

BILL # HB 2390

TITLE: ASRS; retirees; graded multiplier increase

SPONSOR: Pierce

STATUS: As Introduced

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FISCAL ANALYSIS

Description

HB 2390 provides a one-time permanent benefit increase to all retired Arizona State Retirement System (ASRS) members who were receiving a benefit on August 8, 2001. This bill contains provisions granting retirees with years of credited service between 20 and 25 a one-time benefit increase of 2.38%, retirees with years of service between 25 and 30 a one-time benefit increase of 4.76%, and retirees with years of credited service of 30 or above a one-time benefit increase of 9.52%. This bill provides no increased benefit to future retirees.

Estimated Impact

HB 2390 has an estimated annual General Fund cost of \$1.4 million. This cost is from the increased unfunded liability for providing benefits to individuals no longer paying into the system. There is also a one-time administrative cost of \$651,400 from the ASRS Administration Fund to implement these changes.

Analysis

HB 2390 would provide increased benefits to current retirees who were receiving a benefit on August 8, 2001. Because there is no increased benefit for those currently paying into the system, there is no increase in the normal cost (the long term cost of providing benefits to members). This bill does, however, increase the unfunded liability of the system from \$4.1 billion to \$4.4 billion (about \$250 million). This would decrease the funded ratio from 85.3% to 84.5%. This liability is paid off over a 30-year period with an estimated annual state cost of \$4 million. This cost is split equally between state agencies and current employees (\$2 million each) as an increase in the contribution rate.

Actuaries under contract for ASRS estimate that HB 2390 would increase the ASRS contribution rate by 13 basis points (0.13%). If implemented for FY 2007, the employer and employee contribution rate would each be 8.7% instead of 8.6%. This increase in the contribution rate would result in increased Employee Related Expenditures for agencies. The total cost to the state of the increase is estimated at \$2 million annually, \$1.4 million of which would come from the General Fund. Current employees would also pay \$2 million.

The Legislature could either account for this cost for FY 2007, when the liability is initially incurred, or begin paying the additional costs in FY 2008 when the new rate would take effect.

Additionally, ASRS estimates that it would require an additional \$651,400 for one-time administrative costs to implement the change.

Local Government Impact

The changes proposed in HB 2390 would result in an estimated FY 2008 local government and non-appropriated fund impact of approximately \$10.4 million.