Arizona State Retirement System

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	236.0	233.9	246.9 [1/]
Personal Services	11,887,300	12,545,400	12,703,000
Employee Related Expenditures	4,663,500	4,856,300	4,994,900
Professional and Outside Services	4,153,600	3,881,800	3,881,800
Travel - In State	53,400	50,000	50,000
Travel - Out of State	47,400	28,600	28,600
Other Operating Expenditures	2,338,900	2,535,500	2,833,300
Equipment	444,700	389,500	389,500
OPERATING SUBTOTAL	**23,588,800**	**24,287,100**	**24,881,100**
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	447,000 [2/]	0	0
Automation Upgrades	0	0	1,390,000 [3/]
Laws 2011, Ch. 26 Rate Change Administration Procedures	345,100 [2/]	0	0
Laws 2011, Ch. 357 Plan Changes	38,100 [2/]	0	0
Laws 2012, Ch. 362 Employer Contributions	0	47,000 [2/]	0
Laws 2012, Ch. 88 ASRS; Spousal Consent	0	200,000 [2/]	0
Laws 2013, Ch. 110 ASRS; Amendments	0	0	200,000 [2/4/]
Laws 2013, Ch. 216 Public Retirement Systems; Ineligible Employees	0	0	502,400 [2/5/]
AGENCY TOTAL	**24,419,000**	**24,534,100**	**26,973,500** [6/]
FUND SOURCES			
Other Appropriated Funds			
Long-Term Disability Trust Fund Administration Account	2,721,600	2,800,000	2,800,000
State Retirement System Administration Account	21,697,400	21,734,100	24,173,500
SUBTOTAL - Other Appropriated Funds	24,419,000	24,534,100	26,973,500
SUBTOTAL - Appropriated Funds	**24,419,000**	**24,534,100**	**26,973,500**
Other Non-Appropriated Funds	64,994,000	71,715,000	74,712,000
TOTAL - ALL SOURCES	89,413,000	96,249,100	101,685,500

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. 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.

1/ Includes 1 OF FTE Position funded from Special Line Items in FY 2014.
2/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.
3/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (General Appropriation Act footnote)
4/ Laws 2013, Chapter 110 appropriated $200,000 from the State Retirement System Administration Account in FY 2014 for ASRS Plan Amendments.
5/ Laws 2013, Chapter 216 appropriated $502,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2014 for modifications regarding ineligible employees.
6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes $24,881,100 and 245.9 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	FY 2014
State Retirement System Administration Account	$22,081,100
Long-Term Disability (LTD) Trust Fund Administration Account	2,800,000

These amounts fund the following adjustments:

Automation Charge
The budget includes a one-time increase of $151,000 from the State Retirement System Administration Account in FY 2014 for ASRS to pay for the agency's proportionate share of costs for replacement of the state's financial accounting system. *(Please see the Automation Projects narrative for more details.)*

Data Security
The budget includes a one-time, non-lapsing increase of $190,000 from the State Retirement System Administration Account in FY 2014 to upgrade the agency's information technology systems regarding data security.

Convert Consultants to FTE Positions
The budget includes an increase of 12 FTE Positions from the State Retirement System Administration Account in FY 2014 to convert information technology consultants to ASRS employees, whose funding source will be the appropriated State Retirement System Administration Account.

Statewide Adjustments
The budget includes an increase of $253,000 from the State Retirement System Administration Account in FY 2014 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Automation Upgrades

The budget includes $1,390,000 from the State Retirement System Administration Account in FY 2014 for Automation Upgrades. This amount funds the following adjustments:

IT Modernization
The budget includes an increase of $1,390,000 from the State Retirement System Administration Account for the first year of a 5-year project to consolidate and upgrade an ASRS business application system with a more current Java-based Web application.

Laws 2012, Ch. 362 Employer Contributions

The budget includes no funding from the State Retirement System Administration Account in FY 2014 for the Laws 2012, Chapter 362; Employer Contributions Special Line Item. This amount funds the following adjustments:

Eliminate One-Time Costs
The budget includes a decrease of $(47,000) from the State Retirement System Administration Account in FY 2014 to eliminate one-time implementation costs of modifications to employer contribution rates as authorized by Laws 2012, Chapter 362.

Laws 2012, Ch. 88 ASRS; Spousal Consent

The budget includes no funding from the State Retirement System Administration Account in FY 2014 for the Laws 2012, Chapter 88 ASRS; Spousal Consent Special Line Item. This amount funds the following adjustments:

Eliminate One-Time Costs
The budget includes a decrease of $(200,000) from the State Retirement System Administration Account in FY 2014 to eliminate one-time implementation costs of modifications to spousal consent requirements as authorized by Laws 2012, Chapter 88**.**

Laws 2013, Ch. 110 ASRS; Amendments

Laws 2013, Chapter 110 appropriates $200,000 from the State Retirement System Administration Account in FY 2014. This amount funds the following adjustments:

Appropriation for ASRS Plan Amendments
The budget includes an increase of $200,000 from the State Retirement System Administration Account in FY 2014 for ASRS Plan Amendments as authorized by Laws 2013, Chapter 110. Chapter 110 makes the following changes:

1) Modifies survivor benefits, including removing the $5,000 threshold for election of a survivor benefit annuity option, limiting a survivor to a lump sum or a straight-life annuity option, and eliminating the present value calculation for survivor benefits.

2) Allows the Board of Trustees to select any amortization period consistent with Generally Accepted Actuarial Standards. The board was previously required to use a rolling 30-year period.

3) Stipulates what information relating to a member's identity may or may not be inspected, retroactive to July 1, 2013.

4) Eliminates Permanent Benefit Increases (PBI) for members who enroll after the act's effective date.

5) Authorizes ASRS to establish a self-insured health insurance program if the board determines that such a plan would be more cost-effective than a fully insured plan.

ASRS estimates that beyond the costs of implementing Chapter 110, the elimination of PBIs for new members will result in future plan liabilities being reduced by $263,000,000.

Laws 2013, Ch. 216 Public Retirement Systems; Ineligible Employees

Laws 2013, Chapter 216 appropriates $502,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2014. These amounts fund the following adjustments:

Appropriation for Personal Services
Chapter 216 includes an increase of $72,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2014 for Personal Services and Employee Related Expenses for modifications regarding ineligible members.

Appropriation for Professional Services
Chapter 216 includes an increase of $430,000 from the State Retirement System Administration Account in FY 2014 for professional services to implement information technology and legal modifications regarding ineligible members.

Chapter 216 enrolls state or political subdivision employees who are ineligible for ASRS or other public retirement systems into the defined contribution plan operated by ASRS. Some employees were not eligible for ASRS because they were not covered by Social Security.

Other Issues

ASRS Membership and Actuarial Data
As of the June 30, 2012 valuation, ASRS membership included 528,485 members. See *Table 1* for membership data detail. ASRS has approximately $27.6 billion in assets, $9.7 billion in unfunded liability, and approximately $2.6 billion in annual benefit payments.

Table 1 also shows each plan's assets and liabilities. To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. *Table 1* reflects current market values for assets and not the actuarial value. ASRS has forecasted contribution rates for the retirement plan, excluding the LTD Plan rate, beyond those shown in *Table 1*. The rates, which are based on the June 30, 2012 valuation, peak at 23.85% in FY 2018 and decrease to 15.14% in FY 2042.

Table 1

ASRS Valuation Data

Membership

	June 30, 2010	June 30, 2011	June 30, 2012
Active (working and contributing)	213,530	208,939	203,994
Inactive	209,605	208,969	210,060
Retired Members and Survivor Beneficiaries	101,307	107,996	114,431
Total	**524,442**	**525,904**	**528,485**

Funding Status ($ in Millions)

	June 30, 2010	June 30, 2011	June 30, 2012
Market Value of Assets	$23,142	$28,033	$27,569
Total Actuarial Liability	$37,558	$38,555	$39,952
Unfunded Liability 1/	$ 8,735	$ 9,324	$ 9,723
Funded Status (includes System)	77%	76%	76%

Contribution Rates

	FY 2012 2/	FY 2013 3/	FY 2014 4/
Retirement Plan	21.00%	21.80%	22.60%
LTD Plan	.48%	.48%	.48%
Total	**21.48%**	**22.28%**	**23.08%**
Employer	10.74%	11.14%	11.54%
Employee	10.74%	11.14%	11.54%

1/ Calculated on actuarial, not market value, of assets.
2/ Based on June 30, 2010 valuation. While previous legislation required the FY 2012 rates to be split 53/47 between employee/employer, this non-50/50 split was repealed by Laws 2012, Chapter 304.
3/ Based on June 30, 2011 valuation. While previous legislation required the FY 2013 rates to be split 53/47 between employee/employer, this non-50/50 split was repealed by Laws 2012, Chapter 304.
4/ Based on June 30, 2012 valuation.