Arizona State Retirement System

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	233.9	246.9	246.9
Personal Services	12,497,500	12,703,000	12,703,000
Employee Related Expenditures	4,473,700	4,994,900	4,994,900
Professional and Outside Services	4,258,700	3,879,300	3,879,300
Travel - In State	35,400	40,000	40,000
Travel - Out of State	48,100	38,600	38,600
Other Operating Expenditures	2,116,800	2,835,800	2,835,800
Equipment	407,100	389,500	389,500
OPERATING SUBTOTAL	**23,837,300**	**24,881,100**	**24,881,100**
SPECIAL LINE ITEMS			
ASRS Plan Design Changes	436,300	0	0
Automation Upgrades	0	1,390,000	1,915,000
Laws 2011, Ch. 26 Rate Change Administration Procedures	12,800	0	0
Laws 2011, Ch. 357 Plan Changes	57,300	0	0
Laws 2012, Ch. 362 Employer Contributions	21,600	0	0
Laws 2012, Ch. 88 ASRS; Spousal Consent	55,600	0	0
Laws 2013, Ch. 110 ASRS; Amendments	0	200,000	0
Laws 2013, Ch. 216 Implementation Costs	0	502,400	72,400
AGENCY TOTAL	**24,420,900**	**26,973,500**	**26,868,500**
FUND SOURCES			
Other Appropriated Funds			
Long-Term Disability Trust Fund Administration Account	2,739,300	2,800,000	2,800,000
State Retirement System Administration Account	21,681,600	24,173,500	24,068,500
SUBTOTAL - Other Appropriated Funds	24,420,900	26,973,500	26,868,500
SUBTOTAL - Appropriated Funds	**24,420,900**	**26,973,500**	**26,868,500**
Other Non-Appropriated Funds	76,606,000	82,757,000	87,044,000
TOTAL - ALL SOURCES	101,026,900	109,730,500	113,912,500

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.

Operating Budget

The Baseline includes $24,881,100 and 245.9 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
State Retirement System Administration Account	$22,081,100
Long-Term Disability (LTD)Trust Fund Administration Account	2,800,000

FY 2015 adjustments would be as follows:

Data Security OF 0

The Baseline continues to include $190,000 from the State Retirement System Administration Account in FY 2015 for projects to maintain the agency's information technology systems regarding data security. These monies were originally appropriated for one-time Information Technology (IT) purposes in the FY 2014 budget. On an ongoing basis, these funds will now be used for the following items:

- $120,000 - software licensing and maintenance
- $50,000 - an annual assessment of ASRS' internal systems by an outside vendor
- $20,000 - staff training

Automation Upgrades

The Baseline includes $1,915,000 from the State Retirement System Administration Account in FY 2015 for Automation Upgrades. FY 2015 adjustments would be as follows:

IT Modernization OF 525,000
The Baseline includes an increase of $525,000 from the State Retirement System Administration Account in FY 2015 for the second year of a 5-year project to consolidate and upgrade an ASRS business application system with a more current Java-based Web application. The 5-year cost of the project is a total of $10.2 million, as follows:

- Year 1: $1,390,000
- Year 2: $1,915,000
- Year 3: $2,270,000
- Year 4: $2,070,000
- Year 5: $2,569,500

The project received approval through the Project Investment Justification (PIJ) process from the Arizona Strategic Enterprise Technology (ASET) Office, and from the Information Technology Authorization Committee (ITAC) in 2012. As part of this review, ASRS is required to give an annual update on the project to ITAC.

Laws 2013, Ch. 110 ASRS; Amendments

The Baseline includes no funding from the State Retirement System Administration Account in FY 2015 for the Laws 2013, Chapter 110 ASRS; Amendments Special Line Item. FY 2015 adjustments would be as follows:

Elimination of One-time Costs OF (200,000)
The Baseline includes a decrease of $(200,000) from the State Retirement System Administration Account in FY 2015 to eliminate one-time implementation costs of various modifications to the Arizona State Retirement System as authorized by Laws 2013, Chapter 110.

Laws 2013, Ch. 216 Implementation Costs

The Baseline includes $72,400 and 1 FTE Position from the State Retirement System Administration Account in FY 2015 for the Laws 2013, Chapter 216 Implementation Costs Special Line Item. FY 2015 adjustments would be as follows:

Elimination of One-time Costs OF (430,000)
The Baseline includes a decrease of $(430,000) from the State Retirement System Administration Account in FY 2015 to eliminate one-time implementation costs for information technology and legal services required to enroll state or political subdivision employees who are ineligible for ASRS or other public retirement systems into the defined contribution plan operated by ASRS, as authorized by Laws 2013, Chapter 216.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes
Monies in the Automation Upgrades Special Line Item are a continuing appropriation and are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

ASRS Membership and Actuarial Data
As of the June 30, 2013 valuation, ASRS membership included 536,626 members. See *Table 1* for membership data detail. ASRS has approximately $30.2 billion in assets, $10.0 billion in unfunded liability, and approximately $2.7 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, 2013 valuation, peak at 24.28% in FY 2018 and decrease to 10.00% in FY 2044.

Amortization Period
Laws 2013, Chapter 110 allowed 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, as defined in statute. In November of 2013, the Board of Trustees voted to adopt a fixed 30-year amortization period, as opposed to a rolling 30-year amortization period. With this change, ASRS estimates that the funded status would reach 100% by 2041, whereas the rolling 30-year period would result in a funded status of only 89% by 2041.

In addition, the adopted change to the amortization period has the effect of increasing ASRS contribution rates. Under the previous amortization period, the FY 2015 contribution rates would be 11.58% for both employees and employers, whereas the new amortization period increased those rates to 11.60%.

Table 1

ASRS Valuation Data

Membership

	June 30, 2011	June 30, 2012	June 30, 2013
Active (working and contributing)	208,939	203,994	202,693
Inactive	208,969	210,060	213,058
Retired Members and Survivor Beneficiaries	107,996	114,431	120,875
Total	**525,904**	**528,485**	**536,626**

Funding Status ($ in Millions)

	June 30, 2011	June 30, 2012	June 30, 2013
Market Value of Assets	$28,033	$27,569	$30,229
Total Actuarial Liability	$38,555	$39,952	$41,397
Unfunded Liability [1/]	$ 9,324	$ 9,723	$ 9,961
Funded Status (includes System)	76%	76%	76%

Contribution Rates

	FY 2013 [2/]	FY 2014 [3/]	FY 2015 [4/]
Retirement Plan	21.80%	22.60%	22.96%
LTD Plan	.48%	.48%	.24%
Total	**22.28%**	**23.08%**	**23.20%**
Employer	11.14%	11.54%	11.60%
Employee	11.14%	11.54%	11.60%

1/ Calculated on actuarial, not market value, of assets.
2/ 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.
3/ Based on June 30, 2012 valuation.
4/ Based on June 30, 2013 valuation.

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 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: Investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval. Excludes $67,176,000 and $80,033,000 of net fees applied to investments in FY 2013 and FY 2014, respectively.		
Funds Expended	76,606,000	82,757,000
Year-End Fund Balance	0	0
Long-Term Disability Trust Fund Administration Account (RSA1408/A.R.S. § 38-797.02)		**Partially-Appropriated**
Source of Revenue: Long-Term Disability (LTD) Trust Fund.		
Purpose of Fund: To pay for the cost of administering the LTD program.		
Appropriated Funds Expended	2,739,300	2,800,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0
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	21,681,600	24,173,500
Year-End Fund Balance	0	0