

Town of Cave Creek Fiscal Year 2025-26 Public Safety Personnel Retirement System Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to Town employees and the sound financial management of the Town and to comply with statutory requirements of A.R.S §38-863.01, including reviewing and adopting this policy annually.

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 Town's marshals employee who is regularly assigned hazardous duty participates 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 comingle 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 agency'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 and contribution rate, and each fund has a unique annual actuarial valuation. The Town of Cave Creek has one trust fund for marshals employees.

EXHIBIT A

Council formally accepts the assets, liabilities, and current funding ratio of the Town’s PSPRS trust fund from the June 30, 2024, actuarial valuation prepared by Foster & Foster, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Cave Creek Marshals	\$793,292	\$1,011,291	\$217,999	78.4%

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 Council’s PSPRS funding ratio goal is to be in the range of 90% to 100% by June 30, 2027, with the ultimate intent to achieve a 100% fully funded status. Council established this goal for the following reasons:

- The PSPRS trust fund represents only the Town of Cave Creek’s liability.
- The Town does not have any active employees in the plan and, therefore, wants to hedge against the plan being excessively overfunded.
- Since the assets and accrued liabilities fluctuate year over year, a funding range is reasonable and prudent.
- Maintaining a pension which approximates a fully funded status is the best way to achieve taxpayer and member intergenerational equity.

Council plans to take the following actions to achieve this goal:

- Maintain ARC payment from operating revenues. Council is committed to maintaining the full ARC payment from operating funds. The ARC for FY 2025-26 is \$22,610 and will be able to be paid from operating funds without diminishing Town services.
- Make an additional payment above the ARC of \$52,390 for a total FY 2025-26 contribution of \$75,000.
- Pay the full amount of the contributions at the beginning of each fiscal year to maximize the interest earnings allocated to the Town’s PSPRS trust fund.

Based on the current status of the pension plan and these actions, the Council plans to achieve its goal of 90% to 100% funding by June 30, 2027.