

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 dispatchers.
- 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 are enrolled in the Elected Officials' Defined Contribution Retirement System (EODCRS), which provides a defined contribution retirement plan.

- 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 2024 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 state retirement systems in FY 2024 is \$192.3 million and the Total State Funds cost is \$522.4 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 2024 is estimated to be \$97.9 million and the Total State Funds cost is \$352.4 million.

At its November 2022 meeting, the ASRS Board of Trustees increased the pension contribution rate to 12.14% of Personal Services in FY 2024. The FY 2023 rate was 12.03%. The employer contribution rate for disability insurance increased from 0.14% to 0.15%, for a total overall employer contribution rate of 12.29% (compared to 12.17% last year) *(Please see Table 3 for historical ASRS contribution rates.)*

Table 1

Arizona Public Retirement FY 2024 System Employer Cost

| | <u>FY 2024 Total Cost 1/</u> | | |
|---|------------------------------|---------------------------|-----------------------|
| | <u>General Fund</u> | <u>All Other Funds 2/</u> | <u>Total</u> |
| Arizona State Retirement System | \$ 97,940,200 | \$ 254,419,600 | \$ 352,359,800 |
| Public Safety Personnel Retirement System | 20,819,800 | 9,735,400 | 30,555,200 |
| Corrections Officer Retirement Plan | 26,832,300 | 248,100 | 27,080,400 |
| Elected Officials' Retirement Plan/ Defined Contribution Retirement System | 24,519,200 | 357,700 | 24,876,900 |
| University Optional Retirement Plan | 22,177,500 | 65,338,300 | 87,515,800 |
| Grand Total | \$ 192,289,000 | \$ 330,099,100 | \$ 522,388,100 |

1/ Represents the JLBC estimate of the total cost of the system and does not reflect any FY 2024 enacted budget changes in Personal Services costs. These estimates use the simplifying assumption of applying the Tier 1 and Tier 2 employer contribution rates to each agency's total PSPRS/CORP salary base.

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

PSPRS

PSPRS consists of numerous state and local subgroups, each with its own contribution rate (see Table 5).

The General Fund cost associated with PSPRS in FY 2024 is estimated to be \$20.8 million and the Total State Funds cost is \$30.6 million.

In aggregate, the FY 2024 Tier 1 and Tier 2 PSPRS employer contribution rate is 45.47%, or (8.89)% lower than in FY 2023 (see Table 2).

CORP

CORP consists of numerous state and local subgroups, each with its own contribution rate (see Table 5).

The General Fund cost associated with CORP is \$26.8 million in FY 2024 and the Total State Funds cost is \$27.1 million.

In aggregate, the FY 2024 Tier 1 and Tier 2 CORP employer contribution rate is 17.86%, or (7.61)% lower than in FY 2023 (see Table 2).

| | <u>PSPRS</u> | <u>CORP</u> | <u>EORP</u> |
|----------------------------------|----------------|----------------|----------------|
| FY 2023 Contribution Rate | 54.36% | 25.47% | 70.42% |
| Asset (Gain)/Loss | 0.12% | 0.43% | 0.13% |
| Payroll | (1.03%) | 0.40% | 2.67% |
| Liability Experience | 0.91% | 0.58% | (0.74%) |
| Additional Contribution | (9.61%) | (9.71%) | 0.00% |
| Assumption Changes | 2.60% | 0.49% | 6.31% |
| Other | <u>(1.88%)</u> | <u>0.20%</u> | <u>(2.28%)</u> |
| FY 2024 Contribution Rate | 45.47% | 17.86% | 76.51% |
| Net Change | (8.89%) | (7.61%) | 6.09% |

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

EORP and EODCRS System

The General Fund cost associated with EORP and the EODCRS in FY 2024 is estimated to be \$24.5 million and the Total State Funds cost is \$24.9 million. These amounts exclude court fees used to offset the cost of the system, as those fees are deposited directly into the EORP Fund.

The FY 2024 EORP employer contribution rate is 76.51%, or 6.09% higher than in FY 2023 (see Table 2).

For EODCRS members, the total employer contribution rate is the same as EORP, with 6.0% of the employer contribution rate 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 2024 is estimated to be \$22.2 million and the Total State Funds cost is \$87.5 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 2024.

| <u>Fiscal Year</u> | <u>Rate</u> | <u>Fiscal Year</u> | <u>Rate</u> |
|--------------------|-------------|--------------------|-------------|
| FY 1989 | 5.09 | FY 2007 | 9.10 |
| FY 1990 | 2.00 | FY 2008 | 9.60 |
| FY 1991 | 3.82 | FY 2009 | 9.45 |
| FY 1992 | 3.60 | FY 2010 | 9.40 |
| FY 1993 | 3.59 | FY 2011 | 9.85 |
| FY 1994 | 3.14 | FY 2012 | 10.74 |
| FY 1995 | 3.75 | FY 2013 | 11.14 |
| FY 1996 | 3.85 | FY 2014 | 11.54 |
| FY 1997 | 3.69 | FY 2015 | 11.60 |
| FY 1998 | 3.54 | FY 2016 | 11.47 |
| FY 1999 | 3.34 | FY 2017 | 11.48 |
| FY 2000 | 2.66 | FY 2018 | 11.50 |
| FY 2001 | 2.66 | FY 2019 | 11.80 |
| FY 2002 | 2.49 | FY 2020 | 12.11 |
| FY 2003 | 2.49 | FY 2021 | 12.22 |
| FY 2004 | 5.70 | FY 2022 | 12.41 |
| FY 2005 | 5.70 | FY 2023 | 12.17 |
| FY 2006 | 7.40 | FY 2024 | 12.29 |

FY 2023 Budget – Additional Pension Deposits

The FY 2023 budget (enacted during the 2022 Regular Session) included the following additional pension deposits:

PSPRS/CORP Deposits

The FY 2023 budget included 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 in Table 4. The impact of these additional deposits were reflected in FY 2024 agency contribution rates.

Table 4

**FY 23 Budget PSPRS/CORP
Additional Pension Deposits**

| Employer Group | Deposit Amount |
|--------------------------------------|------------------------|
| <u>PSPRS - State Agencies</u> | |
| DPS | 420,559,600 |
| Game & Fish (Incl. \$15 M OF) | 97,243,000 |
| ASU Police | 23,565,000 |
| U of A Police | 15,645,900 |
| NAU Police | 7,725,600 |
| DEMA (Federal Funds) | 8,542,800 |
| Attorney General | 9,117,700 |
| Dept. of Liquor | 7,628,900 |
| State Parks | 8,820,600 |
| Total - PSPRS Agencies | \$598,849,100 |
| <u>CORP - State Agencies</u> | |
| Dept. of Corrections | 474,635,300 |
| Juvenile Corrections | 73,940,800 |
| DPS - Dispatch | 6,352,000 |
| DPS - Detention | 309,200 |
| Total - CORP Agencies | \$555,237,300 |
| Total - General Fund | \$1,139,086,400 |
| Total - Other Fund | \$15,000,000 |

EORP Additional Deposit/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, the legislation appropriates \$60,000,000 from the General Fund in FY 2023 for deposit into the EORP Fund. This amount was intended to offset the increased actuarial liability from the early retirement benefit.

Since the enactment of Chapter 323, PSPRS has reported that 3 EORP members utilized the early retirement provisions of Chapter 323. Because of the minimal usage of the early retirement provision, the \$60,000,000 appropriation will effectively serve as an additional deposit to the EORP fund which reduces the EORP unfunded liability. The additional funding from Chapter 323 will be reflected in the June 30, 2023 EORP actuarial valuation, which impacts FY 2025 EORP contribution rates.

2023 Session Legislation

The retirement systems were affected by legislation relating to the following issues in the 2023 Regular Session:

PSPRS/CORP Plan Election

Under current law, PSPRS members hired after July 1, 2017 ("Tier 3" members) must elect to participate in the PSPRS defined benefit plan (at specific benefit levels) or the PSPRS defined contribution plan within 90 days after being hired. In addition, CORP members who are hired after July 1, 2018 ("Tier 3" members) and that work in certain probation positions may elect to participate in the CORP defined benefit plan (at specific benefit levels) or the PSPRS defined contribution plan within 90 days after being hired.

Laws 2023, Chapter 6 allows Tier 3 PSPRS and CORP members who are subsequently rehired into the same system (whether their former employer or new employer) to make another defined benefit/defined contribution selection. Laws 2023, Chapter 48 includes a similar provision, except it is applicable to employees who are rehired after a "bona fide termination of employment" that is less than six months "with no prearranged reemployment agreement".

Chapter 6 also adjusts the late penalty/interest calculation for Tier 3 PSPRS/CORP disability contributions from daily compounding to annual compounding. In addition, Chapter 6 modifies the "return to work" time limit for CORP members to be 6 months, which conforms to the time limit for PSPRS members. If members return to work for the same employer before this time period, benefit payments to the member are stopped during the time of reemployment.

ASRS Contribution Prepayment

Under current law, funds invested in the ASRS prepayment program are credited at the actual rate of return for the ASRS pension fund. Laws 2023, Chapter 46 authorizes an employer and ASRS to agree to a different rate of return for short-term investments made through ASRS.

In addition, Laws 2023, Chapter 46 implements the following program restrictions for state agencies: 1) Requires pension contribution to be made from a legislative appropriation specifically passed for that purpose; and 2) Requires any prepayment amounts or accrued earnings used to reduce employer pension contributions to be authorized by legislation for a specific fiscal year.

ASRS Retirement Application Changes

Laws 2023, Chapter 47 allows an ASRS member to make changes to their retirement application before their retirement date. In addition, Chapter 47 allows an ASRS member to exercise a one-time election to make changes to their retirement application within 60 days after their retirement date, though the member is prohibited from changing their retirement date and any changes made to the retirement application are retroactive to the retirement date.

ASRS Supplemental Deferral Plan

Laws 2023, Chapter 52 allows a political subdivision or political subdivision entity that is not currently participating in ASRS to enter into an agreement with ASRS to participate in a supplemental salary deferral plan overseen by ASRS. Chapter 52 also provides that: 1) the subdivision/subdivision entity may not indicate or imply it offers standard ASRS benefits or membership; and 2) the subdivision/subdivision entity may still formally join ASRS through the process outlined under current law.

PSPRS Contribution Rates

Laws 2023, Chapter 102 replaces the variable employee contribution rate for PSPRS Tier 2 members (up to 11.65%) with a fixed 7.65% contribution rate beginning in FY 2024 (see Table 5). This change impacts PSPRS Tier 2 members hired on or after 7/20/11 through 6/30/17.

Under current law, these contributions above 7.65% ("excess contributions") were held in reserve until the employer was fully funded. Chapter 102 allows PSPRS employers to account for their current "excess" balances for prior contributions over 7.65% when calculating employer contribution rates.

Funded Status

As of June 30, 2022, there were 691,000 active, inactive, retired, and DROP members enrolled in ASRS, PSPRS, CORP, and EORP. Most employees (91%) are enrolled in ASRS. (Please see Table 6 for more information.)

The funded status, or the market value of plan assets relative to the amount of liabilities, of each plan is:

- 75.1% for ASRS (excluding the disability program);
- 64.8% for PSPRS;
- 82.4% for CORP; and
- 34.2% for EORP.

Table 5

PSPRS/CORP State Employer Group Retirement Rates

| Retirement System | Employer | | | | Employee | |
|--|--------------|----------------------|--------------|----------------------|---------------|----------------------|
| | FY 2023 | | FY 2024 | | FY 2024 | |
| | Tier 1 and 2 | Tier 3 ^{1/} | Tier 1 and 2 | Tier 3 ^{1/} | Tiers 1 and 2 | Tier 3 ^{1/} |
| <u>Public Safety Personnel Ret. System</u> | | | | | | |
| Liquor License Investigators | 115.93 | 110.35 | 11.66 | 11.06 | 7.65 | 9.56 |
| Department of Public Safety ^{2/} | 66.73 | 63.74 | 19.18 | 15.68 | 2.65 | 4.48 |
| Northern Arizona University Police | 57.37 | 57.26 | 12.49 | 12.32 | 7.65 | 9.56 |
| University of Arizona Police | 50.23 | 46.72 | 13.90 | 12.53 | 7.65 | 9.56 |
| Arizona State University Police | 50.71 | 47.02 | 14.87 | 10.57 | 7.65 | 9.56 |
| Game and Fish Department | 136.73 | 133.44 | 9.72 | 9.56 | 7.65 | 9.56 |
| Attorney General Investigators | 50.30 | 42.83 | 7.91 | 9.56 | 7.65 | 9.56 |
| DEMA Firefighters | 45.56 | 41.74 | 13.24 | 11.81 | 7.65 | 9.56 |
| Parks Police | 122.19 | 116.59 | 8.00 | 9.56 | 7.65 | 9.56 |
| <u>Corrections Officer Ret. Plan</u> | | | | | | |
| Corrections Officer - ADC | 18.79 | 19.43 | 6.00 | 6.12 | 7.65 | 7.62 |
| Corrections Officer - DJC | 52.69 | 53.67 | 6.12 | 7.17 | 7.65 | 7.62 |
| DPS Dispatchers ^{3/} | 79.64 | N/A | 8.38 | N/A | 7.65 | N/A |
| DPS Detention | 12.54 | 12.8 | 7.27 | 7.42 | 7.65 | 7.62 |
| Probation Officers | 37.06 | 38.49 | 39.70 | 41.94 | 8.41 | 7.62 |

^{1/} FY 2023 and 2024 rates for Tier 3 for PSPRS based on Defined Benefit Plan and based on Defined Contribution for

^{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 6

Arizona Public Retirement System Valuation Data as of June 30, 2022

| Membership | ASRS | | PSPRS | | CORP | | EORP | |
|--|----------------|----------------|---------------|---------------|---------------|---------------|--------------|--------------|
| | FY 2023 | FY 2024 | FY 2023 | FY 2024 | FY 2023 | FY 2024 | FY 2023 | FY 2024 |
| Active (working and contributing) | 207,913 | 208,393 | 18,366 | 18,185 | 9,863 | 8,681 | 373 | 354 |
| State Active Members | N/A | N/A | 1,350 | 1,321 | 5,595 | 4,907 | N/A | N/A |
| Other Active Members | N/A | N/A | 17,016 | 16,864 | 4,268 | 3,774 | N/A | N/A |
| Inactive | 250,400 | 255,622 | 2,612 | 2,893 | 3,726 | 3,797 | 177 | 168 |
| Retired Members, Disabled and Survivor Beneficiaries | 162,967 | 167,370 | 14,564 | 15,299 | 6,417 | 6,791 | 1,315 | 1,303 |
| Deferred Retirement Option Plan | N/A | N/A | 2,131 | 2,144 | N/A | N/A | N/A | N/A |
| Total | 621,280 | 631,385 | 37,673 | 38,521 | 20,006 | 19,769 | 1,865 | 1,825 |

Funding Status (dollar values in millions) ^{1/}

| | June 30, 2021 | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 | June 30, 2022 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Market Value of Assets | \$50,300 | \$49,124 | \$11,964 | \$13,584 | \$3,374 | \$3,864 | \$375 | \$344 |
| Total Actuarial Liability | \$62,860 | \$65,432 | \$19,691 | \$20,964 | \$4,443 | \$4,686 | \$967 | \$1,006 |
| Unfunded Actuarial Liability ^{2/} | \$12,560 | \$16,308 | \$7,727 | \$7,380 | \$1,135 | \$822 | \$609 | \$662 |
| Funded Status ^{2/} | 80.0% | 75.1% | 60.8% | 64.8% | 75.9% | 82.4% | 38.7% | 34.2% |

N/A=Not Available

^{1/} Represents aggregate information for PSPRS and CORP. 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.

^{2/} Calculated on market, not actuarial, value of assets. ASRS funded status data excludes long-term disability program.

Table 7

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 | DB Plan Present | |
| 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 | | Years of Service and Age must equal 80 | |
| Minimum Years of Service | 20 years; 15 years if aged 62 or older | 15 years | 15 years | 25 years of Service and Age must equal 80 | 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% | 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% | COLA based on Phoenix CPI, not to exceed 2% | 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 | 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) | 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% | 7.40% | 7.50% | |
| Employee Rate | 7.65% | 7.65% | 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.