

Arizona State Retirement System

JLBC: Jay Chilton
 OSPB: Matt Gottheiner

| DESCRIPTION | FY 2006 ACTUAL | FY 2007 ESTIMATE | FY 2008 JLBC | FY 2009 JLBC |
|---------------------------------------|-------------------|---------------------|-------------------|-------------------|
| OPERATING BUDGET | | | | |
| <i>Full Time Equivalent Positions</i> | 221.0 | 231.0 | 235.0 | 235.0 |
| Personal Services | 8,692,000 | 9,446,400 | 9,611,600 | 9,611,600 |
| Employee Related Expenditures | 2,614,700 | 3,119,200 | 3,180,500 | 3,180,500 |
| Professional and Outside Services | 3,088,200 | 3,555,300 | 3,457,600 | 3,457,600 |
| Travel - In State | 47,200 | 53,600 | 53,600 | 53,600 |
| Travel - Out of State | 33,300 | 25,000 | 25,000 | 25,000 |
| Other Operating Expenditures | 1,276,200 | 1,668,900 | 1,671,800 | 1,671,800 |
| Equipment | 329,800 | 197,500 | 155,500 | 127,500 |
| OPERATING SUBTOTAL | 16,081,400 | 18,065,900 | 18,155,600 | 18,127,600 |
| SPECIAL LINE ITEMS | | | | |
| ASRS Optional Forms of Retirement | 0 | 50,000 | 0 | 0 |
| Information Technology Plan | 8,530,900 | 3,010,100 | 2,747,100 | 2,747,100 |
| AGENCY TOTAL | 24,612,300 | 21,126,000 | 20,902,700 | 20,874,700 |

FUND SOURCES

Other Appropriated Funds

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Long-Term Disability Administration Account | 2,368,500 | 2,897,700 | 2,800,000 | 2,800,000 |
| State Retirement System Administration Account | 22,243,800 | 18,228,300 | 18,102,700 | 18,074,700 |
| SUBTOTAL - Other Appropriated Funds | 24,612,300 | 21,126,000 | 20,902,700 | 20,874,700 |
| SUBTOTAL - Appropriated Funds | 24,612,300 | 21,126,000 | 20,902,700 | 20,874,700 |
| Other Non-Appropriated Funds | 35,021,900 | 51,647,000 | 55,246,500 | 59,134,000 |
| TOTAL - ALL SOURCES | 59,634,200 | 72,773,000 | 76,149,200 | 80,008,700 |

CHANGE IN FUNDING SUMMARY

| | FY 2007 to FY 2008 JLBC | | FY 2007 to FY 2009 JLBC | |
|--------------------------|-------------------------|----------|-------------------------|----------|
| | \$ Change | % Change | \$ Change | % Change |
| Other Appropriated Funds | (223,300) | (1.1%) | (251,300) | (1.2%) |
| Total Appropriated Funds | (223,300) | (1.1%) | (251,300) | (1.2%) |
| Non Appropriated Funds | 3,599,500 | 7.0% | 7,487,000 | 14.5% |
| Total - All Sources | 3,376,200 | 4.6% | 7,235,700 | 9.9% |

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 the June 30, 2006 valuation, ASRS membership included approximately 217,893 active (working and contributing) members, 184,320 inactive members, 78,392 retired members, 4,968 disabled members, and approximately \$24.4 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.

| PERFORMANCE MEASURES | FY 2004 | FY 2005 | FY 2006 | FY 2008 |
|---|---------|---------|---------|---------|
| | Actual | Actual | Actual | JLBC |
| • % of members satisfied with ASRS telephone services | 82 | 73 | 96 | 96 |
| • % of investment returns Comments: ASRS assumes an 8% rate of return for rate calculations. | 17.5 | 8.5 | 9.8 | 8.0 |
| • % of benefit payment calculations that are accurate as measured by quality control sample | NA | NA | 99.5 | 99.5 |

CHANGES FROM FY 2007

Operating Budget

The JLBC includes \$18,155,600 and 215 FTE Positions from the State Retirement System Administration Account for the operating budget in FY 2008 and \$18,127,600 and 215 FTE Positions in FY 2009. These amounts consist of:

| | <u>FY 2008</u> | <u>FY 2009</u> |
|-------------------------|----------------|----------------|
| State Retirement System | | |
| Administration Account | \$15,355,600 | \$15,327,600 |
| Long-Term Disability | | |
| Administration Account | 2,800,000 | 2,800,000 |

These amounts would fund the following adjustments:

Standard Changes OF (2,000) (2,000)

The JLBC includes a decrease of \$(2,000) from the State Retirement System Administration Account in FY 2008 and FY 2009 for standard changes.

Eliminate One-Time

Funding OF (70,000) (70,000)

The JLBC includes a decrease of \$(70,000) from the State Retirement System Account in FY 2008 and FY 2009 to eliminate one-time equipment funding associated with the addition of 10 financial services FTE Positions in FY 2007.

Investment

Management FTE OF 129,100 122,100

The JLBC includes an increase of \$129,100 and 1 FTE Position from the State Retirement System Administration Account in FY 2008 and \$122,100 and 1 FTE Position in FY 2009 for a portfolio analyst to work with private equity investments. The amount includes \$7,000 in one-time equipment costs in FY 2008.

Private equity investments are a new asset class recently added by the ASRS Board. Private equity investments are projected to incorporate 5% of the ASRS portfolio. ASRS added the real estate asset class 2 years ago and received an investment management FTE Position for FY 2006. The real estate asset class incorporated 6% of the ASRS portfolio.

Records Management

FTE Positions OF 130,300 109,300

The JLBC includes an increase of \$130,300 and 3 FTE Positions from the State Retirement System Administration Account in FY 2008 and \$109,300 and 3 FTE Positions in FY 2009 for document imaging technicians. The amount includes \$21,000 in one-time equipment costs in FY 2008.

Currently 6 of the 17 employees in ASRS Records Management are temporary employees. The use of FTE Positions rather than temporary workers in records

management would lead to cost savings in that department, although ASRS would retain the temporary workers, some being transferred to work in other areas in the agency such as member services or financial services. Workload in the department increases as membership in ASRS increases. Since 2000, ASRS membership has grown at a rate of between 5% and 7% each year. ASRS expects growth to continue at similar rates.

Long-Term Disability

Administration OF (97,700) (97,700)

The JLBC includes a decrease of \$(97,700) from the Long-Term Disability Administration Account in FY 2008 and FY 2009 for decreased administration costs as a result of pricing associated with newly awarded contracts.

Special Line Items

ASRS Optional Forms of Retirement

The JLBC includes no funding for costs associated with the requirements of Laws 2006, Chapter 309 in FY 2008 and FY 2009. This amount includes the following adjustments:

Eliminate One-Time

Funding OF (50,000) (50,000)

The JLBC includes a decrease of \$(50,000) from the State Retirement System Administration Account in FY 2008 and FY 2009 to eliminate a one-time appropriation to implement changes to the benefit payment options available to retirees.

Information Technology Plan

The JLBC includes \$2,747,100 and 20 FTE Positions from the State Retirement System Administration Account for the Information Technology Plan in FY 2008 and FY 2009. These amounts would fund the following adjustments:

Standard Changes OF 700 700

The JLBC includes an increase of \$700 from the State Retirement System Administration Account in FY 2008 and FY 2009 for standard changes.

Eliminate One-Time

Funding OF (263,700) (263,700)

The JLBC includes a decrease of \$(263,700) from the State Retirement System Administration Account in FY 2008 and FY 2009 to eliminate one-time funding for Equipment and Professional and Outside Services.

Monies in this line item are appropriated for the development and operation of a business reengineering information technology (IT) plan. At the end of FY 2006, ASRS had expended \$32,146,600 on development of the IT plan and plans to spend an additional \$5,863,700 on development in FY 2007 from FY 2007 and prior-year funding. At the end of FY 2007, \$4,807,500 of prior-year appropriations would remain unexpended. As a result, the

JLBC would extend the non-lapsing date from June 30, 2007 to June 30, 2008 (*see Statutory Changes*). Development of the IT plan is expected to finish at the end of FY 2008 with the use of these prior-year funds.

In addition to the use of prior-year funds for development costs, ASRS anticipates expending all of its FY 2008 and FY 2009 funding of \$2,747,100 for operating costs. The Information Technology Authorization Committee has currently placed the project in a “yellow” status as a result of past concerns over the agency’s ability to complete the project on time.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Before the expenditure of the appropriation of \$2,747,100 in FY 2008 and FY 2009 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 and prior year appropriation balances. ~~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~~ ANNUAL 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. (*Because the project is completing its development phase, project investment justification approval is no longer applicable.*)

Deleted Footnotes

The JLBC deletes the footnote requiring quarterly reporting on the actions of the State Retirement System Board regarding their efforts to minimize the retirement contribution rate.

STATUTORY CHANGES

The JLBC would change the lapsing dates for the amounts appropriated to the Information Technology Plan Special Line Item for FY 2005 and FY 2006 from June 30, 2007 to June 30, 2008 to complete the Information Technology Plan.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

ASRS Benefit and Other Payments

Table 1 indicates the total amounts paid by ASRS for benefits, administrative expenses, and transfers in FY 2004 and FY 2005. Totals for FY 2006 are not yet available.

| | <u>FY 2004</u> | <u>FY 2005</u> |
|------------------------------------|----------------|----------------|
| Retirement and Disability Benefits | \$1,381,622 | \$1,558,332 |
| Survivor Benefits | 14,859 | 18,402 |
| Refunds to Withdrawing Members | 36,212 | 44,164 |
| Administrative Expenses | 26,834 | 25,275 |
| Transfers to Other Plans | 2,336 | 4,581 |
| Other | 6,575 | 3,570 |

| SUMMARY OF FUNDS | FY 2006 | FY 2007 |
|--|----------------|-------------------------|
| | Actual | Estimate |
| Administrative Account - Investment Expenses (RSA1407/A.R.S. § 38-721) | | Non-Appropriated |
| Source of Revenue: Transfer from the State Retirement Fund. | | |
| Purpose of Fund: The Retirement Fund's Administration Account designated for investment expenses provides funding for the agency's investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval. | | |
| Funds Expended | 35,021,900 | 51,647,000 |
| Year-End Fund Balance | 0 | 0 |
| Long-Term Disability Administration Account (RSA1408/A.R.S. § 38-797.02) | | Appropriated |
| Source of Revenue: Long-Term Disability (LTD) Trust Fund. | | |
| Purpose of Fund: To pay for the cost of administering the LTD program. | | |
| Funds Expended | 2,368,500 | 2,897,700 |
| Year-End Fund Balance | 0 | 0 |

| SUMMARY OF FUNDS | FY 2006 Actual | FY 2007 Estimate |
|---|-------------------|---------------------|
| State Retirement System Administration Account (RSA1401/A.R.S. § 38-721) | | Appropriated |
| Source of Revenue: Transfer from the State Retirement Fund. | | |
| Purpose of Fund: To pay the Arizona State Retirement System's administrative expenses. | | |
| Funds Expended | 22,243,800 | 18,228,300 |
| Year-End Fund Balance | 0 | 0 |