

Director: Paul Matson

JLBC Analyst: Eric Jorgensen

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	197.0	197.0	221.0 <sup>1/</sup>
Personal Services	7,495,700	7,626,500	8,580,200
Employee Related Expenditures	1,954,300	2,283,700	2,672,200
Professional and Outside Services	3,478,000	3,441,800	3,550,100
Travel - In State	48,900	49,800	53,600
Travel - Out of State	23,900	25,000	25,000
Other Operating Expenditures	1,234,100	1,225,200	1,403,900
Equipment	154,200	124,500	235,200
<b>OPERATING SUBTOTAL</b>	<b>14,389,100</b>	<b>14,776,500</b>	<b>16,520,200</b>
<b>SPECIAL LINE ITEMS</b>			
Information Technology Plan	6,736,800	9,051,900	6,378,700 <sup>2/</sup>
Ch. 297 Retiree Health Insurance; Rural Subsidy	0	0	28,000
<b>AGENCY TOTAL</b>	<b>21,125,900</b>	<b>23,828,400</b>	<b>22,926,900<sup>3/4/</sup></b>
<b>FUND SOURCES</b>			
<i>Other Appropriated Funds</i>			
Long-Term Disability Administration Account	2,464,400	2,897,700	2,897,700
State Retirement System Administration Account	18,661,500	20,930,700	20,029,200
SUBTOTAL - Other Appropriated Funds	21,125,900	23,828,400	22,926,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>21,125,900</b>	<b>23,828,400</b>	<b>22,926,900</b>
Other Non-Appropriated Funds	30,277,800	32,287,500	34,584,200
<b>TOTAL - ALL SOURCES</b>	<b>51,403,700</b>	<b>56,115,900</b>	<b>57,511,100</b>

**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, 2004, ASRS membership included approximately 205,600 active (working and contributing) members, 136,600 inactive members, 70,900 retired members, 4,700 disabled members, and approximately \$21.4 billion in assets (market value). Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

<sup>1/</sup> Includes 20 FTE Positions funded from Special Line Items in FY 2006.  
<sup>2/</sup> Before the expenditure of the appropriation of \$6,378,700 in FY 2006 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 expenditure plan shall include current year and prior years' appropriations to be spent in the current year. 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. 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)  
<sup>3/</sup> The State Retirement System shall provide a report by the end of each calendar quarter during FY 2006 to the Joint Legislative Budget Committee on the discussions and actions of the State Retirement System Board regarding their efforts to minimize the retirement contribution rate. (General Appropriation Act footnote)  
<sup>4/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2006
	Actual	Actual	Approved
• % of members satisfied with ASRS telephone services	82	82	87
• % of investment returns	2.4	17.5	8
• % of benefit payment calculations that are accurate as measured by quality control sample	98.45	NA	96

**Comments:** The agency did not submit information for any measure labeled as “NA.” According to the agency, telephone service satisfaction has increased as wait times have been reduced from 8 minutes to less than 60 seconds. As financial markets improve, investment returns are recovering from the losses of FY 2001 and FY 2002.

### ***Operating Budget***

The budget provides \$16,520,200 for the operating budget in FY 2006. This amount consists of \$13,622,500 from the State Retirement System Administration Account and \$2,897,700 from the Long-Term Disability Administration Account.

The approved amount includes an increase of \$446,500 from the State Retirement System Administration Account for statewide adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

#### *Member Services Personnel*

The approved amount includes an increase of \$774,500 and 14 FTE Positions from the State Retirement System Administration Account in FY 2006 for member services personnel. These positions replace 8 temporary positions previously funded through the Information Technology Plan Special Line Item (SLI). Three FTE Positions will handle walk-ins in Phoenix and Tucson. Walk-ins have increased 225% (from 10,700 to 24,000) since FY 2000. Four FTE Positions will work in production, processing requests and estimates. Seven FTE Positions will support external vendors and answer member questions regarding enrollment and benefits, and provide general administrative support. The amount includes \$93,800 in one-time equipment expenses.

#### *Call Center Staff*

The approved amount includes an increase of \$328,800 and 6 FTE Positions from the State Retirement System Administration Account in FY 2006 for call center staff. This will provide additional permanent call center staff as well as temporary staff to assist in the call center or with clerical work during peak periods (including May, June and October).

#### *Internal Auditor Position*

The approved amount includes an increase of \$77,100 and 1 FTE Position from the State Retirement System Administration Account in FY 2006 for an internal auditor position to assist in the internal audit of participating employers in rural counties. The position ensures that

employers are properly collecting and remitting contributions to the system. The amount includes \$7,200 in one-time equipment.

#### *Real Estate Portfolio Analyst*

The approved amount includes an increase of \$116,800 and 1 FTE Position from the State Retirement System Administration Account in FY 2006 for a portfolio analyst to work with real estate investments. Real estate investments are projected to incorporate 6% of the ASRS portfolio. This includes one-time funding for equipment of \$6,700.

### ***Special Line Items***

#### *Information Technology Plan*

The budget provides \$6,378,700 and 20 FTE Positions from the State Retirement System Administration Account in FY 2006 for the Information Technology Plan.

The approved amount includes an increase of \$60,600 from the State Retirement System Administration Account in FY 2006 for statewide adjustments.

#### *Project Completion*

The approved amount includes a decrease of \$(3,162,200) from the State Retirement System Administration Account in FY 2006 for completion of project development and implementation in FY 2006.

#### *Development Software and Hardware*

The approved amount includes \$300,500 from the State Retirement System Administration Account in FY 2006 for additional software and hardware for in-house development. This equipment is the first of 2 years schedule for development. This includes one-time costs of \$30,900 in FY 2006. Beyond FY 2007, the on-going maintenance costs are projected at \$31,900.

#### *Records Management*

The approved amount includes an increase of \$127,900 and 2 FTE Positions from the State Retirement System Administration Account in FY 2006 for records management personnel and services. These positions will be used to implement the electronic conversion of new

documents. ASRS is contracting with an outside vendor to convert old files, but internal staff will convert new files as they are created. This also provides for offsite storage of electronic files for disaster recovery.

**Ch. 297 Retiree Health Insurance; Rural Subsidy**

Laws 2005, Chapter 297 includes \$28,000 from the State Retirement System Administration Account in FY 2006. This amount is to implement changes to the retiree health insurance program necessary to continue the rural subsidy for Medicare-eligible rural retirees only. This program was set to expire June 30, 2005 and originally included all rural retirees.

**Additional Legislation**

**State Budget Procedures Budget Reconciliation Bill**

The State Budget Procedures Budget Reconciliation Bill (Laws 2005, Chapter 331) changes the retirement contribution rate from being set biennially to annually beginning in FY 2008. For FY 2006 and FY 2007, the rate is set at the biennial rate, but the increase is split between the 2 years (an increase of 1.7% each year).

This law also provides ASRS the authority to spend unexpended FY 2003 through FY 2005 Information Technology Plan Special Line Item appropriations until the end of FY 2006.

**Other Issues**

*Retirement System Assets and Funding Levels*

The following table shows the assets and the funding level (or the degree to which the projected assets meet projected liabilities) for each of the State retirement systems. (Data is as of the FY 2004 year-end valuations.)

<b>State Retirement System Assets and Funding Levels</b>		
<u>System</u>	<u>Assets (\$ in millions)</u>	<u>Funding Level</u>
ASRS	20,784.6	92.5%
PSPRS	5,136.8	92.4%
CORP	864.9	104.8%
EORP	346.5	104.4%