Arizona State Retirement System

A.R.S. § 38-711

Director: Paul Matson | JLBC Analyst: Michael Stelpstra

	FY 2002 Actual	FY 2003 Estimate	FY 2004 Approved	FY 2005 Approved
OPERATING BUDGET				
Full Time Equivalent Positions	168.0	173.0	197.0	197.0
Personal Services	6,192,300	7,426,700	7,447,500	7,447,500
Employee Related Expenditures	1,405,900	1,802,200	2,167,800	1,924,200
Professional and Outside Services	5,764,800	3,904,800	3,166,600	3,447,500
Travel - In State	39,500	60,000	24,900	24,900
Travel - Out of State	15,800	25,000	25,000	25,000
Other Operating Expenditures	1,357,700	1,637,000	1,209,800	1,203,500
Equipment	349,900	124,500	124,500	124,500
OPERATING SUBTOTAL	**15,125,900**	**14,980,200**	**14,166,100**	**14,197,100**
SPECIAL LINE ITEMS				
Burke Litigation Settlement	2,819,200	0	0	0
Information Technology Plan	2,830,500	9,053,400	9,039,600 1/	8,994,300 1/
SUBTOTAL	**20,775,600**	**24,033,600**	**23,205,700** 2/	**23,191,400** 2/
Additional Appropriation -				
ASRS; Surviving Spouses; Health Insurance, Ch. 171	0	0	537,000 3/	0
Public Retirees; Rural Areas; Insurance, Ch. 247	0	0	183,000	0
AGENCY TOTAL	**20,775,600**	**24,033,600**	**23,925,700**	**23,191,400**
FUND SOURCES				
General Fund	2,819,200	0	0	0
Other Appropriated Funds				
Long-Term Disability Administration Account	2,271,400	2,423,900	2,616,800	2,897,700
State Retirement System Administration Account	15,685,000	21,609,700	21,308,900	20,293,700
SUBTOTAL - Other Appropriated Funds	17,956,400	24,033,600	23,925,700	23,191,400
AGENCY TOTAL	**20,775,600**	**24,033,600**	**23,925,700**	**23,191,400**

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, 2002, ASRS membership included approximately 198,900 active (working and contributing) members, 110,000 inactive members, 60,300 retired members, 4,500 disabled members, and approximately $19.1 billion in assets (market value).*

1/ Before the expenditure of the appropriation of $9,039,600 in FY 2004 and $8,994,300 in FY 2005 and the hiring of FTE Positions appropriated for the agency's information technology plan, the Retirement System shall present an expenditure plan in each year 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. The agency shall provide semiannual 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, as adjusted for statewide allocations)

2/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

3/ Pursuant to Laws 2003, Chapter 171, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

PERFORMANCE MEASURES	FY 2002 Appropriation	FY 2002 Actual	FY 2003 Appropriation	FY 2004-05 Appropriation
• % of members satisfied with ASRS telephone services	85	78	85	87
• % of members satisfied with the service purchase process	85	71	85	82
• % of investment returns	8	(8.2)	8	8
• % of liability funded	100	106	100	100
• % of benefit payment calculations that are accurate as measured by quality control sample	96	NA	96	96

Comments: The agency did not submit information for any measure labeled as "NA."

Technical Adjustments — The FY 2004 and FY 2005 approved amounts include technical adjustments for Employee Related Expenditures, Risk Management charges, Other Fund health and dental insurance changes, Other Fund retirement changes, and Other Fund AFIS charges. *(Please see the General Provisions section at the end of this Appropriations Report for further details on these changes.)*

Investment Expense — The approved amount includes a State Retirement System Administration Account decrease of $(1,999,400) in both FY 2004 and FY 2005 below FY 2003 for investment expenses that have been converted to non-appropriated status. Laws 2001, Chapter 136 converted actuarial expenses, retiree payroll, and rent to non-appropriated status. These items can now be funded with non-appropriated monies.

Member Call Center — The approved amount includes a State Retirement System Administration Account increase of $709,700 and 19 FTE Positions in both FY 2004 and FY 2005 above FY 2003 for the operation of a member call center. The agency established a member call center in FY 2002 with temporary staffing using appropriated funding for investment expenses *(see previous issue)*. The approved amount makes the staffing permanent and continues existing funding.

Administration — The approved amount includes an increase of 1 FTE Position in both FY 2004 and FY 2005 above FY 2003 for a Management Analyst for the Strategic Planning and Analysis Team. The agency currently employs 1 temporary staff as a Management Analyst. The approved amount makes the position permanent and continues existing funding.

Long-Term Disability — The approved amount includes a Long-Term Disability Administration Account FY 2004 increase of $192,900 above FY 2003 and a FY 2005 increase of $473,800 above FY 2003 for benefit payments and administration costs for projected growth in the number of members receiving long-term disability benefits. The ASRS self funds the payment of disability benefits, although it contracts out the disbursement of payments.

Special Line Items

Burke Litigation Settlement — The approved amount includes no change in funding from FY 2003. Monies in this line item were used to fund the costs associated with the Burke Litigation Settlement and were funded by the General Fund.

Information Technology Plan — The approved amount is unchanged from FY 2003 except for technical adjustments and includes an increase of 4 FTE Positions in both FY 2004 and FY 2005 for the agency's planned information technology improvements. ASRS is required to submit an annual expenditure plan to the Joint Legislative Budget Committee (JLBC) for review, in addition to providing semi-annual reports on the tasks completed and expenditures made to date. (*Please see footnote 1 on prior page for further details.)*

Additional Appropriations: ASRS; Surviving Spouses; Health Insurance (Chapter 171) — Appropriates $537,000 from the State Retirement System Administration Account in FY 2004 for administrative costs. Administering the provisions of the legislation will require new actuarial tables that must be produced and incorporated into the ASRS administrative computer system. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. This legislation allows a contingent annuitant of an ASRS member to receive a health care premium benefit. Actuaries estimate that this bill has no actuarial impact on the contribution rate.

Public Retirees; Rural Areas: Insurance (Chapter 247) — Appropriates $183,000 from the State Retirement System Administration Account in FY 2004 for administrative costs. Administering the provisions of this legislation will require programming changes to the ASRS administrative computer system. This legislation extends the temporary rural health insurance subsidy, originally enacted by Laws 2001, Chapter 376, through June 30, 2005. The bill also modifies eligibility requirements. Requires the Retirement

System to report monthly to the JLBC Staff the estimated and actual number of data processing hours used to implement the act, the amount of funds expended, and the progress toward implementation of this act. Actuaries estimate that this bill will result in a 0.02% increase in the FY 2006 ASRS contribution rate, a 0.03% increase in the FY 2006 Public Safety Personnel Retirement System (PSPRS) contribution rate, a 0.02% increase in the FY 2006 Corrections Officer Retirement Plan (CORP) contribution rate, and a 0.10% increase in the FY 2006 Elected Officials Retirement Plan (EORP) contribution rate. While the increase pertains to both employer and employee contributions for members of ASRS, the increase in the contribution rate for PSPRS, CORP, and EORP pertains only to employer contributions. The JLBC Staff estimates the contribution rate increase will result in a FY 2006 cost of $243,500 to the General Fund and $95,300 to Other Appropriated Funds.

Additional Legislation: ASRS; Service Purchase; Calculation (Chapter 164) — Provides a statutory definition of "current annual compensation" for the purpose of purchasing service credit within the ASRS. Also allows members who purchased military service credit prior to July 20, 1996 to receive a refund of the difference between the old computation method and the new method plus interest. Actuaries estimate that this bill will result in a 0.00045% increase in the ASRS contribution rate. However, because the rate is rounded to two digits, there will be no increase in the actual employer and employee contribution rates associated with this bill.

Other Issues: Actuarial Impact of Retirement Legislation — Currently, assets exceed liabilities in the 4 retirement systems. This is primarily due to the fact that in the past investment returns have been higher than the actuarial assumed rate of return of 8% ASRS and 9% PSPRS, CORP, and EORP. The retirement systems' contribution rates for FY 2004 and FY 2005 do not reflect benefit enhancements that were enacted during the 2003 Legislative Session. Those enhancements, therefore, will not be incorporated into their actuarial rates until FY 2006.

ASRS

ASRS assets exceed liabilities by $1 billion. These monies are used to reduce the total amount contributed by current employees and employers from 5.95% to 5.2% 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.) However, the ASRS contribution rate for the FY 2004-FY 2005 biennium is 5.2%. Therefore, there is no "cushion" to absorb the total estimated contribution rate increase of 0.02% that is anticipated in FY 2006 due to legislation enacted in the 2003 Legislative Session. The JLBC Staff estimates that a 0.02% increase in the contribution rate will result in a FY 2006 cost of $161,300 to the General Fund and $80,500 to Other Appropriated Funds.

PSPRS

PSPRS assets exceed liabilities by $540.2 million. These monies are used to reduce the total amount contributed by current employers from an average of 11.61% to 7.66% 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 do not raise the contribution rate above the 2% floor.) However, the systemwide average PSPRS contribution rate for the FY 2004-FY 2005 biennium is 7.66%. Therefore, on average, there is no "cushion" to absorb the total estimated contribution rate increase of 0.03% that is anticipated in FY 2006 due to legislation enacted in the 2003 Legislative Session. The JLBC Staff estimates that a 0.03% increase in the contribution rate will result in a FY 2006 cost of $6,900 to the General Fund and $14,800 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 $150.2 million. These monies are used to reduce the total amount contributed by current employers from an average of 6.79% to 3.95% 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 2004-FY 2006 biennium is 3.95%. Therefore, on average, there is no "cushion" to absorb the total estimated contribution rate increase of 0.02% that is anticipated in FY 2006 due to legislation enacted in the 2003 Legislative Session. The JLBC Staff estimates that a 0.02% increase in the contribution rate will result in a FY 2006 cost of $60,500 to the General Fund.

The above discussion is based on the CORP systemwide average contribution rate. However, individual CORP employers do not contribute the systemwide average, but instead contribute an actuarially determined rate specific for each employer. Therefore, some employers may have actuarially determined contribution rates below the 2% floor, thus providing 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.

EORP

EORP assets exceed liabilities by $71.4 million. These monies are used to reduce the total amount of court fees needed to cover employer contributions from an average of 22.65% to 13.49% 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. However, beginning in FY 2004 court fees are not enough to cover employer contributions and now the total cost impact of any contribution rate increases will result in a General Fund impact.

EORP benefit enhancements that were enacted during the 2003 Legislative Session are expected to result in a 0.10% increase in the EORP contribution rate starting in FY 2006. The JLBC Staff estimates that a 0.10% increase in the contribution rate will result in a FY 2006 cost of $14,800 to the General Fund.

The following table summarizes the impact of the total package of benefit enhancements enacted in the 2003 Legislative Session for each retirement system.

System	"Cushion"	Contribution Rate Increase less "Cushion"	Fiscal Impact Beginning FY 2006 *($ in Millions)*
ASRS	0.00%	0.02%	0.16 GF
			0.08 OF
PSPRS	0.00%	0.03%	0.00 GF
			0.01 OF
CORP	0.00%	0.02%	0.06 GF
EORP	0.00%	0.10%	0.01 GF
Total			**$0.23 GF**
			$0.09 OF

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