Arizona Fire and Medical Authority
Public Safety Personnel Retirement System
Pension Funding Policy

The intent of this policy is to clearly communicate the Authority Board's pension funding objectives and its commitment to our employees and the sound financial management of the Arizona Fire and Medical Authority 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 Arizona Fire and Medical Authority 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 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 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 Arizona Fire and Medical Authority has one trust fund for fire employees.

The Authority Board formally accepts the assets, liabilities, and current funding ratio of the Arizona Fire and Medical Authority 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	$ 58,903,422	$ 52,095,981
DROP Members	19,252,687	23,171,169
Vested Members	1,507,814	1,362,195
Active Members	107,738,323	104,694,646
Total Actuarial Present Value of Benefits	187,402,246	181,323,991
Actuarial Accrued Liability (AAL)		
All Inactive Members	79,663,923	76,629,345
Active Members	79,763,623	74,452,667
Total Actuarial Accrued Liability	159,427,546	151,082,012
Actuarial Value of Assets (AVA)	137,496,037	128,150,005
Unfunded Actuarial Accrued Liability	21,931,509	22,932,007
PVB Funded Ratio (AVA / PVB)	73.4%	70.7%
AAL Funded Ratio (AVA / AAL)	86.2%	84.8%
HEALTH		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	$ 584,684	$ 473,220
DROP Members	235,422	287,332
Active Members	1,466,058	1,438,063
Total Present Value of Benefits	2,286,164	2,198,615
Actuarial Accrued Liability (AAL)		
All Inactive Members	820,106	760,552
Active Members	1,083,797	1,026,111
Total Actuarial Accrued Liability	1,903,903	1,786,663
Actuarial Value of Assets (AVA)	2,423,160	2,241,985
Unfunded Actuarial Accrued Liability	(519,257)	(455,322)
PVB Funded Ratio (AVA / PVB)	106.0%	102.0%
AAL Funded Ratio (AVA / AAL)	127.3%	125.5%

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	986,667,595	710,626,649
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	225,991,622	148,879,454
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	12,076,315	9,825,773
Total Present Value of Benefits	12,109,981	9,860,124
Actuarial Accrued Liability (AAL)		
All Inactive Members	33,666	34,351
Active Members	3,279,150	2,398,606
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.

Proposition 207

In 2020, AZ voters approved Prop 207 the "Smart and Safe Arizona Act." As part of this initiative a "Smart and Safe, Arizona Fund" was established to receive revenue from a 16% excise tax and licensing and registration fees. As an authority with individuals enrolled in PSPRS, the Authority is eligible to receive this revenue based on the number of PSPRS individuals and taxes and fees collected. The Arizona State Treasurer will distribute these funds biannually, June 30 and December 31.

Senate Bill1298/Certificates of Participation

In 2021, Senate Bill 1298 was passed with an emergency clause to immediately allow fire authorities to utilize its current ability to lease purchase and/or issue "Certificates of Participation" (CoP's) for the purpose of paying an authority's accumulated UAAL. Conversely, the PSPRS assumed earnings/discount rate is 7.30% and is applied to all liabilities. In September 2021, the Arizona Fire and Medical Authority sold the CoP's and refinanced their unfunded pension debt to PSPRS.

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

Authority Board established this goal for the following reasons:

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

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

- Maintain ARC payment from operating revenues – Authority Board is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds and pension liability reserve funds.
- In September 2021, the authority issued CoP's for the purpose of refinancing the Authority's PSPRS UAAL at a lower financing rate than the PSPRS "assumed earnings/discount rate" over a level "year over year" payment schedule
- Annually evaluate prior year budget compared to actual expenditures may permit excess payments.

Based on these actions the Authority 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.