

CONSOLIDATED RETIREMENT REPORT

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state's retirement systems, including the state cost, contribution rates, and other related policy and legal issues.

This section includes information on the following:

- FY 2016 Impacts and Total Funding
 - Arizona State Retirement System (ASRS)
 - Public Safety Personnel Retirement System (PSPRS) and Corrections Officer Retirement Plan (CORP)
 - Elected Officials' Retirement Plan (EORP) and Elected Officials' Defined Contribution Retirement System (EODC System)
 - University Optional Retirement Plan (UORP)
- 2015 Session Legislation
- Litigation Issues
 - *Fields v. Elected Officials' Retirement Plan*
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 - Long-Term Contribution Rate Estimates

FY 2016 Impacts and Total Funding

The General Fund cost associated with all retirement systems in FY 2016 is \$184.3 million and the Total State Funds cost is \$487.9 million.

The employer contribution rate for the retirement systems may change each year depending on the latest actuarial valuation. Based on the JLBC January Baseline estimates, the FY 2016 employer contribution will increase as follows (*Please see Table 1 for the total costs and see Table 2 for the costs included in the FY 2016 budget*):

- Arizona State Retirement System (ASRS) – A General Fund decrease of \$(768,000) and a Total State Funds decrease of \$(3.1) million as a result of a lower FY 2016 ASRS contribution rate. The FY 2016 budget does not reduce agency budgets to account for these savings.
- Public Safety Personnel Retirement System (PSPRS) – A General Fund increase of \$4.4 million and Total State Funds increase of \$18.0 million. The FY 2016 budget adds \$4.2 million General Fund and \$13.8 million Other Appropriated Funds to cover the contribution rate increase for the Department of Public Safety (DPS). The FY 2016 budget does not provide additional appropriated funding for non-DPS PSPRS agencies. Some of the remaining \$4.3 million in retirement costs may be covered by agencies' non-appropriated funding sources.
- Corrections Officer Retirement Plan (CORP) – A General Fund increase of \$15.7 million and Total State Funds increase of \$15.9 million. The FY 2016 budget adds \$13.5 million General Fund/Other Appropriated Funds to cover the contribution rate increase for the Arizona Department of Corrections (ADC). This lower funding level is based on an Executive Branch cost estimate.
- Elected Officials' Retirement Plan (EORP) and the Elected Officials' Defined Contribution Retirement System (EODC System) – Because elected officials' contribution rates are fixed in statute, there is no change in the FY 2016 employer contribution rate.

Table 1

Arizona Public Retirement FY 2016 System Employer Cost

	FY 2016 Change ^{1/}			FY 2016 Total Cost ^{2/}		
	General Fund	All Other Funds ^{3/}	Total	General Fund	All Other Funds ^{3/}	Total
Arizona State Retirement System	\$ (767,700)	\$ (2,362,700)	\$ (3,130,400)	\$ 67,738,400	\$ 208,462,300	\$ 276,200,700
Public Safety Personnel Ret. System ^{4/}	4,368,000	13,620,300	17,988,300	20,642,200	63,643,100	84,285,300
Corrections Officer Ret. Plan ^{4/}	15,664,600	219,800	15,884,400	69,466,900	930,500	70,397,400
Elected Officials' Retirement Plan	-	-	-	7,955,100	109,900	8,065,000
University Optional Retirement Plan	-	-	-	18,486,000	30,434,100	48,920,100
Grand Total	\$ 19,264,900	\$ 11,477,400	\$ 30,742,300	\$ 184,288,600	\$ 303,579,900	\$ 487,868,500

^{1/} Represents the cost of the change in the employer contribution rate increase for all state agencies. The budget funds only the rate increases for DPS and ADC. (*Please see Table 2 for more details.*)

^{2/} Represents the JLBC estimate of the total cost of the system and does not reflect FY 2016 change in Personal Services costs.

^{3/} Includes both Other Appropriated Funds and Non-Appropriated Funds.

^{4/} Only addresses the *Fields* ruling on restoring current retiree Permanent Benefit Increase (PBI).

- University Optional Retirement System (UORP) – Since the employer contribution rate is fixed at 7%, there is no change in the FY 2016 employer contribution rate.

Table 2

FY 2016 Budgeted Employer Cost Change

<u>Public Safety Personnel Ret. System 1/</u>			
General Fund			4,246,300
Other Appropriated Funds			9,575,500
Subtotal		\$	13,821,800
<u>Corrections Officer Ret. Plan 2/</u>			
General Fund			13,535,700
Other Appropriated Funds			6,800
Subtotal		\$	13,542,500
<u>Total</u>			
General Fund			17,782,000
All Other Appropriated Funds			9,582,300
Grand Total		\$	27,364,300

1/ The FY 2016 budget provides added funding to cover the full contribution rate increase for the Department of Public Safety (DPS). All other non-DPS PSPRS agencies will have to absorb this cost within their existing budgets.

2/ The FY 2016 budget provides added funding to cover the full contribution rate increase for the Arizona Department of Corrections (ADC). All other non-ADC CORP agencies will have to absorb this cost within their existing budgets.

The following sections discuss FY 2016 contribution rates for the state’s retirement systems and the fiscal impacts associated with those rates. Newly-enacted laws and other policy and legal issues that affect the state’s retirement systems are discussed at the end of the CRR.

ASRS

The General Fund cost associated with ASRS in FY 2016 is estimated to be \$67.7 million and the Total State Funds cost is \$276.2 million.

At its December 2015 meeting, the ASRS Board of Trustees reduced the system’s employer contribution rate by (0.13)%, from 11.48% of Personal Services in FY 2015 to 11.35% in FY 2016, which will reduce the General Fund cost by \$(768,000) and the total state cost by \$(3.1) million in FY 2016. The FY 2016 budget does not reduce agency budgets for these savings. In addition, ASRS sets a separate rate for disability insurance. ASRS employers and employees each pay 0.12%, which remains unchanged from FY 2015. (Please see Table 3 for historical ASRS contribution rates, excluding disability.)

ASRS states that contribution rates fell primarily because excess investment returns contributed to further improvement of the system’s funded status from 76% to 77%. Other key factors include the growth in aggregate payroll (which provides additional funding to amortize the existing unfunded liability) and a reduction in future pension costs due to changes in pension benefits. Additionally, ASRS was unaffected by the court decision in *Fields v. Elected Officials’ Retirement Plan*, which is the primary driver behind the contribution rate increases in PSPRS and CORP.

(Please see Table 5 for reasons behind contribution rate changes and *Fields v. Elected Officials’ Retirement Plan* section for more information on the case.)

Table 3

**ASRS Contribution Rates
(Excludes Disability)**

<u>Fiscal Year</u>	<u>Rate 1/</u>	<u>Fiscal Year</u>	<u>Rate 1/</u>
FY 1983	7.00	FY 2000	2.17
FY 1984	7.00	FY 2001	2.17
FY 1985	6.27	FY 2002	2.00
FY 1986	5.67	FY 2003	2.00
FY 1987	5.53	FY 2004	5.20
FY 1988	4.00	FY 2005	5.20
FY 1989 2/	4.78	FY 2006	6.90
FY 1990 2/	1.29	FY 2007	8.60
FY 1991 2/	3.37	FY 2008	9.10
FY 1992 2/	3.17	FY 2009	8.95
FY 1993 2/	3.10	FY 2010	9.00
FY 1994 2/	2.65	FY 2011	9.60
FY 1995 2/	3.26	FY 2012	10.50
FY 1996	3.36	FY 2013	10.90
FY 1997	3.20	FY 2014	11.30
FY 1998	3.05	FY 2015	11.48
FY 1999	2.85	FY 2016	11.35

1/ As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

2/ Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

PSPRS and CORP

The General Fund cost associated with PSPRS in FY 2016 is estimated to be \$20.6 million and the Total State Funds cost is \$84.3 million. In addition, the General Fund cost associated with CORP is \$69.5 million in FY 2016 and the Total State Funds cost is \$70.4 million.

As a result of the court decision in *Fields v. Elected Officials' Retirement Plan* that overturned portions of the 2011 pension changes (Laws 2011, Chapter 357), the projected FY 2016 employer contribution rates for PSPRS and CORP will increase significantly. The Permanent Benefit Increase (PBI) reinstated by *Fields* is responsible for 7.17% of the total 8.83% increase in PSPRS. CORP also experienced similar effects.

To diminish the immediate fiscal impact of the projected contribution rate increases in PSPRS and CORP, the PSPRS Board of Trustees has adopted a policy allowing employers to choose to pay the full contribution amount immediately (which includes the impact of the *Fields* ruling) or a reduced rate that gradually increases to the actuarial rate by FY 2018. The Executive Branch expects state agencies will pay the full rate immediately.

PSPRS – The retirement system consists of numerous state and local subgroups, each with its own contribution rate (see *Table 4*). The aggregate employer rate would increase from 32.54% to 41.37%, or by 8.83%, if all subgroups used the full rather than the reduced contribution. Compared to employers, the aggregate employee contribution rate increases by 0.60% in FY 2016 – from 11.05% to 11.65%. In addition, only employers pay 0.25% for supplemental disability insurance, unchanged from FY 2015.

CORP – As with PSPRS, CORP consists of subgroups. The FY 2016 CORP aggregate rate is 18.21%, an increase of 3.75% from FY 2015. The employee contribution rate remains flat at 8.40%. CORP employers also pay 0.25% for supplemental disability insurance.

(Please see Table 1 for the state costs of contribution rate increases, Table 5 for reasons for change in the contribution rates by system.)

EORP and EODC System

The General Fund cost associated with EORP in FY 2016 is estimated to be \$8.0 million and the Total State Funds cost is \$8.1 million. These amounts exclude court fees used to offset the cost of the system, as those fees are now deposited directly into the EORP Trust Fund.

As part of closing EORP and establishing the Elected Officials' Defined Contribution Retirement System (EODC System), A.R.S. § 38-810 established a fixed employer contribution rate of 23.5% for members of both systems, effective January 1, 2014. The employer contribution rate for EORP members goes entirely to the EORP Fund whereas only 17.5% of the EODC System employer contribution rate goes to the EORP Fund. The remaining 6% of the EODC System contribution rate is deposited into the individual employees' retirement investment account.

The \$8.0 million General Fund cost consists of both employer contribution rates and an annual General Fund deposit. The fixed 23.5% EORP and EODC System employer contributions to the EORP Fund are scheduled to continue until FY 2044. The \$5 million annual General Fund deposit into the EORP Fund is scheduled to continue until FY 2043.

Given fixed contributions, employer costs will not increase in FY 2016.

EORP Funding Options

These current contributions and deposit amounts do not account for the increase in EORP's total actuarial liability following the outcome of *Fields*. Plan actuaries estimate that given current funding levels, the closed EORP will have sufficient monies to pay member benefits for the next 20 years.

The FY 2016 budget did not enact changes to address the EORP funding shortfall. Given the impact of investment returns and other litigation, the funded status will likely change again in the short term.

To extend the availability of benefits, the plan actuaries earlier provided 4 possible 30-year funding options for EORP. *(Please see the FY 2016 JLBC Baseline for further details of these options.)*

Retirement System	Employer		Employee
	FY 2015	FY 2016 (Full Rate)	FY 2016 ^{1/}
Public Safety Personnel Ret. System			
Liquor License Investigators	51.10	69.19	11.65
Department of Public Safety ^{2/}	62.81	81.00	6.65
Northern Arizona University Police	38.79	48.83	11.65
University of Arizona Police	27.79	33.86	11.65
Arizona State University Police	29.75	35.31	11.65
Game and Fish Department	66.78	88.56	11.65
Attorney General Investigators	105.19	70.46	11.65
DEMA Firefighters	23.39	31.34	11.65
Parks Police	32.90	42.85	11.65
Corrections Officer Ret. Plan			
Corrections Officer - ADC	14.47	18.54	8.41
Corrections Officer - DJC	17.00	22.95	8.41
DPS Dispatchers ^{3/}	13.92	17.62	7.96
Probation Officers	16.20	19.95	8.41

^{1/} The Corrections Officer Retirement Plan employee contributions are unchanged from FY 2015. The Public Safety Personnel Retirement Plan employee contributions increased from 11.05% (6.05% for DPS).

^{2/} The displayed rates reflect that 5% of the DPS member contribution is paid by the state.

^{3/} Dispatchers hired after November 24, 2009 are ASRS members.

UORP

The General Fund cost associated with University Optional Retirement Plan (UORP) in FY 2016 is estimated to be \$18.5 million and the Total State Funds cost is \$48.9 million.

While some university employees are members of ASRS, others participate in the optional retirement plan. In this latter plan, employees and their employers each contribute 7% of the employee's gross earnings, which is then invested by the employee. These contribution rates are fixed in statute and do not change in FY 2016.

2015 Session Legislation

The retirement systems were affected by numerous enactments in the 2015 Regular Session.

The FY 2016 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 11) requires annual budget requests for all departments to specify the amount of FTE Positions and expenditures by retirement system and fund source. Additionally, the JLBC Staff is required annually to report on an annual retirement expenses budget by January 31 of each year, delineating the state's spending for the employer contribution.

Retirement costs are currently funded within department operating budgets or line items. They are not separately delineated. Chapter 11 will facilitate the annual JLBC report by requiring agencies to include the relevant information in their budget requests.

ASRS

Community Colleges; Optional Retirement Plans

Laws 2015, Chapter 36 requires existing contributions of a retired ASRS member to remain in ASRS if the retired member becomes employed by a community college district and elects to participate in that district's optional retirement program.

Health Insurance Benefits

Laws 2015, Chapter 37 makes technical changes to ASRS's health insurance/accident premium benefit program to conform to federal Internal Revenue Service rules. If a member who is eligible for the health insurance/accident premium benefits forfeits the interest in the member's account before the termination of the plan, then that interest is to be applied as soon as possible to reduce employer contributions to fund benefits.

ASRS; Purchase of Credited Service

Laws 2011, Chapter 357 originally limited all members of ASRS from purchasing more than 5 years of additional ASRS service credit based on the years of prior service in other non-ASRS public service positions, military service,

or a leave of absence. Prior to Chapter 357, there was no limit on ASRS service credit that could be purchased.

In May 2014, the Arizona Court of Appeals ruled in *Pendergast v. Arizona State Retirement System* that the state could not apply Chapter 357 to members of ASRS with membership dates that preceded the enactment of Chapter 357.

Laws 2015, Chapter 38 codifies the Court's decision by removing the 5-year cap on service credit purchases for ASRS members whose membership date started before July 20, 2011 and requires ASRS members whose membership date is on or after July 1, 2010 to have at least 5 years of service in ASRS before purchasing prior service.

ASRS; Actuarial Cost Method

Laws 2015, Chapter 65 allows the ASRS Board of Trustees to determine the actuarial cost method to use in valuation and contributions calculations and expands the annual employer contributions report to include information on ASRS's funded status and investment returns. (*Please see Actuarial Cost Methods - EAC/PUC for more information.*)

ASRS; Participation Opt Out

Laws 2015, Chapter 148 makes permanent an option for an employee hired by an ASRS participating employer to not participate in ASRS. The employee must be at least 65 years old and not an active, inactive, retired, or disabled ASRS member. Eligible employees must notify ASRS within 30 days of employment.

ASRS reports that the Chapter 148 would have a minimal effect on the contribution rate based on the number of employees who elected not to participate between 2012 and 2014. The normal cost for a new member who is 65 years of age or older is more than the average normal cost, so without those older members in the system, the result is a slightly reduced contribution rate.

ASRS; Disability Program

Laws 2015, Chapter 174 removes the word "total" from the description of an ASRS member's disability for the purposes of being considered eligible for LTD benefits but does not change any eligibility criteria.

ASRS; Rules

Laws 2015, Chapter 175 permits ASRS members to have access to account information in both electronic and written form.

PSPRS/CORP/EORP

Health Insurance Benefits

Laws 2015, Chapters 62, 63 and 64 make technical changes to PSPRS, CORP, and EORP’s health insurance/accident premium benefit program to conform to federal Internal Revenue Service rules. If a member who is eligible for the health insurance/accident premium benefits forfeits the interest in the member’s account before the termination of the plan, then that interest is to be applied as soon as possible to reduce employer contributions to fund benefits.

Litigation Issues

Two recent court cases have a significant impact on PSPRS, CORP, and EORP.

Fields v. Elected Officials’ Retirement Plan

Laws 2011, Chapter 357 made numerous changes to these systems. Among these changes were reducing permanent benefit increases (PBIs) and increasing employee contribution rates. (Please see the Background section for more discussion of PBIs.)

The Arizona Supreme Court, however, ruled in *Fields v. Elected Officials’ Retirement Plan* that the reduction of PBIs for current retirees violated Article 29 of the Arizona Constitution, which specifies that “public retirement system benefits shall not be diminished or impaired.” This ruling also applied to PSPRS and CORP retirees.

PSPRS staff estimates that the *Fields* ruling has increased unfunded liabilities for all systems by \$1.8 billion. (Please see Table 5 below for the impact on annual contribution rate.) The increased liabilities in PSPRS and CORP would be paid off over a fixed period of 22 years through an increase in employer contribution rates. When the EORP

was closed, the fixed General Fund deposit and contribution rate assumed unfunded liabilities would be paid off by 2044. Because of the increased liabilities in EORP, those amounts may need to be adjusted to account for the fiscal impact of the *Fields* ruling.

Hall v. Elected Officials’ Retirement Plan

In addition to *Fields*, there is other ongoing litigation challenging provisions of Chapter 357, which may result in more costs to non-ASRS pension systems. Among other issues, the plaintiffs in *Hall vs. The Elected Officials’ Retirement Plan* are litigating the increased contribution rates for members who were active prior to the enactment of Chapter 357. Chapter 357 raised the contribution rates for active members of CORP, EORP, and PSPRS. In EORP (the defendant in the *Hall* case), the contribution rate gradually increased each year from 7% in FY 2011 to 13% in FY 2015. The pre-Chapter 357 employee contribution rates (7%) were fixed in statute. The plaintiffs argued that those statutory rates reflected a contractual agreement that could not be modified without employee consent.

Because the *Fields* decision regarding PBIs only applies to current retirees, the plaintiffs in *Hall*, who are current employees, are also challenging the Chapter 357 PBI structure. The plaintiffs argue that as active members of EORP prior to the enactment of Chapter 357, their benefits may not be “diminished or impaired.” If the plaintiffs prevail in *Hall*, the additional fiscal impact of the court case would be lower in today’s dollars than *Fields*, mainly because the ruling would reinstate PBIs for some active members who will not retire for many years. PSPRS staff reports that if EORP loses the *Hall* case, then the case would likely apply to all PSPRS systems (PSPRS/CORP/EORP). PSPRS staff estimates that an adverse ruling in the *Hall* case would increase unfunded liabilities for all systems by \$1.3 billion. This additional liability would result in increased employer contribution rates in the fiscal year following the court decision.

In July 2013, the Maricopa County Superior Court ruled against EORP and decided that Chapter 357 applies only to members of EORP who joined the system after the enactment of Chapter 357. The ruling effectively blocks PBI changes from being applied to active members hired before Chapter 357. The ruling was appealed to the Arizona Court of Appeals in March 2015. If appellate courts uphold this ruling, then more active members in other systems (PSPRS and CORP) may also not be subject to Chapter 357.

Table 5

Reasons for Change in the Employer Contribution Rate ^{1/}			
	ASRS	PSPRS	CORP
FY 2015 Contribution Rate	11.60%	32.54%	14.46%
Permanent Benefit Increase Effect	0.00%	7.17%	3.47%
Asset (Gain)/Loss	(0.13)%	1.30%	0.62%
Other	0.00%	0.36%	(0.34)%
FY 2016 Contribution Rate	11.47%	41.37%	18.21%
Net Change	(0.13)%	8.83%	3.75%

^{1/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group.

Background

The Different Systems

Most public employers in Arizona use 2 retirement systems: ASRS and PSPRS.

- ASRS provides retirement, survivors, health, and disability benefits to employees of most public employers, including public schools, most local and county governments, and the State of Arizona.
- PSPRS provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- In addition, PSPRS staff administers CORP and EORP, which provide the same benefits as PSPRS to specified populations at the state and local levels. The EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014, will be enrolled in the EODC System.

Some university employees are eligible to choose between ASRS or UORP. Unlike ASRS, UORP is a defined contribution plan where the employee and employer each contribute 7% of gross earnings, which is then invested by the employee. The retirement benefits depend on the performance of those chosen investments.

Enrollment and Funded Status

As of June 30, 2014, there were 599,370 active, retired, and Deferred Retirement Option Plan (DROP) members enrolled. Most employees (91%) are enrolled in ASRS. (Please see Table 8 for more information.)

Table 8 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 8 reflects current market values for assets and not the actuarial value. The funded status, or the amount of actuarial assets relative to the amount liabilities, of each plan is:

- 76.9% for ASRS;
- 57.3% for CORP;
- 49.2% for PSPRS; and
- 39.4% for EORP.

Permanent Benefit Increases

PBIs are increases to a retiree's base benefit. They are dependent on pension performance and a number of other factors. PBIs are not tied to a cost of living index.

The *Fields* ruling reinstated the pre-Chapter 357 PBI mechanism, which requires that whenever the annual investment earnings from the fund exceed 9.0%, then half of those annual excess earnings are transferred to a PBI

reserve account. The ruling applied to any individuals retiring prior to the enactment of Chapter 357. This transfer is not affected by the system's overall funded status.

PSPRS actuaries then determine the present value of the reserve account and the monthly benefit increase that the account balance can fund. The annual PBI is then provided in that amount up to a 4% increase. If after a 4% increase monies remain in the reserve account, then those monies would be available for the following year's PBI calculation.

Chapter 357 modifies the PBI structure for PSPRS, CORP, and EORP for members hired after the enactment of Chapter 357. This law allows for a PBI only if the fund has annual investment earnings in excess of 10.5% and the overall funded status is at least 60%. The amount of the PBI would be between 2% and 4%, depending on the funded status of the plan. Chapter 357 would have limited the PBI to the amount of earnings in the fund that exceed 10.5%. Any excess earning amount that was not used for a PBI in a given year would revert back to the fund balance instead of remaining in a separate account.

Actuarial Cost Methods – PUC/EAN

Pension actuaries use the plan's benefit formula to determine the normal cost of a member. The normal cost is the value of the member's benefit under the plan's formula that accrues each valuation year. The accumulation of the normal cost is called the actuarial accrued liability (AAL). If the AAL is more than the actuarial value of pension assets, then the difference is the unfunded actuarial accrued liability (UAAL).

Pension actuaries use a cost method to allocate both the cost associated with AAL and UAAL over a set period of time. This allocation determines the level of contribution rates employers and employees will pay to ensure that the pension has enough assets over time to cover member benefits.

A.R.S. § 38-711 and A.R.S. § 38-737 had required ASRS to use an actuarial cost method called the Projected Unit Credit Method (PUC) to calculate the contribution rate. Under PUC, the normal cost of an ASRS member is a low percentage of that member's pay at the beginning of membership and gradually increases every year as the member ages and accrues years of service. The longer a member works and/or the older the member is, the greater the normal cost will be.

The revised GASB standards require pensions to report liabilities using a different actuarial cost method: the Entry Age Normal Actuarial Cost Method (EAN). GASB standards do not require pension plans to fund pensions

using this method. Under EAN, actuaries project the value of a member's benefit between the entry age into the pension and exit age and set a fixed percentage of that member's pay to fund the required contribution.

The key difference between PUC and EAN is that EAN fixes the normal cost over the duration of a member's tenure so that the same percentage of payroll is required in every year of employment. PUC allocates the normal cost in a pro-rata fashion: the closer a member gets to the assumed exit age, the greater the normal cost. In the early years of a member's career, the normal cost is higher under EAN than PUC; however, in the later years, the normal cost under PUC is higher than EAN.

Under both methods, the same amount of money is required to fund the normal cost. EAN funds more of the normal cost of a member in the early part of the member's career whereas PUC funds the normal cost later. EAN also stabilizes the contribution rate by setting

it at a fixed percentage of a member's pay whereas PUC increases that share over time.

Chapter 65 would allow the Board of Trustees to convert ASRS's contribution calculation method to EAN. If ASRS uses EAN, the funded status would decline because more normal cost is added to a member's prior service; however, increased liability would be offset by lower normal costs in the future, resulting in a contribution rate reduction of approximately (0.5)%.

Long-Term Contribution Rate Estimates

The FY 2015 Budget Procedures BRB (Laws 2014, Chapter 14) requires PSPRS to annually report on estimated contribution rates for the next 10 fiscal years. These estimates are required to include both aggregate rates for PSPRS and CORP, in addition to rates for each state employer group within those systems. *(Please see Table 7 for more information.)*

Table 6

Arizona Public Retirement System Contribution Rate Data 1/

	FY 2015		FY 2016		FY 2017		FY 2018	
	Employer	Employee	Employer	Employee	Employer	Employee	Employer	Employee
ASRS 2/	11.60%	11.60%	11.47%	11.47%	11.35%	11.35%	11.19%	11.19%
CORP 3/4/	14.46%	8.40%	18.21%	8.40%	18.16%	8.40%	17.92%	8.40%
EORP 5/	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%	23.50%	13.00%
EODC 5/	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%	6.00%	8.00%
UORP 6/	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
PSPRS 3/4/	32.54%	11.05%	41.37%	11.65%	41.86%	11.65%	41.77%	11.65%
		Total		Total		Total		Total
		23.20%		22.94%		22.70%		22.38%
		22.86%		26.61%		26.56%		26.32%
		36.50%		36.50%		36.50%		36.50%
		14.00%		14.00%		14.00%		14.00%
		14.00%		14.00%		14.00%		14.00%
		43.59%		53.02%		53.51%		53.42%

1/ This table represents the full FY 2016 contribution rate and does not reflect the phase-in option for CORP and PSPRS. Each year's rate is based on the valuation data from 2 years' prior.

2/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

3/ The contribution rates for PSPRS and CORP are aggregated. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the contribution rates may vary for each employer group. (Please see Table 4 for individual state employer groups.)

4/ The employer contribution rates displayed for years FY 2017 and FY 2018 exclude the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%). Additionally, the employer contribution rates displayed exclude the contribution rate associated with supplemental long term disability insurance (in FY 2016, that rate is 0.25%).

5/ Laws 2013, Chapter 217 established a fixed employer contribution rate for EORP and EODC System members of 23.5% that began January 1, 2014. Of the contribution rate for EODC System members, 6% is retained by the defined contribution system as an employer contribution to the member account and the remaining 17.5% is paid to the EORP Fund.

6/ A.R.S. § 15-1628 fixes the employer and employee contribution rates at 7%.

Table 7

Arizona Public Retirement System Contribution Rate Historical and Trend Data (Full Rate)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
ASRS																
Employer	9.40%	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.35%	11.19%	11.12%	11.05%	10.44%	9.89%	9.55%	9.15%	9.06%
Employee	9.40%	9.85%	10.74%	11.14%	11.54%	11.60%	11.47%	11.35%	11.19%	11.12%	11.05%	10.44%	9.89%	9.55%	9.15%	9.06%
Total 1/	18.80%	19.70%	21.48%	22.28%	23.08%	23.20%	22.94%	22.70%	22.38%	22.24%	22.09%	20.87%	19.78%	19.10%	18.29%	18.12%
PSPRS																
Employer 2/3/	20.77%	20.89%	22.68%	27.18%	30.44%	32.54%	41.37%	41.86%	41.77%	41.70%	41.80%	41.54%	41.33%	41.25%	41.13%	40.98%
Employee	7.65%	7.65%	8.65%	9.55%	10.35%	11.05%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%	11.65%
Total	28.42%	28.54%	31.33%	36.73%	40.79%	43.59%	53.02%	53.51%	53.42%	53.35%	53.45%	53.19%	52.98%	52.90%	52.78%	52.63%
CORP																
Employer 2/3/	7.49%	8.57%	9.50%	11.31%	13.68%	14.46%	18.21%	18.16%	17.92%	17.73%	17.65%	17.41%	17.20%	17.08%	16.97%	16.87%
Employee	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%
Total	15.89%	16.97%	17.90%	19.71%	22.08%	22.86%	26.61%	26.56%	26.32%	26.13%	26.05%	25.81%	25.60%	25.48%	25.37%	25.27%
EORP																
Employer	14.25%	17.42%	17.96%	20.87%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%	23.50%
Employee	7.00%	7.00%	11.50%	11.50%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
Total	21.25%	24.42%	29.46%	32.37%	36.50%											

1/ The ASRS contribution rate for each year includes the contribution rate for long term disability, which is split evenly between the employer and employee.

2/ The employer contribution rate displayed for years FY 2017 through FY 2025 excludes the contribution rate associated with retiree health in PSPRS and CORP. This amount, however, is expected to be minimal in each year (approximately 0.25%).

3/ The employer contribution rate displayed for all years excludes the contribution rate associated with supplemental long term disability insurance (in FY 2016, that rate is 0.25%).

Arizona Public Retirement System Valuation Data as of June 30											
Membership	ASRS			PSPRS			CORP			EORP	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	
Active (working and contributing)	202,693	203,201	18,436	18,526	14,580	14,580	839	843			
State Active Members	25,267	26,457	1,270	1,348	8,786	8,786	117	114			
Other Active Members ^{1/}	177,426	176,744	17,166	17,178	5,794	5,794	722	729			
Inactive	213,058	215,325	1,442	1,563	1,463	1,463	160	149			
Retired Members and Survivor Beneficiaries	120,875	126,255	10,159	10,524	3,810	3,810	1,057	1,053			
Deferred Retirement Option Plan	N/A	N/A	1,482	1,559	N/A	N/A	N/A	N/A			
Total	536,626	544,781	31,519	32,172	19,853	19,853	2,056	2,045			
Funding Status (dollar values in millions) ^{2/}											
Market Value of Assets	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
Total Actuarial Liability	\$30,299	\$35,159	\$5,306	\$5,936	\$1,331	\$1,497	\$293	\$314			
Unfunded Actuarial Liability ^{3/}	\$41,397	\$42,826	\$10,544	\$12,233	\$2,237	\$2,638	\$621	\$796			
Funded Status ^{3/}	\$9,961	\$9,904	\$4,359	\$6,214	\$677	\$1,126	\$270	\$483			
	75.9%	76.9%	58.7%	49.2%	69.7%	57.3%	56.5%	39.4%			

^{1/} Includes city, county, political subdivision, higher education and other education active members.

^{2/} Represents aggregate information for PSPRS and CORP. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the funded status may vary for each employer group.

^{3/} Calculated on actuarial, not market, value of assets.