

POPULAR ANNUAL FINANCIAL REPORT FISCAL
YEARS ENDING JUNE 30, 2019 AND 2018

CITY OF PHOENIX, ARIZONA

EMPLOYEES' RETIREMENT PLAN



COPERS BOARD

Table of Contents

Page 1 COPERS Title Page
Page 2 COPERS Board
Page 3 Message from Administrator
Page 4 COPERS Organization
Page 5 Actuarial Summary
Page 7 Financial Summary
Page 7 Fiduciary Net Position for Benefits
Page 8 How Pensions are Funded
Page 8 Expenses of the Plan
Page 9 Assets and Actuarial Accrued Liability
Page 10 Investments Summary
Page 11 Outstanding Achievement Award
Page 12 COPERS Contact Information

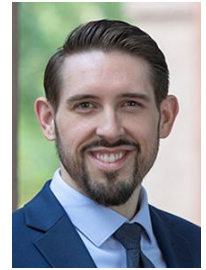
COPERS Board



**Charlene Reynolds
Chairperson**



**Susan Perkins
Vice Chairperson**



**Spencer Self
Board Member**



**Jason Stokes
Board Member**



**Denise Olson
Board Member**



**Lori Bays
Board Member**



**Kathleen Gitkin
Board Member**



**Toni Maccarone
Board Member**



**Allan Maguire
Board Member**



MESSAGE FROM THE ADMINISTRATOR

Dear Reader:

I am pleased to present the 2019 Popular Annual Financial Report (PAFR) for the City of Phoenix Employees' Retirement System (COPERS) for the fiscal year ended June 30, 2019. The information presented here is a summary of the more detailed 2019 COPERS Comprehensive Annual Financial Report (CAFR) which is prepared and presented in conformity with Generally Accepted Accounting Principles (GAAP). The PAFR is not intended to replace the CAFR but to summarize the financial health and the investment performance of COPERS throughout the fiscal year. I encourage you to review the CAFR in its entirety online at phoenix.gov/copers.

The COPERS Plan is governed by the City of Phoenix Employees' Retirement Law of 1953 (Chapter XXIV of the City of Phoenix Charter). This law has been revised over the years, with the latest amendment approved by the City voters on August 25, 2015. COPERS was created to provide retirement, survivor and disability benefits to City of Phoenix general employees. COPERS is a qualified retirement plan under the Internal Revenue Code. The City of Phoenix Employees' Retirement Board (the Board) is the trustee of the Plan.

The net asset value of COPERS as of June 30, 2019 was \$2.660 billion. The fiscal year net return for the Plan was 6.20%, which was 1.05% below the assumed rate of return of 7.25%.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to COPERS for its comprehensive annual financial report for the fiscal year ended June, 30, 2018. In order to be awarded a Certificate of Achievement, an organization must conform to the highest standards of fiduciary reporting and full disclosure. This is the 33rd year COPERS has received this award.

The Plan also received the Public Pension Standards Award for Funding and Administration. This award was presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators, the National Conference on Public Employee Retirement Systems and the National Council on Teacher Retirement. This is the tenth year the Plan has applied for and received this award.

In March of 2017, the Board adopted a revised asset allocation that more closely aligns the Board's risk tolerance with expected returns. The Retirement Board and COPERS staff have worked over the past two years to move COPERS' investments within the approved target ranges for each of the asset classes. As of this report, this project is nearly 95 percent completed.

I would like to acknowledge the guidance provided by the Retirement Board. I would also like to acknowledge the hard work of the COPERS staff and the Finance Department for their collaboration on the information provided in the COPERS CAFR and PAFR. This report is intended to provide important information crucial to the understanding of the pension plan.

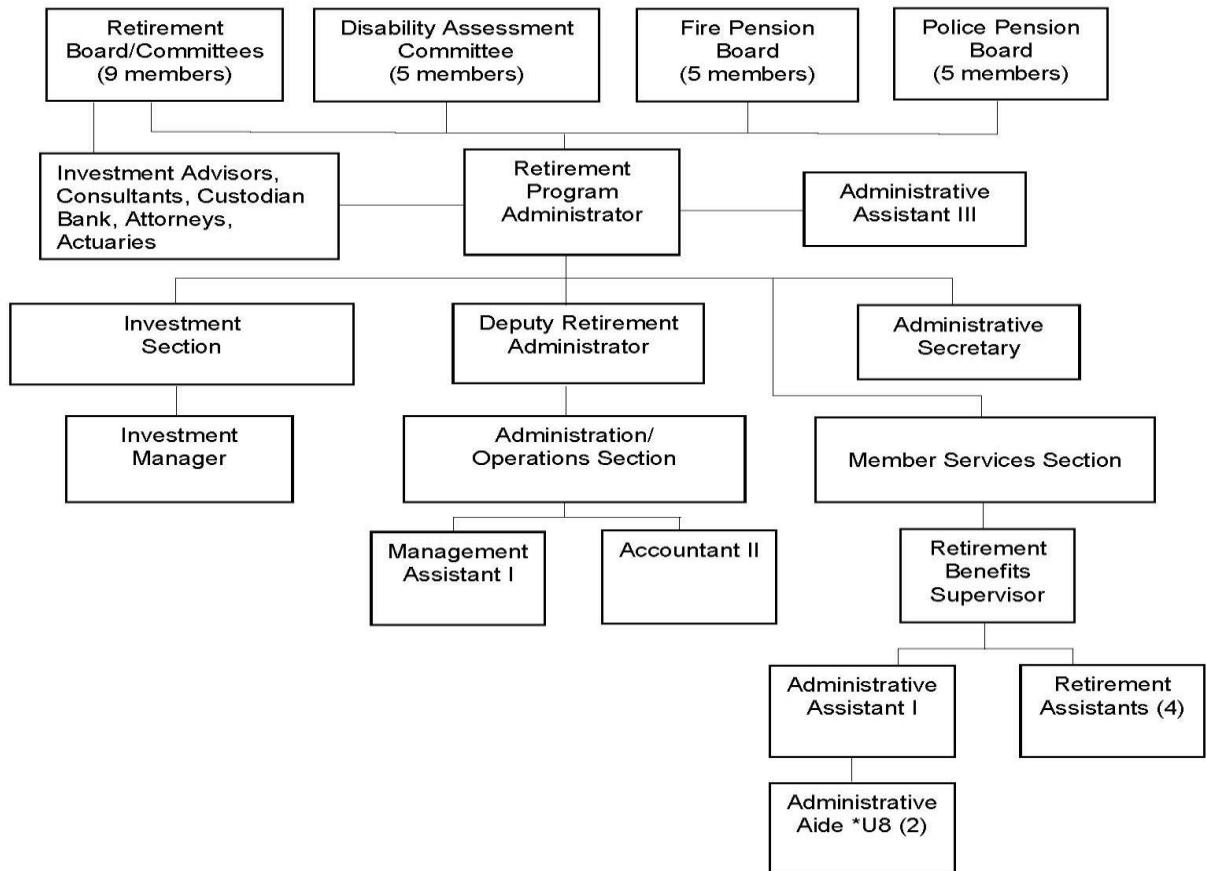
Sincerely,

Scott Steventon

Scott Steventon
Acting Retirement Program Administrator



**Retirement Department
Administrative Organization**

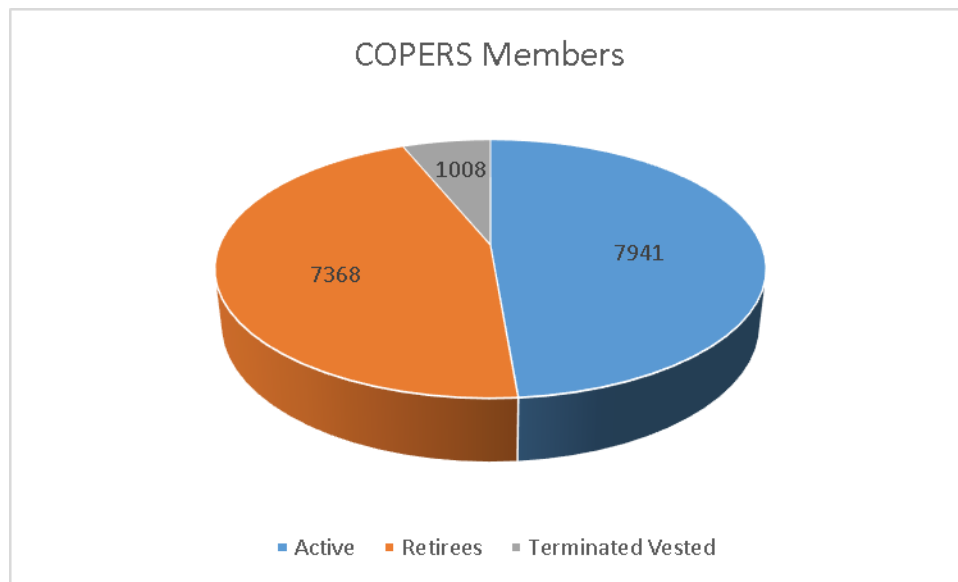


Description of Plan

COPERS is a single-employer, defined benefit pension plan established by the City Charter (Chapter XXIV). Its purpose is to provide retirement, disability retirement, and survivor benefits for its members. Members are full-time employees on a work schedule which consists of the number of full-time hours per week designated for the class of employment for the employee’s classification and which work schedule is intended to be continuous over a period of twelve months. All full-time classified civil service employees and full-time appointive officials of the City with the exception of sworn police and firefighters are required, as a condition of employment, to contribute to COPERS.

Membership Data

The following chart summarizes the make-up of COPERS membership as of June 20, 2019:



Pension Benefits

Benefits are calculated on the basis of a given rate, final average salary and service credit. Members are eligible for retirement benefits at age 60 plus ten or more years of service credit, age 62 with five or more years of service credit, or where age and service credits equal 80 for Tier 1 employees and 87 for Tier 2 and 3 employees. The table below outlines the benefits for each tier.

Tier 1	Tier 2	Tier 3
<ul style="list-style-type: none"> Up to 32.5 yrs service @ 2.0% 32.5 to 35.5 yrs service @ 1.0% 35.5 yrs service & over @ 0.5% 	<ul style="list-style-type: none"> Less than 20 yrs service @ 2.10% 20 yrs but less than 25 yrs service @ 2.15% 25 yrs but less than 30 yrs service @ 2.20% 30 yrs or more @ 2.30% 	<ul style="list-style-type: none"> Less than 10 yrs service @ 1.85% 10 yrs but less than 20 yrs service @ 1.9% 20 yrs but less than 30 yrs service @ 2.0% 30 yrs or more @ 2.1%

A deferred pension is available at age 62 for members who have five or more years of service credit at time of separation and leave their accumulated contributions in COPERS.

A supplemental post-retirement payment and a permanent benefit increase (under the Pension Equalization Program) may be provided to retirees in Tiers 1 and 2 if sufficient reserves are available at the end of the fiscal year. The reserve is funded if the five-year average investment return exceeds 8%.

Actuarial Methods and Assumption Changes

Funding a retirement program is a long-term commitment and it requires the use of assumptions. COPERS hires an independent actuary to conduct annual valuations of pension assets and expected expenses. The COPERS Board works with the actuary to adopt reasonable assumptions including the following:

- Life Expectancy of retirees receiving benefits
- Future salary increases for active employees
- Inflation
- Rate of return on COPERS investments
- Amortization period

The actuary uses these assumptions and standardized methods required by the Governmental Accounting Standards Board to develop the valuation, which includes the actuarial accrued liability and the actuarial or smoothed fair value of plan assets. The valuations are used to determine annual contribution rates that employees and the City are required to pay to meet future pension obligations.

Tier 1, members contribute 5 percent of pay and the City contributes the remainder of the total contribution rate. Tier 2 and Tier 3 members contribute half the total contribution rate, not to exceed 11 percent of pay, and the City contributes the remainder of the total contribution rate.

The smoothed fair value of assets was used for the June 30, 2019 valuation. This method, which is unchanged from last year, spreads the difference between the actual rate of return on COPERS investment and the expected rate of return on COPERS investments over four years. Using the smoothed fair value of assets minimizes the effect of market volatility and also minimizes the volatility of contribution rates. It is consistent with the long-term process of funding a pension plan.

The unfunded actuarial liability (UAL) is the difference between the actuarial liability and the actuarial value of assets, it measures the extent to which promised benefits outweigh the current assets. Changes in UAL indicate whether a plan is successfully moving towards being fully funded.

Funded Status (in thousands)

Valuation Date	Smoothed Value of Assets	Accrued Liability	Actuarial Liability	Funded Ratio
6/30/2019	\$ 2,677,353	\$ 4,401,825	\$ (1,724,472)	60.8%
6/30/2018	2,562,847	4,226,046	(1,663,199)	60.6%
6/30/2017	2,402,707	4,129,452	(1,726,745)	58.2%
6/30/2016	2,283,216	3,984,137	(1,700,921)	57.3%
6/30/2015	2,202,923	3,975,908	(1,772,985)	55.4%
6/30/2014	2,120,700	3,614,784	(1,494,084)	58.7%

The foregoing actuarial assumptions and disclosures are based on the presumption that COPERS will continue as presently chartered. If COPERS is amended, different actuarial assumptions and other factors might be applicable in determining actuarial present values.

FINANCIAL SUMMARY

Statement of Fiduciary Net Position

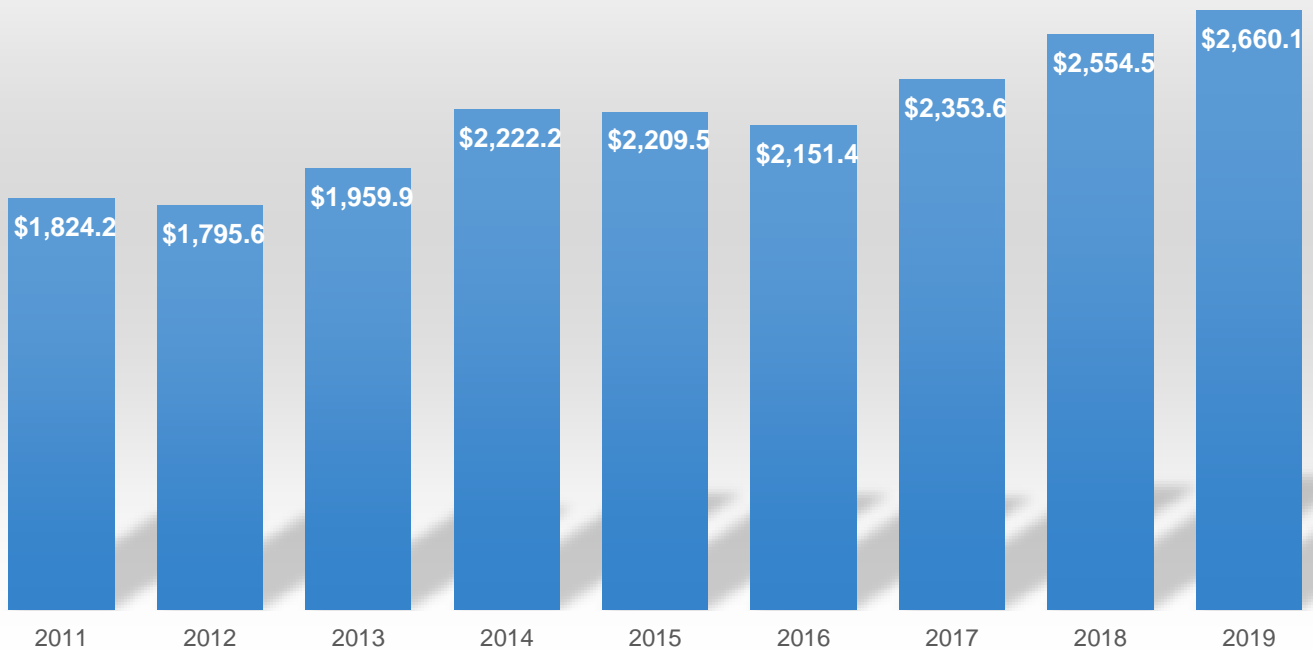
The Statement of Fiduciary Net Position presents information on all of the assets and liabilities of the Plan with the difference reported as Net Position Held in Trust for Pension Benefits. Net position is what is available to make pension payments to retirees and survivors.

The overall increase in net position is primarily a result of strong investment performance. A current and prior year summary of COPERS' net position held for benefits is shown below to assist the reader in evaluating the progress of the Plan.

COPERS' Fiduciary Net Position for Benefits for June 30, 2019 and 2018 (in thousands)

	2019	2018	Change	% Change
Cash & Cash Equivalents	\$ 46,600	\$ 90,105	\$ (43,505)	(48.3) %
Total Receivables	34,278	19,024	15,254	80.2
Total Investments	2,717,237	2,587,042	130,195	5.0
Total Assets	2,798,115	2,696,171	101,944	3.8
Total Liabilities	137,981	141,657	(3,676)	(2.6)
COPERS' Net Position	\$ 2,660,134	\$ 2,554,514	\$ 105,620	4.1 %

Total Plan Net Position (in millions)



How Pensions Are Funded

COPERS is funded through a combination of revenue from employee contributions, employer contributions and investment earnings. Historically, the largest portion of funding has come from net investment. As expected, the proportion of net investment income fluctuates with the market. Revenues for the last five years are shown below.

Fund Revenues (in thousands)

Year Ended	Employee Contributions	Employer Contributions	Net Investment and Other Income
6/30/2019	\$ 35,042	\$ 165,796	\$ 145,325
6/30/2018	33,340	229,006	168,861
6/30/2017	30,870	152,153	243,253
6/30/2016	29,306	119,844	9,388
6/30/2015	27,861	117,092	47,348
6/30/2014	28,815	115,244	298,736

Expenses of the Plan

COPERS' assets can only be used to make benefit payments to retirees and beneficiaries, contribution refunds to terminated employees, and to pay the costs of administering the system. Expenses for the last five years are shown below.

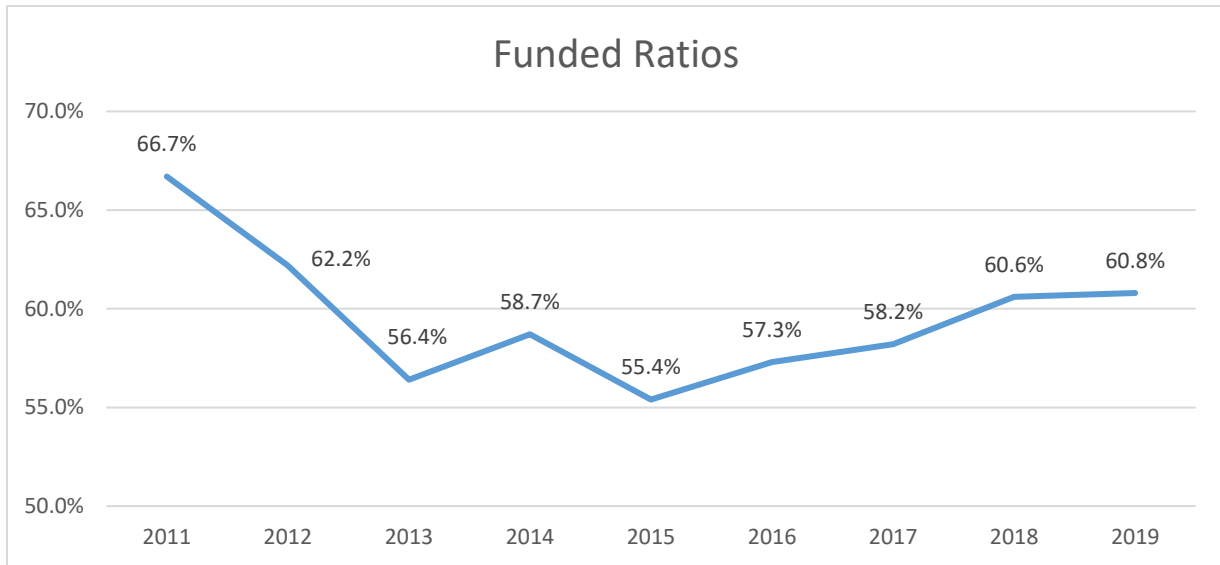
Fund Expenses (in thousands)

Year Ended	Benefit Payments	Refunds	Administrative and Other Expenses
6/30/2019	\$ 234,301	\$ 3,012	\$ 3,230
6/30/2018	224,454	3,472	2,374
6/30/2017	220,276	3,227	587
6/30/2016	213,047	3,047	549
6/30/2015	201,178	3,004	835
6/30/2014	177,447	2,192	866

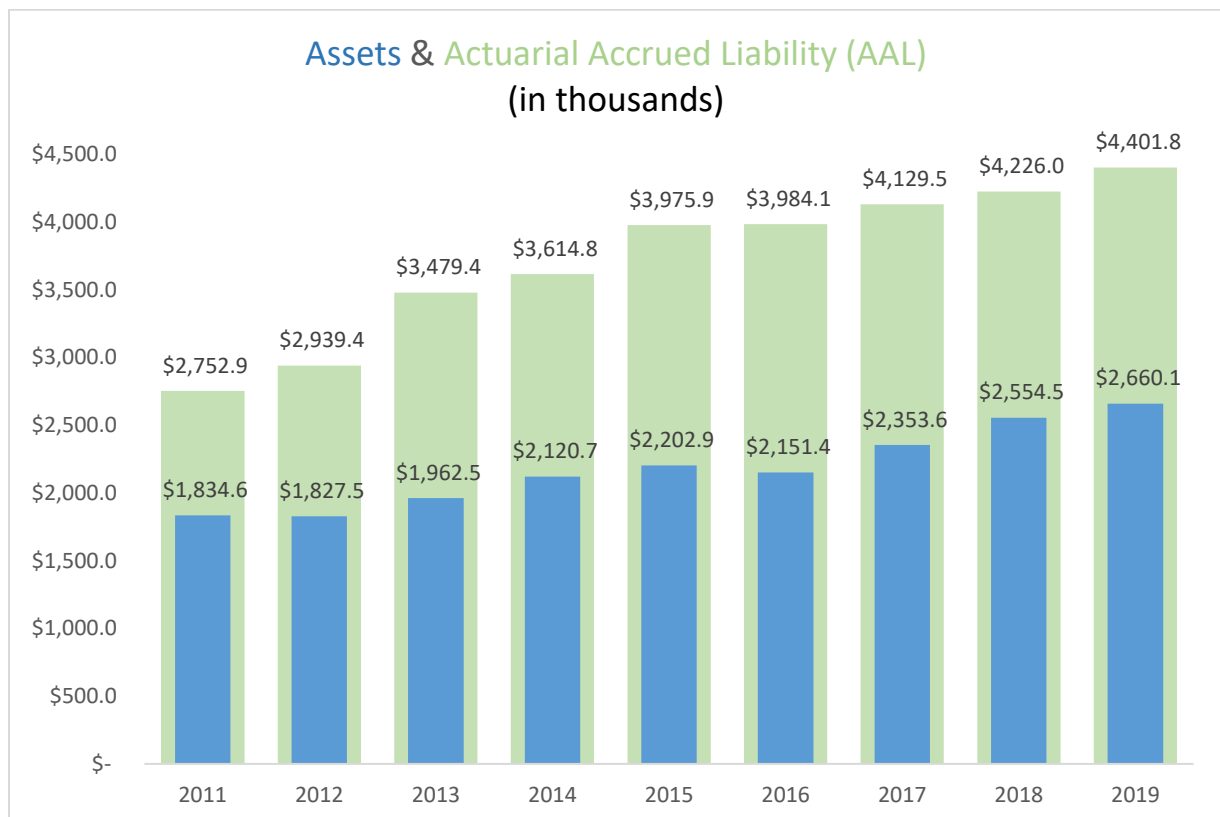
FINANCIAL SUMMARY

Funded Ratio

Every year an independent actuary conducts a study to calculate the funded status of the Plan (Funded Ratio), measure the Plan's funding progress and recommend contribution rates. The Funded Ratio compares the obligations of the Plan to the assets that the Plan holds. High funding ratios indicate a well-funded plan with sufficient assets to cover the plan's obligations. For the June 30, 2019 valuation, the actuary determined COPERS' funded ratio was 60.8%.



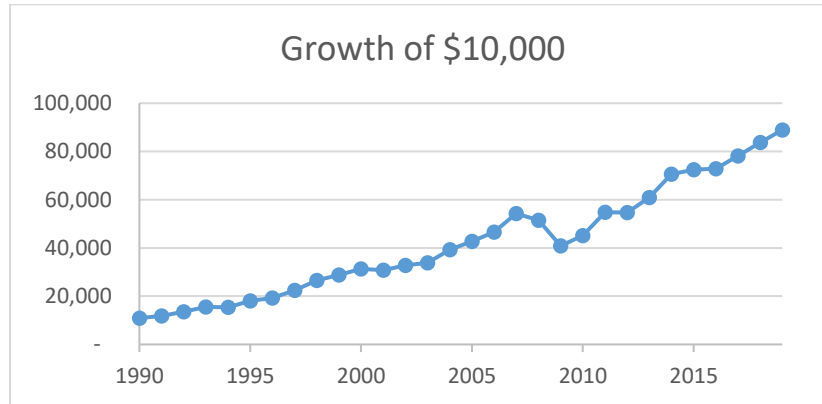
Assets and Actuarial Accrued Liability



INVESTMENTS SUMMARY

Investment Summary and Asset Allocation

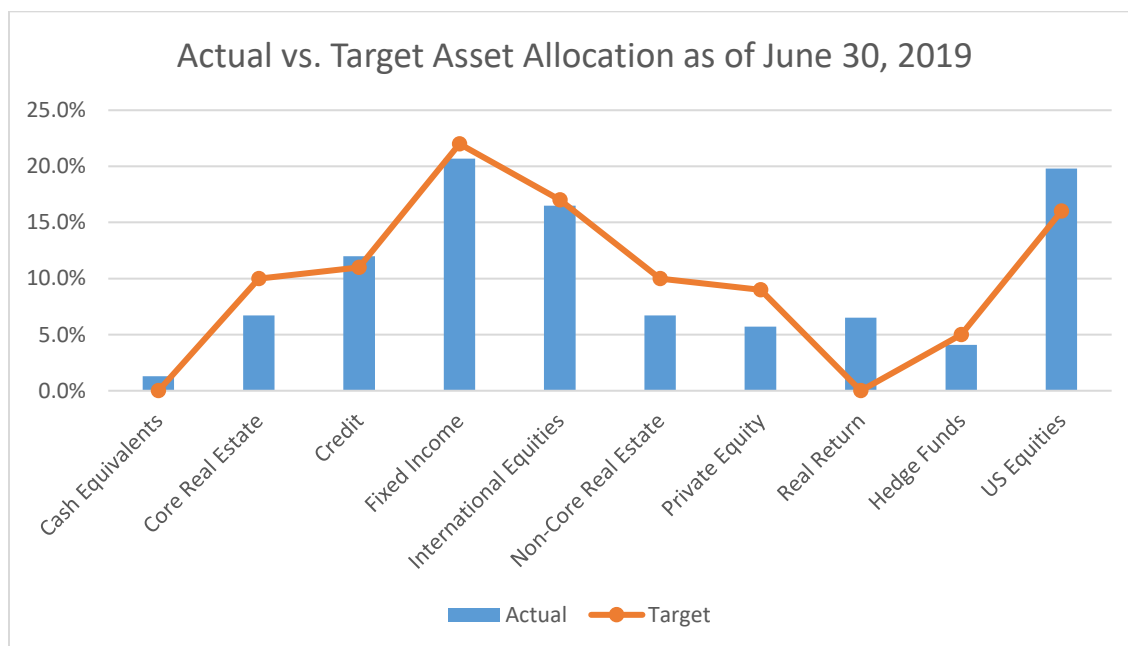
For the fiscal year ended June 30, 2019, the Plan's investment portfolio produced a net return of 6.2%. COPERS' asset allocation has provided consistent overall returns over time, as illustrated in the graph below that shows the growth of \$10,000 at COPERS' investment return rates.



In an effort to attain the total portfolio return goal, each asset class has a benchmark return. Actual versus benchmark returns for the fiscal year are reflected below.

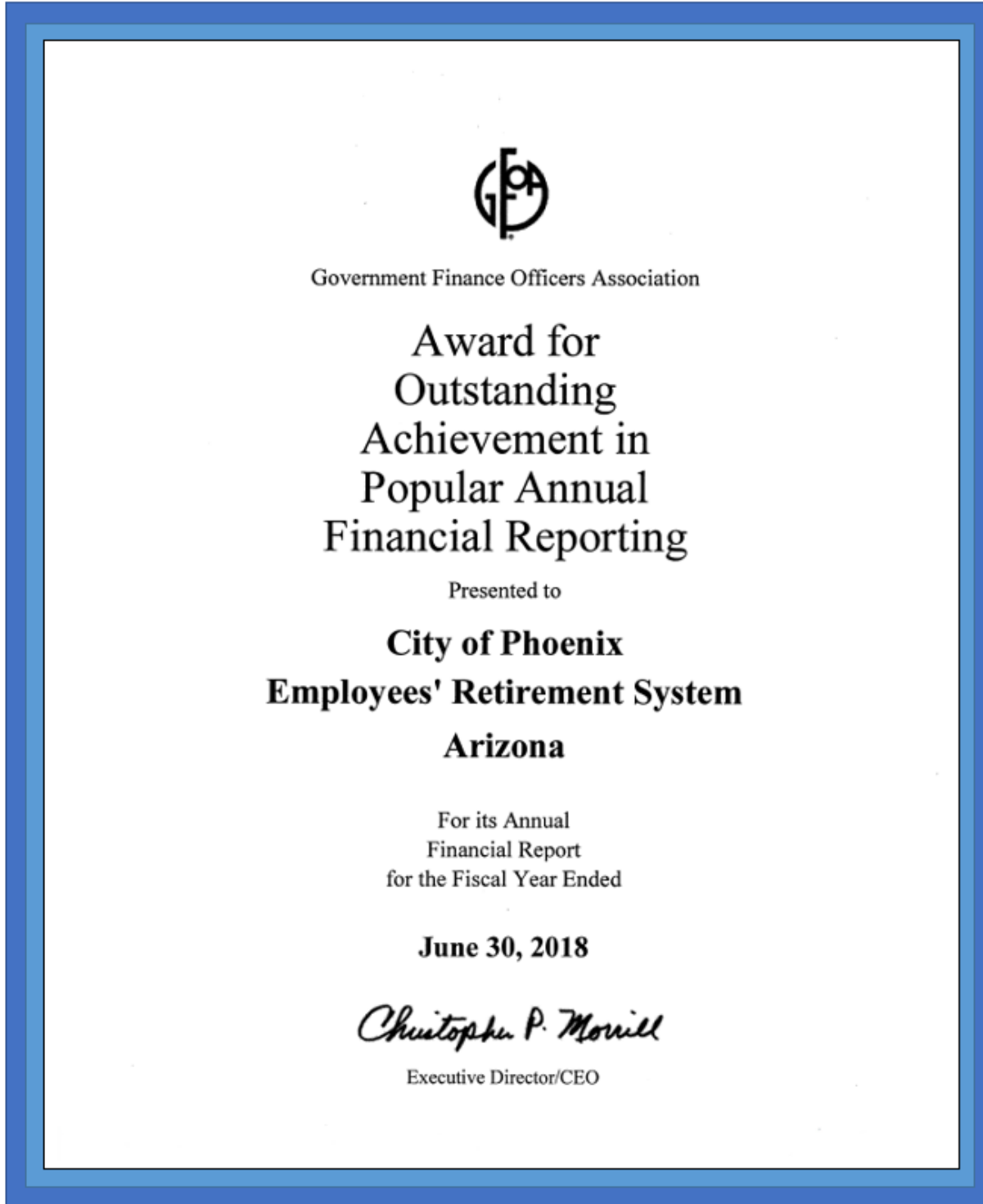
	Core Real Estate	Emerging Market Bonds	Fixed Income	International Equities	Non-Core Real Estate	Private Equity	Hedge Funds	US Equities
Actual Return	6.2%	11.9%	7.9%	2.2%	12.2%	17.0%	-2.2%	6.2%
Benchmark Return	6.4%	12.4%	7.9%	1.1%	6.4%	11.0%	1.3%	9.0%

Asset allocation represents how the System's investments are spread amongst various asset classes and is used to mitigate risk. Actual and target allocations are depicted in the chart below.



OUTSTANDING ACHIEVEMENT AWARD

Government Finance Officers Association of the United States and Canada has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to City of Phoenix Employees' Retirement System for its Popular Annual Financial Report for the fiscal year ended June 30, 2018. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.



Visit COPERS at:
www.phoenix.gov/copers

COPERS
200 W. Washington St., 10th Floor
Phoenix, AZ 85003
Phone: 602-534-4400
Fax: 602-495-2008
Email: copers@phoenix.gov

Data presented in this report was derived from our June 30, 2019 Comprehensive Annual Financial Report (CAFR). The Popular Annual Financial Report (PAFR) and CAFR were prepared in accordance with Generally Accepted Accounting Principles (GAAP). The CAFR provides in-depth information about the financial, investments, actuarial and statistical aspects of the pension plan. This PAFR and the CAFR are available at www.phoenix.gov/copers, by phone at (602)534-4400 or by email at copers@phoenix.gov.

