

DAISY MOUNTAIN FIRE DISTRICT (143)

**ARIZONA PUBLIC SAFETY PERSONNEL
RETIREMENT SYSTEM**

JUNE 30, 2016

November 29, 2016

Board of Trustees
Arizona Public Safety Personnel Retirement System
Phoenix, Arizona

Re: Daisy Mountain Fire District

The results of the June 30, 2016 annual actuarial valuation of members covered by the Arizona Public Safety Personnel Retirement System (PSPRS) are presented in this report.

This report was prepared at the request of the Board and is intended for use by the Retirement System and those designated or approved by the Board. This report may be provided to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The purpose of the valuation was to measure the System's funding progress and to determine the employer contribution for the 2017-2018 fiscal year. The funding objective is stated in Article 4, Chapter 5, Title 38, Section 843B of the Arizona Revised Statutes. This report should not be relied on for any purpose other than the purposes described herein. Determinations of financial results, associated with the benefits described in this report, for purposes other than those identified above may be significantly different.

The computed contribution rate shown on page A-2 may be considered as a minimum contribution rate that complies with the Board's funding policy. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

The findings in this report are based on data and other information through June 30, 2016. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period, or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. The scope of an actuarial valuation does not include an analysis of the potential range of such future measurements.

This valuation assumes the continuing ability of the participating employer to make the contributions necessary to fund this plan. A determination regarding whether or not the participating employers are actually able to do so is outside our scope of expertise. Consequently, we did not perform such an analysis.

The valuation was based upon information furnished by the Retirement System, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries. We checked for internal reasonability and year-to-year consistency, but did not audit the data. We are not responsible for the accuracy or completeness of the information provided by the Retirement System.

In addition, this report was prepared using certain assumptions approved by the Board as described in the section of this report entitled Methods and Assumptions.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of the Arizona Public Safety Personnel Retirement System as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board, and with applicable statutes.

Mark Buis, James D. Anderson and Francois Pieterse are Members of the American Academy of Actuaries (MAAA). These actuaries meet the Academy's Qualification Standards to render the actuarial opinions contained herein.

The signing actuaries are independent of the plan sponsor.

Gabriel, Roeder, Smith & Company will be pleased to review this valuation and report with the Board of Trustees and to answer any questions pertaining to the valuation.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY



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TABLE OF CONTENTS

	<u>Page</u>
Executive Summary/Board Summary.....	1
Section A Introduction	
Funding Objective.....	1
Contribution Rates	2
Impact of Additional Contributions	4
Historical Summary of Employer Rates	5
Section B Funding Results	
Present Value of Future Benefits and Accrued Liability	1
Pension Contribution Projection	2
Section C Fund Assets	
Development of Pension Funding Value of Assets (7-Year Smoothing).....	1
Development of Health Funding Value of Assets (7-Year Smoothing).....	2
Section D Census Data	
June 30, 2016 Valuation Data Summary	1
Active Members.....	2
Terminated Vested Members.....	3
Retirees and Beneficiaries.....	4
DROP Members.....	5
Pension being Paid – Historical Schedule	6
Section E Methods and Assumptions.....	1
Section F Plan Provisions.....	1
Section G Funding Policy	1
Appendix A Accounting Disclosures	
Schedule of Funding Progress	1
Schedule of Employer Contributions.....	2
Summary of Actuarial Methods and Assumptions	3
GASB Statement No. 45 Supplementary Information.....	4
Annual Required Contribution.....	5

EXECUTIVE SUMMARY/BOARD SUMMARY

1. Required Employer Contributions to Support Retirement Benefits

The computed employer contribution for the fiscal year beginning July 1, 2017 and funded status as of June 30, 2016 are shown below.

Tier 1 & Tier 2 Members:

Averages	Pension	Health	Total
Employer Contribution Rate	24.10%	0.40%	24.50%
Funded Status	75.5%	83.0%	75.6%

Tier 3 members (hired on or after July 1, 2017) – pension only:

- Employer contribution for Tier 3 benefits: 7.14%
- Employer contribution for Tier 1 and Tier 2 unfunded liability: 8.51%
- Total employer contribution as a percentage of Tier 3 payroll: 15.65%

2. Contribution Rate Comparison

The chart below compares the results for this valuation of the Retirement System with the results of the prior year’s valuation:

Valuation Date	Tier 1 & 2			Tier 3	
	Pension	Health	Total	Pension	Health
6/30/2015	14.21%	0.39%	14.60%	N/A	N/A
6/30/2016	24.10%	0.40%	24.50%	15.65%	0.28%

Please note that the pension contribution rate shown above increased significantly from the June 30, 2015 valuation for most employers. This arose primarily due to changes in the PSPRS benefit structure and investment return assumption which are described on pages 2 – 4 of this report. It is also very important to note that the impact of these changes vary significantly from one employer to another, depending on plan demographics and other factors. In addition, the benefit structure changes impact those hired on or after July 1, 2017 (Tier 3). This Tier has a different level of benefit promise, which is financed on a 50/50 basis between Employer/Employee. Existing unfunded accrued liabilities are financed over all employer payroll.

EXECUTIVE SUMMARY/BOARD SUMMARY

3. Reasons for Change

Changes in the contribution rate are illustrated on the following chart. The impact of each change will be different for each employer.

Contribution Rate	Pension	Health	Total
Contribution Rate Last Valuation	14.21%	0.39%	14.60%
Asset Losses	0.27%	0.01%	0.28%
Tier 2	(0.10)%	(0.02)%	(0.12)%
Payroll Base	0.76%	(0.01)%	0.75%
PBI Gain/Loss	(0.01)%	0.00%	(0.01)%
Benefit Changes	6.00%	0.00%	6.00%
Assumption Changes	2.81%	0.05%	2.86%
Other	0.16%	(0.02)%	0.14%
Contribution Rate This Valuation	24.10%	0.40%	24.50%

Funded Status	Pension	Health	Total
Funded Status Last Valuation	92.2%	83.8%	92.0%
Asset Losses	(0.9)%	(1.0)%	(0.9)%
Tier 2	0.0%	0.0%	0.0%
Payroll Base	(4.1)%	0.0%	(4.0)%
PBI Gain/Loss	0.0%	0.0%	0.0%
Benefit Changes	(9.3)%	0.0%	(9.2)%
Assumption Changes	(4.4)%	(4.2)%	(4.4)%
Other	2.0%	4.4%	2.1%
Funded Status This Valuation	75.5%	83.0%	75.6%

Asset Losses – Asset losses are based on 7-year smoothing of assets. The return on market value was 0.6% for the year ending June 30, 2016. However, based on funding value, the average return for the last 7 years is approximately 6.6%

EXECUTIVE SUMMARY/BOARD SUMMARY

Tier 2 – The decrease in the contribution rate is due to the fact that as current members retire, they are replaced by new members who have a less costly Tier of Benefits (for members hired on or after January 1, 2012). This will typically result in a declining normal cost rate that will occur gradually over time as the population mix (Tier 1 / Tier 2) changes. The effect of Tier 3 Members will first impact the June 30, 2018 valuation. Occasionally, the normal cost rate may increase if there has been a shift in demographics during the year.

Payroll Base – Under the current amortization policy, the contribution rate is developed based on a percentage of payroll. To the extent that overall payroll is lower/greater than last year's payroll projected at 4.0% payroll growth, the contribution rate will increase/decrease as a result. For example, if there were 2 active members in the Plan last year and one of the members retired, the existing unfunded liability would now be spread over the payroll of one member instead of 2 members and the resulting contribution rate would be much higher. Therefore, it is important to consider the overall dollar level of the contribution along with the contribution rate. The dollar contributions are also shown on Page A-2. The change in the funded status is primarily due to gain or losses on the overall salary assumption, which includes both the wage base assumption (4.0%) and the merit and longevity components of the salary assumption.

PBI Gain/(Loss) – The prior year valuation assumed a resulting average PBI of approximately 2.00% per year. Since there was no PBI for PSPRS members this year, this resulted in a gain for the Retirement System with a corresponding reduction in the contribution rate and increase in the funded status.

Benefit Changes – Changes to the benefit structure of PSPRS are summarized in section F of this report. Some of the key benefit changes follow:

- replace the prior Permanent Benefit Increase with a CPI-based Cost of Living Adjustment (COLA) for all retirees, and
- change benefit formulas for Tier 3 members (those hired after July 1, 2017) while introducing a 50/50 cost split of Tier 3 plan cost between employees and employers.

EXECUTIVE SUMMARY/BOARD SUMMARY

For most employers the impact of the COLA change is an increase in the employer contribution rate. However, it is very important to note that the COLA impact will vary significantly from one employer to another -- for some employers this benefit change results in a decreased contribution rate. Looking ahead, the impact of the Tier 3 benefit changes will ultimately result in cost decreases (Normal Cost) that emerge gradually over time, as the percentage of the population covered by the new Tier grows.

Impact of November 10, 2016 Hall Decision on Valuation Results

COLA changes helped mitigate potential increases in PSPRS costs arising from the decision in the Hall case. Since the nature and amount of COLA payments has been completely changed, the Hall decision will likely not have a significant impact on the contribution rates in future valuations. In the June 30, 2017 valuation we expect the impact of the Hall decision to be limited to:

- a possible reduction in assets due to refunds of member contributions, and
- possible retroactive adjustments to prior PBI payments.

Assumption Changes – For this valuation, the Board adopted a change in the investment return assumption from 7.85% to 7.5%. While the average System-wide increase on contribution rates was approximately 3.47%, the impact will be different for each employer. The Actuary is currently conducting an experience study which analyzes all of the actuarial assumptions. These changes (if any), will be adopted with the June 30, 2017 actuarial valuation.

Other – This is the combination of all factors other than those listed above and primarily reflect demographic gains and losses (i.e., retirement, turnover, disability, etc. experience that differs from the actuarial assumptions). While this number is small on a combined plan basis, it will vary considerably from employer to employer, especially for employers with a smaller number of members.

4. Amortization Period

Unfunded liabilities were amortized as level percent-of-payroll over a closed period of 20 years. If the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over

EXECUTIVE SUMMARY/BOARD SUMMARY

an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.

5. Looking Ahead

The continuing effect of prior asset losses was dampened by the 7-year smoothing period. There remain unrecognized investment losses that will, in the absence of other gains, put upward pressure on the contribution rate next year.

If the June 30, 2016 pension valuation results were based on market value instead of smoothed funding value, the pension funded percent of the plan would be 69.6% (instead of 75.5%), and the pension employer contribution requirement would be 25.97% of payroll (instead of 24.10%). Absent investment market gains, it is expected that the funded percent will continue to decrease and the employer contribution requirement will continue to increase.

In 2014 the Society of Actuaries published new mortality tables which include mortality improvement scales. While these tables were not developed specifically for the Public Sector, we recommend that the mortality assumption be reviewed in conjunction with the next regularly scheduled experience study.

The Board has adopted an investment return assumption of 7.4% for the June 30, 2017 actuarial valuation. If all other assumptions are realized, this change will result in upward pressure on the contribution rate.

6. Conclusion

The recent changes in benefit structure and actuarial assumptions significantly increased contribution rates for most employers. This will inject more monies into the fund and ultimately strengthen the long term sustainability of the Retirement System. Additionally, the changes to the historical PBI structure, will help dampen the volatility of contribution rates in the future and provide more predictable benefit increases to retirees.

It is most important that this Plan receive contributions at least equal to the rates shown in this report.

SECTION A
INTRODUCTION

FUNDING OBJECTIVE

The purpose of the annual actuarial valuation of the Arizona Public Safety Personnel Retirement System as of June 30, 2016 is to:

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members. This information is contained in Section B.
- Compare accrued assets with accrued liabilities to assess the funded condition. This information is contained in Section B.
- Compute the employers' recommended contribution rates for the Fiscal Year beginning July 1, 2017. This information is contained in Section A.

This objective is stated in Article 4, Chapter 5, Title 38, Section 843B of the Arizona Revised Statutes.

CONTRIBUTION RATES

The Retirement System is supported by member contributions, employer contributions and investment income from Retirement System assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to:

- (1) Cover the actuarial present value of benefits allocated to the current year by the actuarial cost method described in Section E (the normal cost); and
- (2) Finance over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (the unfunded actuarial accrued liability).

Computed contribution rates for the fiscal year beginning July 1, 2017 are shown on page A-2.

CONTRIBUTION REQUIREMENTS

Development of Employer Contributions for the Indicated Valuation Date

Valuation Date	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Contribution for Fiscal Year ending	2017	2018
Tier 1 & 2 Members		
Pension		
Normal cost requirement		
Service pensions	16.25 %	19.80 %
Disability pensions	1.19	1.39
Survivors of active members	0.62	0.74
Refunds of members' accumulated contributions	<u>1.32</u>	<u>1.31</u>
Total normal cost requirement	19.38 %	23.24 %
Employee contributions		
Total employee rate	11.65	11.65
Less portion used to pay down unfunded liability	<u>4.00</u>	<u>4.00</u>
Net employee rate	<u>7.65 %</u>	<u>7.65 %</u>
Employer normal cost requirement	11.73 %	15.59 %
Amortization of unfunded liabilities	<u>2.48 %</u>	<u>8.51 %</u>
Total recommended pension contribution rate	14.21 %	24.10 %
Total recommended pension contribution amount	\$ 1,016,301	\$ 1,887,967
Health		
Normal cost requirement	0.29 %	0.29 %
Amortization of unfunded liabilities	<u>0.10 %</u>	<u>0.11 %</u>
Total health contribution requirement	0.39 %	0.40 %
Total health contribution requirement amount	\$ 27,893	\$ 31,336
Total contribution rate	14.60 %	24.50 %
Total minimum contribution requirement (if applicable)	N/A	N/A
Alternate Contribution Rate (ACR)*	N/A	8.62 %

* The Alternate Contribution Rate is the sum of the amortization payments for Tier 1 & 2 Pension and Health, for use when retirees return to active status.

CONTRIBUTION REQUIREMENTS

Development of Employer Contributions for the Indicated Valuation Date

Valuation Date	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Contribution for Fiscal Year ending	2017	2018
Tier 3 Members		
Pension		
Normal Cost Requirement	N/A	14.28 %
Tier 3 Amortization of UAL	N/A	<u>0.00</u>
Tier 3 Total recommended pension contribution rate	N/A	14.28 %
Employee Share of Total Rate (50%) for Tier 3	N/A	7.14 %
Employer Share of Total Rate (50%) for Tier 3	N/A	7.14 %
Tier 1 & 2 Legacy cost amortization	N/A	<u>8.51 %</u>
Total recommended employer pension contribution rate	N/A	15.65 %
Health		
Normal Cost Requirement	N/A	0.34 %
Tier 3 Amortization of UAL	N/A	<u>0.00</u>
Tier 3 Total recommended health contribution rate	N/A	0.34 %
Employee Share of Total Rate (50%) for Tier 3	N/A	0.17 %
Employer Share of Total Rate (50%) for Tier 3	N/A	0.17 %
Tier 1 & 2 Legacy cost amortization	N/A	<u>0.11 %</u>
Total employer health contribution requirement	N/A	0.28 %
Total Employer cost for Tier 3 Payroll	N/A	15.93 %
Total Employee cost for Tier 3 Payroll	N/A	7.31 %

The results above are shown both prior to and after the application of the statutory minimum contribution requirement of 8% of payroll (5% of payroll if the actual employer contribution rate is less than 5% for the 2006/2007 Fiscal Year).

IMPACT OF EXTRA CONTRIBUTIONS

Extra Contribution in \$(000)	\$0	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900	\$1,000
Impact on:											
- June 30, 2016 Funded Status	75.5%	75.8%	76.1%	76.5%	76.8%	77.1%	77.4%	77.8%	78.1%	78.4%	78.8%
- FYE 2018 Contribution Rate	24.10%	23.99%	23.89%	23.78%	23.68%	23.58%	23.47%	23.37%	23.27%	23.16%	23.06%

Based on the June 30, 2016 actuarial valuation, the table above shows the hypothetical change in the funded status and contribution rate due to each additional \$100,000 in market value.

HISTORICAL SUMMARY OF EMPLOYER PENSION RATES

Valuation Date June 30	Fiscal Year Ending June 30	Normal Cost	Unfunded Actuarial Accrued Liability	Total
2009	2011	10.18%	0.53%	10.71%
2010	2012	10.48	0.88	11.36
2011	2013	11.51	2.04	13.55
2012	2014	12.49	1.12	13.61
2013	2015	12.11	0.97	13.08
2014* (before phase-in)	2016	11.67	1.06	12.73
2014* (after phase-in)	2016	11.67	0.79	12.46
2015 (before phase-in)	2017	11.73	2.48	14.21
2015 (after phase-in)	2017	11.73	1.85	13.58
2016	2018	15.59	8.51	24.10

* Beginning with the June 30, 2014 valuation the rates are for pension only.

HISTORICAL SUMMARY OF EMPLOYER HEALTH RATES

Valuation Date June 30	Fiscal Year Ending June 30	Normal Cost	Unfunded Actuarial Accrued Liability	Total
2014	2016	0.31%	0.11%	0.42%
2015	2017	0.29	0.10	0.39
2016	2018	0.29	0.11	0.40

SECTION B
FUNDING RESULTS

PRESENT VALUE OF FUTURE BENEFITS AND ACCRUED LIABILITY

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Pension		
A. Accrued Liability		
1. For retirees and beneficiaries	\$ 1,829,359	\$ 3,042,706
2. For DROP members	664,554	1,634,039
3. For inactive/vested members	705,890	265,280
4. For present active members		
a. Value of expected future benefit payments	31,036,487	41,827,589
b. Value of future normal costs	<u>(10,493,729)</u>	<u>(13,575,633)</u>
c. Active member accrued liability: (a) - (b)	<u>20,542,758</u>	<u>28,251,956</u>
5. Total accrued liability	23,742,561	33,193,981
B. Present Assets (Funding Value)	21,896,360	25,056,608
C. Unfunded Accrued Liability: (A.5) - (B)	1,846,201	8,137,373
D. Stabilization Reserve	<u>-</u>	<u>-</u>
E. Net Unfunded Accrued Liability: (C) + (D)	<u>\$ 1,846,201</u>	<u>\$ 8,137,373</u>
F. Funding Ratio: (B) / (A.5)	<u>92.2%</u>	<u>75.5%</u>
Health		
A. Accrued Liability		
1. For retirees and beneficiaries	\$ -	\$ -
2. For DROP members	15,959	32,510
3. For present active members		
a. Value of expected future benefit payments	787,053	872,527
b. Value of future normal costs	<u>(161,521)</u>	<u>(172,017)</u>
c. Active member accrued liability: (a) - (b)	<u>625,532</u>	<u>700,510</u>
4. Total accrued liability	641,491	733,020
B. Present Assets (Funding Value)	<u>537,771</u>	<u>608,085</u>
C. Net Unfunded Accrued Liability: (A.4) - (B)	<u>\$ 103,720</u>	<u>\$ 124,935</u>
D. Funding Ratio: (B) / (A.4)	<u>83.8%</u>	<u>83.0%</u>

PENSION CONTRIBUTION PROJECTION

<u>Ending June 30</u>	<u>Contribution Rate</u>	<u>Contribution Amount (Estimate)</u>
2018	24.10%	\$ 1,887,967
2019	24.48	1,994,446
2020	24.45	2,071,681
2021	24.24	2,136,043
2022	24.25	2,222,402
2023	24.48	2,333,219
2024	24.53	2,431,504
2025	24.27	2,501,961
2026	23.94	2,566,660
2027	23.69	2,641,451
2028	23.45	2,719,278

Contribution Amount estimated based on June 30, 2016 valuation data, methods, and assumptions, including 7.50% investment return and 4% payroll growth.

SECTION C
FUND ASSETS

DEVELOPMENT OF PENSION FUNDING VALUE OF ASSETS (7-YEAR SMOOTHING)

Year Ended June 30:	2016	2017	2018	2019	2020	2021	2022
A. Funding Value Beginning of Year	\$ 6,217,786,571						
B. Market Value End of Year	6,042,477,418						
C. Market Value Beginning of Year	6,075,768,720						
D. Non Investment Net Cash Flow	(68,927,061)						
E. Investment Income							
E1. Total: B-C-D	35,635,759						
E2. Amount for Immediate Recognition: (7.85%)	485,390,859						
E3. Amount for Phased-in Recognition: E1-E2	(449,755,100)						
F. Phased-in Recognition of Investment Income							
F1. Current Year: E3 / 7	(64,250,729)						
F2. First Prior Year	(36,894,248)	\$ (64,250,729)					
F3. Second Prior Year	33,458,496	(36,894,248)	\$ (64,250,729)				
F4. Third Prior Year	9,542,555	33,458,496	(36,894,248)	\$ (64,250,729)			
F5. Fourth Prior Year	(72,234,304)	9,542,555	33,458,496	(36,894,248)	\$ (64,250,729)		
F6. Fifth Prior Year	40,557,028	(72,234,304)	9,542,555	33,458,496	(36,894,248)	\$ (64,250,729)	
F7. Sixth Prior Year	9,473,791	40,557,031	(72,234,303)	9,542,556	33,458,496	(36,894,251)	\$ (64,250,726)
F8. Total Recognized Investment Gain	(80,347,411)	(89,821,199)	(130,378,229)	(58,143,925)	(67,686,481)	(101,144,980)	(64,250,726)
G. Funding Value End of Year							
G1. Preliminary Funding Value End of Year: (A+D+E2+F1:F7)	6,553,902,958						
G2. Upper Corridor: (120% x B)	7,250,972,902						
G3. Lower Corridor: (80% x B)	4,833,981,934						
G4. End of Year: (G1 subject to max of G2 and min of G3)	6,553,902,958						
H. Difference Between Market Value & Funding Value: (B-G4)	(511,425,540)	(421,604,341)	(291,226,112)	(233,082,187)	(165,395,706)	(64,250,726)	0
I. Market Rate of Return	0.6%						
J. Recognized Rate of Return	6.6%						
K. Ratio of Funding Value to Market Value	108.5%						
L. Market Value of Assets for Division	23,101,347						
M. Funding Value of Assets for Division	25,056,608						

The funding value of assets recognizes assumed investment return (line E2) fully each year. Differences between actual and assumed investment return (line E3) are phased-in over a closed 7-year period. During periods when investment performance exceeds the assumed rate, funding value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, funding value of assets will tend to be greater than market value. The funding value of assets is **unbiased** with respect to market value. At any time it may be either greater or less than market value. If actual and assumed rates of investment return are exactly equal for 7 consecutive years, the funding value will become equal to market value.

DEVELOPMENT OF HEALTH FUNDING VALUE OF ASSETS (7-YEAR SMOOTHING)

Year Ended June 30:	2016	2017	2018	2019	2020	2021	2022
A. Funding Value Beginning of Year	\$ 315,353,511						
B. Market Value End of Year	299,092,404						
C. Market Value Beginning of Year	308,677,610						
D. Non Investment Net Cash Flow	(11,347,755)						
E. Investment Income							
E1. Total: B-C-D	1,762,549						
E2. Amount for Immediate Recognition: (7.85%)	24,309,851						
E3. Amount for Phased-in Recognition: E1-E2	(22,547,302)						
F. Phased-in Recognition of Investment Income							
F1. Current Year: E3 / 7	(3,221,043)						
F2. First Prior Year	(1,796,589)	\$ (3,221,043)					
F3. Second Prior Year	1,653,381	(1,796,589)	\$ (3,221,043)				
F4. Third Prior Year	451,741	1,653,381	(1,796,589)	\$ (3,221,043)			
F5. Fourth Prior Year	(3,419,544)	451,741	1,653,381	(1,796,589)	\$ (3,221,043)		
F6. Fifth Prior Year	1,919,954	(3,419,544)	451,741	1,653,381	(1,796,589)	\$ (3,221,043)	
F7. Sixth Prior Year	448,486	1,919,954	(3,419,544)	451,740	1,653,381	(1,796,586)	\$ (3,221,044)
F8. Total Recognized Investment Gain	(3,963,614)	(4,412,100)	(6,332,054)	(2,912,511)	(3,364,251)	(5,017,629)	(3,221,044)
G. Funding Value End of Year							
G1. Preliminary Funding Value End of Year: (A+D+E2+F1:F7)	324,351,993						
G2. Upper Corridor: (120% x B)	358,910,885						
G3. Lower Corridor: (80% x B)	239,273,923						
G4. End of Year: (G1 subject to max of G2 and min of G3)	324,351,993						
H. Difference Between Market Value & Funding Value: (B-G4)	(25,259,589)	(20,847,489)	(14,515,435)	(11,602,924)	(8,238,673)	(3,221,044)	0
I. Market Rate of Return	0.6%						
J. Recognized Rate of Return	6.6%						
K. Ratio of Funding Value to Market Value	108.4%						
L. Market Value of Assets for Division	560,729						
M. Funding Value of Assets for Division	608,085						

The funding value of assets recognizes assumed investment return (line E2) fully each year. Differences between actual and assumed investment return (line E3) are phased-in over a closed 7-year period. During periods when investment performance exceeds the assumed rate, funding value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, funding value of assets will tend to be greater than market value. The funding value of assets is **unbiased** with respect to market value. At any time it may be either greater or less than market value. If actual and assumed rates of investment return are exactly equal for 7 consecutive years, the funding value will become equal to market value.

SECTION D
CENSUS DATA

JUNE 30, 2016 VALUATION DATA SUMMARY

For purposes of the June 30, 2016 valuation, information on covered persons was furnished by the Board of Trustees. These people may be briefly described as follows.

	No.	Averages		
		Age	Service	Annual Pay or Retirement Allowance
Actives	83	40.0	12.5	\$87,264
Retirees & Beneficiaries	5			43,893
DROP	2			56,385
Inactive/Vested	3			
	93			

ACTIVE MEMBERS

**Members in Active Service as of June 30, 2016
by Years of Service**

Age	Years of Service							Total Count	Total Pay	Average Pay
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 & Up			
Under 25	1							1	\$ 49,492	\$ 49,492
25 - 29	3	1						4	165,366	41,342
30 - 34	4	4	6					14	934,612	66,758
35 - 39		2	20	1				23	2,060,031	89,567
40 - 44			12	6				18	1,710,924	95,051
45 - 49			6	4	5			15	1,516,971	101,131
50 - 54			1	1	3			5	523,983	104,797
55 - 59			1					1	96,142	96,142
60 - 64			2					2	185,350	92,675
65 and over									0	0
Total	8	7	48	12	8			83	\$ 7,242,871	\$ 87,264

INACTIVE/VESTED MEMBERS

**Inactive/Vested Members as of June 30, 2016
by Years of Service**

Age	Years of Service					Total Count
	0 - 4	5 - 9	10 - 14	15 - 19	20 & Up	
Under 30						0
30 - 39	1					1
40 - 44						0
45 - 49				1		1
50 - 54						0
55 - 59						0
60 - 69		1				1
70 and over						0
Total	1	1	0	1	0	3

RETIREES AND BENEFICIARIES

All Retirants and Beneficiaries June 30, 2016 by Attained Ages

Attained Ages	Males		Females		Total	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 25	0	\$ 0	0	\$ 0	0	\$ 0
25-29	0	0	0	0	0	0
30-34	1	34,102	1	38,011	2	72,113
35-39	0	0	0	0	0	0
40-44	0	0	0	0	0	0
45-49	0	0	0	0	0	0
50-54	0	0	0	0	0	0
55-59	2	82,622	0	0	2	82,622
60-64	0	0	0	0	0	0
65-69	1	64,729	0	0	1	64,729
70-74	0	0	0	0	0	0
75-79	0	0	0	0	0	0
80-84	0	0	0	0	0	0
85-89	0	0	0	0	0	0
90-94	0	0	0	0	0	0
95-99	0	0	0	0	0	0
100 and Over	0	0	0	0	0	0
Totals	4	\$ 181,453	1	\$ 38,011	5	\$ 219,464

<u>Pension Being Paid</u>		<u>Number</u>	<u>Annual Pensions</u>	<u>Average Pensions</u>
Retired Members	Service Pensions	2	\$ 113,521	\$56,761
	Disability Pensions	2	67,932	33,966
Totals		4	181,453	45,363
Survivors of Members	Spouses	1	38,011	38,011
	Children with Guardians	0	0	0
Total		1	38,011	38,011
Total Pension being Paid		5	\$219,464	\$43,893
		<u>Average Age</u>	<u>Average Service</u>	<u>Average Age at Retirement</u>
Normal Retired Members		62.9	20.4	60.1
Disability Retired Members		44.5	12.3	43.3
Spouse Beneficiaries		32.0	5.5	27.6

DROP MEMBERS

**DROP Members as of June 30, 2016
by Attained Ages**

Attained Ages	Males		Females		Total	
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits
Under 45	0	\$ 0	0	\$ 0	0	\$ 0
45-49	0	0	0	0	0	0
50-54	1	53,123	0	0	1	53,123
55-59	1	59,647	0	0	1	59,647
60-64	0	0	0	0	0	0
65 and Over	0	0	0	0	0	0
Totals	2	\$112,770	0	\$0	2	\$112,770

**PENSION BEING PAID
HISTORICAL SCHEDULE**

Valuation Date June 30	No.	Annual Pensions	% Incr. in		Average Pension	Present Value of Pensions	
			Annual Pensions			Total	Average
2009	-	\$ -	-	%	\$ -	\$ -	\$ -
2010	1	63,460	-		63,460	701,373	701,373
2011	1	63,460	-		63,460	777,189	777,189
2012	2	97,248	53.2		48,624	1,291,380	645,690
2013	2	102,740	5.6		51,370	1,173,316	586,658
2014	2	102,740	-		51,370	1,218,650	609,325
2015	4	204,655	99.2		51,164	2,493,913	623,478
2016	7	332,234	62.3		47,462	4,676,745	668,106

SECTION E
METHODS AND ASSUMPTIONS

VALUATION METHODS

Actuarial Cost Method - Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

- (i) the annual normal costs for each individual active member, payable from the date of hire to the date of retirement, are sufficient to accumulate to the value of the member's benefits.
- (ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation between the entry age of the member and the assumed exit ages.

Actuarial Accrued Liability - The actuarial accrued liability is the portion of actuarial present value allocated to service rendered prior to the valuation date, including experience gains and losses. The actuarial accrued liability was computed using the assumptions summarized in this report.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased-in over a closed seven-year period subject to a 20% corridor. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, the actuarial value of assets will tend to be greater than market value.

Financing of Unfunded Actuarial Accrued Liabilities - The actuarial value of assets were subtracted from the computed actuarial accrued liability. Any unfunded amount would be amortized as level percent of payroll over a closed period of 20 years. If the actuarial value of assets exceeded the actuarial accrued liability, the excess was amortized over an open period of 20 years and applied as a credit to reduce the normal cost which otherwise would be payable.

Active member payroll was assumed to increase 4.0% annually for the purpose of computing the amortization payment (credit) as a level percent of payroll.

VALUATION METHODS

Funded Ratio - Unless otherwise indicated, a funded ratio measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

1. The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations, in other words, of transferring the obligations to a unrelated third party in an arm's length market value type transaction.
2. The measurement is dependent upon the actuarial cost method which, in combination with the plan's amortization policy, affects the timing and amounts of future contributions. The amount of future contributions will most certainly differ from those assumed in this report due to future actual experience differing from assumed experience based upon actuarial assumptions. A funded ratio measurement in this report of 100% is not synonymous with no required future contributions. If the funded ratio were 100%, the plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).
3. The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

Stabilization Reserve - Beginning with the June 30, 2007 valuation and with each subsequent valuation, if the actuarial value of assets exceeds the actuarial accrued liabilities, one half of this excess in each year is allocated to a Stabilization Reserve. The Stabilization Reserve is excluded from the calculation of the employer contribution rates. The Stabilization Reserve continues to accumulate as long as the plan is over-funded. Once the plan becomes under-funded, the Stabilization Reserve will be used to dampen increases in the employer contribution rates.

VALUATION ASSUMPTIONS

Assumptions for this valuation are based on the most recent experience study performed in 2012, and will be updated for the June 30, 2017 based on the experience study currently being performed. As experience emerges for Tier 3 members, separate assumptions may be developed that Tier.

The rate of investment return was 7.50% a year, compounded annually net of investment and administrative expenses.

The assumed real return is the rate of return in excess of wage growth. Considering other assumptions used in the valuation, the 7.50% nominal rate translates to a net real return over wage growth of 3.50% a year.

The rates of pay increase used for individual members are shown below. This assumption is used to project a member's current pay to the pay upon which System benefits will be based.

Salary Increase Assumptions for an Individual Member									
Sample Ages	Merit & Seniority				Base (Economy)	Increase Next Year			
	Police Large	Police Small	Fire Large	Fire Small		Police Large	Police Small	Fire Large	Fire Small
20	4.00%	4.00%	4.00%	4.00%	4.00%	8.00%	8.00%	8.00%	8.00%
25	3.70%	3.16%	3.70%	3.70%	4.00%	7.70%	7.16%	7.70%	7.70%
30	2.60%	2.12%	2.90%	2.66%	4.00%	6.60%	6.12%	6.90%	6.66%
35	1.22%	1.17%	1.54%	1.32%	4.00%	5.22%	5.17%	5.54%	5.32%
40	0.52%	0.36%	0.48%	0.41%	4.00%	4.52%	4.36%	4.48%	4.41%
45	0.28%	0.10%	0.14%	0.12%	4.00%	4.28%	4.10%	4.14%	4.12%
50	0.14%	0.07%	0.04%	0.07%	4.00%	4.14%	4.07%	4.04%	4.07%
55	0.04%	0.02%	0.00%	0.02%	4.00%	4.04%	4.02%	4.00%	4.02%
60	0.00%	0.00%	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%
65	0.00%	0.00%	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Ref	383	384	385	386	4.00%				

Active Member Payroll is assumed to grow at 4.0% per year. Although no specific price inflation assumption is required to perform this valuation, a price inflation assumption on the order of 3.0% would be consistent with the other economic assumptions.

VALUATION ASSUMPTIONS

The healthy mortality table used to evaluate death after retirement in this valuation of the System was the RP 2000 Mortality table projected to 2015 using projection scale AA (adjusted by 105% for males and females). This assumption was first used for the June 30, 2012 valuation of the System and includes margin for future improvements in mortality. Sample rates of mortality and years of life expectancy are shown below:

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.17%	0.14%	31.88	33.93
55	0.29	0.25	27.19	29.20
60	0.56	0.49	22.67	24.66
65	1.08	0.95	18.43	20.39
70	1.86	1.63	14.56	16.49
75	3.22	2.62	11.04	12.95
80	5.81	4.34	8.00	9.80
Ref:	397 x 1.05 0 year set forward	398 x 1.05 0 year set forward		

This assumption is used to measure the probabilities of each benefit payment being made after retirement.

The disabled mortality table used to evaluate death after retirement in this valuation of the System was the RP 2000 Mortality table projected to 2015 using projection scale AA set forward 10 years for both males and females. This assumption was first used for the June 30, 2012 valuation of the System. Sample rates of mortality and years of life expectancy are shown below:

Sample Attained Ages	Probability of Dying Next Year		Future Life Expectancy (years)	
	Men	Women	Men	Women
50	0.53%	0.47%	23.05	25.08
55	1.03	0.90	18.79	20.80
60	1.77	1.55	14.89	16.86
65	3.06	2.49	11.34	13.29
70	5.54	4.13	8.25	10.09
75	9.97	7.08	5.81	7.35
80	17.27	12.59	4.02	5.30
Ref:	397 x 1.00 10 year set forward	398 x 1.00 10 year set forward		

VALUATION ASSUMPTIONS

For actives, the sample rates of mortality for death-in-service are shown below, and were first used for the June 30, 2012 valuation of the System.

Sample Attained Ages	Probability of Dying Next Year	
	Men	Women
50	0.10%	0.08%
55	0.16	0.14
60	0.32	0.28
65	0.62	0.54
Ref:	397 x 0.60 0 year set back	398 x 0.60 0 year set forward

The rates of regular retirement used to measure the probability of eligible members retiring during the next year are shown below. This assumption was first used for the June 30, 2012 valuation of the System.

Retirement/DROP Rates: Age-related rates for employees who were hired before January 1, 2012 are shown below:

Age at Retirement	Rates			
	Police Large	Police Small	Fire Large	Fire Small
62	75%	75%	75%	75%
63	60%	60%	60%	60%
64	60%	60%	60%	60%
65	60%	60%	60%	60%
66	60%	60%	60%	60%
67	60%	60%	60%	60%
68	60%	60%	60%	60%
69	60%	60%	60%	60%
70	100%	100%	100%	100%
Ref.	2145	2145	2145	2145

These retirement rates are applicable to employees attaining age 62 before attaining 20 years of service.

VALUATION ASSUMPTIONS

Service-related rates for employees who were hired before January 1, 2012 are shown below:

Service at Retirement	Rates			
	Police Large	Police Small	Fire Large	Fire Small
20	25%	37%	14%	20%
21	17%	33%	12%	20%
22	17%	20%	7%	10%
23	10%	13%	7%	10%
24	10%	10%	7%	8%
25	40%	35%	27%	25%
26	40%	35%	30%	25%
27	35%	30%	25%	25%
28	32%	30%	37%	25%
29	32%	30%	37%	25%
30	38%	30%	37%	35%
31	42%	30%	40%	35%
32	75%	75%	50%	35%
33	75%	75%	50%	35%
34	100%	100%	100%	100%
Ref.	2146	2147	2148	2149

These retirement rates are applicable to employees attaining 20 years of service before attaining age 62.

Age-related rates for employees who were hired after January 1, 2012 are shown below:

Age at Retirement	Rates			
	Police Large	Police Small	Fire Large	Fire Small
53	10%	15%	10%	10%
54	10%	10%	10%	10%
55	45%	40%	30%	20%
56	45%	40%	45%	30%
57	45%	30%	30%	30%
58	45%	30%	45%	30%
59	45%	30%	45%	30%
60	50%	30%	45%	45%
61	50%	30%	50%	45%
62	80%	65%	50%	45%
63	80%	65%	50%	45%
64	100%	100%	100%	100%
Ref.	1737	1738	1739	1740

VALUATION ASSUMPTIONS

Rates of separation from active membership used in the valuation are shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment. This assumption was first used for the June 30, 2012 valuation of the System.

Sample Ages	Service Index	% of Active Members Separating Within Next Year			
		Police Large	Police Small	Fire Large	Fire Small
All	1	16.00%	15.00%	8.50%	7.50%
	2	7.00%	10.00%	2.50%	6.00%
	3	4.00%	9.00%	1.00%	5.00%
	4	3.00%	7.00%	1.00%	5.00%
	5	2.50%	6.00%	1.00%	5.00%
	10	2.00%	5.30%	1.00%	3.00%
	15	0.60%	1.80%	0.10%	1.00%
	20	0.50%	1.80%	0.10%	1.00%
Ref.		757	603	758	605

Rates of disability among active members used in the valuation are shown below, and were first used for the June 30, 2012 valuation of the System.

Sample Ages	% of Active Members Becoming Disabled Within Next Year			
	Police Large	Police Small	Fire Large	Fire Small
20	0.08%	0.12%	0.02%	0.03%
25	0.08%	0.12%	0.02%	0.03%
30	0.17%	0.23%	0.04%	0.03%
35	0.22%	0.28%	0.09%	0.07%
40	0.36%	0.46%	0.16%	0.16%
45	0.51%	0.63%	0.16%	0.44%
50	0.78%	1.60%	0.40%	0.60%
55	1.02%	1.60%	0.93%	1.04%
Ref	588	589	590	591
	80%	80%	80%	80%

The Fire Small group assumptions were used for the Daisy Mountain Fire District valuation.

SUMMARY OF ASSUMPTIONS USED
JUNE 30, 2016
MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	85% of males and females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.
Pay Increase Timing:	Six months after the valuation date. This means that the pays received are assumed to be annual rates of pay on the valuation date as opposed to W-2 type earnings for the prior 12 months.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and turnover decrements do not operate during retirement eligibility.
Service Credit Accruals:	It is assumed that members accrue one year of service credit per year.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
Normal Form of Benefit:	A straight life payment is the assumed normal form of benefit for members who are not married, and the 80% Joint and Survivor form of payment with no reduction, for married members. 85% of members are assumed to be married at time of retirement.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Health Care Utilization:	75% of future retirees are expected to utilize retiree health care. 85% of those are assumed to be married.
Assumed Future Permanent Benefit Increases (PBI):	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

**SUMMARY OF ASSUMPTIONS USED
JUNE 30, 2016**

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

**Financing of Unfunded
Actuarial Accrued Liabilities
(Money in the Pipes):**

The rate-setting valuation projects the unfunded actuarial accrued liability to the beginning of the applicable fiscal year to determine the applicable unfunded amortization rate.

Maintenance of Effort:

For Tier 1 & 2 members, the amount of member contributions that exceed 7.65% of the member's compensation will NOT be used to reduce the employer's contribution requirement. Therefore this Maintenance of Effort is subtracted from assets prior to calculating the contribution rate.

SECTION F
PLAN PROVISIONS

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

Membership: Persons who are employed in an eligible group, prior to attaining age 65 years, for at least 40 hours a week for more than six months per year.

Average Monthly Benefit Compensation:

For members hired before January 1, 2012:

One-thirty-sixth of total compensation paid to member during the three consecutive years, out of the last 20 years of credited service, in which the amount paid was highest. Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System.

For members hired on or after January 1, 2012 and before July 1, 2017:

One-sixtieth of total compensation paid to member during the five consecutive years, out of the last 20 years of credited service, in which the amount paid was highest. Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System.

For members hired on or after July 1, 2017:

One-sixtieth of total compensation paid to member during the five consecutive years, out of the last 15 years of credited service, in which the amount paid was highest. Compensation is the amount including base salary, overtime pay, shift and military differential pay, compensatory time used in lieu of overtime pay, and holiday pay, paid to an employee on a regular payroll basis and longevity pay paid at least every six months for which contributions are made to the System.

Normal Retirement:

For members hired before January 1, 2012:

First day of month following completion of 20 years of service or following 62nd birthday and completion of 15 years of service.

The amount of monthly normal pension is based on credited service and average monthly compensation as follows:

- ***For retirement with 25 or more years of credited service,*** 50% of average monthly compensation for the first 20 years of credited service, plus 2-1/2% of average monthly compensation for each year of credited service above 20 years.
- ***For retirement with 20 years of credited service but less than 25 years of credited service,*** 50% of average monthly compensation for the first 20 years of credited service, plus 2% of average monthly compensation for each year of credited service between 20 and 25 years.
- ***For retirement with less than 20 years of credited service,*** the percent of average monthly compensation is reduced at a rate of 4% for each year less than 20 years of credited service.

The maximum amount payable as a normal retirement pension is 80% of the average monthly compensation.

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

For members hired on or after January 1, 2012 and before July 1, 2017:

First day of month following the attainment of age 52.5 and completion of 25 years of service.

The amount of monthly normal pension is based on credited service and average monthly compensation as follows:

- ***For retirement with 25 years of credited service***, 62.5% of average monthly compensation.
- ***For retirement with less than 25 years of credited service***, the monthly benefit is reduced at a rate of 4% for each year less than 25 years of credited service.
- ***For retirement with more than 25 years of credited service***, the monthly benefit is increased by 2.5% of the average monthly compensation multiplied by the numbers of credited years greater than 25 years.

The maximum amount payable as a normal retirement pension is 80% of the average monthly compensation.

For members hired on or after July 1, 2017:

First day of month following the attainment of age 55 and completion of 15 years of service.

The amount of monthly normal pension is based on credited service and average monthly compensation as follows:

- ***For retirement with 15 years of credited service, but less than 17 years of credited service***, 1.5% of average monthly compensation for each credited year of service.
- ***For retirement with 17 years of credited service, but less than 19 years of credited service***, 1.75% of average monthly compensation for each credited year of service.
- ***For retirement with 19 years of credited service, but less than 22 years of credited service***, 2.0% of average monthly compensation for each credited year of service.
- ***For retirement with 22 years of credited service, but less than 25 years of credited service***, 2.25% of average monthly compensation for each credited year of service.
- ***For retirement with 25 or more years of credited service***, 2.5% of average monthly compensation for each credited year of service.

The maximum amount payable as a normal retirement pension is 80% of the average monthly compensation.

Early Retirement:

For members hired before July 1, 2017:

Not eligible for an early retirement benefit.

For members hired on or after July 1, 2017:

Members who have earned at least 15 years of credited service may retire at age 52.5 and will receive a benefit that is actuarially equivalent to their normal retirement benefit.

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

Vested Termination (deferred retirement):

For members hired before January 1, 2012:

Termination of covered position employment with 10 or more years of credited service. Annuity is calculated based on twice the member's accumulated contributions with payments commencing at age 62. This annuity is not a retirement benefit and annuitants are not entitled to survivor benefits, benefit increases, or the group health insurance subsidy.

For members hired on or after January 1, 2012 and before July 1, 2017:

Termination of covered position employment with 25 or more years of credited service. Pension is payable if members leaves contributions on account until reaching the age requirement. Pension is calculated in the same way as a normal retirement benefit. This annuity is a retirement benefit and annuitants are entitled to survivor benefits, benefit increases, and the group health insurance subsidy.

For members hired on or after July 1, 2017:

Termination of covered position employment with 15 or more years of credited service. Pension is payable if members leaves contributions on account until reaching the age requirement. Pension is calculated in the same way as a normal retirement benefit. This annuity is a retirement benefit and annuitants are entitled to survivor benefits, benefit increases, and the group health insurance subsidy.

Refunds:

For members hired before January 1, 2012:

Member will receive a lump-sum payment of accumulated contribution. Benefit is forfeited if accumulated contributions are refunded. The following schedule shows additional money which would be payable to members who receive a refund of their accumulated member contributions.

<u>Years of Credited Service</u>	<u>Additional Monies (% of Contributions)</u>
0-4	0%
5-6	25-40
7-8	55-70
9-10	85-100

For members hired on or after January 1, 2012:

Member will receive a lump-sum payment of ONLY their accumulated contribution with interest at rate set by Board. Benefit is forfeited if accumulated contributions are refunded.

Ordinary Disability Retirement (not duty-related): Physical condition which totally and permanently prevents performance of a reasonable range of duties or a mental condition which totally and permanently prevents any substantial gainful employment. The amount of pension is a percentage of normal pension on employee's credited service (maximum of 20 years divided by 20).

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

Accidental Disability Retirement (duty-related): Total and presumably permanent disability, incurred in performance of duty, preventing performance of a reasonable range of duties within the employee's job classification. No credited service requirement. Pension is computed in the same manner as normal pension based on credited service and average monthly compensation at time of termination of employment. Pension is 50% of average monthly compensation, or normal pension amount, whichever is greater.

Temporary Disability: Termination of employment prior to normal retirement eligibility by reason of temporary disability. Pension is 1/12 of 50% of compensation during the year preceding the date disability was incurred. Payments terminate after 12 months of prior recovery.

Catastrophic Disability: Pension is 90% of average monthly compensation. After 60 months, the pension is the greater of 62.5% of average monthly compensation or the member's accrued normal pension.

Survivor Pension: Death while a member is employed by an employer, or death after retirement. No credited service requirement.

Spouse Pension: 80% of pension deceased active member would have been paid for accidental disability retirement or, in the case of retired member, 80% of the retired member's pension. Requires two years of marriage*. Terminates upon death. For member killed in line of duty, 100% of average compensation, reduced by child's pension.

* If retired.

Child's Pension: 20% of the pension each month based on the calculation for an accidental disability retirement. Payable to a dependent child under age 18 or until age 23 if a full-time student.

Guardian's Pension: Same amount as spouse's pension. Payable only during periods no spouse is being paid and there is at least one child under age 18 or until age 23 if a full-time student. 80% of the member's pension and the child's pension will be paid to the guardian.

Other Termination of Employment: Member is paid his/her accumulated contributions.

Cost-of-Living Adjustment:

For members hired before July 1, 2017:

Each retired member or survivor of a retired member is eligible to receive a compounding cost-of-living adjustment in the base benefit. The first payment shall be made on July 1, 2018 and every July 1 thereafter.

The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The cost-of-living adjustment will not exceed 2% per year.

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

For members hired on or after July 1, 2017:

Each retired member or survivor of a retired member is eligible to receive a compounding cost-of-living adjustment in the base benefit, beginning at the earlier of the first calendar year after the 7th anniversary of the retired member’s retirement or when the retired member is or would have been sixty years of age.

A cost-of-living adjustment shall be paid on July 1 each year that the funded ratio for members hired on or after July 1, 2017 is 70% or more. The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. The cost-of-living adjustment will not exceed:

- 2%, if funded ratio for members who are hired on or after July 1, 2017 is 90% or more;
- 1.5%, if funded ratio for members who are hired on or after July 1, 2017 is 80-90%;
- 1%, if funded ratio for members who are hired on or after July 1, 2017 is 70-80%.

Post-Retirement Health Insurance Subsidy: Payable on behalf of retired members and survivors who elect coverage provided by the state or participating employer. The monthly amounts cannot exceed:

Member Only		With Dependents		
Not Medicare Eligible	Medicare Eligible	All Not Medicare Eligible	All Medicare Eligible	One with Medicare
\$150	\$100	\$260	\$170	\$215

Deferred Retirement Option Plan (DROP): A member hired before January 1, 2012 with 20 or more years of credited service under the System may enter into the DROP program with his employer. Under the DROP program, the member must voluntarily and irrevocably elect to enter into the program with his employer for a period of up to 60 months. During the DROP period, the member remains in the employ of the employer as a full-time paid Firefighter or full-time paid certified Peace Officer but no member or employer contributions are made to the System, therefore no additional years of credited service are accrued on the member’s behalf. The member’s monthly pension is calculated based upon the years of credited service and average monthly compensation at the beginning of the DROP period. This monthly pension amount is credited to a DROP participation account with interest credited monthly to the account. The interest rate credited to the DROP account is 8.0% for the fiscal year beginning July 1, 2011, 7.85% for the fiscal years beginning July 1, 2012, July 1, 2013 and July 1, 2014, 7.50% for the fiscal year beginning July 1, 2015 and 7.40% for the fiscal year beginning July 1, 2016.

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

At the end of the DROP period or prior to that time if the member terminates employment, the monies in the DROP participation account will be either paid to the member in a lump-sum amount or paid in a lump-sum distribution to an eligible retirement plan or individual retirement account. The member will then begin receiving the monthly pension amount directly from the System in the same amount as was being credited to the DROP participation account.

For members with less than 20 years of credited service on January 1, 2012, the monthly pension amount is credited to a DROP participation account with interest calculated as the average return on the actuarial value of assets, with a minimum of 2% and maximum equal to the actuarial assumed rate. The interest credited to the DROP account is 4.40% for the fiscal year beginning July 1, 2012, 3.20% for the fiscal year beginning July 1, 2013, 3.40% for the fiscal year beginning July 1, 2014, 3.1% for the fiscal year beginning July 1, 2015 and 4.50% for the fiscal year beginning July 1, 2016.

For members with less than 20 years of credited service on January 1, 2012, during the DROP period, the member remains in the employ of the employer as a full-time paid Firefighter or full-time paid certified Peace Officer and refundable member contributions are made to the System.

A member hired on or after January 1, 2012 may NOT enter into the DROP.

Employer Contributions:

For members hired before July 1, 2017:

Percent-of-payroll normal cost plus 30-year (20 years remaining as of June 30, 2016) amortization of unfunded actuarial accrued liability (20-year amortization for credit). The statutory minimum is 8% of payroll (5% of payroll if the actual employer contribution rate is less than 5% for the 2006/2007 fiscal year). Employer will contribute to the system when members return to work.

For members hired on or after July 1, 2017:

50% of both the Normal Cost and Actuarially determined amount required to amortize the total unfunded liability for those hired after July 1, 2017. Each year a new amortization base for gains or losses, smoothed over a period not more than 5 years, will be created on a level dollar basis over a period equal to the average expected remaining service lives, but not more than 10 years.

Member Contributions:

For members hired before July 1, 2017:

Member contribution rates are shown in the schedule below. Additional member contributions DO NOT reduce the employer contribution; this means there is a “maintenance of effort” provision.

- FY 2010-2011 – 7.65%
- FY 2011-2012 – 8.65%
- FY 2012-2013 – 9.55%
- FY 2013-2014 – 10.35%
- FY 2014-2015 – 11.05%

SUMMARY OF PLAN PROVISIONS VALUED AND/OR CONSIDERED

- FY 2015-2016 and after: the lesser of 11.65%; or 33.3% of the sum of the member's contribution rate from the preceding fiscal year, plus the aggregate computed employer contribution rate; subject to a minimum employee contribution rate of 7.65%.
- The result for FY 2015-2016 is 11.65%
- The result for FY 2016-2017 is 11.65%
- The result for FY 2017-2018 is 11.65%

For members hired on or after July 1, 2017:

50% of both the Normal Cost and Actuarially determined amount required to amortize the total unfunded liability for those hired after July 1, 2017.

SECTION G
FUNDING POLICY

ACTUARIAL FUNDING POLICY

Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board for the Arizona Public Safety Personnel Retirement System (PSPRS). The Board establishes this Funding Policy to help ensure the systematic funding of future benefit payments for members of the Retirement System.

In 2012, the Governmental Accounting Standards Board (GASB) approved two new financial reporting standards. GASB Statement No. 67, "Financial Reporting for Pension Plans" replaces the requirements of Statement No. 25. GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" replaces the requirements of Statements No. 27 and No. 50. Prior to the changes, the Annual Required Contribution (ARC) rate was used as a basis for funding decisions. The new GASB statements separate accounting cost (expense) from funding cost (contributions), necessitating the creation of this funding policy.

This funding policy shall be reviewed by the Board annually for several years following initial adoption until the next experience study. Subsequently, it shall be reviewed every five years in conjunction with the experience study.

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 stability of employer contribution rates, consistent with other funding objectives.
3. 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.
4. Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provide services to them, rather than deferring those costs to future members and employers.
5. Provide a reasonable margin for adverse experience to help offset risks.
6. Continue progress of systematic reduction of the Unfunded Actuarial Accrued Liabilities (UAAL).

ACTUARIAL FUNDING POLICY

Elements of Actuarial Funding Policy

1. Actuarial Cost Method

- a. The Individual Entry Age Normal level percent of pay 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

- 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 7 years in calculating the Funding Value of Assets
- b. The Funding Value of Assets so determined shall be subject to a 20% corridor relative to Market Value of Assets.

3. Amortization Method

- 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. 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

- a. The targeted funded ratio shall be 100%.
- b. The maximum amortization period shall be 30 years.
- c. If the funded ratio is between 100% and 120%, a minimum contribution equal to the Normal Cost will be made.

ACTUARIAL FUNDING POLICY

Elements of Actuarial Funding Policy (Concluded)

5. Risk Management

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. The amortization period will be reviewed once the period reaches 15 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) UAAL / Total Payroll
 - Measures the risk associated with contribution decreases relative impact on the ability to fund the UAAL. An increase in this measure indicates a increase in contribution risk.
 - (iii) Total Liability / Total Payroll
 - Measures the risk associated with the ability to respond to liability experience through adjustments in contributions. An increase in this measure indicates an increase in experience risk.

ACTUARIAL FUNDING POLICY

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 the American Academy of Actuaries (MAAA). The Society of Actuaries (SOA) is an 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.

ACTUARIAL FUNDING POLICY

Glossary (Concluded)

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".

APPENDIX A

ACCOUNTING DISCLOSURES

This information is presented in draft form for review by the System's auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the System's financial statements.

Please note that Employer Reporting Information under GASB Statement No. 27 is being replaced by GASB Statement No. 68. Employers will receive a separate report for accounting disclosures under GASB Statement No. 68.

**SCHEDULE OF FUNDING PROGRESS
(EXCLUDING HEALTH INSURANCE SUBSIDY BEGINNING
JUNE 30, 2008)**

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll [(b)-(a)]/(c)	AAL as a Percent of Covered Payroll (b)/(c)
2007	\$5,547,063	\$6,885,515	\$1,338,452	80.6 %	\$5,481,571	24.4 %	125.6 %
2008	7,027,542	8,244,509	1,216,967	85.2 %	6,125,469	19.9 %	134.6 %
2009	8,773,612	9,289,834	516,222	94.4 %	6,417,315	8.0 %	144.8 %
2010	10,686,004	11,581,593	895,589	92.3 %	6,865,697	13.0 %	168.7 %
2011	12,766,762	14,912,963	2,146,201	85.6 %	6,992,237	30.7 %	213.3 %
2012	15,925,566	16,808,161	882,595	94.7 %	6,526,447	13.5 %	257.5 %
2013	17,794,387	18,189,257	394,870	97.8 %	6,551,303	6.0 %	277.6 %
2014	19,471,182	20,167,102	695,920	96.5 %	6,556,127	10.6 %	307.6 %
2015	21,896,360	23,742,561	1,846,201	92.2 %	6,612,440	27.9 %	359.1 %
2016	25,056,608	33,193,981	8,137,373	75.5 %	7,242,871	112.4 %	458.3 %

Results before 2009 were calculated by the prior actuary.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Annual Required Contribution
2009	\$ 882,080
2010	779,167
2011	724,454 (est.)
2012	823,010 (est.)
2013	995,995 (est.)
2014	931,086 (est.)
2015	881,396 (est.)
2016*	902,698 (est.)
2017*	1,016,301 (est.)
2018	1,887,967 (est.)

** This is the estimated Annual Required Contribution before the phase-in plan.*

Fiscal Years prior to 2011 were provided by the prior actuary.

Beginning with the 2011 fiscal year, this schedule shows the estimated annual required contribution (calculated based on the recommended contribution rate and the projected payroll for the fiscal year). Actual amounts reported in the employer's financial statements may be different, due to differences between the projected payroll and the actual payroll during the fiscal year.

SUPPLEMENTARY INFORMATION
SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2016
Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay closed
Remaining amortization period	20 years for underfunded 20 years for overfunded
Asset valuation method	7-year smoothed market 80%/120% market

Actuarial assumptions:

Investment rate of return	7.50%
Projected salary increases	4.0% - 8.0%
Payroll growth	4.0%
Permanent Benefit Increases	The cost-of-living adjustment will be based on the average annual percentage change in the Metropolitan Phoenix-Mesa Consumer Price Index published by the United States Department of Labor, Bureau of Statistics. We have assumed that to be 1.75% for this valuation.

GASB STATEMENT NO. 45 SUPPLEMENTARY INFORMATION

The following information is presented concerning the post-retirement health insurance subsidy. The liabilities and computed contribution for the post-retirement health insurance subsidy were based on the same assumptions and actuarial cost methods as indicated for GASB Statement No. 27.

SCHEDULE OF FUNDING PROGRESS

Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2007	\$ 0	\$145,120	\$145,120	0.0 %	\$ 5,481,571	2.65%
2008	0	175,081	175,081	0.0	6,125,469	2.86
2009	0	218,655	218,655	0.0	6,417,315	3.41
2010	0	263,309	263,309	0.0	6,865,697	3.84
2011	0	451,398	451,398	0.0	6,992,237	6.46
2012	0	485,218	485,218	0.0	6,526,447	7.43
2013	0	540,286	540,286	0.0	6,551,303	8.25
2014	462,277	604,706	142,429	76.5	6,556,127	2.17
2015	537,771	641,491	103,720	83.8	6,612,440	1.57
2016	608,085	733,020	124,935	83.0	7,242,871	1.72

ANNUAL REQUIRED CONTRIBUTION

Valuation Date June 30	Fiscal Year Ended June 30	Normal Cost (a)	Actuarial Accrued Liability (b)	Total (a+b)	Dollar Amount
2007	2009	0.38%	0.12%	0.50%	\$30,627
2008	2010	0.37	0.14	0.51	31,240
2009	2011	0.40	0.17	0.57	40,713
2010	2012	0.40	0.19	0.59	45,086
2011	2013	0.28	0.35	0.63	48,566
2012	2014	0.27	0.40	0.67	48,209
2013	2015	0.29	0.47	0.76	54,372
2014	2016	0.31	0.11	0.42	29,783
2015	2017	0.29	0.10	0.39	27,893
2016	2018	0.29	0.11	0.40	31,336

Fiscal Years prior to 2011 were provided by the prior actuary.

Health Insurance Subsidy Payment Reported for FY2016: \$0