Ballot Proposition 124

Fiscal Impact Summary

State law requires the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition 124 allows modifications to the Public Safety Personnel Retirement System (PSPRS) as approved by the Legislature in Senate Bill (SB) 1428. SB 1428 would revise the formula for providing pension benefit increases for retirees, survivors, and current members of PSPRS. The bill would also permit some current members of PSPRS to add a defined-contribution benefit to their existing defined-benefit pension. SB 1428 also makes pension benefit changes for future PSPRS members, but these changes for future members are not subject to voter approval in Proposition 124.

Determining the fiscal impact requires relying on actuarial projections of the future employer cost of PSPRS pensions. Actuaries make assumptions about the investment returns of the PSPRS pension fund and the health and life expectancy of current and future members to project the employer cost of pensions many years in the future. The actual employer contribution rates, and the resulting fiscal impact of the bill, could be higher or lower depending on the accuracy of these assumptions.

PSPRS used an actuarial consulting firm to project the impact of SB 1428 on employer contribution rates for PSPRS employee pensions. The JLBC Staff used these actuarial projections to estimate the fiscal impact of the bill. The actuarial analysis assumed implementation of all provisions of SB 1428.

The fiscal impact of the bill will vary for individual PSPRS employers. PSPRS includes 237 total employers, including towns, cities, counties, state agencies, and special districts, each of whom is financially liable for the pensions of their own employees. Each employer pays separate contribution rates that can be higher or lower than the average PSPRS employer contribution rate. Most of the fiscal impact affects local governments as opposed to the state.

The actuaries developed two separate estimates of the impact of the bill depending on the outcome of pending litigation. In 2011, the Legislature enacted SB 1609, which modified PSPRS benefits along with other retirement systems. The changes would have affected the retirement benefits of both current retirees as well as current employees. Changes to the permanent benefit increases for existing retirees have been blocked by a previous court ruling. Litigation is currently pending to block changes for current employees hired before July 2011. The Maricopa County Superior Court has ruled in favor of the current employees and the case is currently on appeal with the Arizona State Supreme Court.

In one of their two scenarios, the actuaries assume that PSPRS pension changes made by SB 1609 will be overturned. If SB 1609 is overturned, the actuaries project that the bill would decrease employer contribution rates in Fiscal Year (FY) 2018 from 52.7% to 51.0% of salaries. This decrease would result in estimated Total Fund savings of $(26.8) million for PSPRS employers in FY 2018.

In the second scenario, the actuaries assume SB 1609 is upheld. The actuaries project that the bill would increase employer contribution rates in FY 2018 from 45.2% under current law to 51.0%. This increase would result in an estimated $91.4 million in additional costs for PSPRS employers in FY 2018.

The current employer contribution rate would pay off the system's unfunded liabilities. The actuaries project that those liabilities would be eliminated by 2042, including any impact of litigation. At that time, the contribution rate under current law would fall to 13.2%. Under either of the two SB 1609 scenarios, SB 1428 would reduce the rate to 9.8% by FY 2042. This decrease would result in estimated Total Fund savings of $(85.4) million for PSPRS employers in FY 2042.