# Drexel Heights Fire District
# Public Safety Personnel Retirement System
# Pension Funding Policy

The intent of this policy is to clearly communicate the District Governing Board's funding objectives and its commitment to our employees and the sound financial management of the Drexel Heights Fire District and to comply with new statutory requirements of Arizona Revised Statutes 38-863.01.

Several terms are used throughout this policy:

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

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

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

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

The Drexel Heights Fire District's fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

## Public Safety Personnel Retirement System (PSPRS)

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

Under an agent multiple-employer plan each agency participating in the plan has an individual trust fund reflecting that agencies' assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The Drexel Heights Fire District has one trust fund for fire employees.

The District Governing Board formally accepts the assets, liabilities, and current funding ratio of the Drexel Heights Fire District's PSPRS trust funds from the June 30, 2024 actuarial valuation, which are detailed below.

| Trust Fund | Assets | Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio |
|---|---|---|---|---|
| Drexel Heights Fire District | | | | |
| Totals | 36,402,017 | 51,589,094 | $15,187,077 | 70.6 |

PSPRS Funding 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. Most funds in PSPRS are significantly underfunded and falling well short of the goal of intergenerational equity.

**The District Governing Board's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036.** District Governing Board established this goal for the following reasons:

- The PSPRS trust funds represent only the Drexel Heights Fire District's liability
- The fluctuating cost of an UAAL causes strain on the Drexel Heights Fire District's budget, affecting our ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

The District Governing Board plans to take the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – the District Governing Board is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY 25 is $1,753,448 and will be able to be paid from operating funds without diminishing Drexel Heights Fire District services.

Based on these actions the District Governing Board plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2024 Actuarial Valuation.