

**ARIZONA STATE RETIREMENT SYSTEM**

A.R.S. § 38-711

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General Fund and Other Appropriated Funds	FY 1998 Actual	FY 1999 Estimate	FY 2000 Approved	FY 2001 Approved
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FTE Positions	124.0	124.0	142.0	145.0
Personal Services	4,154,700	4,346,800	5,175,900	5,372,800
Employee Related Expenditures	883,100	914,000	1,069,400	1,146,000
Professional and Outside Services	653,900	1,889,400	1,960,300 <sup>1/</sup>	1,273,300 <sup>1/</sup>
Travel - In State	30,700	36,100	36,100	36,100
Travel - Out of State	31,500	13,600	13,600	13,600
Other Operating Expenditures	1,928,200	1,795,600	1,818,700	1,907,000
Equipment	59,400	114,700	905,700	212,700
<b>Operating Subtotal</b>	<b>7,741,500</b>	<b>9,110,200</b>	<b>10,979,700</b>	<b>9,961,500</b>
Public Employee Retirement				
Information System	858,700	78,000	454,500	169,000
LTD Administration	0	0	2,035,200	2,157,300
Redeemed Service Costs	200,500	0	0	0
Automation Project Costs	0	1,136,400 <sup>2/</sup>	0	0
<b>Total</b>	<b>8,800,700</b>	<b>10,324,600</b>	<b>13,469,400</b>	<b>12,287,800</b>
<b>Additional Appropriations -</b>				
ASRS; Burke Litigation Settlement, Ch. 266	0	0	750,000 <sup>3/</sup>	4,200,000 <sup>3/</sup>
<b>Total Appropriations</b>	<b>8,800,700</b>	<b>10,324,600</b>	<b>14,219,400 <sup>4/</sup></b>	<b>16,487,800 <sup>4/</sup></b>
<u>Fund Summary</u>				
General Fund	0	0	600,000	4,200,000
Retirement System Admin. Account	8,800,700	10,324,600	11,584,200	10,130,500
Long-Term Disability Trust Fund	0	0	2,035,200	2,157,300
<b>Total Appropriations</b>	<b>8,800,700</b>	<b>10,324,600</b>	<b>14,219,400</b>	<b>16,487,800</b>

**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 June 30, 1998, ASRS membership included approximately 170,900 active (working and contributing) members, 51,900 retired members, 3,100 disabled retirees, and approximately \$19,390,000,000 in assets (market value).*

**New Staff** — The approved FY 2000 amount includes an increase of \$792,600 for 18 new FTE Positions. The additional personnel will allow the agency to address service deficiencies, enlarge its internal auditing functions, and assist with the agency's computer needs. The approved FY 2001 amount includes a further increase of \$50,900 for 3 additional Member Service Specialists.

**Salary Increase** — The approved amount includes \$152,200 in FY 2000 to fund performance-based salary adjustments for exempt employees. This amount is continued in FY 2001.

**Professional and Outside Services** — The approved FY 2000 amount includes \$225,000 in additional funding for Professional and Outside Services. The additional monies will pay for a \$90,000 business continuation site,

<sup>1/</sup> Includes an adjustment for Office of the Attorney General legal services. (See the Salary Adjustment table at the front of this report for more information.)

<sup>2/</sup> Monies appropriated for the Automation Project Costs Line Item in FY 1999 are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations, until June 30, 2000. (Laws 1999, Chapter 6, 1<sup>st</sup> Special Session)

<sup>3/</sup> This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Laws 1999, Chapter 266)

<sup>4/</sup> General Appropriation Act funds are appropriated as a Lump Sum by Agency.

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which will allow ASRS to operate a separate office location to serve members in the event that the agency's main office is forced to close due to an emergency. The additional funds for Professional and Outside Services will also be used for the following: a \$75,000 imaging study, which will allow ASRS to conduct a cost/benefit analysis of converting its member records to electronic form, \$35,000 for outside consultants that will assist with procurement of health insurance and long-term disability programs, and \$25,000 for the development of an ASRS Internet Web site. The approved FY 2001 amount includes a reduction of \$(90,000) due to the elimination of one-time expenditures.

**Other Operating Expenditures** — The approved amount for FY 2000 includes an increase of \$398,600 for Other Operating Expenditures. The additional monies will provide \$175,000 for a comprehensive member handbook, \$90,600 for newsletter mailing service costs, \$75,000 for additional telecommunications costs, \$33,000 for the printing of member identification cards, and \$25,000 for the production of an employer video. The approved amount in FY 2001 includes a reduction of \$(286,700) for the elimination of one-time expenditures.

**Replacement Equipment** — The approved amount for FY 2000 includes \$454,200 for the following equipment acquisitions: \$325,000 to implement a retractable and color-coded filing system, \$110,000 to upgrade one-third of the agency's personal computers, and \$19,200 for portable computers and a digital projector for the agency's boardroom. In FY 2001, this amount is reduced by \$(254,200) to account for one-time expenditures. Of the remaining amount approved for replacement equipment in FY 2001, \$110,000 will replace an additional one-third of the agency's personal computers, and \$90,000 is for a fire suppression system to protect member records.

**PERIS** — This Special Line Item contains funding for ongoing upgrades and enhancements required for the Public Employees' Retirement Information System (PERIS). PERIS is a database used to electronically store information on member contributions and benefits. The funds for this project are appropriated from the Retirement System Administration Account. The approved amount in FY 2000 includes \$147,000 for computer hardware, and \$307,500 for ongoing software upgrades. The approved FY 2001 amount includes a reduction of \$(285,500) for the elimination of one-time expenditures.

**LTD Administration** — This Special Line Item provides funding for the administration of ASRS's Long-Term Disability Program. ASRS contracts for outside administration of the program, which is funded by separate employee and employer contributions to a Long-Term Disability Trust Fund. Through FY 1999, the

administration costs associated with the program were paid for out of the Long-Term Disability Trust Fund on a non-appropriated basis. The fund was appropriated beginning in FY 2000 pursuant to the General Appropriation Act.

**Automation Project Costs** — In FY 1999, ASRS identified Year 2000 automation costs of \$1,891,400. Of this amount, ASRS had \$755,000 available in the Professional and Outside Services line item. The approved amount in FY 1999 includes a supplemental appropriation of \$1,136,400 in the "Automation Project Costs" Special Line Item to address the rest of ASRS's Year 2000 needs. Of the approved supplemental amount, \$160,000 will be repaid to the Government Information Technology Agency (GITA) for General Fund monies that GITA originally granted to ASRS. The remaining part of the supplemental, \$976,400, is to address ASRS's most critical Year 2000-related projects. The supplemental appropriation was made non-lapsing through FY 2000.

The approved amount in FY 2000 includes a reduction of \$(1,136,400) in the Automation Project Costs Special Line Item to eliminate the one-time supplemental funding. The approved amount in FY 2000 also includes a reduction of \$(155,000) in the Professional and Outside Services Special Line Item due to the elimination of one-time Year 2000 related expenditures, leaving \$600,000 in ASRS's base budget for Year 2000 projects. The FY 2001 approved amount includes a further reduction of \$(600,000) in ASRS's base budget due to the elimination of one-time expenditures.

**Additional Appropriations: ASRS; Burke Litigation Settlement (Chapter 266)** — Requires the state to reimburse employees who were affected by the ending of the former defined contribution system in 1981, pursuant to a class action lawsuit settlement. The state is required to make up for contribution rates and earnings that were not paid to those members from 1984 to the present. The appropriations for this purpose will go to ASRS, who will then distribute the funding for the settlement payments to the appropriate agencies. In FY 2000, \$600,000 is appropriated from the General Fund to pay reasonable attorney fees and costs incurred by the plaintiffs in the class action suit. In FY 2001, \$4,200,000 is appropriated from the General Fund for settlement payments. In addition, \$9,000,000 is appropriated in FY 2002 for settlement payments required pursuant to this act. For administration of this act, \$150,000 is appropriated from the assets of the ASRS in FY 2000.

**Additional Legislation: Public Retirement; Benefits (Chapter 50)** — Contains provisions affecting members of the Public Safety Personnel Retirement System (PSPRS), the Corrections Officer Retirement Plan (CORP) and the Elected Officials Retirement Plan (EORP) that would: 1)

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change survivor benefits; 2) change criteria for receiving permanent benefit increases; and, 3) authorize a one-time permanent benefit increase. Actuaries contracted by PSPRS estimate these changes will result in the following: 1) a 0.4% increase in the FY 2002 PSPRS contribution rate; 2) a 0.25% increase in the FY 2002 CORP contribution rate; and, 3) a 0.74% increase in the FY 2002 EORP contribution rate. All 3 of these increased estimates pertain only to employer contributions. The JLBC Staff estimates the contribution rate increase will result in a FY 2002 cost of \$987,800 to the General Fund and \$17,000 to Other Appropriated Funds. In addition, this legislation contains language to change PSPRS employee contributions to a pre-tax status. This is estimated to have a total impact of \$1,766,600 in FY 2001 and \$1,870,000 in FY 2002 in lost General Fund revenue.

LTD Program; Retirement Accrual (Chapter 146) — Increases the amount of credited service a member participating in the ASRS Long Term Disability (LTD) program can accrue from 25 years to 30 years. Actuaries contracted by ASRS estimate that this provision could potentially increase the FY 2002 employee and employer contribution rate by 0.01%. The JLBC Staff estimates that this would result in a cost of \$87,600 to the General Fund and \$30,000 to Other Appropriated Funds.

ASRS; Retired Members; Benefit Increases (Chapter 174) — Lowers the ASRS excess investment earnings cost of living adjustment (COLA) threshold from 9% to 8% and increases the maximum COLA percentage payable to retired members (or their beneficiaries) from 3% to 4%. In addition, the consumer price index (CPI) component of the COLA calculation is eliminated. Actuaries contracted by ASRS estimate these changes will result in a 0.07% increase in employer and employee contribution rates. The JLBC Staff estimates the contribution rate increase will result in a FY 2002 cost of \$613,000 to the General Fund and \$209,900 to Other Appropriated Funds.

Retirement; Game and Fish Employees (Chapter 260) — Allows Game and Fish Department employees presently covered by PSPRS to buy back credited service in the ASRS with 3% interest. Their accounts will then be transferred to PSPRS. Actuaries contracted by ASRS estimate that this transfer will result in a loss to ASRS of approximately \$141,000, however this does not result in a cost to the General Fund nor will it result in an increase in contribution rates.

Public Retirement Systems (Chapter 327) — Contains various provisions that impact ASRS. The provision that is estimated to have a fiscal impact involves a permanent increase from 2.0% to 2.1% in the retirement formula multiplier and the granting of a 5% increase for all members retired on or before the effective date of the act.

These provisions are effective July 1, 2000. Actuaries contracted by ASRS estimate that this provision could potentially increase the FY 2002 employee and employer contribution rate by 1.3%. The JLBC Staff estimates that an increase in the contribution rate of 1.3% would result in a cost of \$11,400,000 to the General Fund and \$3,900,000 to Other Appropriated Funds. This legislation also establishes an enhanced refund program. A member who terminates employment after attaining at least 5 years of credited service will receive 25% of employer contributions in addition to the member's contributions. The percent of employer contributions refunded increases with years of service until, at 10 years or more, 100% of employer contributions are refunded in addition to the member's contributions. Finally, the legislation establishes a 2% minimum contribution rate for employers and employees.

Defined Contribution Option (Chapter 329) — Allows state elected officials subject to term limits and exempt state officers and employees (except University and Department of Public Safety employees) to elect to participate in a defined contribution (DC) retirement plan option instead of 1 of the 4 existing public retirement systems. The DC plan will begin on December 1, 2000, and will be administered by the fund manager of the PSPRS. The employer and the participating member are both required to contribute 2.66% of the member's gross salary into the DC plan. Employer contributions and earnings are vested after 1 year and employee monies are immediately vested. In addition, the bill permits legislative employees and term-limited state elected officials to participate in a deferred compensation program instead of the ASRS, the EORP or the DC plan. Employers are required to contribute 5% of the employee's base salary into the deferred compensation program. The bill also enables an EORP member to be eligible for normal retirement after 20 or more years of service at any age. In addition, the bill authorizes early retirement after 5 years of service (instead of 10 years) and eliminates altogether the "minimum age 50" requirement. Finally, a 30% cap is established for the penalty, or reduction from normal retirement benefits, for those who elect early retirement.