

Arizona State Retirement System

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	236.0	236.0	236.0
Personal Services	11,223,200	11,866,900	12,117,500
Employee Related Expenditures	4,255,400	4,668,500	4,720,600
Professional and Outside Services	4,231,400	3,881,800	3,881,800
Travel - In State	43,200	53,600	53,600
Travel - Out of State	31,500	25,000	25,000
Other Operating Expenditures	2,525,800	2,496,800	2,535,500
Equipment	461,700	377,500	389,500
OPERATING SUBTOTAL	22,772,200	23,370,100	23,723,500
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	0	1,341,700	0
Contribution Rate Administration	0	100,000	600,000
Ch. 357 Retirement Systems; Plans; Plan Design	0	0	250,000
AGENCY TOTAL	22,772,200	24,811,800^{1/}	24,573,500^{2/3/}

FUND SOURCES

Other Appropriated Funds

Long-Term Disability Administration Account	2,788,200	2,800,000	2,800,000
State Retirement System Administration Account	19,984,000	22,011,800	21,773,500
SUBTOTAL - Other Appropriated Funds	22,772,200	24,811,800	24,573,500
SUBTOTAL - Appropriated Funds	22,772,200	24,811,800	24,573,500
Other Non-Appropriated Funds	40,763,200	55,211,500	58,951,700
TOTAL - ALL SOURCES	63,535,400	80,023,300	83,525,200

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, 2010 valuation, ASRS membership included approximately 213,530 active (working and contributing) members, 209,605 inactive members, 101,307 retired members and survivor beneficiaries, and 4,724 long-term disabled members. ASRS has approximately \$23.1 billion in assets (market value, includes System), \$8.7 billion in unfunded liability (includes System), and approximately \$2.1 billion in annual benefit payments. 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.

Operating Budget

The budget includes \$23,723,500 and 236 FTE Positions in FY 2012 for the operating budget. These amounts consist of:

State Retirement System Administration Account	FY 2012 \$20,923,500
Long-Term Disability Administration Account	2,800,000

These amounts fund the following adjustments:

Investment Management Asset Managers

The budget includes an increase of \$302,700 from the State Retirement System Administration Account in FY 2012 to fund additional personnel to oversee and maintain asset allocations that are currently maintained by external consultants.

Risk Management Encryption Software

The budget includes an increase of \$12,000 from the State Retirement System Administration Account in FY 2012 to

^{1/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (Laws 2011, Chapter 277)

^{2/} General Appropriation Act funds are appropriated as an Operating Lump Sum by Agency.

^{3/} In addition to these amounts, a total of \$598,000 OF is appropriated in FY 2012 for costs associated with an additional pay period. (Please see the Agency Detail and Allocations section.)

fund operating costs of encryption software for electronic communication and records.

Statewide Adjustments

The budget includes an increase of \$38,700 from the State Retirement System Administration Account in FY 2012 for statewide adjustments. (*Please see the Agency Detail and Allocations section.*)

ASRS Design Plan Changes

The budget includes no funding in FY 2012 for the ASRS Design Plan Changes Special Line Item. This funds the following adjustments:

Elimination of Design Plan Changes SLI

The budget includes a decrease of \$(1,341,700) from the State Retirement System Administration Account in FY 2012 to eliminate one-time costs.

Contribution Rate Administration

The budget includes \$600,000 from the State Retirement System Administration Account in FY 2012 for the Contribution Rate Administration Special Line Item. This amount funds the following adjustments:

Appropriation for Design Plan Changes

The budget includes an increase of \$500,000 from the State Retirement System Administration Account in FY 2012 for implementation costs of modifications to the ASRS employer and employee contribution rates that are required by Laws 2011, Chapter 26 (*see Additional Legislation*).

The budget includes a FY 2011 supplemental of \$100,000 from the State Retirement System Administration Account to begin implementing these changes.

Ch. 357 Retirement Systems; Plans; Plan Design

Laws 2011, Chapter 357 appropriates \$250,000 from the State Retirement System Administration Account in FY 2012 for implementation costs of modifications to the ASRS employer and employee contribution rates.

Laws 2011, Chapter 357 modifies the ASRS design plan. This appropriation is non-lapsing (*see Additional Legislation*).

Additional Legislation

Retirement Contribution Shift

The Budget Procedures Budget Reconciliation Bill (Laws 2011, Chapter 26) changes the ASRS contribution proportion for the employer and employee from each contributing 50% to the employee contributing 53% and the employers contributing 47%. This modification necessitates changes to programs, calculations and

processes so that the new contribution rate split can be implemented. It also increases ASRS' liabilities, resulting in an increase in contribution rates ranging from 6 basis points in FY 2013 to 23 basis points in the long-term.

Chapter 26 also institutes a 6-month waiting period for new employee participation in ASRS. ASRS anticipates this provision will increase the contribution rate by approximately 13 basis points beginning in FY 2013.

Ch. 357 Retirement Systems; Plans; Plan Design

Laws 2011, Chapter 357 contains changes for new and existing ASRS members, including the following:

Chapter 357 removes the 85 point (age plus years of service) normal retirement eligibility option for members hired after July 1, 2011 and replaces it with 2 normal retirement eligibility options: 25 years of service and age 60 and 30 years of service and age 55. There are 2 other normal retirement eligibility options that Chapter 357 did not affect: 10 years of service and age 62 and any years of service and age 65. It also places additional restrictions on the purchase of service credit from other public service. ASRS estimates immediate changes to the contribution rate will be minimal. However, in the long-term, ASRS anticipates these provisions will reduce contribution rates by 25 basis points.

Chapter 357 also requires an employer that hires an ASRS retiree to pay an Alternate Contribution Rate (ACR) into ASRS. Chapter 357 gives guidelines for the calculation of the ACR and states that the payment of the ACR does not result in the accrual of credited service for the retired member. Based on a population of 4,000 retirees returning to work in FY 2013 and 2% growth in that population each year, ASRS estimates the provisions in Chapter 357 would reduce the contribution rate by 20 to 31 basis points through FY 2027.

Chapter 357 allows unexpended and unencumbered monies that were appropriated in FY 2011 to be used for the implementation of Chapter 357.

Chapter 357 also appropriates \$50,000 from the State Retirement System Administration Account (as well as from the Public Safety Personnel Retirement System [PSPRS]) to the State Treasurer to fund the implementation of a committee that will study the feasibility and cost of transferring existing members of all 4 state retirement systems from the current defined benefit plan to a new defined contribution plan, as well as the costs and feasibility of providing a defined contribution plan for newly-hired public employees. The committee, comprised of current members for the State Board of Investment, as well as members of the Legislature, the Arizona State Retirement System and PSPRS, is required to provide an interim report on December 31, 2011 and a final report on December 31, 2012. The appropriation is non-lapsing until September 30, 2013.

Chapter 357 also affects PSPRS. (*Please see PSPRS Additional Legislation.*)

Ch. 277 ASRS; Amendments

Laws 2011, Chapter 277 contains changes for new and existing ASRS members, including modifications to the long-term disability plan, including the timeline for filing claims. It also places limitations on service purchase and allows ASRS to intercept monies that would be directed to an agency if that agency is delinquent on payment to ASRS. ASRS estimates that changes to the contribution rate will be minimal.