |
| Actuarial Accrued Liability (AAL)         |                    |                    |
| All Inactive Members                      | 2,290,610          | 1,173,104          |
| Active Members                            | <u>40,442,927</u>  | <u>22,066,495</u>  |
| Total Actuarial Accrued Liability         | 42,733,537         | 23,239,599         |
| Actuarial Value of Assets (AVA)           | 45,863,401         | 23,570,444         |
| Unfunded Actuarial Accrued Liability      | (3,129,864)        | (330,845)          |
| Funded Ratio (AVA / AAL)                  | 107.3%             | 101.4%             |
| <b>Health</b>                             |                    |                    |
| Present Value of Benefits                 |                    |                    |
| Retirees and Beneficiaries                | 0                  | 0                  |
| Active Members                            | <u>3,998,992</u>   | <u>2,785,857</u>   |
| Total Present Value of Benefits           | 3,998,992          | 2,785,857          |
| Actuarial Accrued Liability (AAL)         |                    |                    |
| All Inactive Members                      | 0                  | 0                  |
| Active Members                            | <u>680,877</u>     | <u>353,563</u>     |
| Total Actuarial Accrued Liability         | 680,877            | 353,563            |
| Actuarial Value of Assets (AVA)           | 1,429,806          | 721,079            |
| Unfunded Actuarial Accrued Liability      | (748,929)          | (367,516)          |
| Funded Ratio (AVA / AAL)                  | 210.0%             | 203.9%             |

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 solely 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, 2020                             | 15,735,642     | (65,806)        | (330,845)          | (367,516)      |
| (2) Normal Cost Developed in Last Valuation                                              | 1,788,362      | 42,778          | 7,910,126          | 113,626        |
| (3) Actual Contributions                                                                 | 4,411,913      | 37,731          | 9,445,404          | 586,975        |
| (4) Expected Interest On (1), (2), and (3)                                               | 1,121,054      | (3,034)         | 214,602            | (39,581)       |
| (5) Expected Unfunded Actuarial Accrued Liability as of June 30, 2021<br>(1)+(2)-(3)+(4) | 14,233,145     | (63,793)        | (1,651,521)        | (880,446)      |
| (6) Changes to UAAL Due to Assumptions, Methods and Benefits                             | 0              | 0               | 0                  | 0              |
| (7) Change to UAAL Due to Actuarial (Gain)/Loss                                          | <u>998,905</u> | <u>(51,667)</u> | <u>(1,478,343)</u> | <u>131,517</u> |
| (8) Unfunded Actuarial Accrued Liability as of June 30, 2021                             | 15,232,050     | (115,460)       | (3,129,864)        | (748,929)      |

### Amortization of Unfunded Liabilities - Tiers 1 & 2

|                | Date Established        | Outstanding Balance <sup>1</sup> | Years Remaining | Amortization Rate |
|----------------|-------------------------|----------------------------------|-----------------|-------------------|
| <b>Pension</b> | 06/30/2019              | 11,579,570                       | 15              | 7.49%             |
|                | 06/30/2021 <sup>2</sup> | <u>4,681,908</u>                 | 15              | <u>3.59%</u>      |
|                | Total                   | 16,261,478                       |                 | 11.08%            |
| <b>Health</b>  | 06/30/2019              | 0                                | 15              | 0.00%             |
|                | 06/30/2021 <sup>2</sup> | <u>(115,460)</u>                 | 20              | <u>(0.08%)</u>    |
|                | Total                   | (115,460)                        |                 | (0.08%)           |

### Amortization of Unfunded Liabilities - Tier 3

|                | Date Established | Outstanding Balance | Years Remaining | Amortization Rate <sup>3</sup> |
|----------------|------------------|---------------------|-----------------|--------------------------------|
| <b>Pension</b> | 06/30/2018       | 150,675             | 7               | 0.02%                          |
|                | 06/30/2019       | (1,301,325)         | 8               | (0.18%)                        |
|                | 06/30/2020       | 855,335             | 9               | 0.11%                          |
|                | 06/30/2021       | <u>(2,834,549)</u>  | 10              | <u>(0.35%)</u>                 |
|                | Total            | (3,129,864)         |                 | 0.00%                          |
| <b>Health</b>  | 06/30/2018       | (3,195)             | 7               | 0.00%                          |
|                | 06/30/2019       | (118,978)           | 8               | (0.02%)                        |
|                | 06/30/2020       | (217,212)           | 9               | (0.03%)                        |
|                | 06/30/2021       | <u>(409,544)</u>    | 10              | <u>(0.05%)</u>                 |
|                | Total            | (748,929)           |                 | 0.00%                          |

<sup>1</sup> By Statute, any unfunded liability is adjusted by remove any “maintenance of effort” balance included in the assets.

<sup>2</sup> Since the “Years Remaining” for the 2020 and 2021 bases are the same, they have been combined into a single base.

<sup>3</sup> 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, 2021 Market Value Basis

|                                   | Tiers 1 & 2         |                    | Tier 3           |                  |
|-----------------------------------|---------------------|--------------------|------------------|------------------|
|                                   | Pension             | Health             | Pension          | Health           |
| <b>Additions</b>                  |                     |                    |                  |                  |
| Contributions                     |                     |                    |                  |                  |
| Member Contributions              | \$ 125,332,035      | \$ 0               | \$ 21,045,607    | \$ 0             |
| Employer Contributions            | 1,907,760,231       | 0                  | 21,046,874       | 0                |
| Health Insurance Contributions    | <u>0</u>            | <u>4,005,856</u>   | <u>0</u>         | <u>1,358,038</u> |
| Total Contributions               | 2,033,092,266       | 4,005,856          | 42,092,481       | 1,358,038        |
| Investment Income                 |                     |                    |                  |                  |
| Net Increase in Fair Value        | 2,205,440,985       | 84,098,414         | 21,638,252       | 757,438          |
| Interest and Dividends            | 71,848,357          | 2,739,739          | 704,927          | 24,676           |
| Other Income                      | 83,636,944          | 3,601,503          | 820,588          | 32,436           |
| Less Investment Expenses          | <u>(50,004,841)</u> | <u>(1,785,590)</u> | <u>(490,613)</u> | <u>(16,082)</u>  |
| Net Investment Income             | 2,310,921,445       | 88,654,066         | 22,673,154       | 798,468          |
| Transfers In                      | 145,214             | 0                  | 55,573           | 0                |
| Total Additions                   | 4,344,158,925       | 92,659,922         | 64,821,208       | 2,156,506        |
| <b>Deductions</b>                 |                     |                    |                  |                  |
| Distributions to Members          |                     |                    |                  |                  |
| Benefit Payments                  | 933,886,583         | 0                  | 57,370           | 0                |
| Health Insurance Subsidy          | 0                   | 16,906,670         | 0                | 0                |
| Refund of Contributions           | <u>12,184,527</u>   | <u>0</u>           | <u>576,884</u>   | <u>0</u>         |
| Total Distributions               | 946,071,110         | 16,906,670         | 634,254          | 0                |
| Administrative Expenses           | 10,897,164          | 364,534            | 106,925          | 3,283            |
| Transfers Out                     | 276,873             | 0                  | 0                | 0                |
| Other                             | 0                   | 0                  | 0                | 0                |
| Total Deductions                  | 957,245,147         | 17,271,204         | 741,179          | 3,283            |
| <b>Net Increase / (Decrease)</b>  | 3,386,913,778       | 75,388,718         | 64,080,029       | 2,153,223        |
| <b>Net Position Held in Trust</b> |                     |                    |                  |                  |
| Prior Valuation                   | 8,057,538,776       | 328,079,035        | 48,259,114       | 1,480,635        |
| Beginning of the Year Adjustment  | 0                   | 0                  | 0                | 0                |
| End of the Year                   | 11,444,452,554      | 403,467,753        | 112,339,143      | 3,633,858        |

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

### A. Investment Income

|                                               |                  |
|-----------------------------------------------|------------------|
| A1. Actual Investment Income                  | \$ 2,300,024,281 |
| A2. Expected Amount for Immediate Recognition | 627,173,072      |
| A3. Amount Subject to Amortization            | 1,672,851,209    |

| B. Amortization Schedule | Year Ended June 30 |              |              |              |              |              |             |
|--------------------------|--------------------|--------------|--------------|--------------|--------------|--------------|-------------|
|                          | 2021               | 2022         | 2023         | 2024         | 2025         | 2026         | 2027        |
| 2021 Experience (A3 / 7) | 238,978,744        | 238,978,744  | 238,978,744  | 238,978,744  | 238,978,744  | 238,978,744  | 238,978,745 |
| 2020 Experience          | (68,882,158)       | (68,882,158) | (68,882,158) | (68,882,158) | (68,882,158) | (68,882,160) |             |
| 2019 Experience          | (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)  | (6,266,351)  |              |              |             |
| 2017 Experience          | 33,380,149         | 33,380,149   | 33,380,148   |              |              |              |             |
| 2016 Experience          | (64,250,729)       | (64,250,726) |              |              |              |              |             |
| 2015 Experience          | (36,894,251)       |              |              |              |              |              |             |
| Total Amortization       | 73,206,131         | 110,100,385  | 174,351,110  | 140,970,960  | 147,237,311  | 170,096,584  | 238,978,745 |

| C. Actuarial Value of Assets                                                      | Total          | Employer   |
|-----------------------------------------------------------------------------------|----------------|------------|
| C1. Actuarial Value of Assets, 06/30/2020                                         | 8,675,448,922  |            |
| C2. Non-investment Net Cash Flow                                                  | 1,086,889,497  |            |
| C3. Preliminary Actuarial Value of Assets, 06/30/2021<br>(A2 + B + C1 + C2)       | 10,462,717,622 |            |
| C4. Market Value of Assets, 06/30/2021                                            | 11,444,452,554 | 71,991,133 |
| C5. Final Actuarial Value of Assets, 06/30/2021<br>(C3 Within 20% Corridor of C4) | 10,462,717,622 | 65,815,546 |

### D. Rates of Return

|                                    |       |
|------------------------------------|-------|
| D1. Market Value Rate of Return    | 26.7% |
| D2. Actuarial Value Rate of Return | 7.6%  |

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

### A. Investment Income

|                                               |               |
|-----------------------------------------------|---------------|
| A1. Actual Investment Income                  | \$ 88,289,532 |
| A2. Expected Amount for Immediate Recognition | 23,487,183    |
| A3. Amount Subject to Amortization            | 64,802,349    |

| B. Amortization Schedule | Year Ended June 30 |             |             |             |             |             |           |
|--------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|-----------|
|                          | 2021               | 2022        | 2023        | 2024        | 2025        | 2026        | 2027      |
| 2021 Experience (A3 / 7) | 9,257,478          | 9,257,478   | 9,257,478   | 9,257,478   | 9,257,478   | 9,257,478   | 9,257,481 |
| 2020 Experience          | (2,898,713)        | (2,898,713) | (2,898,713) | (2,898,713) | (2,898,713) | (2,898,716) |           |
| 2019 Experience          | (1,075,569)        | (1,075,569) | (1,075,569) | (1,075,569) | (1,075,572) |             |           |
| 2018 Experience          | (304,653)          | (304,653)   | (304,653)   | (304,656)   |             |             |           |
| 2017 Experience          | 1,532,136          | 1,532,136   | 1,532,136   |             |             |             |           |
| 2016 Experience          | (3,221,043)        | (3,221,044) |             |             |             |             |           |
| 2015 Experience          | (1,796,586)        |             |             |             |             |             |           |
| Total Amortization       | 1,493,050          | 3,289,635   | 6,510,679   | 4,978,540   | 5,283,193   | 6,358,762   | 9,257,481 |

| C. Actuarial Value of Assets                                                      | Total        | Employer  |
|-----------------------------------------------------------------------------------|--------------|-----------|
| C1. Actuarial Value of Assets, 06/30/2020                                         | 355,709,881  |           |
| C2. Non-investment Net Cash Flow                                                  | (12,900,814) |           |
| C3. Preliminary Actuarial Value of Assets, 06/30/2021<br>(A2 + B + C1 + C2)       | 367,789,300  |           |
| C4. Market Value of Assets, 06/30/2021                                            | 403,467,753  | 1,338,983 |
| C5. Final Actuarial Value of Assets, 06/30/2021<br>(C3 Within 20% Corridor of C4) | 367,789,300  | 1,220,577 |

### D. Rates of Return

|                                    |       |
|------------------------------------|-------|
| D1. Market Value Rate of Return    | 27.5% |
| D2. Actuarial Value Rate of Return | 7.2%  |

## Development of Pension Actuarial Value of Assets - Tiers 3

### A. Investment Income

|                                               |               |
|-----------------------------------------------|---------------|
| A1. Actual Investment Income                  | \$ 22,566,229 |
| A2. Expected Amount for Immediate Recognition | 4,806,547     |
| A3. Amount Subject to Amortization            | 17,759,682    |

| B. Amortization Schedule | Year Ended June 30 |           |           |           |           |
|--------------------------|--------------------|-----------|-----------|-----------|-----------|
|                          | 2021               | 2022      | 2023      | 2024      | 2025      |
| 2021 Experience (A3 / 5) | 3,551,936          | 3,551,936 | 3,551,936 | 3,551,936 | 3,551,938 |
| 2020 Experience          | (351,296)          | (351,296) | (351,296) | (351,294) |           |
| 2019 Experience          | 44,435             | 44,435    | 44,437    |           |           |
| 2018 Experience          | (370)              | (371)     |           |           |           |
| 2017 Experience          | 0                  |           |           |           |           |
| Total Amortization       | 3,244,705          | 3,244,704 | 3,245,077 | 3,200,642 | 3,551,938 |

| C. Actuarial Value of Assets                                                      | Total       | Employer   |
|-----------------------------------------------------------------------------------|-------------|------------|
| C1. Actuarial Value of Assets, 06/30/2020                                         | 49,531,567  |            |
| C2. Non-investment Net Cash Flow                                                  | 41,513,800  |            |
| C3. Preliminary Actuarial Value of Assets, 06/30/2021<br>(A2 + B + C1 + C2)       | 99,096,619  |            |
| C4. Market Value of Assets, 06/30/2021                                            | 112,339,143 | 51,992,240 |
| C5. Final Actuarial Value of Assets, 06/30/2021<br>(C3 Within 20% Corridor of C4) | 99,096,619  | 45,863,401 |

### D. Rates of Return

|                                    |       |
|------------------------------------|-------|
| D1. Market Value Rate of Return    | 32.7% |
| D2. Actuarial Value Rate of Return | 11.5% |

### Development of Health Actuarial Value of Assets - Tiers 3

#### A. Investment Income

|                                               |            |
|-----------------------------------------------|------------|
| A1. Actual Investment Income                  | \$ 795,185 |
| A2. Expected Amount for Immediate Recognition | 150,372    |
| A3. Amount Subject to Amortization            | 644,813    |

| B. Amortization Schedule | Year Ended June 30 |          |          |          |         |
|--------------------------|--------------------|----------|----------|----------|---------|
|                          | 2021               | 2022     | 2023     | 2024     | 2025    |
| 2021 Experience (A3 / 5) | 128,963            | 128,963  | 128,963  | 128,963  | 128,961 |
| 2020 Experience          | (10,555)           | (10,555) | (10,555) | (10,557) |         |
| 2019 Experience          | 1,507              | 1,507    | 1,508    |          |         |
| 2018 Experience          | 0                  | (2)      |          |          |         |
| 2017 Experience          | 0                  |          |          |          |         |
| Total Amortization       | 119,915            | 119,913  | 119,916  | 118,406  | 128,961 |

#### C. Actuarial Value of Assets

|                                                                                   | Total     | Employer  |
|-----------------------------------------------------------------------------------|-----------|-----------|
| C1. Actuarial Value of Assets, 06/30/2020                                         | 1,518,500 |           |
| C2. Non-investment Net Cash Flow                                                  | 1,358,038 |           |
| C3. Preliminary Actuarial Value of Assets, 06/30/2021<br>(A2 + B + C1 + C2)       | 3,146,825 |           |
| C4. Market Value of Assets, 06/30/2021                                            | 3,633,858 | 1,651,097 |
| C5. Final Actuarial Value of Assets, 06/30/2021<br>(C3 Within 20% Corridor of C4) | 3,146,825 | 1,429,806 |

#### D. Rates of Return

|                                    |       |
|------------------------------------|-------|
| D1. Market Value Rate of Return    | 36.8% |
| D2. Actuarial Value Rate of Return | 12.3% |

## V. MEMBER STATISTICS

### Valuation Data Summary

|                                     | June 30, 2021 |          | June 30, 2020 |          |
|-------------------------------------|---------------|----------|---------------|----------|
|                                     | Tiers 1 & 2   | Tier 3   | Tiers 1 & 2   | Tier 3   |
| <b>Actives</b>                      |               |          |               |          |
| Number                              | 107           | 15       | 110           | 12       |
| Average Current Age                 | 42.6          | 28.9     | 41.7          | 28.4     |
| Average Age at Employment           | 27.7          | 27.6     | 27.8          | 27.9     |
| Average Past Service                | 14.9          | 1.3      | 13.9          | 0.5      |
| Average Annual Salary               | \$108,707     | \$65,691 | \$99,271      | \$55,893 |
| <b>Actives (transferred)</b>        |               |          |               |          |
| Number                              | 2             | 4        | 1             | 3        |
| Average Current Age                 | 30.3          | 30.2     | 33.3          | 29.1     |
| Average Age at Employment           | 25.9          | 27.9     | 29.9          | 27.6     |
| Average Past Service                | 4.4           | 2.3      | 3.4           | 1.5      |
| Average Annual Salary               | \$60,579      | \$60,422 | \$66,924      | \$51,886 |
| <b>Retirees</b>                     |               |          |               |          |
| Number                              | 11            | 0        | 11            | 0        |
| Average Current Age                 | 59.6          | N/A      | 58.6          | N/A      |
| Average Annual Benefit              | \$64,716      | N/A      | \$63,447      | N/A      |
| <b>Drop Retirees</b>                |               |          |               |          |
| Number                              | 10            | N/A      | 8             | N/A      |
| Average Current Age                 | 54.1          | N/A      | 53.5          | N/A      |
| Average Annual Benefit              | \$67,627      | N/A      | \$65,491      | N/A      |
| <b>Beneficiaries</b>                |               |          |               |          |
| Number                              | 2             | 0        | 2             | 0        |
| Average Current Age                 | 57.2          | N/A      | 56.2          | N/A      |
| Average Annual Benefit              | \$47,615      | N/A      | \$47,164      | N/A      |
| <b>Disability Retirees</b>          |               |          |               |          |
| Number                              | 2             | 0        | 2             | 0        |
| Average Current Age                 | 45.5          | N/A      | 44.5          | N/A      |
| Average Annual Benefit              | \$46,250      | N/A      | \$45,343      | N/A      |
| <b>Inactive / Vested</b>            |               |          |               |          |
| Number                              | 2             | 0        | 2             | 0        |
| Average Current Age                 | 36.7          | N/A      | 35.7          | N/A      |
| Average Accumulated Contributions   | \$17,079      | N/A      | \$17,079      | N/A      |
| <b>Total Number</b>                 | 136           | 19       | 136           | 15       |
| <b>Former Members (transferred)</b> | 1             | 0        | 1             | 0        |

### Counts and Pay Summary by Service - Tiers 1 & 2

| Age     | Past Service |          |          |          |          |          |          | Total Count | Total Pay  | Average Pay |
|---------|--------------|----------|----------|----------|----------|----------|----------|-------------|------------|-------------|
|         | 0-4          | 5-9      | 10-14    | 15-19    | 20-24    | 25-29    | 30+      |             |            |             |
| <20     | 0            | 0        | 0        | 0        | 0        | 0        | 0        | 0           | 0          | 0           |
| 20 - 24 | 1            | 0        | 0        | 0        | 0        | 0        | 0        | 1           | 73,260     | 73,260      |
| 25 - 29 | 3            | 3        | 0        | 0        | 0        | 0        | 0        | 6           | 443,347    | 73,891      |
| 30 - 34 | 7            | 1        | 1        | 0        | 0        | 0        | 0        | 9           | 799,645    | 88,849      |
| 35 - 39 | 4            | 2        | 15       | 2        | 0        | 0        | 0        | 23          | 2,250,010  | 97,827      |
| 40 - 44 | 0            | 0        | 15       | 14       | 2        | 0        | 0        | 31          | 3,563,919  | 114,965     |
| 45 - 49 | 0            | 0        | 2        | 10       | 8        | 0        | 0        | 20          | 2,447,611  | 122,381     |
| 50 - 54 | 0            | 0        | 2        | 9        | 4        | 0        | 0        | 15          | 1,678,349  | 111,890     |
| 55 - 59 | 0            | 0        | 0        | 2        | 1        | 1        | 0        | 4           | 496,679    | 124,170     |
| 60 - 64 | 0            | 0        | 0        | 0        | 0        | 0        | 0        | 0           | 0          | 0           |
| 65+     | <u>0</u>     | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u>    | <u>0</u>   | <u>0</u>    |
| Total   | 15           | 6        | 35       | 37       | 15       | 1        | 0        | 109         | 11,752,820 | 107,824     |

### Counts and Pay Summary by Service - Tier 3

| Age     | Past Service |          |          |          |          |          |          | Total Count | Total Pay | Average Pay |
|---------|--------------|----------|----------|----------|----------|----------|----------|-------------|-----------|-------------|
|         | 0-4          | 5-9      | 10-14    | 15-19    | 20-24    | 25-29    | 30+      |             |           |             |
| 15 - 19 | 0            | 0        | 0        | 0        | 0        | 0        | 0        | 0           | 0         | 0           |
| 20 - 24 | 2            | 0        | 0        | 0        | 0        | 0        | 0        | 2           | 122,757   | 61,379      |
| 25 - 29 | 9            | 0        | 0        | 0        | 0        | 0        | 0        | 9           | 540,175   | 60,019      |
| 30 - 34 | 7            | 0        | 0        | 0        | 0        | 0        | 0        | 7           | 479,146   | 68,449      |
| 35 - 39 | 0            | 0        | 0        | 0        | 0        | 0        | 0        | 0           | 0         | 0           |
| 40 - 44 | 1            | 0        | 0        | 0        | 0        | 0        | 0        | 1           | 84,966    | 84,966      |
| 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+     | <u>0</u>     | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u>    | <u>0</u>  | <u>0</u>    |
| Total   | 19           | 0        | 0        | 0        | 0        | 0        | 0        | 19          | 1,227,044 | 64,581      |

## 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 an 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.

|            | <b>Maricopa</b>      | <b>Pima</b>          |                      | <b>Maricopa</b>    | <b>Pima</b>        |                    |
|------------|----------------------|----------------------|----------------------|--------------------|--------------------|--------------------|
|            | <b>County</b>        | <b>County</b>        | <b>Other</b>         | <b>County</b>      | <b>County</b>      | <b>Other</b>       |
| <b>Age</b> | <b><u>Police</u></b> | <b><u>Police</u></b> | <b><u>Police</u></b> | <b><u>Fire</u></b> | <b><u>Fire</u></b> | <b><u>Fire</u></b> |
| 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

\$115,868 for calendar 2021. Assumed increases of 2.00% per year thereafter.

### 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-2020. 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-2020.

***Beneficiaries:***

PubS-2010 Survivor mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2020.

***Disabled Lives:***

PubS-2010 Disabled mortality, projected with future mortality improvements reflected generationally using 75% of scale MP-2020.

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:

|                | Maricopa<br>County | Pima<br>County | Other         | Maricopa<br>County | Pima<br>County | Other       |
|----------------|--------------------|----------------|---------------|--------------------|----------------|-------------|
| <u>Service</u> | <u>Police</u>      | <u>Police</u>  | <u>Police</u> | <u>Fire</u>        | <u>Fire</u>    | <u>Fire</u> |
| 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. DROP periods are assumed to be 4 years in length.

**Tiers 2 & 3:**

Age-related rates based on age at retirement:

|            | Maricopa      | Pima          |               | Maricopa    | Pima        |             |
|------------|---------------|---------------|---------------|-------------|-------------|-------------|
|            | County        | County        | Other         | County      | County      | Other       |
| <u>Age</u> | <u>Police</u> | <u>Police</u> | <u>Police</u> | <u>Fire</u> | <u>Fire</u> | <u>Fire</u> |
| 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.

|                | Maricopa      | Pima          |               | Maricopa    | Pima        |             |
|----------------|---------------|---------------|---------------|-------------|-------------|-------------|
|                | County        | County        | Other         | County      | County      | Other       |
| <u>Service</u> | <u>Police</u> | <u>Police</u> | <u>Police</u> | <u>Fire</u> | <u>Fire</u> | <u>Fire</u> |
| 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.

|            | Maricopa      | Pima          |               | Maricopa    | Pima        |             |
|------------|---------------|---------------|---------------|-------------|-------------|-------------|
|            | County        | County        | Other         | County      | County      | Other       |
| <u>Age</u> | <u>Police</u> | <u>Police</u> | <u>Police</u> | <u>Fire</u> | <u>Fire</u> | <u>Fire</u> |
| 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 using a layered approach beginning with the June 30, 2020 valuation, with new amounts determined according to a Level Dollar method over a closed period of 15 years (phased into from current period of at most 30 years). Initial layer from June 30, 2019 valuation continues to be amortized according to a Level Percentage of Payroll method. 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

3.00% 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 payroll growth assumption was lowered from 3.50% to 3.00%.

## VII. DISCUSSION OF RISK

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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.

- Investment Return: 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.
- Salary Increases: 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.
- Payroll Growth: 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.
- Demographic Assumptions: 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

|                                     | 06/30/2018 | 06/30/2019 | 06/30/2020 | 06/30/2021 |
|-------------------------------------|------------|------------|------------|------------|
| <b>Support Ratio</b>                |            |            |            |            |
| Total Actives                       | 121        | 114        | 111        | 109        |
| Total Inactives                     | 15         | 22         | 25         | 27         |
| Actives / Inactives                 | 806.7%     | 518.2%     | 444.0%     | 403.7%     |
| <b>Asset Volatility Ratio</b>       |            |            |            |            |
| Market Value of Assets (MVA)        |            | 48,925,283 | 51,950,043 | 71,991,133 |
| Total Annual Payroll                |            | 10,992,807 | 10,986,758 | 11,752,820 |
| MVA / Total Annual Payroll          |            | 445.1%     | 472.8%     | 612.5%     |
| <b>Accrued Liability (AL) Ratio</b> |            |            |            |            |
| Inactive Accrued Liability          | 11,020,375 | 18,825,704 | 21,286,840 | 24,277,370 |
| Total Accrued Liability             | 55,772,934 | 63,464,250 | 71,669,589 | 81,047,596 |
| Inactive AL / Total AL              | 19.8%      | 29.7%      | 29.7%      | 30.0%      |
| <b>Funded Ratio</b>                 |            |            |            |            |
| Actuarial Value of Assets (AVA)     | 44,040,428 | 50,604,247 | 55,933,947 | 65,815,546 |
| Total Accrued Liability             | 55,772,934 | 63,464,250 | 71,669,589 | 81,047,596 |
| AVA / Total Accrued Liability       | 79.0%      | 79.7%      | 78.0%      | 81.2%      |
| <b>Net Cash Flow Ratio</b>          |            |            |            |            |
| Net Cash Flow <sup>1</sup>          |            | 3,427,962  | 2,416,028  | 4,701,373  |
| Market Value of Assets (MVA)        |            | 48,925,283 | 51,950,043 | 71,991,133 |
| Net Cash Flow / MVA                 |            | 7.0%       | 4.7%       | 6.5%       |

<sup>1</sup> 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.

### Plan Maturity Measures and Other Risk Metrics - Tier 3 <sup>1</sup>

|                                     | 06/30/2018 | 06/30/2019 | 06/30/2020 | 06/30/2021  |
|-------------------------------------|------------|------------|------------|-------------|
| <b>Support Ratio</b>                |            |            |            |             |
| Total Actives                       | 419        | 944        | 1,408      | 2,560       |
| Total Inactives                     | 23         | 57         | 130        | 307         |
| Actives / Inactives                 | 1,821.7%   | 1,656.1%   | 1,083.1%   | 833.9%      |
| <b>Asset Volatility Ratio</b>       |            |            |            |             |
| Market Value of Assets (MVA)        |            | 9,392,896  | 22,964,925 | 51,992,240  |
| Total Annual Payroll                |            | 50,420,565 | 84,448,996 | 115,883,115 |
| MVA / Total Annual Payroll          |            | 18.6%      | 27.2%      | 44.9%       |
| <b>Accrued Liability (AL) Ratio</b> |            |            |            |             |
| Inactive Accrued Liability          |            | 203,244    | 1,173,104  | 2,290,610   |
| Total Accrued Liability             |            | 7,956,725  | 23,239,599 | 42,733,537  |
| Inactive AL / Total AL              |            | 2.6%       | 5.0%       | 5.4%        |
| <b>Funded Ratio</b>                 |            |            |            |             |
| Actuarial Value of Assets (AVA)     | 1,635,349  | 9,305,220  | 23,570,444 | 45,863,401  |
| Total Accrued Liability             | 1,831,715  | 7,956,725  | 23,239,599 | 42,733,537  |
| AVA / Total Accrued Liability       | 89.3%      | 116.9%     | 101.4%     | 107.3%      |
| <b>Net Cash Flow Ratio</b>          |            |            |            |             |
| Net Cash Flow <sup>2</sup>          |            | 7,281,178  | 13,192,598 | 18,607,209  |
| Market Value of Assets (MVA)        |            | 9,392,896  | 22,964,925 | 51,992,240  |
| Net Cash Flow / MVA                 |            | 77.5%      | 57.4%      | 35.8%       |

<sup>1</sup> Tier 3 results are shown for the Risk Sharing group, where applicable.

<sup>2</sup> 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:

| <u>Tier</u> | <u>Hire Date</u>                                          |
|-------------|-----------------------------------------------------------|
| 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) 62<sup>nd</sup> birthday and completion of 15 years of service.

Benefit

**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.

**Tier 1:**

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

| <u>Credited Service</u>    | <u>Benefit Adjustment</u>          |
|----------------------------|------------------------------------|
| 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):

| <u>Credited Service</u>    | <u>Benefit Multiplier</u> |
|----------------------------|---------------------------|
| 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):

| <u>Credited Service</u>    | <u>Benefit Multiplier</u> |
|----------------------------|---------------------------|
| 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**

Date

***Only applicable to Tier 3 members:***

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 based on Credited Service earned over the required Credited Service for Normal Retirement (maximum ratio of 1).

**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.

| <u>Service</u>    | <u>Additional % of Contributions</u> |
|-------------------|--------------------------------------|
| 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 7<sup>th</sup> 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 | <u>Beginning Year</u>                                                                                                                                                 | <u>Interest Rate</u> |
|                                        | July 1, 2016                                                                                                                                                          | 7.40%                |
|                                        | July 1, 2017                                                                                                                                                          | 7.40%                |
|                                        | July 1, 2018                                                                                                                                                          | 7.30%                |
|                                        | July 1, 2019                                                                                                                                                          | 7.30%                |
|                                        | July 1, 2020                                                                                                                                                          | 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<br>(monthly) |                       | <u>Member Only</u> | <u>With Dependents</u> |
|--------------------------------------|-----------------------|--------------------|------------------------|
|                                      | 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**

The proration period for the Ordinary Disability Benefit was revised to reflect the different required Credited Service periods for different benefit tiers.

## IX. ACTUARIAL FUNDING POLICY

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A pension plan funding policy describes how pension funding will improve for underfunded plans or maintain funded benefits for funded plans over time for those benefits defined in ARS. Those benefits defined in ARS are to be equitably managed and administered by PSPRS.

This Actuarial Funding Policy identifies the funding objectives and elements of the actuarial funding policy set by the Board for the Arizona Public Safety Personnel Retirement System (PSPRS). The Board adopted this Funding Policy to help ensure the systematic funding of future benefit payments for members of the Retirement System as established by the legislature.

To achieve the systematic funding of future benefits, metrics are identified to measure the progress, or the lack of progress, over time to identify trends. These trends inform the continuation of the current policies or identify areas of needed research for consideration.

This funding policy is reviewed annually and adopted by the Board in accordance with ARS 38-863.02. This policy was reviewed and adopted by the Board in October 2021.

### **PSPRS Statement of Purpose**

The Purpose of the Public Safety Personnel Retirement System is to provide uniform, consistent, and equitable statewide retirement programs for those who have been entrusted to our care.

### **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.
  - a. Corollary 1a: Current and future contributions should be calculated based upon assumptions that reflect the Board's best estimate of future experience and methods that appropriately allocate costs to address generational equity.
  - b. Corollary 1b: While the shorter-term objective is to fully fund the actuarial liability (AAL) that estimates benefits earned as of the valuation date, contributions should target the long-term present value of benefits (PVB) to fund all benefits and help offset risks.
2. Maintain public policy goals of accountability and transparency through stakeholder communication and education. Each policy element is clear in intent and effect, and each should be considered in a balanced approach to determine how and when the funding requirements of the plan will be met.
  - a. Corollary 2a: Board shall provide stakeholders with separate reports and tools to help explain current results as well as to help model future funding requirements.
3. Promote intergenerational equity. Defined benefit pensions are designed with a long-term perspective and designed to minimize contribution volatility that cannot avoid some level of generational cost shift. However, the goal is that each generation of members and employers (taxpayers) should, to the extent possible, incur the cost of benefits for the employees who provide services to them, rather than shifting those costs to other generations of members and employers (taxpayers).

- a. Corollary 3a: A systematic reduction of the Unfunded Actuarial Accrued Liability (UAAL) over a reasonable time period is paramount to achieving this objective.

Consideration can be given to reduce volatility, to the extent possible, of employer and employee contribution rates as long as the integrity of the objectives listed above is not compromised.

## **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 (Tiers 1 and 2) or five years (Tier 3) in calculating the Actuarial Value of Assets.
- b. The Actuarial Value of Assets so determined shall be subject to a 20% corridor relative to the Market Value of Assets.

### **3. Amortization Method (Unfunded Amounts)**

- 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.
- b. The unfunded liabilities, for EORP and Tiers 1 & 2 for both PSPRS and CORP, determined in the June 30, 2019 actuarial valuation will become the initial layer for each employer beginning with the June 30, 2020 actuarial valuation and amortized using the current closed year period for that employer and continue to decrease each year.
  - i. The payroll growth rate assumption used to amortize the Public Safety Plan (PSPRS) June 30, 2019 Unfunded Liability will be decreased by 0.5% beginning with the 6/30/2021 actuarial valuation and again each year with the intention of ultimately achieving 0.0%. Once the payroll growth assumption reaches 2.0%, however, the Board will reevaluate the payroll growth assumption and decide whether to continue to let it track down to 0.0%.
  - ii. The payroll growth rate used to amortize the Correction Officers Retirement Plan (CORP) June 30, 2019 Unfunded Liability will be 3.0% beginning with the 6/30/2020 actuarial valuation, and future years will be reduced by 0.5% until 0.0% is reached.
  - iii. The payroll growth rate used to amortize the Elected Officials Retirement Plan (EORP) June 30, 2019 Unfunded Liability will be 2.5% beginning with the 6/30/2020 actuarial valuation, and future years will be reduced by 0.5% until 0.0% is reached.
- c. Gains and losses, for EORP and Tiers 1 & 2 for both PSPRS and CORP, for each employer beginning with the June 30, 2020 actuarial valuation will be amortized as a new layer over the same amortization period as the regular unfunded liability to a minimum of 15 years. Once the amortization period for each employer decreases to 15 years, each subsequent year’s gains and losses will be amortized as a new 15-year closed layer.
  - i. The payroll growth rate used to amortize unfunded liability for all Plans under this paragraph will be 0.0% (i.e. level-dollar amortization).

- d. Tier 3 amortization methods are established in ARS 38-843.G and ARS 38-891.K.
4. Amortization Method (Overfunded Amounts)
- a. If the Actuarial Value of Assets exceeds the AAL for EORP and Tiers 1 & 2 for both PSPRS and CORP, the excess is amortized over an open period of 20 years and applied as a credit to reduce the Normal Cost otherwise payable.
  - b. Tier 3 amortization methods are established in ARS 38-843.G and ARS 38-891.K.

## Metrics to Monitor Funding Objectives

1. Appropriateness of Assumptions – Gain/Loss Experience (Corollary 1a)
  - a. Metric: Do the cumulative gain/loss layers over the prior five years exceed 8% of plan assets?
  - b. Measurement: History of annual gain/loss (split by asset and liability experience) and five-year cumulative results will be tracked.
  - c. Action Plan: This metric assumes that a full experience study is performed at least every five years so objective of measurement is to monitor interim experience. If the metric answer is yes, a review of the sources or causes of gains and losses should be analyzed and presented to the Advisory Committee to provide a recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if assumption changes are warranted between full experience studies.
2. Funding Targets (Corollary 1b)
  - a. Metric: Has the funded status, on both an AAL and PVB basis when compared to the market value of assets, increased over a five-year period?
  - b. Measurement: History of funded status measures will be tracked.
  - c. Action Plan: If the answer is no and not readily explainable (e.g., significant assumption change), a review of the reason(s) for the decrease should be researched and presented to the Advisory Committee to provide a recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if changes to assumptions and/or methods are warranted between full experience studies.
3. Communication with Stakeholders (Corollary 2a)
  - a. Metric: Have reports and budgeting tools been provided to stakeholders in a timely fashion?
  - b. Measurement: Yes/No answer based on input from PSPRS administrator. (An annual standard survey of stakeholders – 3 to 5 questions.)
  - c. Action Plan: If the answer is no, and periodically regardless (e.g., every three years), PSPRS staff will revisit this metric to report to the Advisory Committee to provide a recommendation to the Board of Trustees if current reports / tools are sufficient and if the delivery timing is appropriate.
4. Timely Recognition of Costs (Corollary 3a)
  - a. Metric: Has the percentage of unfunded liability subject to negative amortization decreased over a five-year lookback period?
  - b. Measurement: History of unfunded liability subject to negative amortization as a percentage of total unfunded liability will be tracked.
  - c. Action Plan: If the answer is no, and not readily explainable (e.g., adopted assumption changes being phased in are anticipated to address negative amortization), a review of the reason(s) for negative amortization should be researched and presented to the Advisory Committee to provide a

recommendation to the Board of Trustees. The analysis and presentation are intended to provide a basis for consideration if changes to assumptions and/or methods are warranted between full experience studies.

## X. GLOSSARY

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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.



**CITY OF SURPRISE**  
**Public Safety Personnel Retirement System**  
**Meeting - Fire**

Council Meeting Date: February 23, 2022  
Submitting Department: Human Resources  
Staff Recommendations:

Contact Person:  
District: Internal

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

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**Agenda Wording:**

Discussion and possible action to review and make changes to current Fire Board Bylaws in relation to the newly adopted Model Uniform Rules as recommended by Legal Counsel

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**Motion:**

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**Background:**

During the 12/15/2021 Joint Board Meeting, The Board Attorney stated that each Board needed to take action to adopt the model procedures during the first meeting in 2022. Chandler Brown stated that the Boards should review the bylaws to assess any potential conflict in advance as well as add anything new that the final draft includes which current bylaws might be potentially missing. Ian Murton requested for the Board Attorney to review the Boards' bylaws to assess any potential conflict.

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**Objective Analysis:**

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**Policy Compliant:**

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**Financial Impact:**

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**Budget Impact:**

**FTE Impact:**

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**ATTACHMENTS:**

1. PSPRS Fire Bylaws
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City of Surprise  
Public Safety Personnel Retirement System  
Local Fire Board Rules  
Adopted Pursuant to A.R.S. § 38-847(F)

**A. Definitions**

1. "A.R.S." means Arizona Revised Statutes.
2. "Administrator" means the Administrator of the Plan (including any persons authorized by the Administrator to act for the Administrator) acting for the benefit of the Board of Trustees as more particularly described in A.R.S. §38-848(L).
3. "Board of Trustees" has the meaning ascribed to that term in A.R.S. §38-842(8).
4. "Claim" means any request for relief under the Plan involving all questions of eligibility and service credits, which is properly before a Local Fire Board for Decision, pursuant to A.R.S. § 38-847(D).
5. "Claimant" has the meaning ascribed to that term in A.R.S. § 38-842(11).
6. "Decision" means (i) a separate written document setting forth the Local Fire Board's action resolving a Claim; or (ii) any orders issued by a Local Fire Board relating to a Claim, including orders denying a request for Rehearing or further relief. As required by A.R.S. §38-847(G), a Decision shall contain, at a minimum, (a) the name of the member affected by the Local Fire Board's action; (b) a description of the action taken; and (c) an explanation of the reasons supporting the Local Fire Board's action.
7. "Decision on Rehearing" means a Decision issued by the Local Fire Board after a Rehearing.
8. "Employee" has the meaning ascribed to that term in A.R.S. §38-842 (27).
9. "Employer" has the meaning ascribed to that term in A.R.S. § 38-842(28) and means the City of Surprise, Arizona.
10. "Hearing" means the Local Fire Board's initial public Meeting concerning a Claim, which is conducted in accordance with the Open Meeting Law and these Rules.
11. "Initial Decision" means the first Decision on a Claim issued by the Local Fire Board.
12. "Local Fire Board" means the public body described in A.R.S. §38-847.

13. "Meeting" is a gathering of a quorum of the Local Fire Board to conduct business and to hold Hearings and/or Rehearings, which is conducted in accordance with the Open Meeting Law and these Rules.
14. "Member" has the meaning ascribed to that term in A.R.S. §38-842(31).
15. "Minutes" means the written official record of the proceedings, including the testimony of witnesses.
16. "Non-Routine Claim" means any Claim that is not a Routine Claim, including, but not limited to, Claims for the following: (i) a "killed in the line of duty" survivor pension; (ii) an accidental disability pension; (iii) a catastrophic disability pension; (iv) an ordinary disability pension; (v) a temporary disability pension; or (vi) determinations for plan membership concerning whether the Employee is or was regularly assigned to hazardous duty.
17. "Notice" means a written Notice of Hearing or Rehearing, as applicable, which includes, at minimum: (i) a statement of the time, place and nature of the Hearing or Rehearing; (ii) a statement of the legal authority and jurisdiction under which the Local Fire Board will be conducting the Hearing or Rehearing; (iii) a reference to the particular section(s) of the Arizona Revised Statutes (and/or any other applicable rules) involved in the particular matter presented for Decision; and (iv) a short and plain statement of the matters asserted by the Claimant or issues to be considered at the Hearing or Rehearing.
18. "Open Meeting Law" is that body of laws described in Title 38, Ch. 3, Article 3.1 of the Arizona Revised Statutes, which requires public bodies, such as the Local Fire Board, to hold its meetings and conduct its activities in public, except in those limited circumstances described in A.R.S. §38-431.03.
19. "Party or Parties" means the Claimant, Local Fire Board and Board of Trustees.
20. "Plan" means the Public Safety Personnel Retirement System, as described in A.R.S. §38-841 *et seq.*
21. "Pre-Membership Physical" means a medical examination of an Employee before the Employee joins the Plan, for the purpose of identifying physical or mental conditions or injuries, which existed or occurred prior to the Employee's date of membership in the Plan, pursuant to A.R.S. §38-859(A)(1).
22. "Presiding Officer" means the Chair, Vice-Chair, in the absence of the Chair,

or Acting Chair of the Local Fire Board, who presides over any Meeting, Hearing or Rehearing.

23. "Rehearing" means a public Meeting before the Local Fire Board that is conducted in accordance with the Open Meeting Law and these Rules, to consider a Claimant's

or the Board of Trustee's request that the Local Board reconsider its Initial Decision, as provided by A.R.S. §38-847(H).

24. "Routine Claim" means a Claim for any of the following: (i) a normal retirement pension; (ii) an early retirement pension; (iii) a normal survivor pension; (iv) a determination of eligibility for Plan membership other than that involving whether the Employee is or was regularly assigned to hazardous duty; (v) a survivor's pension that is not a "killed in the line of duty" survivor's pension; (vi) request for service credit; and (vii) initiation or termination of Deferred Retirement Option Plan participation.
25. "Secretary" means the person so designated and elected pursuant to A.R.S. §38- 847(M), who is charged with keeping a record and preparing agendas, Minutes and Decisions of all Hearings and Rehearings of the Local Fire Board. The Board Secretary has the authority to accept service of process for the Local Fire Board.
26. "Subcommittee" or "Working Subcommittee" means a group of no more than two Local Fire Board members appointed by the Board Chair to undertake Local Fire Board business.

#### **B. Purpose and Scope of Procedures**

1. Board Responsibility. Pursuant to A.R.S. §38-847(D), the Local Fire Board is responsible for deciding all questions of eligibility and service credits, and determining the amount, manner and time of payment of any benefits under the Plan. The Board of Trustees cannot pay any benefits under the Plan without the direction and approval of the Local Fire Board.
2. Scope. These Rules govern all Claims before the Local Fire Board for Decision, effective for any Claims brought, and any Hearing and Rehearing held, after the effective date of adoption of these rules by the Local Fire Board.
3. Conflict. These Rules are authorized by A.R.S. §38-847(F) and supplement all authority of the Local Fire Board specified in that statute. Should any of these Rules conflict with any provision of A.R.S. §38-847 or any other Arizona law, the provisions of Arizona law shall control. If PSPRS promulgates revised Model Rules for Local Boards and a conflict exists with these Rules, the revised Model Rules shall prevail.

4. Amendment. These Rules may be amended by a majority vote of the Fire Board at a public meeting.

**C. Composition of the Board and Conduct of Meetings**

1. Composition. The membership of the Local Fire Board is set forth in A.R.S. § 38-847(A). Pursuant to statute, the Local Fire Board is composed of the Mayor of the City of Surprise or his/her designee, two members elected by secret ballot by members of the Department, and two citizens who are appointed by the Mayor of Surprise with approval of the City Council. In the event of a tied election during the secret ballot election process, there will be subsequent elections until there is a winner.
2. Chair. The Mayor or Mayor's designee shall serve as Chair of the Board. The Board may elect a Vice Chairperson to serve in the absence of the Chairperson. In the absence of the Chairperson or Vice Chairperson, an acting Chairperson will be elected by a majority vote of the Local Fire Board.
3. Secretary. Pursuant to A.R.S. § 38-847(M), the Local Fire Board shall designate a Secretary who may, but need not, be a member of the Local Fire Board. If a vacancy occurs for the Secretary, the Local Fire Board shall designate a new Secretary at the next Local Fire Board meeting after the vacancy occurs. The Secretary shall regularly participate in training provided by the Arizona Public Safety Personnel Retirement System.
4. Quorum. A quorum for the purpose of doing any business by the Local Fire Board will be three (3) members. The Fire Board requires at least one (1) of the employee members of the Fire Department to be present to have a quorum.
5. Agendas. Any item may be placed on the agenda with the consent of two members of the Local Fire Board. Any agenda items must be received by the Board Secretary no later than five (5) business days prior to the meeting in order to be placed on the agenda so in order to meet administrative deadlines for the City Clerk's Office.
6. Meetings, Minutes and Decisions. Meetings are generally held at 10:00 a.m. on the second Wednesday of the month but can be held at any time upon the call of the Chair, any two members of the Local Fire Board, or the Secretary of the Local Fire Board, with appropriate notice to the members of the Local Fire Board and the public. The Local Fire Board shall meet at least twice a year.
  - a. Meetings are generally held at 16000 N. Civic Center Plaza, Surprise Arizona 85374, in the Council Overflow Room.
  - b. The Secretary shall provide an agenda to the Local Fire Board members in advance of any Meeting, describing the business to be addressed at

such Meeting. The content of the agenda shall comply with the Open Meeting Law.

- c. Notice of all Meetings of the Local Fire Board shall be given, and all Meetings and any executive sessions shall be conducted in conformance with the Open Meeting Law.
  - d. Provided the quorum is present, a majority vote of Local Fire Board members present and eligible to vote shall govern any action taken.
  - e. Local Fire Board members not present in person may attend by telephone or other electronic means permitting meaningful participation in accordance with the Open Meeting Law.
  - f. The Secretary shall cause appropriate Minutes to be taken of Local Fire Board Meetings, and an electronic recording may be made of Meetings to facilitate preparation of such Minutes.
  - g. The electronic recording shall be maintained in accordance with the City of Surprise's record retention schedule.
  - h. The Secretary shall forward to the Board of Trustees (in care of the Administrator) a copy of each Local Fire Board meeting minutes which include the Decision(s) on a Claim no later than twenty (20) business days after the Local Fire Board takes action on such Claim, pursuant to A.R.S. § 38- 847(G). Decisions shall be sent by certified mail to the Administrator as required by A.R.S. § 38-847(H)(2). As required by A.R.S. § 38-847(G), a Decision shall contain, at minimum: (i) the name of the member affected by the Local Fire Board's action; (ii) a description of the action taken; and (iii) an explanation of the reasons supporting the Local Fire Board's action, and (iv) all documents submitted to the Local Fire Board for the action taken including the reports of a medical board.
  - i. The Secretary shall forward all other Minutes to the Board of Trustees, in care of the Administrator, within twenty (20) days after each Local Fire Board Meeting, and forward all necessary communications to the Board of Trustees, in care of the Administrator, pursuant to A.R.S. § 38-847(M).
  - j. Unless the Claimant is present at a Meeting at which the Local Fire Board announces its Decision on a Claim, at the same time that the Secretary forwards the Decision to the Administrator, the Secretary shall forward the Local Fire Board's Decision to the Claimant via certified mail, pursuant to A.R.S. §38-847(H)(1).
7. Documentation. In a location separate from any Personnel or Department files, the Local Fire Board Secretary shall maintain files for each Claimant, containing public and confidential documents presented to the Local Fire

Board.

8. Parliamentary Procedure. In matters of procedure not covered by law or these rules and where no conflict exists, the Local Fire Board shall be guided by Robert's Rules of Order.
9. Independent Legal Counsel. In accordance with A.R.S. § 38-847(N), the Local Fire Board shall be represented by independent legal counsel who shall be independent of the City of Surprise and any employee organization or member. Independent legal counsel shall be selected independently by the Local Fire Board in accordance with Local Surprise Ordinance 2019-34. Independent legal counsel for the Local Fire Board shall be paid by the City of Surprise.

D. **Pre-Membership Physical**

1. Examination. Pursuant to A.R.S. §38-859(A)(l), the Local Fire Board shall contract with a physician or clinic to conduct a Pre-Membership Physical of Employees, for the purpose of identifying physical or mental conditions or injuries, which existed or occurred prior to an Employee's date of membership in the Plan. The physician or clinic conducting a Pre-Membership Physical may be the regular employee or contractee of the City of Surprise.
2. Appointment. The City of Surprise, or the Secretary shall coordinate appointments for the Employee's Pre-Membership Physical.
3. Report. The physician or clinic retained to conduct an Employee's Pre-Membership Physical shall provide a written report of the results of the Pre-Membership Physical to the Secretary within 10 days after the examination. The Secretary shall file the report as a permanent record, as required by A.R.S. §38- 859(E).
4. No Pre-Existing Condition. If the physician or clinic's report on an Employee with respect to his pre-membership condition concludes that the Employee has no pre-existing condition, the Secretary shall file the report as a permanent record, as required by A.R.S. §38-859(E) and the employee will receive a copy of his or her pre-employment physical.
5. Finding of Pre-Existing Condition. If the physician or clinic's report on an Employee with respect to his pre-membership condition concludes that the Employee has a pre-existing condition:
  - a. The Secretary shall notify the Employee by certified mail that the physician or clinic has reported that the Employee has a pre-existing condition. The Employee shall have 30 days to submit additional documentation or comments to the Secretary before the physician or clinic's report is placed on an agenda for the Local Fire Board's consideration.

- b. Reports concerning an Employee's pre-existing condition shall be placed on the Meeting agenda for recognition by the Local Fire Board.
- c. The Secretary shall provide the Local Fire Board with any additional documentation or comments submitted by an Employee regarding a physician or clinic's conclusion that an Employee has a pre-existing condition.
- d. The Local Fire Board shall review the physician or clinic's report and any additional documentation submitted by the Employee at a Meeting. After review of the relevant documents, the Local Fire Board will take any action the Local Fire Board deems necessary and appropriate.
- e. The Secretary shall file all reports concerning an Employee's pre-existing condition(s) as a permanent record, as required by A.R.S. §38-859(E), along with any additional documentation and comments provided by the Employee, and appropriate records of any actions or determinations by the Local Fire Board with respect to the same. In the event a Member whose Pre- Membership Physical revealed a pre-existing condition applies for an accidental, catastrophic, ordinary, or temporary disability pension, all such documentation related to the Member's pre-existing condition will be presented to the Local Fire Board. If the Local Fire Board determines that a Member's disability resulted from a physical or mental condition or injury, which existed or occurred prior to the Member's date of membership in the Plan, the Member shall not qualify for an accidental, catastrophic, ordinary, or temporary disability pension.

**E. Initial Decision**

- 1. Submitting Claims. A Claimant may request that the Local Fire Board issue an Initial Decision by presenting an application for benefits or service credit to the Secretary, using the prescribed Plan forms.
- 2. Content of Claims. If desired, a Claimant may supplement the application for benefits or service credit by submitting a letter to the Secretary. In order for any supplemental letter to be considered by the Local Fire Board, such letter shall set forth: (i) the name and address of the Claimant; (ii) the name and address of the Claimant's attorney, if applicable; (iii) a brief statement of the facts forming the basis of the Claim, including any evidence relevant to the Local Fire Board's Decision on the Claim; and (iv) the precise relief sought by the Claimant from the Local Fire Board.
- 3. Routine Claims; Consent Agenda. A Local Fire Board may authorize its Secretary to determine whether a Claim is to be treated by the Local Fire Board as Routine or as Non-Routine, and to present Routine Claims as a

"Consent Agenda" item. Ordinarily, the Secretary does not provide Notice of a Hearing to Claimants for Routine Claims on the Consent Agenda, because the Local Fire Board generally approves Consent Agenda items summarily. If a Routine Claim on the Consent Agenda warrants discussion by the Local Fire Board, the Claim may be deferred to a future Hearing in order to provide Notice to the Claimant.

4. Non-Routine Claims. All Non-Routine Claims are subject to this Section E concerning an Initial Decision. However, more detailed procedures for certain Non-Routine Claims, specifically disability benefit applications and reexamination of disability recipients, are set forth in Sections F and G of these Rules. Other Non-Routine Claims shall be placed on the agenda for consideration by the Local Fire Board, after appropriate Notice to the Claimant.
5. Deadline for Scheduling a Hearing on Routine and Non-Routine Claims.
  - a. Hearings are held at Meetings as provided by Section C (5) of these Rules.
  - b. Unless the Claimant and all other parties to the Claim otherwise agree, the Local Fire Board shall commence a Hearing on a Routine or Non-Routine Claim within ninety (90) days of its receipt of a Claim, pursuant to A.R.S. §38- 847(D)(3).
  - c. If the Local Fire Board does not commence a Hearing on a Claim within ninety (90) days of its receipt of the Claim:
    - i. The Claimant shall notify the Administrator and Secretary by letter sent by certified mail that the Local Fire Board has failed to convene a Hearing within ninety (90) days of the filing of a Claim.
    - ii. As provided by A.R.S. §38-847(D)(3), the relief demanded by the Claimant is deemed granted and approved by the Local Fire Board. The granting and approval of this relief is considered final and binding unless a timely request for Rehearing or appeal is made, or unless the Board of Trustees determines that granting the relief requested would violate the Internal Revenue Code or threaten to impair the Plan's status as a qualified plan under the Internal Revenue Code. If the Board of Trustees determines that granting the requested relief would violate the Internal Revenue Code or threaten to impair the Plan's status as a qualified plan, the Board of Trustees may refuse to grant the relief by issuing a written determination, sent certified mail to the Local Fire Board and the Claimant. The written determination issued by the Board of Trustees is

subject to judicial review pursuant to Title 12, Chap. 7, Article 6.

- iii. As provided in A.R.S. §38-847(H), the Board of Trustees may request a Rehearing within sixty (60) days after receiving notice from the Claimant by letter sent by certified mail that the Local Fire Board has failed to convene a Hearing within ninety (90) days of the filing of a Claim. However, if the relief deemed granted and approved by the Local Fire Board violates the Internal Revenue Code or threatens to jeopardize the Plan's status as a qualified plan under the Internal Revenue Code, no limitation period for the Board of Trustees to seek a Rehearing applies.

6. Issuance of Decision. When a Hearing is held within the deadlines set forth in Section E(5) of these Rules, the Secretary shall forward the Decision, Minutes and other necessary communications, as provided in Section C(5)(f)-(j) of these Rules.
7. Finality of Decision. Pursuant to A.R.S. §38-847, any Decision that is not inconsistent with the provisions of the Plan and the Internal Revenue Code shall be final, conclusive and binding on the Claimant and the Plan, unless a timely application for a rehearing is filed as provided in Section H of these Rules, or an appeal is filed. However, the Board of Trustees may not implement and comply with any Decision that does not comply with the Internal Revenue Code or that threatens to jeopardize the Plan's status as a qualified plan under the Internal Revenue Code, and under such circumstances, no limitation period for the Board of Trustees to seek a rehearing of a Decision applies. A final decision may be appealed to Maricopa County Superior Court for the State of Arizona within the periods specified in, and the manner provided by Arizona Revised Statutes A.R.S. §12-901 *et seq.* and the rules adopted by the Maricopa County Superior and Appellate Courts of the State of Arizona.

F. **Disability Benefit Applications**

1. Disability Application. Upon presentation of a properly completed application for any of the disability pensions authorized by law, the Secretary will determine whether the Claimant has provided complete documentation supporting the Claim referenced in the application. If the information is incomplete, the Secretary shall request that the Claimant provide additional documentation and may assist the Claimant in identifying deficiencies or incomplete items in the application. The Secretary shall also obtain from the City of Surprise any documentation contained in workers' compensation records. A confidential packet of medical information on the Claimant shall be prepared for distribution to Local Fire Board members. When the Claimant's application

is complete, the Claim shall be placed, as a separate item, on the agenda for a Meeting, pursuant to Section E(5) of these Rules.

2. Initial Hearing. At the initial Hearing on a Claim for disability benefits, the Local Fire Board will determine whether the medical and other documentation submitted is sufficient for the Local Fire Board to conclude that the statutory prerequisites are satisfied by the Claimant. If the statutory prerequisites are satisfied, pursuant to A.R.S. §38-859(A), the Local Fire Board shall direct that a medical board be appointed to conduct an examination of the Claimant and to report to the Local Fire Board the results of that examination. If the statutory prerequisites are not satisfied, the Local Fire Board may deny the Claim based on a lack of evidence, either medical or otherwise, such as the Claimant's continued work status or the Claimant's performance of a reasonable range of duties. In the alternative, the Local Fire Board may continue the Hearing on the matter to a date and time when any additional documentation requested by the Board is available.
3. Independent Medical Board. Pursuant to A.R.S. §38-859(B), medical boards appointed pursuant to A.R.S. §38-859(A)(2)-(5) shall be composed of a designated physician or a clinic other than a regular employee or contractee of the City of Surprise.
4. Mental Examinations. In the event of a psychological disability application, the medical board will consist of a doctor of medicine who is a psychiatrist or has a specialty in psychiatry. The psychiatrist shall issue a report containing his/her conclusions to the Local Fire Board.
5. Prompt Hearing. If a medical board is appointed, the Secretary shall reconvene the Hearing at the first feasible Meeting after the Local Fire Board members' receipt of the medical board's report, unless the Claimant requests in writing otherwise.
6. Disability Findings. Pursuant to A.R.S. §38-859(C), a finding of disability shall be based on medical evidence provided by the medical board appointed by the Local Fire Board. The Local Fire Board shall resolve material conflicts in the medical evidence. If required, the Local Fire Board may employ other physicians or clinics to report on special cases. With the approval of the Local Fire Board, a physician or clinic employed by the Local Fire Board may employ occupational specialists to assist the physician or clinic in rendering an opinion.
7. Approval of Disability Claim. If a Claim for disability benefits is approved by the Local Fire Board, the Secretary will obtain Employer certification of the Claimant's employment termination date and indicate the determination of the Board on the disability pension on proscribed Plan forms. If the Board Secretary cannot obtain certification of the termination of the Claimant's

employment within forty-five (45) days after the Local Fire Board's approval, the Claimant's application for disability benefits will be considered withdrawn. Until such time as the Claimant has terminated employment with the City of Surprise, the Local Fire Board shall not consider any further Claim by the Claimant for disability benefits.

8. Denial of Disability Claim. If a Claim for disability benefits is denied by the Local Fire Board, and the Claimant is not present at the Meeting, the Secretary will notify the Claimant in writing by certified mail of the Decision of the Board, the reasons for the Decision, and the Claimant's rights to a Rehearing.

G. **Reexamination of Disability Recipients**

1. Catastrophic Disability Benefits Pursuant to A.R.S. § 38-844(F)
  - a. Sixty (60) months after approval of a Catastrophic Disability, the Local Fire Board must undertake a re-evaluation of a Member receiving catastrophic disability benefits to determine whether the Member remains qualified for such benefits, as specified in A.R.S. §38-844(F).
  - b. After the initial sixty (60) month review, the Local Fire Board is empowered to undertake an annual reevaluation of Members receiving catastrophic disability benefits, who, had they remained in employment, would not have attained 25 years of service.
  - c. On an on-going basis, the Secretary will prepare a list of Members receiving catastrophic disability benefits who may be required to undergo an annual reevaluation pursuant to Section G(1)(b) of these Rules.
  - d. At the direction of the Chair, a Subcommittee of the two elected members of the Local Fire Board shall review the list of Members prepared pursuant to Section G(1)(c), and report the Subcommittee's recommendations regarding medical reevaluation of such Members to the Local Fire Board.
  - e. The Secretary shall place the issue of re-examination of a Member receiving catastrophic disability benefits on an appropriate Meeting agenda as a separate item.
2. Accidental and Ordinary Disability Benefits Pursuant to A.R.S. § 38-844(E).
  - a. In its discretion, the Local Fire Board may require Members receiving accidental or ordinary disability benefits to undergo an annual medical examination to determine whether they are still disabled and

therefore, qualified for continued disability benefits.

- b. On an on-going basis, the Secretary will prepare a list of Members receiving accidental and ordinary disability benefits who may be required to undergo an annual medical reevaluation pursuant to Section G(2)(a) of these Rules.
- c. At the direction of the Chair, a Subcommittee of the two elected Members of the Local Fire Board shall review the list of Members prepared pursuant to Section G(2)(b), and report the Subcommittee's recommendations regarding medical reevaluation of such Members to the Local Fire Board.

3. Medical Boards Appointed Pursuant to A.R.S. § 38-859.

- a. The Local Fire Board shall appoint a medical board to examine any Member required to obtain, or selected for, reevaluation pursuant to Sections G(1), (2) of these Rules. If the Member refuses to submit to the medical board reevaluation, the Member's disability shall be considered to have ceased and the Member's disability pension terminated.
- b. A formal report of the medical board on the results of the reevaluations referenced in Section G(3)(a) above shall be submitted to the Local Fire Board. The Local Fire Board shall review any such report at the first scheduled Meeting after receipt of the report, and shall take any action warranted, as permitted by the relevant statutes.

H. Rehearings

- 1. Application for Rehearing.
  - a. A Claimant's application for Rehearing must be filed within sixty (60) days after the Claimant receives notification of the Initial Decision by certified mail, by attending the Meeting at which the Initial Decision is rendered, or by receiving benefits from the Plan pursuant to the Initial Decision, whichever occurs first.
  - b. The Board of Trustees' application for Rehearing must be filed within sixty (60) days after the Board of Trustees receives a copy of the Initial Decision by certified mail.
- 2. Rehearings Granted. The Local Fire Board will conduct a Rehearing of any matter upon proper and timely application by a Claimant or the Board of Trustees, pursuant to A.R.S. §38-847(H).

3. Preparation of Preliminary Record. Upon receipt of a proper and timely application for Rehearing, the Secretary shall prepare a packet consisting of all documents and other tangible items of evidence made available to the Local Fire Board with respect to the underlying issues. The Secretary may obtain a written transcript of any previous proceedings of the Local Fire Board in connection with the matter, for inclusion in such packet. The Rehearing packet shall be made available to Local Fire Board members and shall be provided to all Parties to the Rehearing. This packet of materials shall constitute the preliminary record for the Rehearing.
4. Scheduling of Rehearing. When the preliminary record is complete, the Secretary will schedule the Rehearing for the next scheduled Meeting or for such other date and time as may be determined but no later than 90 (ninety) days after receipt of either the Claimant's or the Board of Trustees' application/request for Rehearing. Rehearings are not subject to the time limitations set forth in Section E(5) of these Rules.
5. Local Fire Board Action on Rehearing. At or after the conclusion of the Rehearing, the Local Fire Board may vote to uphold, rescind or modify its Initial Decision.
6. Issuance of Decision on Rehearing. When a Rehearing is held, the Secretary shall forward the Decision on Rehearing, Minutes of Rehearing and other necessary communications, as provided in Section C(5)(f)-(j) of these Rules.
7. Finality. Pursuant to A.R.S. §38-847, any Decision on Rehearing that is not inconsistent with the provisions of the Plan and the Internal Revenue Code shall be final, conclusive and binding on the Claimant and the Plan, unless a timely appeal is filed. However, the Board of Trustees may not implement and comply with any Decision on Rehearing that does not comply with the Internal Revenue Code or that threatens to jeopardize the Plan's status as a qualified plan under the Internal Revenue Code. A final Decision on Rehearing may be appealed to the Maricopa County Superior Court for the State of Arizona within the periods specified in, and the manner provided by Arizona Revised Statutes A.R.S. §12-901 *et seq.* and the rules adopted by the Maricopa County Superior and Appellate Courts of the State of Arizona.

**I. General Provisions Applicable to All Hearings and Rehearings**

1. Review of Medical Records. The Local Fire Board shall review and discuss any confidential medical records in executive session only, unless the Claimant or Member waives the confidentiality requirement with respect to any confidential medical records by completing a confidentiality waiver.
2. Exclusion of Evidence. The Presiding Officer may preclude the presentation of argumentative, repetitious or irrelevant facts or questioning in any

proceeding on a Claim.

3. Informal Proceedings. All Hearings and Rehearings shall be conducted in an informal manner and without adherence to the rules of procedure or evidence required in judicial proceedings. The manner of conducting the Hearing or Rehearing, rulings on evidentiary or procedural objections, and the failure to adhere to rules of procedure or evidence required in judicial proceedings shall not be grounds for reversing a Decision of the Local Fire Board, provided substantial evidence supports such order or Decision.
4. Notice of the Truth of Widely-Known and Accepted Facts. The Presiding Officer may take notice of the truth of certain widely known and accepted facts, including generally recognized technical, statistical, actuarial or scientific facts within the Local Fire Board's specialized knowledge. Parties shall be notified, either before or during the Hearing or Rehearing, of any widely known and generally accepted facts noticed as true, including any staff memoranda or data. Parties shall be afforded an opportunity to contest any material so noticed. The Local Fire Board's experience, technical competence and specialized knowledge may be utilized in its evaluation of all evidence. The Local Fire Board shall be entitled to consider and rely on as true information furnished by the Employer, Administrator, the Local Fire Board's independent legal counsel or the Plan's actuary.
5. Failure to Appear at Hearing. In the event a Claimant (and the Claimant's counsel, if any) fails to appear at a duly noticed Hearing or Rehearing, in its discretion, the Local Fire Board may enter a Decision by default or vacate the Hearing or Rehearing. If a witness fails to appear at a duly noticed Hearing or Rehearing, in his discretion, the Presiding Officer may exclude the witness' testimony or reschedule the Hearing or Rehearing.
6. Limitation of Issues. All Hearings and Rehearings shall be limited to matters referenced in the Claim and any request for Rehearing filed by any Party.
7. Record of Proceedings. All Hearings and Rehearings shall be recorded by electronic means and at the Local Fire Board's expense. A copy of the recorded Hearing or Rehearing will be provided to the Claimant and all other interested Parties upon request. Parties are responsible for obtaining their own transcription of a recorded Hearing or Rehearing, although a Local Fire Board may provide such a transcription in its discretion. In addition to any electronic recording of the proceedings, the Local Fire Board shall include all relevant written records as part of the official record of the Hearing or Rehearing.
8. Evidence on Claims. The Claimant and Administrator shall be afforded equal time to state their positions.
9. Subpoenas and Depositions. To facilitate the collection and presentation of

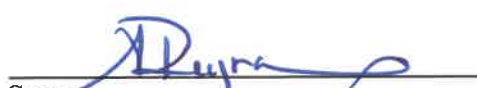
evidence with respect to any matter before the Local Fire Board, the Presiding Officer may authorize subpoenas and depositions of witnesses.

10. Consultation among Members. The Presiding Officer may consult on the record with the other members of the Local Fire Board. The Local Fire Board may consult in executive session with the Local Fire Board's legal counsel so long as all requirements of the Open Meeting Law are satisfied. The Local Fire Board may also go into executive session for any lawful reason, including the need to preserve the confidentiality of medical information. However, all Decisions of the Local Fire Board shall be made in open, public session of the Local Fire Board.
11. Submission of Evidence. The Claimant must submit to the Secretary within ten (10) working days of the Hearing or Rehearing any documents the Claimant wishes to introduce into the record, including doctor reports and other written evidence. Documents received by the Secretary less than ten (10) working days before a Hearing or Rehearing may cause a delay in the Hearing or Rehearing. Information and documents presented on the date of the Hearing or Rehearing will be reason for the Presiding Officer to call for a motion to continue the Hearing or Rehearing to a later date.
12. Bifurcation of Issues/Hearing. In connection with any Claim, the Presiding Officer is empowered to bifurcate (*i.e.*, separate into two or more) issues presented to the Local Fire Board for resolution, or set multiple Hearings or Rehearings in a single case.
13. Public Participation. The Open Meeting Law governs public participation in Hearings and Rehearings.
14. No Rehearing on Remand. A Hearing before the Local Fire Board on a matter remanded from the Maricopa County Superior Court is not subject to a Rehearing before the Local Fire Board. However, the Local Fire Board may consider new evidence or review items remanded by the Maricopa County Superior Court.

The undersigned Chair and Secretary of the City of Surprise Local Fire Board certify that the foregoing Rules were duly adopted by the Board at a meeting duly called and held on the date specified below.

  
Chair

05/12/2021  
Dated

  
Secretary

05/12/2021  
Dated