

# Fiscal Note

**BILL #** HB 2020

**TITLE:** ASRS; contribution prepayment; appropriation

**SPONSOR:** Livingston

**STATUS:** As Introduced

**PREPARED BY:** Jack Brown

## Description

The bill would appropriate \$534,000,000 from the General Fund to the Arizona State Retirement System (ASRS) to prepay the state's employer share of contributions under the ASRS defined benefit pension plan.

## Estimated Impact

The bill would have a one-time cost of \$534,000,000 from the General Fund. The bill would have savings in future years as the state would use the prepayment to reduce future years' employer contribution. The net fiscal impact of the bill cannot be determined, as the bill does not specifically outline how and when the funds would be used by the state under the ASRS prepayment program.

## Analysis

The ASRS contribution rate includes 2 components: 1) A rate associated with the defined pension and retiree health insurance benefit; and 2) A separate rate for the long-term disability program. Under the ASRS plan's cost sharing model, the employee and employer each pay the same required contribution rates for both items. For FY 2024, the ASRS actuarial valuation has established a contribution rate of 12.29%, which consists of 12.14% for the pension/health benefit and 0.15% for the long-term disability program. These rates will be paid by both employees and employers.

A.R.S. § 38-737 establishes an ASRS program where an employer may prepay future employer contributions related to the pension benefit. Following prepayment, the employer can draw on those funds to make contributions in-lieu of making the contributions from the employer's regularly budgeted funds.

Under this program, an employer enters into a written prepayment agreement with ASRS that establishes certain terms, including:

- The prepayment amounts that will be transmitted to ASRS, including frequency and dates
- Selecting an amortization period – once the employer decides to draw down the funds, over how many years will the funds be used
- Acknowledging other program requirements. For example, that the prepayment account will be credited with earnings/losses at the ASRS Trust Fund's realized rate of return

After entering into the written prepayment agreement with ASRS, an employer then makes the following subsequent decisions regarding the prepayment program:

- When to start the amortization period: If an employer had agreed to a 10 year amortization period in its agreement with ASRS, it later selects the start date and notifies ASRS – for example, an employer could elect to start to use funds in FY 2025, which would require the use of all account monies by FY 2034.
- The annual account usage. During the selected time period, an employer decides each year how much of the account balance to use for employer contributions.

(Continued)



The bill would appropriate \$534,000,000 from the General Fund to the ASRS prepayment program. However, because the bill does not specify the other program parameters (such as annual account usage by the state), the net fiscal impact cannot be determined.

**Local Government Impact**

None. The bill's prepayment appropriation would only be applied to future state government ASRS employer contributions.

2/1/23