

Fiscal Note

BILL # SB 1085

TITLE: PSPRS; funded ratio; asset transfer

SPONSOR: Livingston

STATUS: Senate Engrossed

PREPARED BY: Molly Murphy

Description

The bill would modify the actuarial funding requirements for the Public Safety Personnel Retirement System (PSPRS) in certain circumstances where an employer group's funded status is above 100%. In addition, the bill would implement asset transfer policies for employer groups that have no remaining liabilities or beneficiaries.

Estimated Impact

The bill's fiscal impact for state and local government employers will depend on each PSPRS group's funded status, as the modification to the actuarial funding requirements is dependent on the group having a funded status above 100%. The bill would have no immediate state fiscal impact, as no state PSPRS employer group currently has a funded status above 100%. If any state employer group's funded status reached 100%, the bill would reduce the level of required employer contributions, with the level of reduction depending on the individual circumstances of that employer group. Because any reduction in employer contributions is subject to future actuarial valuations, any savings cannot be estimated in advance.

Analysis

Actuarial Funding Requirements

The bill would modify the following actuarial funding assumptions:

- Maintenance of Effort (Employee Contributions) – Under current law, certain members of PSPRS (hired after July 20, 2011, and before July 1, 2017) generally pay an employee contribution rate of 11.65% in most circumstances. However, any employee contributions above 7.65% are not directly accounted for in the valuation process, so they do not serve to reduce the employer contribution rate. SB 1085 would modify this provision, so that once an employer reached 100% funded status, the "excess" employee contributions above 7.65% can be factored into the valuation process and reduce any required employer contribution.
- Stabilization Reserve – Under current statute, when an employer group has "excess" assets that exceed accrued liabilities, the plan's valuation sets aside 50% of that excess into a Stabilization Reserve. That reserve is excluded when calculating the employer contribution rates each year, unless that employer group becomes underfunded again, which then results in the Stabilization Reserve being drawn down. SB 1085 would increase the Stabilization Reserve limit to 100% of the present value of all future benefits. This means that once an employer has no unfunded liability, they can continue to accrue monies until they have sufficient assets to pay all future benefits with no further employer contributions.
- Minimum Employer Contributions/Suspension of Contributions – Under current law, regardless of funding status, the employer contribution rate must be at least 8% (or 5% for certain employers). Under SB 1085, that minimum contribution rate would be repealed and once an employer has reached the new Stabilization Reserve limit (and has pre-funded all future benefit payments), the PSPRS Board of Trustees is authorized to suspend any additional employer contributions, subject to certain fiduciary restrictions.

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Based on data from PSPRS, 12 local government PSPRS employer groups have met this threshold for funding 100% of the present value of all future benefits (see *Table 1* for a list of these employer groups). Savings for these individual employer groups would depend on their specific future actuarial valuations.

Flagstaff Police	Groom Creek Fire
Winslow Fire	Apache County Detention
Coconino County Deputies	Pinal County Dispatchers
Pima Police	Gila County Dispatchers
Tombstone Marshals	Wickenburg Dispatchers
Hayden Police	Graham County Dispatchers

Asset Transfer Policy

If a PSPRS group has no liabilities or beneficiaries, SB 1085 would allow that employer to request the PSPRS Board of Trustees transfer those excess assets to another PSPRS-managed group under the employer. This provision would result in savings to the employer group receiving the excess assets. Given that an asset transfer must be initiated by the employer, the fiscal impact cannot be predicted in advance, however, any impact is expected to be minimal given the small dollar amount of the potential transfers. Based on data from PSPRS, only 3 employer groups currently have no liabilities or beneficiaries (Greenlee County Attorney Investigators, La Paz County Attorney Investigators, and Tonopah Valley Fire District).

Local Government Impact

See above.