

Director: LeRoy Gilbertson

JLBC Analyst: Tim Sweeney

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Approved
<b>PROGRAM BUDGET</b>			
Administration and Support	7,412,500	13,096,400	9,415,900
Burke Litigation Settlement SLI	4,334,300	6,300,000	0
Information Technology Plan SLI	0	9,007,600	9,053,400 <sup>1/</sup>
<i>Program Subtotal - Administration and Support</i>	11,746,800	28,404,000	18,469,300
Member Services	4,033,400	4,748,300	4,912,100
Investment Management	497,000	622,100	652,200
<b>TOTAL APPROPRIATIONS</b>	<b>16,277,200</b>	<b>33,774,400</b>	<b>24,033,600</b>
<b>OPERATING BUDGET</b>			
Full Time Equivalent Positions	145.0	168.0	168.0 <sup>2/</sup>
Personal Services	5,479,000	6,521,300	6,721,200
Employee Related Expenditures	1,081,000	1,378,700	1,674,500
Professional and Outside Services	2,912,000	7,437,900	3,629,800
Travel - In State	27,100	36,300	36,300
Travel - Out of State	10,000	13,600	13,600
Other Operating Expenditures	1,965,400	2,529,600	2,530,000
Equipment	468,400	549,400	104,500
<i>Operating Subtotal</i>	11,942,900	18,466,800	14,709,900
Special Line Items (SLI)	4,334,300	15,307,600	9,053,400
<b>SUBTOTAL</b>	<b>16,277,200</b>	<b>33,774,400</b>	<b>23,763,300</b>
<b>Additional Appropriations -</b>			
ASRS; Federal Conforming Changes, Ch. 213	0	0	270,300
<b>TOTAL APPROPRIATIONS</b>	<b>16,277,200</b>	<b>33,774,400</b>	<b>24,033,600</b> <sup>3/</sup>
<b>FUND SOURCES</b>			
General Fund	4,209,700	6,300,000	0
<u>Other Appropriated Funds</u>			
State Retirement System Administration Account	10,209,500	25,187,700	21,609,700
Long-Term Disability Administration Account	1,858,000	2,286,700	2,423,900
<i>Subtotal - Other Appropriated Funds</i>	12,067,500	27,474,400	24,033,600
<b>TOTAL APPROPRIATIONS</b>	<b>16,277,200</b>	<b>33,774,400</b>	<b>24,033,600</b>

<sup>1/</sup> Before the expenditure of the \$18,000,000 biennial appropriation and the hiring of FTE Positions appropriated for the agency's information technology plan, the Retirement System shall present an expenditure plan to the Joint Legislative Budget Committee Staff for review. The Retirement System shall include the approval of the project investment justification document by the Information Technology Authorization Committee as part of its submission to the Joint Legislative Budget Committee Staff. On review, the agency shall provide semi-annual reports to the Joint Legislative Budget Committee Staff regarding the expenditures and project tasks completed to date. Funding appropriated for this purpose is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations through June 30, 2005. Actual divestiture of monies from the Retirement Fund for expenditure shall occur following the Joint Legislative Budget Committee Staff review of the agency's information technology plan. (General Appropriation Act footnote)

<sup>2/</sup> Includes 14 FTE Positions funded from Special Line Items in FY 2003.

<sup>3/</sup> General Appropriation Act (Laws 2001, Chapter 236 as amended by Laws 2002, Chapter 327) funds are appropriated as a Lump Sum by Agency with Special Line Items.

**AGENCY DESCRIPTION** — *The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. As of June 30, 2001, ASRS membership included approximately 308,200 active (working and contributing) members, 58,900 retired members, 4,000 disabled retirees, and approximately \$21,731,000,000 in assets (market value).*

<b>PERFORMANCE MEASURES</b>	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Est./Actual	Estimate
• % of members satisfied with ASRS telephone services	85/80	85/82	85/81	85
• % of members satisfied with the service purchase process	85/81	85/75	85/72	85
• % of investment returns	8/16.8	8/10	8/10.98	8
• % of liability funded	100/116.4	100/120.4	100/112.8	100
• % of benefit payment calculations that are accurate as measured by quality control sample	NA	NA/96	96/96	96

This agency’s budget was originally appropriated in Laws 2001, Chapter 236. It was amended by Laws 2002, Chapter 327 only to incorporate statewide salary adjustment changes and other statewide technical adjustments. For details on this agency’s FY 2003 budget, please see the *FY 2002 & FY 2003 Appropriations Report*.

**Additional Appropriations:** ASRS; Federal Conforming Changes (Chapter 213) — Appropriates \$270,300 from the Retirement System Administration Account in FY 2003 for administrative costs.

**Vetoed Appropriations:** Retirees; Health Insurance; Enhanced Subsidy (H.B. 2558) — This legislation would have extended the temporary rural health insurance subsidy, originally enacted by Laws 2001, Chapter 376, through June 30, 2004. The bill also redefined “non-service area” to include out-of-state retirees. This legislation also would have appropriated \$370,000 from the Retirement System Administration Account in FY 2003 for administrative costs. The Governor vetoed this bill.

**Additional Legislation:** PSPRS; CORP; EORP; Retirement Benefits (Chapter 335) — Increases the pension a surviving spouse or child would receive from 75% to 80% of the monthly benefit received by a PSPRS, CORP, and EORP member at the time of their death. In addition, this bill eliminates the June 30, 2006 termination date for the Deferred Retirement Option Plan (DROP) in PSPRS. This bill also increases the PSPRS and CORP surviving spouse pension from 50% to 100% of a member’s monthly salary when the member is killed in the line of duty. Finally, this bill includes a 2% tax equity benefit allowance to PSPRS and EORP retirees employed before September 15, 1989 and retiring on or after November 1, 2001. Since 1989, a total of 9 tax equity benefit increases have been granted.

Actuaries contracted by the retirement systems estimate that this bill will result in a 0.95% increase in the FY 2004 PSPRS systemwide average employer contribution rate, a 0.13% increase in the FY 2004 CORP systemwide average employer contribution rate, and a 1.09% increase in the FY 2004 EORP employer contribution rate. The JLBC Staff estimates the contribution rate increases will result in a FY 2004 cost of \$904,000 to the General Fund, and \$380,400 to Other Appropriated Funds.

**Other Issues:** Actuarial Impact of Retirement Legislation — Currently, assets exceed liabilities in the 4 retirement systems. This is primarily due to the fact that investment returns have been higher than the actuarial assumed rate of return of 8% ASRS and 9% PSPRS, CORP, and EORP.

ASRS

ASRS assets exceed liabilities by \$2.6 billion. These monies are used to reduce the total amount contributed by current employees and employers from 5.36% to 2% of employees’ salaries. Therefore, benefit enhancements have a corresponding cost impact if they cause the retirement rate to increase. When the actual ASRS contribution rate is below the established floor of 2%, it is possible to enact benefit enhancements without having an impact to the General Fund (provided that they do not raise the contribution rate above the 2% floor.)

While the ASRS contribution rate for the FY 2002-FY 2003 biennium is 2%, if the rate were to be adjusted to reflect fund performance and benefit enhancements enacted in the 2001 Legislative Session, the actual contribution rate would be 3.86%. Though, due to the fact that the new contribution rates are established on a biennial basis, in FY 2002 employers and employees are contributing 2%, which is less than the actuarially required amount of 3.86%. Therefore, according to actuarial projections, there is no “cushion” to absorb any contribution rate increases due to enacted legislation.

PSPRS

PSPRS assets exceed liabilities by \$987.2 million. These monies are used to reduce the total amount contributed by current employers from an average of 11.21% to 3.75% of employees' salaries. Therefore, benefit enhancements have a corresponding cost impact if they cause the retirement rate to increase. When the actual PSPRS systemwide average contribution rate is below the statutorily established floor of 2%, it is possible to enact benefit enhancements without having an impact to the General Fund (*provided that they did not raise the contribution rate above the 2% floor.*) However, the systemwide average PSPRS contribution rate for the FY 2002-FY 2003 biennium is 4.21%, because the contribution rate is set on a biennial basis. If the rate were to be adjusted in FY 2003 to reflect fund performance and benefit enhancements enacted in the 2001 Legislative Session, the actual systemwide average rate would be 3.75%. Therefore, on average, there is no "cushion" to absorb the total contribution rate increases due to legislation enacted in the 2002 Legislative Session, of 0.95%. The JLBC Staff estimates that a 0.95% increase in the contribution rate will result in a FY 2004 cost of \$319,200 to the General Fund and \$377,800 to Other Appropriated Funds.

The above discussion is based on the PSPRS systemwide average, employer contribution rate. However, individual PSPRS employers do not contribute the systemwide average, but instead contribute an actuarially determined rate specific to each employer. Therefore, some employers may have actuarially determined contribution rates below the 2% floor, thus producing a "cushion" where the individual employer could absorb a portion of the contribution rate increase due to benefit enhancements. As a result, the actual General Fund and Other Appropriated Funds impact may be smaller than reported.

CORP

CORP assets exceed liabilities by \$221.8 million. These monies are used to reduce the total amount contributed by current employers from an average of 5.79% to 1.71% of employees' salaries. Therefore, benefit enhancements have a corresponding cost impact if they cause the retirement rate to increase. When the actual CORP contribution rate is below the established floor of 2%, it is possible to enact benefit enhancements without having an impact to the General Fund (*provided that they do not raise the contribution rate above the 2% floor.*) However, the systemwide average CORP contribution rate for the FY 2002-FY 2003 biennium is 1.15%, because the contribution rate is set on a biennial basis. If the rate were to be adjusted in FY 2003 to reflect fund performance and benefit enhancements enacted in the 2001 Legislative Session, the actual systemwide average rate would be 1.71%. Therefore, on average there is a 0.29% "cushion" available to potentially absorb a portion of any contribution rate increases due to benefit enhancements enacted during the 2002 Legislative Session. The impact

of all CORP benefit enhancements enacted in the 2002 Legislative Session totals 0.13%, therefore the 0.29% cushion should be available to offset the entire impact of the 2002 legislation.

The above discussion is based on the CORP systemwide average contribution rate. Individual CORP employers do not contribute the systemwide average, however, but instead contribute an actuarially determined rate specific for each employer. Therefore, while there is a 0.29% cushion on average, some state employer may be above the 2% floor, and would then be unable to absorb the expected increase in the contribution rate due to 2002 legislation. As a result, there may be some General Fund and Other Appropriated Funds impact associated with the benefit enhancements enacted in the 2002 Legislative Session.

EORP

EORP assets exceed liabilities by \$104.8 million. These monies are used to reduce the total amount of court fees needed to cover employer contributions from an average of 21% to 7.55% of elected officials' salaries. EORP receives a fixed percentage of court fees to fund employer contributions, and in previous years these court fees have been large enough to produce a buffer. If, however, court fees are not enough to cover employer contributions, General Fund monies would be needed. Fund performance and benefit enhancements enacted in the 2001 Legislative Session have eliminated this buffer, and now the total cost impact of any contribution rate increases will result in a General Fund impact.

The impact of all EORP benefit enhancements enacted in the 2002 Legislative Session totals 1.09%. The JLBC Staff estimates that a 1.09% increase in the contribution rate will result in a FY 2004 cost of \$170,300 to the General Fund.

The following table summarizes the impact of the total package of benefit enhancements enacted in the 2002 Legislative Session for each retirement system.

<u>System</u>	<u>"Cushion"</u>	<u>Contribution Rate Increase less "Cushion"</u>	<u>Fiscal Impact Beginning FY 2004 (\$ in Millions)</u>
PSPRS	0.00%	0.95%	0.32 GF 0.38 OF 0.00 GF
CORP	0.29%	0.00%	0.00 OF
EORP	0.00%	1.09%	0.17 GF
<b>Total</b>			<b>\$0.49 GF</b> <b>\$0.38 OF</b>

[Click here to return to the Table of Contents](#)