BILL # SB 1142

TITLE: ~~children; removal from home~~
NOW: CORP; MEMBERSHIP EXPANSION

SPONSOR: Johnson

STATUS: As Amended by House APPROP (P)

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FISCAL ANALYSIS

Description

SB 1142 allows probation, surveillance and juvenile detention officers in the judiciary to participate in the Correctional Officers Retirement Plan (CORP). Actual participation is based on the Administrative Office of the Courts entering a joinder agreement with the Fund Manager and the consent of the participant. Participating officers would transfer their current accounts from the Arizona State Retirement System (ASRS) to CORP.

Estimated Impact

The fiscal impact of the bill cannot be determined in advance. The bill allows the transfer of participants to occur, but does not mandate the transfer. If the Administrative Office of the Courts does enter a joinder agreement with the Fund Manager, the expected state General Fund impact could be between a $41,300 savings and a $44,000 cost, based on 2 different rate calculations by the Fund Manager. This estimate, however, is extrapolated from the estimated contribution rate for Maricopa County. Actual state costs or savings will depend on each county's actual contribution rates.

Analysis

In the CORP system, each employer has a different retirement contribution rate based on the characteristics of their participants. At this time, the Fund Manager is unable to calculate an exact rate for each employer as they have only received data for Maricopa County. This analysis estimates total state costs based on the estimated Maricopa County rate; however, the actual rate for each county will vary based on the characteristics of their participating officers. If the contribution rates in other counties are higher than the estimated Maricopa rate, the associated impact will also be higher. This analysis also assumes that all probation, surveillance and juvenile detention officers choose to transfer to CORP, as they can opt out of the transfer.

Contribution rates have 2 components. The first component is the normal cost, which is the permanent cost associated with providing the benefit. The second component is the unfunded liability. Unfunded liability is created by adding benefits or changing assumptions and represents the cost of providing benefits to recipients who did not pay the full cost of the benefits as part of the normal cost. Unfunded liability is paid off over a specific amortization time period. Currently, the amortization period for CORP is 20 years; however, Laws 2006, Chapter 251 allows the Fund Manager to increase the amortization period to 30 years.

Actuaries under contract for the Fund Manager estimated that the employer contribution rate would be 9.26% for Maricopa County, based on the current plan provision. This consists of a normal cost of 5.68% and an unfunded liability of 3.58%. Currently, all the participants are enrolled in the ASRS system. Under ASRS, the FY 2007 employer retirement rate (including Long Term Disability) is 9.1%. The 9.26% CORP rate is 16 basis points or 0.16% higher than the ASRS rate, which indicates there would be a cost to the state. It appears, however, the amount of assets to be transferred from ASRS was not correctly estimated in this calculation.

As mentioned previously, Laws 2006, Chapter 251 allows the Fund Manager to increase the amortization period from 20 to 30 years, which would spread the unfunded liability portion of the contribution rate over a longer period of time. When this and other changes expected to be implemented this year are taken into account, as well as using the correct value of assets transferred from ASRS, the net effect is that the employer rate could potentially be reduced to 8.95% (5.47% for normal cost and 3.48% for unfunded liability), which would be a savings to the state as the rate would be 15 basis points, or 0.15%, lower than the ASRS rate of 9.1%. However, while increasing the amortization time period does create immediate savings, over the amortization period, it will cost more to pay off the unfunded liability.

Total unfunded liability for Maricopa County would be between $39 million and $48 million. If the unfunded liability were the same percent of payroll in all counties, total unfunded liability would be between $69 million and $84 million.

The normal cost under ASRS is 6.58%, which is higher than either estimated Maricopa County rate under CORP. This indicates that the long-term cost for Maricopa County would actually be less in the CORP system, based on current demographics and benefits. There are several reasons for this including a younger population, a higher assumed rate of return on investments, lower pay raise assumptions and even differences in the methods of the different actuaries.

Both the state and the counties pay probation and surveillance officer salaries, while juvenile detention officers are funded only by the counties. The state costs will be affected by any increase to the contribution rate of state funded officers because the budget generally includes increases for the additional Employee Related Expenses (ERE) associated with the increased employer contribution rates. Counties will likewise be impacted by changes to the contribution rates for county funded officers. Due to the passage of Laws 2006, Chapter 261, the state will no longer pay the salaries of any of the potential participants in Maricopa County, as financial responsibility for both adult and juvenile probation programs has been transferred to the county. Therefore, for FY 2007, there is no expected state cost for participants in Maricopa County.

If the same range of rates for Maricopa County (8.95% to 9.26%) were applied to all counties, the total state cost would be between $(41,300) and $44,000 based on current payroll figures. Actual state costs depend on the actual contribution rate for each county.

Local Government Impact

As counties share the cost of probation, surveillance and juvenile detention officers, a change in the contribution rate also means a change in county expenses. For Maricopa County, a 9.26% contribution rate would cost an additional $96,600, while a rate of 8.95% would save the county $90,600. If the same range of rates were applied to all counties, the total cost for all counties is estimated between $(116,100) and $123,900. Actual county costs will depend on each county’s contribution rate.

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