

CONSOLIDATED RETIREMENT REPORT

Summary

The Consolidated Retirement Report (CRR) provides financial information on the state’s retirement systems, including the total state cost of the retirement systems and estimated cost of annual changes in the employer contribution rates.

Most public employees in Arizona are enrolled in one of the 5 following state retirement systems.

- The Arizona State Retirement System (ASRS), which provides retirement, survivors, health, and disability benefits to employees of most public employers, including public schools, most local and county governments, and the State of Arizona.
- The Public Safety Personnel Retirement System (PSPRS), which provides similar benefits to public employees who work in a public safety capacity, such as law enforcement officials and firefighters.
- The Corrections Officers Retirement Plan (CORP), which provides similar benefits to correctional officers at state-run facilities, detention officers at county jails, and certain public safety dispatcher positions.
- The Elected Officials' Retirement Plan (EORP), which provides similar benefits to elected officials. The population of elected officials includes state officials, county/city officials and judges. EORP is now closed to new enrollees. Elected officials who are elected after January 1, 2014 will be enrolled in the Elected Officials' Defined Contribution Retirement System (EODCRS), which provides a defined contribution retirement benefit.

- The University Optional Retirement Plan (UORP). Some university employees are eligible to choose between ASRS or UORP. Unlike ASRS, UORP is a defined contribution plan where the employee and employer each contribute 7% of gross earnings.

The PSPRS Board of Trustees manages the PSPRS, CORP and EORP plans. The Arizona Board of Regents (ABOR) separately oversees the UORP plan.

FY 2023 Impacts and Total Funding

Based on data provided by state agencies in their budget requests under A.R.S. § 35-115, JLBC estimates the General Fund cost associated with all retirement systems in FY 2023 is estimated to be \$268.2 million and the Total State Funds cost is \$663.5 million. *(Please see Table 1 for the total costs.)*

Employer contribution rate for the retirement systems change each year depending on the latest actuarial valuation. Some of the retirement costs may be covered by agencies’ non-appropriated funding sources.

ASRS

The General Fund cost associated with ASRS in FY 2023 is estimated to be \$85.6 million and the Total State Funds cost is \$390.2 million.

Table 1

Arizona Public Retirement FY 2023 System Employer Cost

	<u>FY 2023 Total Cost 1/</u>		
	<u>General Fund</u>	<u>All Other Funds 2/</u>	<u>Total</u>
Arizona State Retirement System	\$ 85,607,400	\$ 304,599,300	\$390,206,700
Public Safety Personnel Retirement System	59,709,700	35,551,300	95,261,000
Corrections Officer Retirement Plan	85,719,200	4,069,400	89,788,600
Elected Officials' Retirement Plan/ Defined Contribution Retirement System	16,297,900	329,200	16,627,100
University Optional Retirement Plan	20,902,300	50,710,300	71,612,600
Grand Total	\$ 268,236,500	\$ 395,259,500	\$663,496,000

1/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2023 Baseline change in Personal Services costs. These estimates are based on Tier 1 and Tier 2 employer contribution rates, and do not include the impact of Tier 3 employer contribution rates.

2/ Includes both Other Appropriated Funds and Non-Appropriated Funds (including Federal Funds).

At its November 2021 meeting, the ASRS Board of Trustees decreased the pension contribution rate to 12.03% of Personal Services in FY 2023. (See Table 2). The FY 2022 rate was 12.22%.

The employer contribution rate for disability insurance decreased from 0.19% to 0.14%, for a total overall employer contribution rate of 12.17% (compared to 12.41% last year).

PSPRS

The PSPRS system consists of numerous state and local employer groups, each with its own contribution rate. (See Table 3 for state employer group contribution rates).

The General Fund cost associated with PSPRS in FY 2023 is estimated to be \$59.7 million and the Total State Funds cost is \$95.3 million.

CORP

The CORP system consists of numerous state and local employer groups, each with its own contribution rate. (See Table 3 for state employer group contribution rates).

The General Fund cost associated with CORP is \$85.7 million in FY 2023 and the Total State Funds cost is \$89.8 million.

EORP and EODCRS System

The General Fund cost associated with EORP and the EODCRS in FY 2023 is estimated to be \$16.3 million and the Total State Funds cost is \$16.6 million. These amounts exclude court fees used to offset the cost of the system, as those fees are deposited directly into the EORP Fund.

For EODCRS members, the total employer contribution rate is the same as EORP, with 6.0% of the employer contribution rate is deposited into the individual employees' retirement investment account and the remainder being deposited into the EORP Fund.

UORP

The General Fund cost associated with UORP in FY 2023 is estimated to be \$20.9 million and the Total State Funds cost is \$71.6 million.

While some university employees are members of ASRS, others participate in the optional retirement plan. In this latter plan, employees and their employers each contribute 7% of the employee's gross earnings, which is then invested by the employee. These contribution rates are fixed in statute and do not change in FY 2023.

<u>Fiscal Year</u>	<u>Rate ^{1/}</u>	<u>Fiscal Year</u>	<u>Rate ^{1/}</u>
FY 1983	7.00	FY 2004	5.20
FY 1984	7.00	FY 2005	5.20
FY 1985	6.27	FY 2006	6.90
FY 1986	5.67	FY 2007	8.60
FY 1987	5.53	FY 2008	9.10
FY 1988	4.00	FY 2009	8.95
FY 1989 ^{2/}	4.78	FY 2010	9.00
FY 1990 ^{2/}	1.29	FY 2011	9.60
FY 1991 ^{2/}	3.37	FY 2012	10.50
FY 1992 ^{2/}	3.17	FY 2013	10.90
FY 1993 ^{2/}	3.10	FY 2014	11.30
FY 1994 ^{2/}	2.65	FY 2015	11.48
FY 1995 ^{2/}	3.26	FY 2016	11.35
FY 1996	3.36	FY 2017	11.34
FY 1997	3.20	FY 2018	11.34
FY 1998	3.05	FY 2019	11.64
FY 1999	2.85	FY 2020	11.94
FY 2000	2.17	FY 2021	12.04
FY 2001	2.17	FY 2022	12.22
FY 2002	2.00	FY 2023	12.03
FY 2003	2.00		

^{1/} As a percent of salary, employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

^{2/} Long Term Disability not broken out of the contribution rate from FY 1989 - FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

2021 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2021 Regular Session:

PSPRS Deposit

The FY 2022 budget included FY 2021 supplemental funding of \$1,000,000,000 from the General Fund to PSPRS to reduce unfunded pension liability in retirement plans managed by the PSPRS Board of Trustees. Of the \$1,000,000,000 funding amount, \$500,000,000 was allocated to the Department of Public Safety PSPRS Employer Group and \$500,000,000 was allocated to the Department of Corrections CORP Employer Group.

The FY 2023 enacted budget includes savings of \$98,119,900 from the General Fund in FY 2023 as a result of reducing the unfunded accrued liabilities for PSPRS retirement plans, which consist of \$52,037,300 allocated to ADC and \$46,082,600 to DPS

2022 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2022 Regular Session:

PSPRS Deposit

The FY 2023 budget includes FY 2022 supplemental funding of \$1,139,086,400 from the General Fund and \$15,000,000 from the Game and Fish Fund to PSPRS to eliminate unfunded pension liabilities in certain retirement plans managed by the PSPRS Board of Trustees. Of the \$1,154,086,400 funding, the following amounts were allocated to the employer groups listed below:

Employer Group	Unfunded Liability (Pension + Health)
PSPRS - State Agencies	
DPS	420,559,600
Game & Fish	97,243,000
ASU Police	23,565,000
U of A Police	15,645,900
NAU Police	7,725,600
DEMA	8,542,800
Attorney General	9,117,700
Dept. of Liquor Licenses	7,628,900
State Parks Board	8,820,600
Total	598,849,100
CORP - State Agencies	
Dept. of Corrections	474,635,300
Dept. of Juvenile Corrections	73,940,800
DPS - Dispatch	6,352,000
DPS - Detention	309,200
Total	555,237,300

The enacted budget's 3-year spending plan assumes that ongoing General Fund spending will be reduced by \$99,840,200 in total beginning in FY 2024 due to lower employer contributions. Of the \$99,840,200 in savings, \$41,671,800 is allocated to the PSPRS employer groups and \$58,168,400 is allocated to the CORP employer groups.

ASRS Prepayment

Laws 2022, Chapter 324 allows an ASRS employer to prepay the employer's pension contributions directly to ASRS to reduce the employer's future pension contributions.

PSPRS/CORP Reemployment

Laws 2022, Chapter 24 modifies the time restriction from 12 to 6 months in which a PSPRS or CORP member can retire and become reemployed by the same employer and continue to receive pension payments. After returning to work for the employer after 6 months, the employee would still be subject to current procedures (such as the employer paying the required "alternate contribution rate").

PSPRS Deferred Retirement Option Plan

Laws 2022, Chapter 351 modifies the participation period for the PSPRS Deferred Retirement Option Plan (DROP) for eligible participants. Currently, employees hired before January 1, 2012 may participate in DROP for up to 60 months. For these members who are also at least 51 years old and have at least 24.5 years of service, Chapter 351 increases the maximum DROP participation period from 60 to 84 months.

EORP Early Retirement

Laws 2022, Chapter 323 allows an elected official who is a member of EORP and has either (a) attained 55 years of age with 10 years of credited service or (b) has attained 59.5 years of age with five years of credited service, to make an irrevocable notice of resignation by July 29, 2022, with a date of retirement no later than September 30, 2022, to receive pension payments for normal retirement. Additionally, it appropriates \$60,000,000 from the General Fund in FY 2023 for deposit into the EORP Fund. This amount is intended to offset the increased actuarial liability from the early retirement benefit.

PSPRS Asset Transfers

Laws 2022, Chapter 221 modifies the actuarial funding requirements for PSPRS in certain circumstance where an employer's group funded status is above 100%. In the case where an employer group's funded status reached 100%, Chapter 221 would reduce the level of required employer contributions. Additionally, if a PSPRS group has no liabilities or beneficiaries, Chapter 221 allows that employer to request the PSPRS Board of Trustees to transfer those excess assets to another PSPRS-managed group under the employer.

PSPRS Advisory Committee

Under current law, the Speaker of the House and President of the Senate each have one appointment to the PSPRS advisory committee. Laws 2022, Chapter 72

removes the requirement that these appointments be a legislator or legislative staff member.

Funded Status

To calculate the unfunded liability of each plan, actuaries use a modified amount for asset values to reflect certain plan assumptions. The funded status, or the amount of market value of assets relative to the amount of liabilities, of each plan is:

- 80.0% for ASRS;
- 59.3% for PSPRS;
- 73.9% for CORP; and
- 36.2% for EORP.

The above percentages exclude the retiree health portion of the pension plan and the impact of the FY 2022 supplemental pension contribution.

Table 3

**PSPRS/CORP State Employer Group Retirement Rates
(Excludes Health and Disability Program)**

Retirement System	Employer				Employee		
	FY 2022		FY 2023		FY 2023		
	Tier 1 and 2	Tier 3 ^{1/}	Tier 1 and 2	Tier 3 ^{1/}	Tier 1	Tier 2	Tier 3 ^{1/}
<i>Public Safety Personnel Ret. System</i>							
Liquor License Investigators	108.44	103.00	115.93	110.35	7.65	11.65	9.94
Department of Public Safety ^{2/}	106.95	104.22	66.73	63.74	2.65	6.65	5.55
Northern Arizona University Police	48.68	48.57	57.37	57.26	7.65	11.65	9.94
University of Arizona Police	49.16	45.87	50.23	46.72	7.65	11.65	9.94
Arizona State University Police	46.67	42.74	50.71	47.02	7.65	11.65	9.94
Game and Fish Department	131.05	127.47	136.73	133.44	7.65	11.65	9.94
Attorney General Investigators	59.29	51.87	50.30	42.83	7.65	11.65	9.94
DEMA Firefighters	46.90	43.26	45.56	41.74	7.65	11.65	9.94
Parks Police	118.02	111.62	122.19	116.59	7.65	11.65	9.94
<i>Corrections Officer Ret. Plan</i>							
Corrections Officer - ADC	30.88	31.22	18.79	19.43	8.41	8.41	7.49
Corrections Officer - DJC	46.55	47.42	52.69	53.67	8.41	8.41	7.49
DPS Dispatchers ^{3/}	71.44	73.13	79.64	81.86	7.96	7.96	7.49
Probation Officers	35.97	36.66	37.06	37.97	8.41	8.41	7.49

^{1/} FY 2022 and FY 2023 rates for Tier 3 for PSPRS based on Defined Benefit Plan and based on Defined Contribution for CORP.

^{2/} The displayed rates reflect that 5% of the DPS member contribution is paid by the state.

^{3/} Dispatchers hired after November 24, 2009 are ASRS members.

Table 4

Reasons for Change in the Employer Contribution Rate^{1/}

	<u>ASRS</u>	<u>PSPRS</u>	<u>CORP</u>	<u>EORP</u>
FY 2022 Contribution Rate	12.41%	56.20%	31.43%	61.31%
Asset (Gain)/Loss	-0.19%	-0.14%	-0.31%	-0.13%
Payroll	0.00%	0.75%	1.63%	5.60%
Liability Experience	N/A	0.21%	-0.65%	-1.19%
Disability Rate Change	-0.05%	0.00%	0.00%	0.00%
Assumption Changes	N/A	1.43%	0.52%	3.17%
Additional Contributions	0.00%	-4.65%	-7.80%	0.00%
Amortization Change	N/A	0.00%	0.00%	0.00%
Other	0.00%	0.34%	0.65%	1.66%
FY 2023 Contribution Rate	12.17%	54.14%	25.47%	70.42%
Net Change	-0.24%	-2.06%	-5.96%	9.11%

^{1/} EORP data is displayed as calculated in the actuarial valuation, the actual FY 2022 EORP contribution rate approved by the PSPRS Board was 61.43%.

Table 5

Arizona Public Retirement System Valuation Data as of June 30, 2021

Membership	ASRS		PSPRS		CORP		EORP	
	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023	FY 2022	FY 2023
Active (working and contributing)	210,135	207,913	18,667	18,366	10,936	9,863	457	373
State Active Members	27,400	N/A	1,404	1,353	5,063	4,534	N/A	N/A
Other Active Members ^{1/}	182,735	N/A	17,263	17,013	4,997	5,329	N/A	N/A
Inactive	244,592	253,152	2,366	2,612	3,604	3,726	175	177
Retired Members, Disabled and Survivor Beneficiaries	155,924	160,215	15,869	14,564	6,049	6,417	1,254	1,315
Deferred Retirement Option Plan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total	610,651	621,280	36,902	35,542	20,589	20,006	1,886	1,865
Funding Status (dollar values in millions) ^{2/}	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020	June 30, 2021
Market Value of Assets	\$40,872	\$50,300	\$8,058	\$11,445	\$2,071	\$3,216	\$287	\$346
Total Actuarial Liability	\$58,266	\$62,860	\$18,512	\$19,306	\$4,225	\$4,351	\$961	\$955
Unfunded Actuarial Liability ^{3/}	\$15,559	\$12,560	\$10,454	\$7,861	\$2,154	\$1,135	\$674	\$609
Funded Status ^{3/}	72.3%	80.0%	43.5%	59.3%	49.0%	73.9%	29.9%	36.2%

N/A=Not Available

^{1/} Includes city, county, political subdivision, higher education and other education active members.

^{2/} Represents aggregate information for PSPRS and CORP Tier 1 and 2 pension benefits. These 2 systems consist of separate employer groups. Each group has its own actuarial status. As a result, the funded status may vary for each employer group.

^{3/} Calculated on market, not actuarial, value of assets. Excludes the funded status of the retiree health portion of the plan.

State Retirement Plan Summary										
	PSPRS			CORP			EORP			ASRS
	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 7/1/17	Tier 3/DC After 7/1/17	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 7/1/18	Tier 3/DC 1/ After 7/1/18	Tier 1 Before 1/1/12	Tier 2 1/1/12 thru 1/1/14	DC Plan After 1/1/14	
Hire Date	None	52.5	55; 52.5 with reduced pension	25 years of Service with no age or; years of Service and Age must equal 80	52.5	7/1/18	None	62		Years of Service and Age must equal 80
Normal Retirement Age	None	52.5	55; 52.5 with reduced pension	25 years of Service with no age or; years of Service and Age must equal 80	52.5	7/1/18	None	62		
Minimum Years of Service	20 years; 15 years if aged 62 or older	15 years	15 years		25 years		20 years	10 years		
Multiplier	50%+ <20 years: - 4.00% 20 to <25 years: 2.00% 25+ years: 2.50%	62.5%+ <25 years: -4.00% 25+ years: 2.50% May use Tier 3 multiplier if better	15 to <17 years: 1.50% 17 to <19 years: 1.75% 19 to <22 years: 2.00% 22 to <25 years: 2.25% 25+ years: 2.50%	50%+ 20+ years: 2.50% If 80 point rule is used for hires prior to 8/9/2001: Average Salary X years of service X 2.5%	62.5%+ 25+ years: 2.50% (Max 7 years) If less than 25 years: Avg. Salary X Yrs of svc X 2.5%		4% of average salary x years of service	3% of average salary x years of service		<20 years: 2.10% 20 to <25 years: 2.15% 25 to <30 years: 2.20% 30+ years: 2.30%
PBI or COLA	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	COLA eligible after 7 years or age 60; COLA dependent on plan funded status	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	Not Applicable	COLA based on Phoenix CPI, not to exceed 2%	COLA based on Phoenix CPI, not to exceed 2%	Not Applicable	PBI if fund exceeds growth estimate for 10 years, only for members hired before 9/13/13.
Benefit Cap	Adjusted by IRS	Adjusted by IRS	\$110,000	Adjusted by IRS	Adjusted by IRS		Adjusted by IRS	Adjusted by IRS		Adjusted by IRS
Normal Cost Split	Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)	50/50: Employer Pays Legacy Cost Balance	Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)		Set Employee Rate (Employers pay remaining)	Set Employee Rate (Employers pay remaining)		50/50
Assumed Rate of Return	7.40%	7.40%	7.40%	7.40%	7.40%		7.40%	7.40%		7.50%
Employee Rate	7.65%	11.65%	9.85% DC: 9.00%	8.41%	8.41%	7.00%	7.00%	13.00%	8.00%	12.11%
Aggregate Employer Rate	52.47%	52.47%	DB 47.75% (Normal+Legacy Costs) DC: 9.00%+Legacy Costs	27.59%	27.59%	5%+ Legacy Cost	61.43%	61.43%	61.43%	12.11%

1/ CORP includes a Tier 3 Defined Benefit plan, however essentially all state workers in CORP would only be eligible for the Defined Contribution Plan.