

Highlands Fire District  
Public Safety Personnel Retirement System (PSPRS)  
Pension Funding Policy as of July 1, 2023

**Section 1: Introduction:**

The intent of this policy is to clearly communicate the Board's pension funding objectives and its commitment to our employees and the sound financial management of the Highlands Fire District (District) and to comply with the statutory requirements of ARS 38-863.01.

The Highlands Fire District is a member of the Public Safety Personnel Retirement System (PSPRS) for full-time firefighters. Firefighter contributions that are used to help pay for the pension plan are managed by PSPRS.

This policy will demonstrate how the District will meet its financial obligation for funding firefighter pension plans, explain how and when funding requirements for the plan will be met, and define the funded ratio targets and timelines for reaching the ratio for the plans.

This funding policy is reviewed and adopted by the Board in accordance with ARS 38-863.01, this policy was reviewed and adopted by the Board on June 20, 2023.

Terminology:

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

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

**Normal Costs** – The portion of the actuarial present value of benefits for the base cost in the current plan year.

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

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

The District's fire operations employees who are regularly assigned hazardous duty participate in the PSPRS.

**Section 2: Public Safety Personnel Retirement System (PSPRS)**

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to comingle assets of all plans under its administration, thus achieving economy of scale for more cost-efficient investments and invest those assets of the benefit of all members under its administration; and 2) serve as the statewide uniform administrator for the distribution of benefits. PSPRS provides annual actuarial reports to determine the status of each year. The Actuarial Valuation Report for Highlands Fire District (199) is available on the PSPRS website.

Under an agent multiple employer plan, each agency participating in the plan has an individual trust fund reflecting that agencies’ assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund’s assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The Highlands Fire District has one trust fund for fire operations employees. The Board formally accepts the assets, liabilities, and current funding ratio of the District’s PSPRS trust funds from the June 30, 2022 actuarial valuation, which are detailed below:

Report as of June 30, 2022

<b>Pension Trust Fund</b>	<b>AVA</b>	<b>AAL</b>	<b>UAAL</b>	<b>Funded Ratio</b>
Tier 1 & 2 Members	\$16,936,675	\$16,243,109	(\$693,566)	104.3%
Tier 3 Members (Employer Risk Pool)	\$76,171,857	\$68,939,204	(\$7,232,653)	110.5%

Actuarial Value of Assets (AVA)  
Actuarial Accrued Liability (AAL)

Unfunded Actuarial Liability (UAAL)  
Funded Ratio (AVA/AAL)

Note: On July 15, 2021, the District completed the financing of Pension Certificates of Participation transaction. The District issued \$8,510,000 million in obligations to fund our public safety pension unfunded liability and set up a \$1 million contingency reserve fund to manage future impacts. Average annual debt service is approximately \$492,437 through June 2046. The District paid \$7,251,008 to PSPRS, which was applied to the UAAL and future obligations.

### **Section 3: PSPRS Funding Accomplishments and Goal**

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

At a minimum, the District intends to maintain minimum Annual Required Contribution (ARC) for its PSPRS members. The District is committed to maintaining the full ARC payment (normal cost and UAAL) from ongoing operating revenues.

On July 15, 2021, the District's PSPRS plan was fully funded 100% based on the financing activities that took place at the beginning of fiscal year 2021-22. Future goals will be in place to best assure the pension plan remain 100% funded or above. The following goals are adopted to address potential impacts and position the District financially for such impacts:

- The District will make regular contributions in per actuarial valuation requirements. The Employer contribution rate required for the Defined Benefit Plan for Tier 1 Members is 13.09%. The Employer contribution rate required for the Defined Benefit Plan and 401a Plan for Tier 2 Members is 17.09% and Tier 3 Members is 12.56%.
- The District will utilize the PSPRS Contingency Reserve Fund (CRF) as a means to maintain, to the greatest extent possible, Funded Ratio of 100%.

Based on the Board's decisions regarding this pension funding policy, the District's PSPRS plan is expected to maintain a goal of 100% funded or above.

Adopted by Resolution on June 20, 2023.