

# City of Holbrook

## Public Safety Personnel Retirement System

### Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives, its commitment to our employees, the sound financial management of the City and to comply with new statutory requirements (Laws 2018, Chapter 112).

Several terms are used throughout this policy:

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

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

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

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

The City's police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

#### Public Safety Personnel Retirement System (PSPRS)

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to 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 agency participating in the plan has an individual trust fund reflecting that agencies' assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The City has one trust fund for police employees.

Council formally accepts the assets, liabilities, and funding ratio of the City's PSPRS trust funds actuarial valuation, which are detailed below.

| Actuarial Date | UAAL        | Funded Ratio |
|----------------|-------------|--------------|
| June 30, 2021  | \$6,817,289 | 34.5%        |

## **PSPRS Funding Goal**

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

## **Council's PSPRS Funding Ratio Goal is 100% (fully funded) by June 30, 2032.**

Council established this goal for the following reasons:

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

## **Council has taken the following actions to achieve this goal:**

- Maintain ARC payment from operating revenues. Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The payment will be paid from operating funds without diminishing City services.
- Additional payments above the ARC.
  - Annually evaluate prior year budget compared to actual expenditures and make an excess payment of \$600,000 per year starting in FY22.

**Based on these actions, Council plans to achieve its goal of 100% funding by June 30, 2032.**