Resolution No. 1054-15

A RESOLUTION OF THE MAYOR AND TOWN COUNCIL OF THE TOWN OF QUEEN CREEK, ARIZONA ADOPTING A PENSION FUNDING POLICY.

WHEREAS, new reporting requirements issued by the Governmental Accounting Standards Board (GASB) necessitate the creation and adoption by the Town of Queen Creek a Public Safety Pension Funding Policy ("Policy"); and

WHEREAS, the Government Finance Officers Association ("GFOA") recommends the adoption of such a Policy as a best practice; and

WHEREAS, the Pension Task Force of the Arizona League of Cities and Towns recommends active management of the Town's Public Safety Pension Plan by the adoption of such a Policy; and

WHEREAS, bond rating agencies encourage pension funding policies to improve the management of pension plans; and

WHEREAS, the adoption of such a Policy will contribute to the improvement of fund management and the reduction of Town contribution volatility; and

WHEREAS, the adoption of such a Policy will contribute to intergenerational equity through the allocation of costs across generations of taxpayers.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Town Council as follows:

That the Policy attached hereto as Exhibit "A" is hereby approved and adopted.

PASSED AND ADOPTED by the Mayor and Council of the Town of Queen Creek, Arizona this _____ day of _______, 2015.

FOR THE TOWN OF QUEEN CREEK　　　ATTESTED TO:

Gail Barney, Mayor　　　Jennifer Robinson, Town Clerk

APPROVED AS TO FORM:

____

Dickinson Wright PLLC
Attorneys for the Town

EXHIBIT A

TOWN OF QUEEN CREEK, ARIZONA
STATEMENT OF FUNDING POLICY
FOR THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS)

INTRODUCTION

The purpose of this Funding Policy is to record the funding objectives and policy set by the Town Council for the Queen Creek Fire Department defined benefit plan in Arizona PSPRS. The Town Council establishes this Funding Policy to help ensure the financial sustainability of the Town's plan.

In 2012, the Governmental Accounting Standards Board (GASB) approved two financial standards; GASB Statement No. 67 (Financial Reporting for Pension Plans) and GASB Statement No. 68 (Accounting and Financial Reporting for Pensions). Prior to these changes, the Annual Required Contribution (ARC) rate was used as a basis for funding decisions. The new GASB statements necessitate the creation of this funding policy.

The Government Finance Officers Association (GFOA) recommends the adoption of a pension funding policy and has numerous recommendations regarding the funding of pension plans. Those recommendations are incorporated into this policy. Furthermore, the League of Arizona Cities and Towns Pension Task Force recommends adoption of a policy as well.

This policy shall be reviewed by the Town Council annually.

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.
2. Maintain intergenerational equity. Pension costs are paid by the generation of taxpayers who receive the services.
3. Maintain stability of the Town's contribution amounts.
4. Maintain public policy goals of accountability and transparency. Each policy element is clear in intent and effect, and each should allow an assessment of whether, how and when the funding requirements of the plan will be met.

ELEMENTS

1. **Actuarial Cost Method – Established by Arizona PSPRS Board**
   a. The individual Entry Age Normal actuarial cost method of valuation shall be used in determining Actuarial Accrued Liability (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 – Established by Arizona PSPRS Board**
   a. The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over seven years in calculating the Funding Value of Assets.
3. **Amortization Method – Established by Arizona PSPRS Board**
   a. The Funding Value of Assets are subtracted from the computed AAL. Any unfunded amount is amortized as a level percent of payroll over a closed period of 22 years (as of June 30, 2014). If the Funding Value of Assets exceeds the AAL, the excess is amortized over an open period of 20 years and applied as a credit to reduce the Normal Cost otherwise payable.
4. **Funding Target – Established by Queen Creek Town Council**
   a. The target funded ratio is 100% (full funding).
   b. Taxpayer and member equity is best achieved at full funding. At full funding, both the member and taxpayer have paid the appropriate costs incurred to date.
   c. If the plan is underfunded (less than 100%), future members and taxpayer are responsible for an unfair portion of plan costs.
   d. Extra contributions (in addition to the Actuarially Determined Contribution) shall be considered to the fund the plan at 100%.
   e. If the funded ratio exceeds 100%, a contribution equal to the Normal Cost will be made.

5. **Risk Assumptions– Established by Arizona PSPRS Board**

   a. Assumption Changes

      - The actuarial assumptions used shall be those last adopted by the PSPRS Board based on the most recent experience study and upon the advice and recommendation of the actuary. In accordance with best practices, the actuary shall conduct an experience study every five years. The results of the study shall be the basis for the actuarial assumption changes recommended to the PSPRS Board.
      - The actuarial assumptions can be updated during the five-year period if significant plan design changes or other significant events occur, as advised by the actuary.

   b. Amortization Method

      - The amortization method, Level Percent Closed, will ensure full payment of the UAAL over a finite, systematically decreasing period not to exceed 30 years.

   c. Risk Measures

      - The following risk measures will be annually determined to provide quantifiable measurements of risk and their movement over time.

        i. Classic measures currently determined
           - Funded ratio (assets / liability)

        ii. Total Payroll / UAAL
           - Measures the risk associated with contribution decreases and relative impact on the ability to fund the UAAL. A decrease on this measure indicates a decrease in contribution risk.

        iii. Total Payroll / Total Liability
           - Measures the risk associated with the ability to respond to liability experience through adjustments in contributions. A decrease in this measure indicates an increase in experience risk.

GLOSSARY

1. **Actuarial Accrued Liability (AAL):** The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability".
2. **Actuarial Assumptions:** Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.
3. **Actuarial Cost Method:** A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method".
4. **Actuarial Gain (Loss):** A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or "actuarial gain" as of the next valuation. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.
5. **Actuary:** A person who is trained in the applications of probability and compound interest to problems in business and finance that involve payment of money in the future, contingent upon the

occurrence of future events. Most actuaries in the United States are Members of international research, education and membership organization for actuaries in the life and health insurance, employee benefits, and pension fields. The SOA administers a series of examinations leading initially to Associateship and the designation ASA and ultimately to Fellowship with the designation FSA.

6. **Amortization:** Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.
7. **Entry Age Normal Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay over the working lifetime of the plan's members.
8. **Experience Study:** An actuarial investigation of demographic and economic experiences of the system during the period studied. The investigation is made for the purpose of updating the actuarial assumptions used in valuing the actuarial liabilities.
9. **Funding Value of Assets:** The value of current plan assets recognized for valuation purposes. Generally based on a phased-in recognition of all or a portion of market related investment return. Sometimes referred to as Actuarial Value of Assets.
10. **Market Value of Assets:** The fair value of plan assets as reported in the plan's audited financial statements.
11. **Normal Cost (NC):** The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost". Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.
12. **Unfunded Actuarial Accrued Liability (UAAL):** The positive difference, if any, between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability".