



PimaCommunityCollege

**Governing Board's
Human Resources Advisory Committee**

February 11, 2021
8:30 am - 10:20 am
Pima Community College

<https://pima.zoom.us/j/96593148738>

Meeting ID: 965 9314 8738

Dial-in: (669) 900 6833

Meeting Notice and Agenda

1. Welcome and Introductions
2. Old Business
 - a. Update on Classification/Compensation Study
3. New Business
 - a. Committee Membership
 - b. Public Safety Personnel Retirement System Liability Funding
4. Committee Member Comments
5. Future Agenda Items

Next Meeting: May 13, 2021

***Option to recess into executive session** – Pursuant to A.R.S. 38-431.03(A)(2) the Committee may vote to go into executive session for discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law.

****Additional Information** – Additional information about the above agenda items is available for review on the College's [website](#).

****The Committee reserves the right to change the order of agenda items.**

****To request a reasonable accommodation for individuals with disabilities, a minimum of five (5) business days before the event is requested. Contact Phone: (520) 206-4539 Fax: (520) 206-4567.**

Members of the Committee may participate by telephone, video, or internet conferencing.

Public Safety Personnel Retirement System (PSPRS) Funding Goal Recommendation to the Finance and Audit Committee:

At the Friday, August 21, 2020 Finance and Audit Committee meeting, Dr. Bea shared that the College needs to establish a PSPRS funding policy. Arizona Revised Statute §38-863 requires the College to disclose its PSPRS funding ratio on its public website, and the related Statute §38-863.01 requires the Governing Board to adopt a PSPRS pension funding policy. A group of College employees would be meeting to propose a funding goal, and Dr. Bea called for interested Committee members to assist in developing the recommendation. Two members of the Finance and Audit Committee expressed interest in participating.

The initial meeting was held on October 8, 2020 and consisted of the following:

- Executive Vice Chancellor for Finance and Administration
- Assistant Vice Chancellor for Finance
- Assistant Vice Chancellor for Human Resources
- Executive Director of Employee Service Center
- Police Commander
- Director of Financial Services

The group was provided the attached document (*Pima Community College Public Safety Personnel Retirement System Pension Funding*) in preparation for a discussion on the target funding ratio and the timeline to achieve it. After reviewing the calculations and potential approaches, the group proposed a target funding ratio of 75% by FY 2026. This would be equivalent to the current funding level for the Arizona State Retirement System. Projections indicate that this target would require an additional investment of approximately \$1 million to the annual operating budget, and the PSPRS funding policy group will convene annually to review the funding ratio and timeline as a component of the annual budget process.

Dr. Bea met with the two members of the Finance and Audit Committee on October 19, 2020 to discuss the recommendations of the PSPRS funding policy group. The Committee members concurred.

Pima Community College Public Safety Personnel Retirement System Pension Funding

General Background - Public Safety Personnel Retirement System:

On July 1, 1968, the [Public Safety Personnel Retirement System](#) (PSPRS) was established to provide a uniform, consistent and equitable statewide retirement program for Arizona's public safety personnel. PSPRS provides retirement benefits and programs to nearly 60,000 active members, retired members and surviving beneficiaries, and to more than 300 employers groups (municipalities, agencies and districts) throughout the state and qualifies as a governmental pension plan under section 401(a) of the Internal Revenue Code.

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

Under an agent multiple-employer plan each entity participating in the plan has an individual trust fund reflecting that entity's assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets. Each fund has its own funded ratio, contribution rate, and unique annual actuarial valuation.

Pima Community College's (PCC) police employees participate in the Public Safety Personnel Retirement System (PSPRS). Pima Community College has one trust fund for police employees.

Finance and Audit Committee PSPRS funding goal recommendation:

At the Friday, August 21, 2020 Finance and Audit Committee meeting, Dr. Bea shared with the Finance and Audit Committee that the College needed to establish a PSPRS Funding Policy and called for interested Committee Members to assist in proposing a funding goal recommendation specific to a target funding ratio and timeline to achieve the target funding ratio. Arizona Revised Statutes [38-863](#) requires the College to disclose its PSPRS funding ratio on the College's public website. The related Statute [38-863.01](#) requires the College's Governing Board adopt a PSPRS pension funding policy.

Key pension related definitions:

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

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

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

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

Context:

Based on the [funding ratios as of 2/27/19](#), most funds in PSPRS are underfunded and fall short of ensuring intergenerational equity. For the 228 employers listed, only 20 have funding ratios at or above 100%. The funding ratios range from 2.66% (min) to 382.73% (max) with 69.77% as the average. A funding ratio of 62.24% is at the 50th percentile. Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current payers. Fully funded pension plans achieve both payer and member intergenerational equity.

Information specific to PCC:

As of June 2019, the average current age for PCC police is 42.7 years, which is close to the state average for PSPRS. Total PCC actual members are 49 comprised of 22 active (contributing) and 27 inactive (retired) members. Total fiscal year 2019 payroll for PCC police was \$1,476,670 with an average pay of \$67,121. Approximately 81% of the unfunded liability for PCC is due to legacy costs (retired employees who are no longer contributing to PSPRS). PCC’s funding ratio is 50.21% which falls at the 29th percentile.

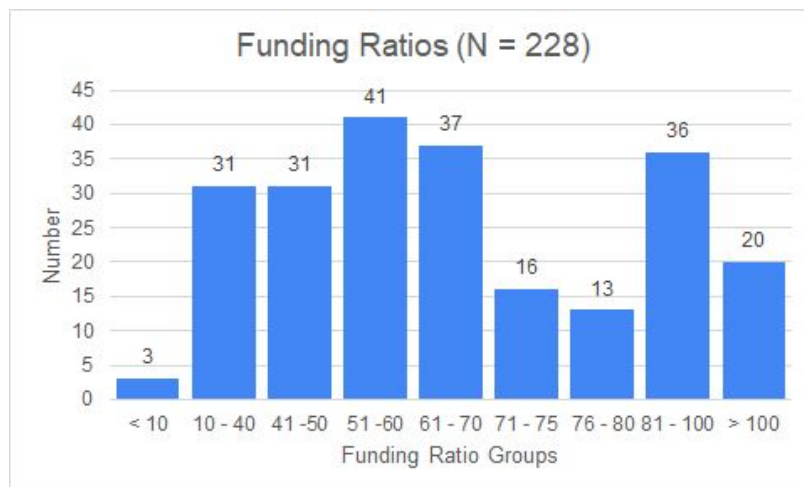
Current Annual Required Contribution (Employer only)	Rate	Dollar
Normal Rate	14.29%	202,835
Legacy Cost Amortization	29.34%	472,814
Total Contribution Rate for FY21 (ARC)	43.63%	675,649

Using the FY21 Annual Required Contribution (ARC) rate of 43.63% and no one time additional payment in FY21, it will take approximately 20 years to achieve fully funded status. *(Note: The new actuarial valuations report from PSPRS will not be available until December 2020, which will have the new contribution rates for FY22.)*

Trust Fund	Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio
PCC Police	\$6,742,877	\$13,430,620	\$6,687,743	50.21%

Comparison funding information:

	Active Members	Funding Ratio	Total Liability (AAL)	Unfunded Liability (UAAL)	Average Annual Salary	Average Current Age	Current Contribution Rate
Higher Education Institution							
Pima Community College (PCC)	22	50.21%	13,430,620	\$6,687,743	\$67,121	42.7	43.63%
Central Arizona College	3	76.60%	1,442,092	\$337,634	\$61,029	53	26.41%
University of Arizona	44	51.10%	36,015,517	\$17,613,502	\$72,842	43.5	50.12%
Lower Funding Ratio than PCC							
City of South Tucson	9	4.40%	10,654,526	\$10,184,842	\$50,589	44.7	114.63%
Tucson Police	663	35.10%	976,048,386	\$633,910,970	\$80,029	40.7	73.39%
Pima County Sherriff Department	400	40.70%	422,680,948	\$250,536,669	\$69,547	41.8	76.04%
Tucson Airport Authority	16	27.40%	21,170,391	\$15,368,708	\$80,764	44.7	95.30%
City of Sierra Vista Policy	47	43.20%	47,099,437	\$26,740,904	\$75,901	41.3	64.48%
Higher Funding Ratio than PCC							
Police department	50	86.80%	15,736,382	\$2,079,948	\$80,647	40.5	16.18%
Sahuarita Police Department	26	83.30%	15,401,380	\$2,567,769	\$90,414	43.4	22.26%
Tohono Police Department	58	76.20%	32,634,272	\$7,750,790	\$71,859	43.9	25.07%
Oro Valley Police Department	78	60.80%	62,278,853	\$24,435,947	\$79,934	40.9	41.62%
Marana Police Department	68	58.70%	39,756,179	\$16,424,786	\$72,848	39.9	35.24%



FY21 Annual Required Contribution						
	ARC	Rate				
Normal Rate	\$ 202,835	14.29%				
Legacy Cost Amortization	472,814	29.34%				
Total for FY21	\$ 675,649	43.63%				
Actuarial Accrued Liability (AAL)		Amount	Members			
Active Members	\$ 3,885,616	22				
Inactive Members	9,545,004	27				
Total AAL at June 30, 2019	\$ 13,430,620	49				
Actuarial Value of Assets	\$ 6,742,877					
Funded Ratio	50.21%					
Actuarial Accrued Liability (AAL)	\$ 13,430,620	\$ 13,430,620	\$ 13,430,620	\$ 13,430,620	\$ 13,430,620	\$ 13,430,620
Funded Ratio	50.21%	60%	70%	75%	80%	100%
Percentile (N = 228)	29th	46th	63rd	70th	75th	92nd
Value of Assets	\$ 6,742,877	\$ 8,058,372	\$ 9,401,434	\$ 10,072,965	\$ 10,744,496	\$ 13,430,620
FY21 One-time Contribution Amount	\$ -	\$ 1,315,495	\$ 2,658,557	\$ 3,330,088	\$ 4,001,619	\$ 6,687,743
Annual Required Contribution (ARC)	675,649	675,649	675,649	675,649	675,649	675,649
Total FY21 Payment to PSPRS	\$ 675,649	\$ 1,991,144	\$ 3,334,206	\$ 4,005,737	\$ 4,677,268	\$ 7,363,392
Amortization	Years	Years	Years	Years	Years	Years
Without FY one-time contribution	0.00	12	14	15	16	20
With FY one-time contribution	0.00	4.05	2.82	2.51	2.30	1.82
One-time amt paid within (# of yrs)	50.21%	60%	70%	75%	80%	100%
1	-	1,991,144	3,334,206	4,005,737	4,677,268	7,363,392
2	-	1,333,397	2,004,928	2,340,693	2,676,459	4,019,521
3	-	1,114,147	1,561,835	1,785,678	2,009,522	2,904,897
4	-	1,004,523	1,340,288	1,508,171	1,676,054	2,347,585
5	-	938,748	1,207,360	1,341,667	1,475,973	2,013,198

Questions for discussion:

- Based on the information above, what should PCC's target funding ratio be?
- Should an additional one-time contribution be made?
- If yes to a one-time contribution, should it be made in a single year or over several years?
- If several, how many years?