

Heber-Overgaard Fire District Public Safety Personnel Retirement System Pension Funding Policy

The intent of this policy is to clearly communicate the Fire Board's pension funding objectives and its commitment to our employees and the sound financial management of the Heber-Overgaard Fire District and to comply with statutory requirements of 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 Heber-Overgaard Fire District fire 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 Heber-Overgaard Fire District has one trust fund for fire employees.

The Fire Board formally accepts the assets, liabilities, and current funding ratio of the Heber-Overgaard Fire District PSPRS trust funds from the June 30, 2025 actuarial valuation, which are detailed below.

Liabilities and Funded Ratios – Tiers 1 & 2

	June 30, 2025	June 30, 2024
PENSION		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 3,198,886	\$ 1,667,573
DROP Members	2,575,180	3,330,823
Vested Members	403,210	380,122
Active Members	<u>2,936,024</u>	<u>3,117,730</u>
Total Actuarial Present Value of Benefits	9,113,300	8,496,248
Actuarial Accrued Liability (AAL)		
All Inactive Members	6,177,276	5,378,518
Active Members	<u>1,894,852</u>	<u>2,010,934</u>
Total Actuarial Accrued Liability	8,072,128	7,389,452
Actuarial Value of Assets (AVA)	6,030,309	5,555,486
Unfunded Actuarial Accrued Liability	2,041,819	1,833,966
PVB Funded Ratio (AVA / PVB)	66.2%	65.4%
AAL Funded Ratio (AVA / AAL)	74.7%	75.2%
HEALTH		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 5,348	\$ 20,693
DROP Members	42,913	56,576
Active Members	<u>42,451</u>	<u>51,310</u>
Total Present Value of Benefits	90,712	128,579
Actuarial Accrued Liability (AAL)		
All Inactive Members	48,261	77,269
Active Members	<u>32,707</u>	<u>39,894</u>
Total Actuarial Accrued Liability	80,968	117,163
Actuarial Value of Assets (AVA)	175,723	165,149
Unfunded Actuarial Accrued Liability	(94,755)	(47,986)
PVB Funded Ratio (AVA / PVB)	193.7%	128.4%
AAL Funded Ratio (AVA / AAL)	217.0%	141.0%

Liabilities and Funded Ratios – Tier 3

	June 30, 2025	June 30, 2024
PENSION		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 7,291,337	\$ 7,268,826
Vested Members	14,157,384	9,523,410
Active Members	<u>986,667,595</u>	<u>710,626,649</u>
Total Actuarial Present Value of Benefits	1,008,116,316	727,418,885
Actuarial Accrued Liability (AAL)		
All Inactive Members	21,448,721	16,792,236
Active Members	<u>225,991,622</u>	<u>148,879,454</u>
Total Actuarial Accrued Liability	247,440,343	165,671,690
Actuarial Value of Assets (AVA)	253,309,023	178,758,433
Unfunded Actuarial Accrued Liability	(5,868,680)	(13,086,743)
PVB Funded Ratio (AVA / PVB)	25.1%	24.6%
AAL Funded Ratio (AVA / AAL)	102.4%	107.9%
HEALTH		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 33,666	\$ 34,351
Active Members	<u>12,076,315</u>	<u>9,825,773</u>
Total Present Value of Benefits	12,109,981	9,860,124
Actuarial Accrued Liability (AAL)		
All Inactive Members	33,666	34,351
Active Members	<u>3,279,150</u>	<u>2,398,606</u>
Total Actuarial Accrued Liability	3,312,816	2,432,957
Actuarial Value of Assets (AVA)	6,568,894	5,259,235
Unfunded Actuarial Accrued Liability	(3,256,078)	(2,826,278)
PVB Funded Ratio (AVA / PVB)	54.2%	53.3%
AAL Funded Ratio (AVA / AAL)	198.3%	216.2%

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.

The Fire Board's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036.

Fire Board established this goal for the following reasons:

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

Fire Board has taken the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – Fire Board is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds.
- Additional payments above ARC.
 - Annually evaluate prior years budget compared to actual expenditures may permit excess payments.

Based on these actions the Fire Board plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2025 Actuarial Valuation.