

**ARIZONA PUBLIC SAFETY PERSONNEL
RETIREMENT SYSTEM**

BLUE RIDGE FIRE DISTRICT (262)

ACTUARIAL VALUATION
AS OF JUNE 30, 2023

CONTRIBUTIONS APPLICABLE TO THE
PLAN/FISCAL YEAR ENDING JUNE 30, 2025



FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

December 2023

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

Re: Actuarial Valuation Report as of June 30, 2023 for Blue Ridge Fire District (262)

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, 2023 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.

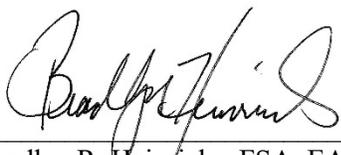
The undersigned are familiar with the immediate and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All sections of this report are considered an integral part of the actuarial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

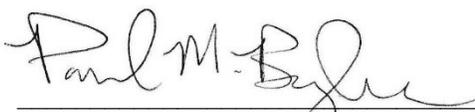
By: 
Paul M. Baugher, FSA, EA, MAAA

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I. SUMMARY OF REPORT

The regular annual actuarial valuation of the Arizona Public Safety Personnel Retirement System for the Blue Ridge Fire District, performed as of June 30, 2023, 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, 2024. This information is contained in the section entitled “Contribution Results.”

1. Key Valuation Results

The funded status as of June 30, 2023 and the employer contribution amounts applicable to the plan/fiscal year ending June 30, 2025 are as follows:

| | Tier 1 & Tier 2 Members | | | Tier 3 Members * | | |
|----------------------------|-------------------------|--------|--------|------------------|--------|--------|
| | Pension | Health | Total | Pension | Health | Total |
| Employer Contribution Rate | 21.86% | 0.62% | 22.48% | 8.63% | 0.12% | 8.75% |
| Funded Status | 68.5% | 59.9% | 68.4% | 107.3% | 212.5% | 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, 2022):

Contribution Rate

| Valuation Date | Tier 1 & Tier 2 Members | | | Tier 3 Members * | | |
|----------------|-------------------------|--------|--------|------------------|--------|-------|
| | Pension | Health | Total | Pension | Health | Total |
| June 30, 2022 | 36.40% | 0.69% | 37.09% | 8.69% | 0.12% | 8.81% |
| June 30, 2023 | 21.86% | 0.62% | 22.48% | 8.63% | 0.12% | 8.75% |

Funded Status

| Valuation Date | Tier 1 & Tier 2 Members | | | Tier 3 Members | | |
|----------------|-------------------------|--------|-------|----------------|--------|--------|
| | Pension | Health | Total | Pension | Health | Total |
| June 30, 2022 | 42.7% | 53.0% | 42.9% | 110.5% | 212.1% | 112.1% |
| June 30, 2023 | 68.5% | 59.9% | 68.4% | 107.3% | 212.5% | 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 | 36.40% | 0.69% | 8.69% | 0.12% |
| Asset Experience | 0.06% | 0.00% | (0.02%) | 0.00% |
| Payroll Base | (9.24%) | (0.09%) | 0.00% | 0.00% |
| Liability Experience | 0.07% | 0.01% | (0.16%) | 0.00% |
| Additional Contribution | (6.01%) | 0.00% | 0.00% | 0.00% |
| Assumption/Method Change | 0.00% | 0.00% | 0.00% | 0.00% |
| Actuarial Audit | 0.63% | 0.00% | 0.33% | 0.00% |
| Other | <u>(0.05%)</u> | <u>0.01%</u> | <u>(0.21%)</u> | <u>0.00%</u> |
| Contribution Rate This Valuation | 21.86% | 0.62% | 8.63% | 0.12% |

| | Funded Status | | | |
|------------------------------|-----------------|-------------|----------------|---------------|
| | Tier 1 & Tier 2 | | Tier 3 Members | |
| | Pension | Health | Pension | Health |
| Funded Status Last Valuation | 42.7% | 53.0% | 110.5% | 212.1% |
| Asset Experience | (0.2%) | 0.0% | 0.3% | 1.1% |
| Liability Experience | (0.2%) | (1.0%) | 2.5% | 7.2% |
| Additional Contribution | 20.1% | 0.0% | 0.0% | 0.0% |
| Assumption/Method Change | 0.0% | 0.0% | 0.0% | 0.0% |
| Actuarial Audit | (1.1%) | (0.2%) | (1.6%) | (0.7%) |
| Other | <u>7.2%</u> | <u>8.1%</u> | <u>(4.4%)</u> | <u>(7.2%)</u> |
| Funded Status This Valuation | 68.5% | 59.9% | 107.3% | 212.5% |

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, 2023 was 7.7% for Tiers 1 and 2 and 9.2% for Tier 3. On a smoothed, actuarial value of assets basis, however, the average return was 6.9% for Tiers 1 and 2 and 7.3% for Tier 3. These returns nearly met the 2022 assumed earnings rate for Tiers 1 and 2 of 7.2% and exceeded the 2022 assumed earnings rate 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.

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 Board continued the decrease in the payroll growth assumption from 2.50% to 2.00%.

Audit Adjustment – An independent actuarial audit was performed during 2023, with recommendations made in a detailed report. Following discussions with staff, several changes (both numeric and written) were made as part of this valuation to improve the report going forward. The most notable change was prorating the COLA benefit in the first year of retirement.

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 inactive. This also includes the change due to HB2088, which removes the “maintenance of effort” adjustment to the unfunded liability amortization. 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 loss realized this year will, in the absence of other gains, put upward pressure on the contribution rate next year.

If the June 30, 2023 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 67.3% (instead of 68.5%) and the pension employer contribution requirement would be 22.23% of payroll (instead of 21.86%).

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, 2023 | | June 30, 2022 | |
| Applicable to Fiscal Year Ending | 2025 | | 2024 | |
| | Rate | Dollar | Rate | Dollar |
| Pension | | | | |
| Normal Cost | | | | |
| Total Normal Cost | 19.02% | \$ 43,600 | 18.92% | \$ 41,737 |
| Employee Cost | <u>(7.65%)</u> | <u>(17,536)</u> | <u>(7.65%)</u> | <u>(16,876)</u> |
| Employer (Net) Normal Cost | 11.37% | 26,064 | 11.27% | 24,861 |
| Amortization of Unfunded Liability | <u>10.49%</u> | <u>24,046</u> | <u>25.13%</u> | <u>55,436</u> |
| Total Employer Cost (Pension) | 21.86% | 50,110 | 36.40% | 80,297 |
| Health | | | | |
| Normal Cost | 0.45% | 1,032 | 0.44% | 971 |
| Amortization of Unfunded Liability | <u>0.17%</u> | <u>390</u> | <u>0.25%</u> | <u>551</u> |
| Total Employer Cost (Health) | 0.62% | 1,422 | 0.69% | 1,522 |
| Total Employer Cost (Pension + Health) | 22.48% | 51,532 | 37.09% | 81,819 |
| Alternate Contribution Rate (ACR) * | 10.66% | | 25.38% | |
| Underlying Payroll (as of valuation date) | | 224,735 | | 215,218 |

* 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 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, 2023 | June 30, 2022 |
| Applicable to Fiscal Year Ending | 2025 | 2024 |

Defined Benefit (DB) Retirement Plan

| | Rate | Dollar | Rate | Dollar |
|--|---------------|---------------|---------------|----------|
| Pension | | | | |
| Total Normal Cost | 17.25% | \$ 10,125 | 17.37% | \$ 0 |
| Amortization of Unfunded Liability | <u>0.00%</u> | <u>0</u> | <u>0.00%</u> | <u>0</u> |
| Total Pension Cost | 17.25% | 10,125 | 17.37% | 0 |
| Employee (EE) Pension Cost | 8.63% | 5,063 | 8.69% | 0 |
| Employer (ER) Pension Cost | 8.63% | 5,063 | 8.69% | 0 |
| Health | | | | |
| Total Normal Cost | 0.23% | 135 | 0.24% | 0 |
| Amortization of Unfunded Liability | <u>0.00%</u> | <u>0</u> | <u>0.00%</u> | <u>0</u> |
| Total Health Cost | 0.23% | 135 | 0.24% | 0 |
| Employee (EE) Health Cost | 0.12% | 68 | 0.12% | 0 |
| Employer (ER) Health Cost | 0.12% | 68 | 0.12% | 0 |
| Total | | | | |
| Total Calculated Tier 3 Required EE/ER Individual Cost | 8.75% | 5,131 | 8.81% | 0 |
| Funding Policy Tier 3 Required EE/ER Individual Cost ¹ | 8.89% | 5,218 | 9.56% | 0 |
| ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities ² | 10.66% | 6,257 | 25.38% | 0 |
| Total Funding Policy Tier 3 Required ER Defined Benefit Cost | 19.55% | 11,475 | 34.94% | 0 |
| Underlying Payroll (as of valuation date) | | 57,545 | | 0 |

¹ The “Funding Policy” cost was adopted in 2023 and first reflected in the June 30, 2023 valuation.

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

Development of Employer Contributions – Tier 3 Members

| | | |
|----------------------------------|---------------|---------------|
| Valuation Date | June 30, 2023 | June 30, 2022 |
| Applicable to Fiscal Year Ending | 2025 | 2024 |

Defined Contribution (DC) Retirement Plan

| | Rate | Dollar | Rate | Dollar |
|--|---------------|---------------|---------------|----------|
| Tier 2 & 3 DB / Non-Social Security | | | | |
| Employee Cost | 3.00% | | 3.00% | |
| Employer Cost ¹ | 3.00% | | 3.00% | |
| Tier 3 DC Only | | | | |
| Employee Cost | 9.00% | \$ 5,673 | 9.00% | \$ 0 |
| Employee Health Subsidy Program Cost | 0.23% | 145 | 0.17% | 0 |
| Employee Disability Program Cost | <u>1.50%</u> | <u>946</u> | <u>1.43%</u> | <u>0</u> |
| Total Employee Cost | 10.73% | 6,764 | 10.60% | 0 |
| Employer Cost | 9.00% | 5,673 | 9.00% | 0 |
| Employer Health Subsidy Program Cost | 0.23% | 145 | 0.17% | 0 |
| Employer Disability Program Cost | <u>1.50%</u> | <u>946</u> | <u>1.43%</u> | <u>0</u> |
| Total Employer Cost (before Legacy) | 10.73% | 6,764 | 10.60% | 0 |
| ER Legacy Cost of Tiers 1 & 2 Amort of Unfunded Liabilities ² | 10.66% | 6,720 | 25.38% | 0 |
| Total Employer Cost | 21.39% | 13,484 | 35.98% | 0 |
| Underlying Payroll (as of valuation date) | | 61,801 | | 0 |

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

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

Contribution Rate Summary

| | Tier 1 | | Tier 2 | | Tier 3 | | |
|--|----------|---------|----------|---------|----------|---------|-----|
| Membership Date On or After | 7/1/1968 | | 1/1/2012 | | 7/1/2017 | | |
| Participates in Social Security | N/A | | Yes | No | Yes | No | N/A |
| Available Retirement Plan ¹ | DB Only | DB Only | Hybrid | DB Only | Hybrid | DC Only | |
| Employee Contribution Rate | | | | | | | |
| PSPRS DB Rate | 7.65% | 7.65% | 7.65% | 8.89% | 8.89% | | |
| PSPRS DC Rate | | | 3.00% | | 3.00% | 9.00% | |
| Employer Health Subsidy Program Cost | | | | | | 0.23% | |
| PSPDCRP Disability Program Rate | | | | | | 1.50% | |
| Total EE Contribution Rate | 7.65% | 7.65% | 10.65% | 8.89% | 11.89% | 10.73% | |
| Employer Contribution Rate | | | | | | | |
| PSPRS DB Normal Cost | 11.82% | 11.82% | 11.82% | 8.89% | 8.89% | | |
| PSPRS DB Tier 1 & 2 Legacy Cost ² | 10.66% | 10.66% | 10.66% | 10.66% | 10.66% | 10.66% | |
| PSPRS DC Rate ³ | | | 4.00% | | 3.00% | 9.00% | |
| Employer Health Subsidy Program Cost | | | | | | 0.23% | |
| PSPDCRP Disability Program Rate | | | | | | 1.50% | |
| Total ER Contribution Rate | 22.48% | 22.48% | 26.48% | 19.55% | 22.55% | 21.39% | |

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

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

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

Exhibit summarizes employee and employer contributions based on Statute and the results of June 30, 2023 actuarial valuation. Pension and health components are combined, where applicable.

Impact of Additional Contributions

| | Additional Contribution (000s) | | | | | | | | | | | |
|-------------------------------|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--|
| | \$0 | \$10 | \$20 | \$30 | \$40 | \$50 | \$60 | \$70 | \$80 | \$90 | \$100 | |
| Impact On | | | | | | | | | | | | |
| Funded Status - June 30, 2023 | 68.5% | 69.5% | 70.5% | 71.5% | 72.5% | 73.5% | 74.5% | 75.5% | 76.5% | 77.5% | 78.5% | |
| FYE 2025 Contribution Rate | 21.86% | 21.56% | 21.27% | 20.97% | 20.68% | 20.38% | 20.09% | 19.79% | 19.50% | 19.20% | 18.90% | |

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2023 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2023. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

Historical Summary of Employer Rates

| | Valuation Date June 30 | Fiscal Year Ending June 30 | Pension | | | Health | | |
|----------------------------|---------------------------|-------------------------------|-------------|--------------------------|--------|-------------|--------------------------|-------|
| | | | Normal Cost | Unfunded Amortization | Total | Normal Cost | Unfunded Amortization | Total |
| TIERS 1 & 2 | 2019 | 2021 | 10.13% | 2.97% | 13.10% | 0.67% | 0.30% | 0.97% |
| | 2020 | 2022 | 10.56% | 6.53% | 17.09% | 0.47% | 0.18% | 0.65% |
| | 2021 | 2023 | 11.05% | 25.21% | 36.26% | 0.51% | 0.22% | 0.73% |
| | 2022 | 2024 | 11.27% | 25.13% | 36.40% | 0.44% | 0.25% | 0.69% |
| | 2023 | 2025 | 11.37% | 10.49% | 21.86% | 0.45% | 0.17% | 0.62% |
| TIER 3 ¹ | 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 ² | 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% |
| | 2022 ² | 2024 | 8.69% | 0.00% | 8.69% | 0.12% | 0.00% | 0.12% |
| | 2022 | 2024 | 9.30% | 0.00% | 9.30% | 0.26% | 0.00% | 0.26% |
| | 2023 ² | 2025 | 8.63% | 0.00% | 8.63% | 0.12% | 0.00% | 0.12% |
| 2023 | 2025 | 8.77% | 0.00% | 8.77% | 0.12% | 0.00% | 0.12% | |

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

² Rates shown are calculated EE/ER rates

III. LIABILITY SUPPORT

Liabilities and Funded Ratios by Benefit - Tiers 1 & 2

| | June 30, 2023 | June 30, 2022 |
|---|------------------|------------------|
| Pension | | |
| Actuarial Present Value of Benefits (PVB) | | |
| Retirees and Beneficiaries | \$ 353,643 | \$ 345,969 |
| DROP Members | 0 | 0 |
| Vested Members | 8,248 | 6,758 |
| Active Members | <u>1,100,135</u> | <u>1,003,093</u> |
| Total Actuarial Present Value of Benefits | 1,462,026 | 1,355,820 |
| Actuarial Accrued Liability (AAL) | | |
| All Inactive Members | 361,891 | 352,727 |
| Active Members | <u>634,763</u> | <u>541,994</u> |
| Total Actuarial Accrued Liability | 996,654 | 894,721 |
| Actuarial Value of Assets (AVA) | 682,722 | 382,201 |
| Unfunded Actuarial Accrued Liability | 313,932 | 512,520 |
| PVB Funded Ratio (AVA / PVB) | 46.7% | 28.2% |
| AAL Funded Ratio (AVA / AAL) | 68.5% | 42.7% |
| Health | | |
| Actuarial Present Value of Benefits (PVB) | | |
| Retirees and Beneficiaries | \$ 0 | \$ 0 |
| DROP Members | 0 | 0 |
| Active Members | <u>23,353</u> | <u>21,220</u> |
| Total Present Value of Benefits | 23,353 | 21,220 |
| Actuarial Accrued Liability (AAL) | | |
| All Inactive Members | 0 | 0 |
| Active Members | <u>14,884</u> | <u>12,663</u> |
| Total Actuarial Accrued Liability | 14,884 | 12,663 |
| Actuarial Value of Assets (AVA) | 8,921 | 6,717 |
| Unfunded Actuarial Accrued Liability | 5,963 | 5,946 |
| PVB Funded Ratio (AVA / PVB) | 38.2% | 31.7% |
| AAL Funded Ratio (AVA / AAL) | 59.9% | 53.0% |

Pension and health liabilities were not impacted under the lateral transfer methodology.

Liabilities and Funded Ratios by Benefit - Tier 3

| | June 30, 2023 | June 30, 2022 |
|---|--------------------|--------------------|
| Pension | | |
| Actuarial Present Value of Benefits (PVB) | | |
| Retirees and Beneficiaries | \$ 2,783,769 | \$ 944,111 |
| Vested Members | 6,565,608 | 3,654,003 |
| Active Members | <u>558,509,014</u> | <u>403,144,180</u> |
| Total Actuarial Present Value of Benefits | 567,858,391 | 407,742,294 |
| Actuarial Accrued Liability (AAL) | | |
| All Inactive Members | 9,349,377 | 4,598,114 |
| Active Members | <u>101,611,814</u> | <u>64,341,090</u> |
| Total Actuarial Accrued Liability | 110,961,191 | 68,939,204 |
| Actuarial Value of Assets (AVA) | 119,101,476 | 76,171,857 |
| Unfunded Actuarial Accrued Liability | (8,140,285) | (7,232,653) |
| PVB Funded Ratio (AVA / PVB) | 21.0% | 18.7% |
| AAL Funded Ratio (AVA / AAL) | 107.3% | 110.5% |
| Health | | |
| Actuarial Present Value of Benefits (PVB) | | |
| Retirees and Beneficiaries | 0 | 0 |
| Active Members | <u>7,842,159</u> | <u>5,807,514</u> |
| Total Present Value of Benefits | 7,842,159 | 5,807,514 |
| Actuarial Accrued Liability (AAL) | | |
| All Inactive Members | 0 | 0 |
| Active Members | <u>1,651,466</u> | <u>1,075,733</u> |
| Total Actuarial Accrued Liability | 1,651,466 | 1,075,733 |
| Actuarial Value of Assets (AVA) | 3,508,666 | 2,281,928 |
| Unfunded Actuarial Accrued Liability | (1,857,200) | (1,206,195) |
| PVB Funded Ratio (AVA / PVB) | 44.7% | 39.3% |
| AAL Funded Ratio (AVA / AAL) | 212.5% | 212.1% |

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 Blue Ridge Fire District 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, 2022 | 512,520 | 5,946 | (7,232,653) | (1,206,195) |
| (2) Normal Cost Developed in Last Valuation | 24,861 | 971 | 14,710,461 | 203,136 |
| (3) Actual Contributions | 288,693 | 1,710 | 18,581,041 | 1,010,859 |
| (4) Expected Interest On (1), (2), and (3) | 28,479 | 438 | (118,890) | (107,979) |
| (5) Expected Unfunded Actuarial Accrued Liability as of June 30, 2023 (1)+(2)-(3)+(4) | 277,167 | 5,645 | (11,222,123) | (2,121,897) |
| (6) Changes to UAAL Due to Assumptions, Methods and Benefits | 0 | 0 | 0 | 0 |
| (7) Change to UAAL Due to Actuarial (Gain)/Loss | <u>36,765</u> | <u>318</u> | <u>3,081,838</u> | <u>264,697</u> |
| (8) Unfunded Actuarial Accrued Liability as of June 30, 2023 | 313,932 | 5,963 | (8,140,285) | (1,857,200) |

Amortization of Unfunded Liabilities - Tiers 1 & 2

| | Date Established | Outstanding Balance | Years Remaining | Amortization Rate |
|----------------|------------------|---------------------|-----------------|-------------------|
| Pension | 6/30/2019 | 0 | 13 | 0.00% |
| | 6/30/2021 | 356,393 | 13 | 11.69% |
| | 6/30/2022 | 63,947 | 14 | 2.01% |
| | 6/30/2023 | <u>(106,408)</u> | 15 | <u>(3.21%)</u> |
| | Total | 313,932 | | 10.49% |
| Health | 6/30/2019 | 7,117 | 13 | 0.21% |
| | 6/30/2021 | (2,355) | 13 | (0.08%) |
| | 6/30/2022 | 863 | 14 | 0.03% |
| | 6/30/2023 | <u>338</u> | 15 | <u>0.01%</u> |
| | Total | 5,963 | | 0.17% |

Amortization of Unfunded Liabilities - Tier 3

| | Date Established | Outstanding Balance | Years Remaining | Amortization Rate * |
|----------------|------------------|---------------------|-----------------|---------------------|
| Pension | 6/30/2018 | 114,634 | 5 | 0.01% |
| | 6/30/2019 | (1,038,772) | 6 | (0.09%) |
| | 6/30/2020 | 707,518 | 7 | 0.05% |
| | 6/30/2021 | (2,409,872) | 8 | (0.17%) |
| | 6/30/2022 | (4,031,414) | 9 | (0.26%) |
| | 6/30/2023 | <u>(1,482,379)</u> | 10 | <u>(0.09%)</u> |
| | Total | (8,140,285) | | 0.00% |
| Health | 6/30/2018 | (2,431) | 5 | 0.00% |
| | 6/30/2019 | (94,973) | 6 | (0.01%) |
| | 6/30/2020 | (179,674) | 7 | (0.01%) |
| | 6/30/2021 | (348,185) | 8 | (0.02%) |
| | 6/30/2022 | (479,588) | 9 | (0.03%) |
| | 6/30/2023 | <u>(752,349)</u> | 10 | <u>(0.04%)</u> |
| | Total | (1,857,200) | | 0.00% |

* By Statute, negative total 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, 2023 Market Value Basis

| | Tiers 1 & 2 | | Tier 3 | |
|-----------------------------------|---------------------|------------------|------------------|------------------|
| | Pension | Health | Pension | Health |
| Additions | | | | |
| Contributions | | | | |
| Member Contributions | \$ 117,410,792 | \$ 0 | \$ 40,441,215 | \$ 0 |
| Employer Contributions | 1,211,172,334 | 0 | 40,447,269 | 0 |
| Health Insurance Contributions | <u>0</u> | <u>3,595,544</u> | <u>0</u> | <u>1,975,775</u> |
| Total Contributions | 1,328,583,126 | 3,595,544 | 80,888,484 | 1,975,775 |
| Investment Income | | | | |
| Net Increase in Fair Value | 723,642,201 | 19,640,174 | 13,157,112 | 371,761 |
| Interest and Dividends | 205,449,236 | 5,576,041 | 3,735,435 | 105,547 |
| Other Income | 126,441,141 | 3,435,000 | 2,298,928 | 65,020 |
| Less Investment Expenses | <u>(29,675,754)</u> | <u>(668,527)</u> | <u>(539,558)</u> | <u>(12,654)</u> |
| Net Investment Income | 1,025,856,824 | 27,982,688 | 18,651,917 | 529,674 |
| Non-investment Income | 32,684 | 0 | 594 | 0 |
| Transfers In | 66,736 | 0 | 40,465 | 0 |
| Total Additions | 2,354,539,370 | 31,578,232 | 99,581,460 | 2,505,449 |
| Deductions | | | | |
| Distributions to Members | | | | |
| Benefit Payments | 1,067,901,240 | 0 | 382,013 | 0 |
| Health Insurance Subsidy | 0 | 17,880,074 | 0 | 1,800 |
| Refund of Contributions | <u>12,146,940</u> | <u>0</u> | <u>1,476,602</u> | <u>0</u> |
| Total Distributions | 1,080,048,180 | 17,880,074 | 1,858,615 | 1,800 |
| Administrative Expenses | 6,611,492 | 206,872 | 120,063 | 3,916 |
| Transfers Out | 433,659 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Total Deductions | 1,087,093,331 | 18,086,946 | 1,978,678 | 5,716 |
| Net Increase / (Decrease) | 1,267,446,039 | 13,491,286 | 97,602,782 | 2,499,733 |
| Net Position Held in Trust | | | | |
| Prior Valuation | 13,042,796,696 | 374,026,053 | 162,622,481 | 4,835,416 |
| Beginning of the Year Adjustment | 0 | 0 | 0 | 0 |
| End of the Year | 14,310,242,735 | 387,517,339 | 260,225,263 | 7,335,149 |

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

A. Investment Income

| | |
|---|------------------|
| A1. Actual Investment Income | \$ 1,019,245,332 |
| A2. Expected Amount for Immediate Recognition | 947,861,295 |
| A3. Amount Subject to Amortization | 71,384,037 |

| B. Amortization Schedule | Year Ended June 30 | | | | | | |
|---------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|----------------------|-------------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| 2023 Experience (A3 / 7) | 10,197,720 | 10,197,720 | 10,197,720 | 10,197,720 | 10,197,720 | 10,197,720 | 10,197,717 |
| 2022 Experience | (204,451,249) | (204,451,249) | (204,451,249) | (204,451,249) | (204,451,249) | (204,451,249) | |
| 2021 Experience | 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) | (68,882,160) | | | |
| 2019 Experience | (22,859,275) | (22,859,275) | (22,859,275) | | | | |
| 2018 Experience | (6,266,349) | (6,266,351) | | | | | |
| 2017 Experience | 33,380,148 | | | | | | |
| Total Amortization | (19,902,419) | (53,282,569) | (47,016,218) | (24,156,945) | 44,725,216 | (194,253,529) | 10,197,717 |

| C. Actuarial Value of Assets | Total | Employer |
|--|----------------|----------|
| C1. Actuarial Value of Assets, June 30, 2022 | 13,397,869,480 | |
| C2. Non-investment Net Cash Flow | 248,200,707 | |
| C3. Preliminary Actuarial Value of Assets, June 30, 2023 (A2 + B + C1 + C2) | 14,574,029,063 | |
| C4. Market Value of Assets, June 30, 2023 | 14,310,242,735 | 670,365 |
| C5. Final Actuarial Value of Assets, June 30, 2023 (C3 Within 20% Corridor of C4) | 14,574,029,063 | 682,722 |

D. Rates of Return

| | |
|------------------------------------|------|
| D1. Market Value Rate of Return | 7.7% |
| D2. Actuarial Value Rate of Return | 6.9% |

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

A. Investment Income

| | |
|---|---------------|
| A1. Actual Investment Income | \$ 27,775,816 |
| A2. Expected Amount for Immediate Recognition | 26,424,570 |
| A3. Amount Subject to Amortization | 1,351,246 |

| B. Amortization Schedule | Year Ended June 30 | | | | | | |
|---------------------------|--------------------|--------------------|------------------|----------------|------------------|--------------------|----------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| 2023 Experience (A3 / 7) | 193,035 | 193,035 | 193,035 | 193,035 | 193,035 | 193,035 | 193,036 |
| 2022 Experience | (6,416,469) | (6,416,469) | (6,416,469) | (6,416,469) | (6,416,469) | (6,416,471) | |
| 2021 Experience | 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) | (2,898,716) | | | |
| 2019 Experience | (1,075,569) | (1,075,569) | (1,075,572) | | | | |
| 2018 Experience | (304,653) | (304,656) | | | | | |
| 2017 Experience | 1,532,136 | | | | | | |
| Total Amortization | 287,245 | (1,244,894) | (940,241) | 135,328 | 3,034,047 | (6,223,436) | 193,036 |

| C. Actuarial Value of Assets | Total | Employer |
|--|--------------|----------|
| C1. Actuarial Value of Assets, June 30, 2022 | 380,136,214 | |
| C2. Non-investment Net Cash Flow | (14,284,530) | |
| C3. Preliminary Actuarial Value of Assets, June 30, 2023 (A2 + B + C1 + C2) | 392,563,499 | |
| C4. Market Value of Assets, June 30, 2023 | 387,517,339 | 8,806 |
| C5. Final Actuarial Value of Assets, June 30, 2023 (C3 Within 20% Corridor of C4) | 392,563,499 | 8,921 |

D. Rates of Return

| | |
|------------------------------------|------|
| D1. Market Value Rate of Return | 7.6% |
| D2. Actuarial Value Rate of Return | 7.2% |

Development of Pension Actuarial Value of Assets - Tiers 3

A. Investment Income

| | |
|---|---------------|
| A1. Actual Investment Income | \$ 18,531,854 |
| A2. Expected Amount for Immediate Recognition | 14,104,250 |
| A3. Amount Subject to Amortization | 4,427,604 |

| B. Amortization Schedule | Year Ended June 30 | | | | |
|---------------------------|--------------------|----------------|------------------|--------------------|----------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| 2023 Experience (A3 / 5) | 885,521 | 885,521 | 885,521 | 885,521 | 885,520 |
| 2022 Experience | (3,259,379) | (3,259,379) | (3,259,379) | (3,259,381) | |
| 2021 Experience | 3,551,936 | 3,551,936 | 3,551,938 | | |
| 2020 Experience | (351,296) | (351,294) | | | |
| 2019 Experience | 44,437 | | | | |
| Total Amortization | 871,219 | 826,784 | 1,178,080 | (2,373,860) | 885,520 |

| C. Actuarial Value of Assets | Total | Employer |
|--|-------------|-------------|
| C1. Actuarial Value of Assets, June 30, 2022 | 165,662,342 | |
| C2. Non-investment Net Cash Flow | 79,070,928 | |
| C3. Preliminary Actuarial Value of Assets, June 30, 2023 (A2 + B + C1 + C2) | 259,708,739 | |
| C4. Market Value of Assets, June 30, 2023 | 260,225,263 | 119,338,352 |
| C5. Final Actuarial Value of Assets, June 30, 2023 (C3 Within 20% Corridor of C4) | 259,708,739 | 119,101,476 |

D. Rates of Return

| | |
|------------------------------------|------|
| D1. Market Value Rate of Return | 9.2% |
| D2. Actuarial Value Rate of Return | 7.3% |

Development of Health Actuarial Value of Assets - Tiers 3

A. Investment Income

| | |
|---|------------|
| A1. Actual Investment Income | \$ 525,758 |
| A2. Expected Amount for Immediate Recognition | 406,400 |
| A3. Amount Subject to Amortization | 119,358 |

| B. Amortization Schedule | Year Ended June 30 | | | | |
|---------------------------|--------------------|---------------|---------------|-----------------|---------------|
| | 2023 | 2024 | 2025 | 2026 | 2027 |
| 2023 Experience (A3 / 5) | 23,872 | 23,872 | 23,872 | 23,872 | 23,870 |
| 2022 Experience | (101,792) | (101,792) | (101,792) | (101,790) | |
| 2021 Experience | 128,963 | 128,963 | 128,961 | | |
| 2020 Experience | (10,555) | (10,557) | | | |
| 2019 Experience | 1,508 | | | | |
| Total Amortization | 41,996 | 40,486 | 51,041 | (77,918) | 23,870 |

| C. Actuarial Value of Assets | Total | Employer |
|--|-----------|-----------|
| C1. Actuarial Value of Assets, June 30, 2022 | 4,875,299 | |
| C2. Non-investment Net Cash Flow | 1,973,975 | |
| C3. Preliminary Actuarial Value of Assets, June 30, 2023 (A2 + B + C1 + C2) | 7,297,670 | |
| C4. Market Value of Assets, June 30, 2023 | 7,335,149 | 3,526,686 |
| C5. Final Actuarial Value of Assets, June 30, 2023 (C3 Within 20% Corridor of C4) | 7,297,670 | 3,508,666 |

D. Rates of Return

| | |
|------------------------------------|------|
| D1. Market Value Rate of Return | 9.0% |
| D2. Actuarial Value Rate of Return | 7.6% |

V. MEMBER STATISTICS

Valuation Data Summary

| | June 30, 2023 | | June 30, 2022 | |
|-------------------------------------|---------------|----------|---------------|----------|
| | Tiers 1 & 2 | Tier 3 | Tiers 1 & 2 | Tier 3 |
| Actives | | | | |
| Number | 3 | 1 | 3 | 0 |
| Average Current Age | 41.5 | 33.9 | 40.5 | N/A |
| Average Age at Employment | 30.9 | 33.3 | 30.9 | N/A |
| Average Past Service | 10.6 | 0.6 | 9.6 | N/A |
| Average Annual Salary | \$71,382 | \$54,545 | \$68,108 | N/A |
| Actives (transferred) | | | | |
| Number | 0 | 0 | 0 | 0 |
| Average Current Age | N/A | N/A | N/A | N/A |
| Average Age at Employment | N/A | N/A | N/A | N/A |
| Average Past Service | N/A | N/A | N/A | N/A |
| Average Annual Salary | N/A | N/A | N/A | N/A |
| Retirees | | | | |
| Number | 0 | 0 | 0 | 0 |
| Average Current Age | N/A | N/A | N/A | N/A |
| Average Annual Benefit | N/A | N/A | N/A | N/A |
| Drop Retirees | | | | |
| Number | 0 | N/A | 0 | N/A |
| Average Current Age | N/A | N/A | N/A | N/A |
| Average Annual Benefit | N/A | N/A | N/A | N/A |
| Beneficiaries | | | | |
| Number | 0 | 0 | 0 | 0 |
| Average Current Age | N/A | N/A | N/A | N/A |
| Average Annual Benefit | N/A | N/A | N/A | N/A |
| Disability Retirees | | | | |
| Number | 1 | 0 | 1 | 0 |
| Average Current Age | 66.5 | N/A | 65.5 | N/A |
| Average Annual Benefit | \$23,157 | N/A | \$22,703 | N/A |
| Inactive / Vested | | | | |
| Number | 0 | 0 | 0 | 0 |
| Average Current Age | N/A | N/A | N/A | N/A |
| Average Accumulated Contributions | N/A | N/A | N/A | N/A |
| Total Number | 4 | 1 | 4 | 0 |
| Former Members (transferred) | 1 | 0 | 1 | 0 |

Active Counts and Pay Summary - 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 - 29 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 - 34 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 68,117 | 68,117 |
| 35 - 39 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 - 44 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 91,284 | 91,284 |
| 45 - 49 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 - 54 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 54,745 | 54,745 |
| 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 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 3 | 214,146 | 71,382 |

Active Counts and Pay Summary - Tier 3

| 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 - 29 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 - 34 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 54,545 | 54,545 |
| 35 - 39 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 - 44 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 45 - 49 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 - 54 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55 - 59 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 60 - 64 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65+ | <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 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 54,545 | 54,545 |

In-Payment Counts and Benefit Summary – All Tiers

| Age | Count | Average Annual Benefit |
|---------|-------|------------------------|
| < 40 | 0 | 0 |
| 40 - 44 | 0 | 0 |
| 45 - 49 | 0 | 0 |
| 50 - 54 | 0 | 0 |
| 55 - 59 | 0 | 0 |
| 60 - 64 | 0 | 0 |
| 65 - 69 | 1 | 23,157 |
| 70 - 74 | 0 | 0 |
| 75 - 79 | 0 | 0 |
| 80 - 84 | 0 | 0 |
| 85 - 89 | 0 | 0 |
| 90 - 94 | 0 | 0 |
| 95 - 99 | 0 | 0 |
| 100+ | 0 | 0 |
| Total | 1 | 23,157 |

“In-Payment” refers to retired, beneficiary, and disabled members.

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:

7.20% per year.

Tier 3:

7.00% per year.

Salary Increases

See table at the end of this section. This is an annual increase for individual member's salary. These rates are based on a 2022 experience study using actual plan experience.

Inflation

2.50%.

Tier 3 Compensation Limit

\$115,868 for calendar 2023. Assumed increases of 2.00% per year thereafter.

Cost-of-Living Adjustment

1.85%.

Mortality Rates

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

Active Lives:

PubS-2010 Employee mortality, adjusted by a factor of 1.03 for male members and 1.08 for female members, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021). 100% of active deaths are assumed to be in the line of duty.

Inactive Lives:

PubS-2010 Healthy Retiree mortality, adjusted by a factor of 1.03 for male retirees and 1.11 for female retirees, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

Beneficiaries:

PubS-2010 Survivor mortality, adjusted by a factor of 0.98 for male beneficiaries and adjusted by a factor of 1.06 for female beneficiaries, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

Disabled Lives:

PubS-2010 Disabled mortality, adjusted by a factor of 1.08 for male disabled members and 1.01 for female disabled members, with generational improvements using 85% of the most recent projection scale (currently Scale MP-2021).

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 2022 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:

Police - 40% assumed at age 62 and 63, 35% assumed at age 64, 25% assumed at ages 65 and 66, 50% assumed at ages 67 – 69, and 100% assumed at age 70.

Fire - 25% assumed at age 62 and 63, 35% assumed at age 64, 25% assumed at ages 65 and 66, 50% assumed at ages 67 – 69, and 100% assumed at age 70.

Tier 1 – reaching age 62 after attaining 20 years of service:

Service-related rates based on service at retirement. See complete tables at the end of this section.

65% are assumed to enter the DROP program while the remaining 35% are assumed to retire and commence benefits immediately. DROP periods are assumed to be 5 years in length for future DROP elections.

Tiers 2 & 3:

Age-related rates based on age at retirement. 50% assumed at age 53, 30% assumed at ages 54 – 59, 60% assumed at ages 60 – 63, and 100% assumed at age 64.

Termination Rate

These rates are used to project future decrements from the active population due to termination. Complete table of rates based on service at termination are provided at the end of this section. The rates apply to members prior to retirement eligibility and are based on a 2022 experience study using actual plan experience.

Disability Rate

These rates are used to project future decrements from the active population due to disability. Complete table of rates based on age at disability are provided at the end of this section. These rates are based on a 2022 experience study using actual plan experience. 90% of disablements are assumed to be duty-related.

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

Male spouses are assumed to be four years older than female members and female spouses are assumed to be two years younger than males members.

Benefit Commencement

Deferred members are assumed to commence benefits as follows:

- Tier 1: immediate refund of contributions
- Tiers 2 & 3 (less than 15 years service): immediate refund of contributions
- Tier 2 (15+ years service): life annuity payable at age 52.5
- Tier 3 (15+ years service): life annuity payable at age 55

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.

Lateral Transfers

When active members transfer between employers, the new employer's liability starts from their new date of hire with no past service liability (i.e., all liability is accrued through normal cost). Per PSPRS administrative decision, once the new employer's liability is fully funded, the liability will reflect all past service liability.

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.

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

2.00% per year. This is annual increase for total employer payroll.

Changes to Actuarial Assumptions and Methods Since the Prior Valuation

The payroll growth assumption was lowered from 2.50% to 2.00%.

There were no method changes since the prior valuation.

Salary Increase Rates

| Age | Maricopa Police | Pima Police | Other Police | Maricopa Fire | Pima Fire | Other Fire |
|-----|--------------------|----------------|-----------------|------------------|--------------|---------------|
| 20 | 15.00% | 12.00% | 14.00% | 15.00% | 12.00% | 13.00% |
| 21 | 14.00% | 6.00% | 12.00% | 14.00% | 11.00% | 12.00% |
| 22 | 13.00% | 6.00% | 10.00% | 13.00% | 10.00% | 11.00% |
| 23 | 12.00% | 6.00% | 9.00% | 12.00% | 9.50% | 10.00% |
| 24 | 11.00% | 6.00% | 8.00% | 11.00% | 9.00% | 9.00% |
| 25 | 10.00% | 6.00% | 7.00% | 10.00% | 8.50% | 8.00% |
| 26 | 9.00% | 5.50% | 6.50% | 9.50% | 7.50% | 7.50% |
| 27 | 8.00% | 5.50% | 6.25% | 9.00% | 6.50% | 7.50% |
| 28 | 7.50% | 5.50% | 6.00% | 8.50% | 5.75% | 7.00% |
| 29 | 7.00% | 5.50% | 5.80% | 8.00% | 5.75% | 6.50% |
| 30 | 6.50% | 5.25% | 5.60% | 8.00% | 5.50% | 6.50% |
| 31 | 6.00% | 5.25% | 5.40% | 7.50% | 5.50% | 6.00% |
| 32 | 5.50% | 5.00% | 5.20% | 7.00% | 5.00% | 5.50% |
| 33 | 5.10% | 5.00% | 5.00% | 6.50% | 5.00% | 5.50% |
| 34 | 4.90% | 5.00% | 4.90% | 6.50% | 5.00% | 5.50% |
| 35 | 4.70% | 4.50% | 4.80% | 6.00% | 5.00% | 5.50% |
| 36 | 4.50% | 4.50% | 4.70% | 5.50% | 5.00% | 5.50% |
| 37 | 4.30% | 4.50% | 4.60% | 5.25% | 4.50% | 5.00% |
| 38 | 4.10% | 4.00% | 4.50% | 5.00% | 4.50% | 5.00% |
| 39 | 4.00% | 4.00% | 4.40% | 4.75% | 4.50% | 5.00% |
| 40 | 3.90% | 4.00% | 4.30% | 4.75% | 4.50% | 5.00% |
| 41 | 3.80% | 3.80% | 4.20% | 4.50% | 4.50% | 4.50% |
| 42 | 3.70% | 3.60% | 4.10% | 4.50% | 4.00% | 4.50% |
| 43 | 3.60% | 3.40% | 4.00% | 4.50% | 4.00% | 4.50% |
| 44 | 3.50% | 3.20% | 3.90% | 4.50% | 4.00% | 4.00% |
| 45 | 3.50% | 3.00% | 3.80% | 4.25% | 4.00% | 4.00% |
| 46 | 3.50% | 3.00% | 3.70% | 4.25% | 3.75% | 4.00% |
| 47 | 3.50% | 3.00% | 3.60% | 4.25% | 3.75% | 3.75% |
| 48 | 3.50% | 3.00% | 3.50% | 4.00% | 3.75% | 3.75% |
| 49 | 3.50% | 3.00% | 3.50% | 4.00% | 3.50% | 3.75% |
| 50 | 3.25% | 3.00% | 3.50% | 3.75% | 3.50% | 3.75% |
| 51 | 3.25% | 3.00% | 3.50% | 3.75% | 3.50% | 3.75% |
| 52 | 3.25% | 2.75% | 3.50% | 3.75% | 3.50% | 3.75% |
| 53+ | 3.25% | 2.75% | 3.50% | 3.75% | 3.25% | 3.75% |

Tier 1 Retirement Rates– reaching age 62 after attaining 20 years of service

| Service | Maricopa Police | Pima Police | Other Police | Maricopa Fire | Pima Fire | Other Fire |
|---------|--------------------|----------------|-----------------|------------------|--------------|---------------|
| 20 | 28% | 28% | 35% | 14% | 20% | 20% |
| 21 | 25% | 25% | 35% | 17% | 20% | 25% |
| 22 | 15% | 16% | 22% | 7% | 13% | 15% |
| 23 | 12% | 12% | 12% | 7% | 7% | 10% |
| 24 | 8% | 9% | 12% | 7% | 7% | 10% |
| 25 | 30% | 22% | 25% | 17% | 22% | 30% |
| 26 | 42% | 42% | 40% | 30% | 26% | 30% |
| 27 | 32% | 30% | 28% | 23% | 30% | 30% |
| 28 | 32% | 30% | 28% | 30% | 30% | 30% |
| 29 | 32% | 20% | 28% | 30% | 30% | 30% |
| 30 | 35% | 25% | 35% | 30% | 30% | 35% |
| 31 | 35% | 33% | 30% | 40% | 30% | 35% |
| 32 | 60% | 50% | 70% | 55% | 30% | 35% |
| 33 | 60% | 50% | 70% | 55% | 60% | 60% |
| 34+ | 100% | 100% | 100% | 100% | 100% | 100% |

Termination Rates

| Service | Maricopa Police | Pima Police | Other Police | Maricopa Fire | Pima Fire | Other Fire |
|---------|--------------------|----------------|-----------------|------------------|--------------|---------------|
| 0 | 13.0% | 14.0% | 13.5% | 4.5% | 10.0% | 10.5% |
| 1 | 8.0% | 9.0% | 11.5% | 3.5% | 6.0% | 8.5% |
| 2 | 6.0% | 7.5% | 10.5% | 2.5% | 4.5% | 8.0% |
| 3 | 4.5% | 7.0% | 9.5% | 2.0% | 4.0% | 8.0% |
| 4 | 3.6% | 6.5% | 9.0% | 1.5% | 4.0% | 7.0% |
| 5 | 3.3% | 5.0% | 8.0% | 1.5% | 4.0% | 5.0% |
| 6 | 3.3% | 5.0% | 7.0% | 1.5% | 4.0% | 5.0% |
| 7 | 3.3% | 4.0% | 6.5% | 1.5% | 3.0% | 4.0% |
| 8 | 2.4% | 4.0% | 6.5% | 1.5% | 3.0% | 4.0% |
| 9 | 2.4% | 4.0% | 6.0% | 1.5% | 3.0% | 3.5% |
| 10 | 2.4% | 4.0% | 5.0% | 1.0% | 2.0% | 3.0% |
| 11 | 1.8% | 3.0% | 4.0% | 1.0% | 2.0% | 2.5% |
| 12 | 1.8% | 3.0% | 4.0% | 1.0% | 1.5% | 2.0% |
| 13 | 1.3% | 2.0% | 3.5% | 1.0% | 1.0% | 1.5% |
| 14 | 1.3% | 2.0% | 3.0% | 0.5% | 1.0% | 1.4% |
| 15 | 0.8% | 1.5% | 2.5% | 0.5% | 1.0% | 1.4% |
| 16 | 0.8% | 1.5% | 2.0% | 0.5% | 0.5% | 1.4% |
| 17 | 0.8% | 1.0% | 2.0% | 0.5% | 0.5% | 1.4% |
| 18 | 0.8% | 1.0% | 1.8% | 0.5% | 0.5% | 1.4% |
| 19 | 0.8% | 1.0% | 1.8% | 0.5% | 0.5% | 0.5% |
| 20+ | 0.5% | 1.0% | 1.8% | 0.4% | 0.5% | 0.5% |

Disability Rates

| Age | Maricopa Police | Pima Police | Other Police | Maricopa Fire | Pima Fire | Other Fire |
|-----|--------------------|----------------|-----------------|------------------|--------------|---------------|
| 20 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 21 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 22 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 23 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 24 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 25 | 0.050% | 0.050% | 0.120% | 0.020% | 0.020% | 0.020% |
| 26 | 0.100% | 0.100% | 0.160% | 0.035% | 0.020% | 0.020% |
| 27 | 0.100% | 0.100% | 0.160% | 0.035% | 0.020% | 0.020% |
| 28 | 0.100% | 0.100% | 0.160% | 0.035% | 0.020% | 0.020% |
| 29 | 0.100% | 0.100% | 0.160% | 0.035% | 0.020% | 0.020% |
| 30 | 0.100% | 0.100% | 0.160% | 0.035% | 0.020% | 0.020% |
| 31 | 0.230% | 0.180% | 0.240% | 0.090% | 0.100% | 0.060% |
| 32 | 0.230% | 0.180% | 0.240% | 0.090% | 0.100% | 0.060% |
| 33 | 0.230% | 0.180% | 0.240% | 0.090% | 0.100% | 0.060% |
| 34 | 0.230% | 0.180% | 0.240% | 0.090% | 0.100% | 0.060% |
| 35 | 0.230% | 0.180% | 0.240% | 0.090% | 0.100% | 0.060% |
| 36 | 0.450% | 0.350% | 0.320% | 0.150% | 0.150% | 0.140% |
| 37 | 0.450% | 0.350% | 0.320% | 0.150% | 0.150% | 0.140% |
| 38 | 0.450% | 0.350% | 0.320% | 0.150% | 0.150% | 0.140% |
| 39 | 0.450% | 0.350% | 0.320% | 0.150% | 0.150% | 0.140% |
| 40 | 0.450% | 0.350% | 0.320% | 0.150% | 0.150% | 0.140% |
| 41 | 0.520% | 0.650% | 0.550% | 0.170% | 0.300% | 0.250% |
| 42 | 0.520% | 0.650% | 0.550% | 0.170% | 0.300% | 0.250% |
| 43 | 0.520% | 0.650% | 0.550% | 0.170% | 0.300% | 0.250% |
| 44 | 0.520% | 0.650% | 0.550% | 0.170% | 0.300% | 0.250% |
| 45 | 0.520% | 0.650% | 0.550% | 0.170% | 0.300% | 0.250% |
| 46 | 0.650% | 0.750% | 0.750% | 0.300% | 0.420% | 0.420% |
| 47 | 0.650% | 0.750% | 0.750% | 0.300% | 0.420% | 0.420% |
| 48 | 0.650% | 0.750% | 0.750% | 0.300% | 0.420% | 0.420% |
| 49 | 0.650% | 0.750% | 0.750% | 0.300% | 0.420% | 0.420% |
| 50 | 0.650% | 0.750% | 0.750% | 0.300% | 0.420% | 0.420% |
| 51 | 0.800% | 0.800% | 0.800% | 0.700% | 0.750% | 0.750% |
| 52 | 0.800% | 0.800% | 0.800% | 0.700% | 0.750% | 0.750% |
| 53 | 0.800% | 0.800% | 0.800% | 0.700% | 0.750% | 0.750% |
| 54 | 0.800% | 0.800% | 0.800% | 0.700% | 0.750% | 0.750% |
| 55 | 0.800% | 0.800% | 0.800% | 0.700% | 0.750% | 0.750% |
| 56+ | 1.000% | 0.850% | 0.900% | 1.100% | 0.800% | 1.000% |

VII. DISCUSSION OF RISK

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

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

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

- **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.

Low Default-Risk Obligation Measure

ASOP No. 4, Measuring Pension Obligations and Determining Pension Plan Costs or Contributions, was revised as of December 2021 to include a “low-default-risk obligation measure” (LDROM). This liability measure is consistent with the determination of the actuarial accrued liability shown on pages 8 and 9 in terms of member data, plan provisions, and assumptions/methods, including the use of the Entry Age Normal Cost Method, except that the interest rate is tied to low-default-risk fixed income securities. The S&P Municipal Bond 20 Year High Grade Rate Index (daily rate closest to, but not later than, the measurement date) was selected to represent a current market rate of low risk but longer-term investments that could be included in a low-risk asset portfolio. The interest rate used in this valuation was 4.13%, resulting in an LDROM of \$1,778,630 for Tiers 1 and 2 and \$277,283,390 for Tier 3. The LDROM should not be considered the “correct” liability measurement; it simply shows a possible outcome if the Board elected to hold a very low risk asset portfolio. The Board actually invests the pension plan’s contributions in a diversified portfolio of stocks and bonds and other investments with the objective of maximizing investment returns at a reasonable level of risk. Consequently, the difference between the plan’s Actuarial Accrued Liability disclosed earlier in this section and the LDROM can be thought of as representing the expected taxpayer savings from investing in the plan’s diversified portfolio compared to investing only in high quality bonds.

The actuarial valuation reports the funded status and develops contributions based on the expected return of the plan's investment portfolio. If instead, the plan switched to investing exclusively in high quality bonds, the LDROM illustrates that reported funded status would be lower (which also implies that the Actuarially Determined Contributions would be higher), perhaps significantly. Unnecessarily high contribution requirements in the near term may not be affordable and could imperil plan sustainability and benefit security.

Plan Maturity Measures and Other Risk Metrics - Tiers 1 & 2

| | 6/30/2023 | 6/30/2022 | 6/30/2021 | 6/30/2020 |
|-------------------------------------|-----------|-----------|-----------|-----------|
| Support Ratio | | | | |
| Total Actives | 3 | 3 | 3 | 3 |
| Total Inactives | 1 | 1 | 2 | 2 |
| Actives / Inactives | 300.0% | 300.0% | 150.0% | 150.0% |
| Asset Volatility Ratio | | | | |
| Market Value of Assets (MVA) | 670,365 | 372,072 | 353,828 | 267,459 |
| Total Annual Payroll | 214,146 | 204,324 | 178,042 | 184,951 |
| MVA / Total Annual Payroll | 313.0% | 182.1% | 198.7% | 144.6% |
| Accrued Liability (AL) Ratio | | | | |
| Inactive Accrued Liability | 361,891 | 352,727 | 343,845 | 24,073 |
| Total Accrued Liability | 996,654 | 894,721 | 749,238 | 391,642 |
| Inactive AL / Total AL | 36.3% | 39.4% | 45.9% | 6.1% |
| Funded Ratio | | | | |
| Actuarial Value of Assets (AVA) | 682,722 | 382,201 | 323,476 | 287,969 |
| Total Accrued Liability | 996,654 | 894,721 | 749,238 | 391,642 |
| AVA / Total Accrued Liability | 68.5% | 42.7% | 43.2% | 73.5% |
| Net Cash Flow Ratio | | | | |
| Net Cash Flow ¹ | 290,938 | 33,371 | 7,646 | 49,826 |
| Market Value of Assets (MVA) | 670,365 | 372,072 | 353,828 | 267,459 |
| Net Cash Flow / MVA | 43.4% | 9.0% | 2.2% | 18.6% |

¹ 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 ¹

| | 6/30/2023 | 6/30/2022 | 6/30/2021 | 6/30/2020 |
|-------------------------------------|-------------|-------------|-------------|------------|
| Support Ratio | | | | |
| Total Actives | 3,052 | 2,417 | 2,560 | 1,408 |
| Total Inactives | 450 | 327 | 307 | 130 |
| Actives / Inactives | 678.2% | 739.1% | 833.9% | 1,083.1% |
| Asset Volatility Ratio | | | | |
| Market Value of Assets (MVA) | 119,338,352 | 74,774,123 | 51,992,240 | 22,964,925 |
| Total Annual Payroll | 226,680,964 | 165,151,543 | 115,883,115 | 84,448,996 |
| MVA / Total Annual Payroll | 52.6% | 45.3% | 44.9% | 27.2% |
| Accrued Liability (AL) Ratio | | | | |
| Inactive Accrued Liability | 9,349,377 | 4,598,114 | 2,290,610 | 1,173,104 |
| Total Accrued Liability | 110,961,191 | 68,939,204 | 42,733,537 | 23,239,599 |
| Inactive AL / Total AL | 8.4% | 6.7% | 5.4% | 5.0% |
| Funded Ratio | | | | |
| Actuarial Value of Assets (AVA) | 119,101,476 | 76,171,857 | 45,863,401 | 23,570,444 |
| Total Accrued Liability | 110,961,191 | 68,939,204 | 42,733,537 | 23,239,599 |
| AVA / Total Accrued Liability | 107.3% | 110.5% | 107.3% | 101.4% |
| Net Cash Flow Ratio | | | | |
| Net Cash Flow ² | 36,208,171 | 25,802,686 | 18,607,209 | 13,192,598 |
| Market Value of Assets (MVA) | 119,338,352 | 74,774,123 | 51,992,240 | 22,964,925 |
| Net Cash Flow / MVA | 30.3% | 34.5% | 35.8% | 57.4% |

¹ Tier 3 results are shown for the Risk Sharing group, where applicable.

² Determined as total contributions minus benefit payments. Administrative expenses are typically included but are considered part of the net interest rate assumption for this plan.

VIII. SUMMARY OF CURRENT PLAN

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

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. Tier 3 Defined Contribution members are able to elect participation in post-retirement health insurance subsidy.

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) 62nd birthday and completion of 15 years of service.

Tier 2:

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

Tier 3:

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

Benefit

Tier 1:

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

| <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. |
| <u>Early Retirement</u> | <i>Only applicable to Tier 3 members:</i> |
| Date | Attainment of age 52.5 and 15 years of Credited Service. |
| Benefit | Actuarial equivalent of Normal Retirement benefit. |
| <u>Disability Benefit – Accidental (duty-related)</u> | |
| 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. |
| <u>Disability Benefit – Ordinary (not duty-related)</u> | |
| 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). |
| <u>Disability Benefit – Other</u> | |
| 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. |
| <u>Pre-Retirement Death Benefit</u> | |
| Service Incurred | <i>Payable following death of active member</i> 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).

Accumulated Contributions Any contributions remaining upon the death of the last beneficiary shall be paid as a lump sum.

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. Adjustment does not apply while in DROP.

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

Tier 3:

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

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

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

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

Deferred Retirement Option Plan (DROP):

| | |
|----------------------|---|
| Eligibility | Tier 1 and 20 years of Credited Service. |
| DROP Period | Maximum 84 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, 2018 | 7.30% |
| | July 1, 2022 | 7.20% |
| Payment of DROP Participation Account | Payable as lump sum distribution to Public Safety Personnel Defined Contribution Retirement Plan at earlier of 1) end of DROP period, 2) at termination, or 3) five years. | |
| Payment Monthly Benefit | System commences payment of benefit amount at the earlier of 1) the end of the DROP period and 2) at termination. | |

Post-Retirement Health Insurance Subsidy

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

| | | | |
|-----------------------------------|-----------------------|--------------------|------------------------|
| Maximum Subsidy Amounts (monthly) | | <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

Tiers 1 & 2:
 7.65% (effective July 1, 2023).

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).

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

None.

IX. ACTUARIAL FUNDING POLICY

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 Arizona Revised Statutes (ARS). Those benefits defined in ARS are to be equitably managed and administered by the Arizona Public Safety Personnel Retirement System (PSPRS agency).

This Actuarial Funding Policy identifies the funding objectives and elements of the actuarial funding policy set by the Board for the PSPRS agency. The Board adopted this Funding Policy to help ensure the systematic funding of future benefit payments for members of the retirement systems as established by the legislature.

This policy covers all retirements systems administered by the Board: The Public Safety Personnel Retirement System (PSPRS); the Correction Officers Retirement Plan (CORP); and the Elected Officials Retirement Plan (EORP).

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 August 2023.

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 Accrued 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.
 - c. As closed plans mature, the target funding should be 110% of AAL or 100% of PVB, whichever is greater.
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 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 five years (Tier 3) or seven years (Tiers 1 and 2) in calculating the Actuarial Value of Assets (AVA).
 - b. The AVA so determined shall be subject to a 20% corridor relative to the Market Value of Assets (MVA).
3. Amortization Method (Unfunded Amounts)
 - a. The AVA is 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 6/30/2019 actuarial valuation will become the initial layer for each employer beginning with the 6/30/2020 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 PSPRS 6/30/2019 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) 6/30/2019 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) 6/30/2019 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 6/30/2020 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 the 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. The AVA is subtracted from the target funding level (greater of 110% of AAL or 100% of PVB). Any overfunded amount is amortized as a level dollar amount over an open 10-year period.
5. Tier 3 Rate Calculation
- a. Tier 3 is distinct from Tiers 1 & 2 in PSPRS and CORP as the contributions are a shared percentage (50/50 split for PSPRS: for CORP, employer 1/3 and member 2/3 of the normal cost plus 50 percent each, member and employer, of the UAAL amortization) for employers and members based on the actuarially calculated rate. To reduce the impact of volatility to rates, the Tier 3 rates will be smoothed over a 3-year rolling period based on the actuarially calculated rates for each year's actuarial valuation.
 - i. Beginning with the 6/30/2023 valuation, the prospective Tier 3 rates set by the Board of Trustees are planned to be a rolling average of the actuarial calculated Tier 3 rates using the 6/30/2023, 6/30/2022 and 6/30/2021 rates in the initial process.
 - ii. As assumptions may be updated year-to-year, the prior calculated rates are not updated for those changes, the prior calculated rates are used to smooth in the new rates.
 - b. At the May 2023 Board Meeting, the Board changed the assumed rate of return for CORP Tier 3, which was at 7.2%, to match the 7.0% assumed rate of return for PSPRS Tier 3. The Board committed to continue to monitor market conditions and directions with the intent to ultimately adopt a single assumed rate of return for all investments for retirement systems/plans administered by PSPRS agency.

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 MVA, 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

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.