



ARIZONA STATE SENATE
Forty-ninth Legislature, First Regular Session

PROGRAM PRESENTATION
Arizona State Retirement System

Background

In 1953, the Arizona State Retirement System (ASRS) was created to provide retirement and other benefits for state employees, including university faculty and employees of the state's political subdivisions who signed a membership contract. Active teachers voted to join ASRS in 1954 and transferred to ASRS on January 1, 1955. Effective July 1, 1971, the current ASRS defined benefit plan replaced the defined contribution plan.

A "defined benefit plan" provides a fixed monthly benefit upon retirement, determined by a formula. The benefit formula is the employee's length of service under ASRS multiplied by a graded multiplier and then by a percentage of the average monthly amount of earnings or compensation.

$$(\text{Total Credited Service} \times \text{Multiplier} \times \text{Average Monthly Compensation}) = \text{Defined Benefit}$$

The graded multiplier is the percentage set by the Legislature and used in the ASRS retirement benefit formula to determine the member's monthly retirement annuity. The graded multiplier begins at 2.1 percent for members with less than 20 years of service and increases as follows:

- 2.15 percent if the member has = 20 < 25 years of credited service.
- 2.20 percent if the member has = 25 < 30 years of credited service.
- 2.3 percent if the member has = 30+ years of credited service.

ASRS is a cost sharing retirement plan, meaning that the employee and the employer contribute to the member's retirement at an equal percentage of the employee's pay, which must be at least two percent of the employee's compensation. ASRS Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

ASRS normal retirement is the earliest age at which a member is first eligible to receive a full retirement benefit as calculated by the ASRS benefit formula. A member reaches normal retirement at age 65, if the member is at least 62 years of age and has at least ten years of credited service or when the member's age and years of credited service add up to 80 (known as the rule of 80).

PROGRAM PRESENTATION

ASRS

Page 2

In addition to pension benefits, the ASRS provides a health insurance premium benefit and sponsors medical and dental coverage for retired and disabled members and their eligible dependents. Active members also receive long-term disability insurance coverage equal to two-thirds of pay at the time of disablement.

Fiscal Information

The ASRS has three funds, Retirement, Health Benefit Supplement and Long Term Disability, to which member contributions are distributed according to actuarially determined rates. As of June 30, 2008, the total ASRS net assets held in trust for benefits were \$26.1 billion, an 8.5 percent decrease from the June 30, 2007, market value. In FY 2007-2008, members and employers contributed approximately \$1.8 billion to the system's funds.

Actuarial valuations of the ASRS assets and benefit obligations for the retirement and health benefit supplement funds are performed annually. The most recent actuarial valuations available as of June 30, 2007, indicate that the total funded status of the ASRS fund is 82.8 percent. The fund is less than 100 percent funded because ASRS actuarial liabilities exceed actuarial assets. Funded status fluctuates based on investment returns and actuarial assumptions.

The ASRS operating budget is funded from the ASRS Administration Account and the Long-Term Disability Administration Account. The FY 2008-2009 budget appropriates a total of \$21,000,400 and 215 full-time equivalent positions for the operating budget of ASRS. ASRS receives no appropriations from the state General Fund.

Committee Activity

Paul Matson, Executive Director of ASRS, presented an overview of the ASRS. Mr. Matson discussed the membership and benefit structure of ASRS. Pat Klein, Assistant Director of External Affairs for ASRS, testified on retiree health insurance benefits. Finally, Mr. Matson concluded with an update of the performance of ASRS Fund investments. No public testimony was received and no recommendations were made on behalf of the Committee.

FY 2008-2009 Budget Action

There is no direct impact to ASRS and the state General Fund as a result of action taken to amend the FY 2008-2009 budget. However, a reduction in active members of ASRS due to agency personnel reductions may have an impact on the aggregate amount of contributions made to the ASRS Fund.

Attachment

- ASRS Program Presentation
- State Retirement Systems Matrix

Prepared by Senate Research

February 9, 2009

JA/jas