



CSA Policy Perspective on Public Pension Systems

**Brief History of Pension
System Funded Status and
Reforms**

**CSA's Pension Policy
Evaluation Framework**



100%

70%

CORP 96%

EORP 95%

PSPRS 81%

Generous pension benefits: **Elected officials' plan is uncommon** among government employees

Craig Harris, AZ Central, November 2010

Public pensions: a soaring burden.

AZ Republic Investigation, November 2010

"Arizona House Speaker Kirk Adams has called the current system for public pensions a 'ticking time bomb.'"

AZ Republic Editorial Board, AZ Central, November 2010

Arizona cannot afford current pension system.

AZ Republic Editorial Board, AZ Central, November 2010

FY07

FY09

FY11

FY13



100%

70%

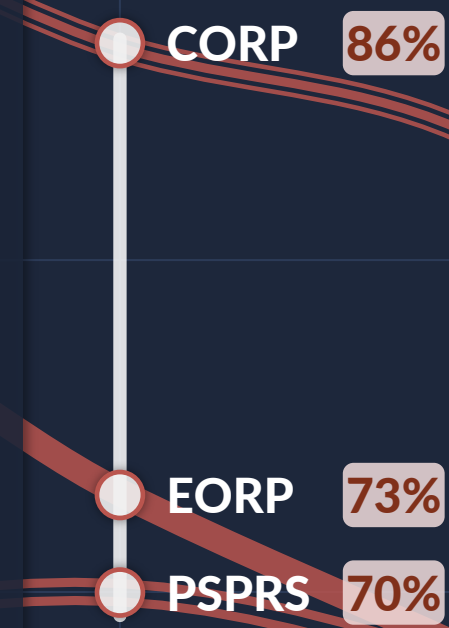
2011

Legislature passes first reform effort, SB 1609

"The legislature finds that the current structures of the EORP, the PSPRS and the CORP do not achieve this [sound public retirement system] goal."

- For all active and retired members:
 - **Increased employee contribution rates**, but had maximum member rates
 - **Replaced PBI** with fixed COLA
- **Closed existing plans**, established new tiers with modified benefits including:
 - **Removed DROP**
 - **Increased normal retirement** to 25 years of service
- Established a defined contribution study committee

Select provisions only





100%

70%

FY07

FY09

FY11

FY13

2013
Legislature closes Tier 2 EORP

- Creates **DC-only plan** for elected officials & judges.
 - 8% employee, 6% employer contributions into DC account
- **Caps legacy EORP employer contribution** at under 25%.
- **Appropriates \$5M** from state GF into EORP.
 - Claims state will deposit additional funds to cover potential cost increases.

CORP

EORP **63%**

PSPRS



70%

50%

FY12

FY14

FY16

FY18

CORP

71%

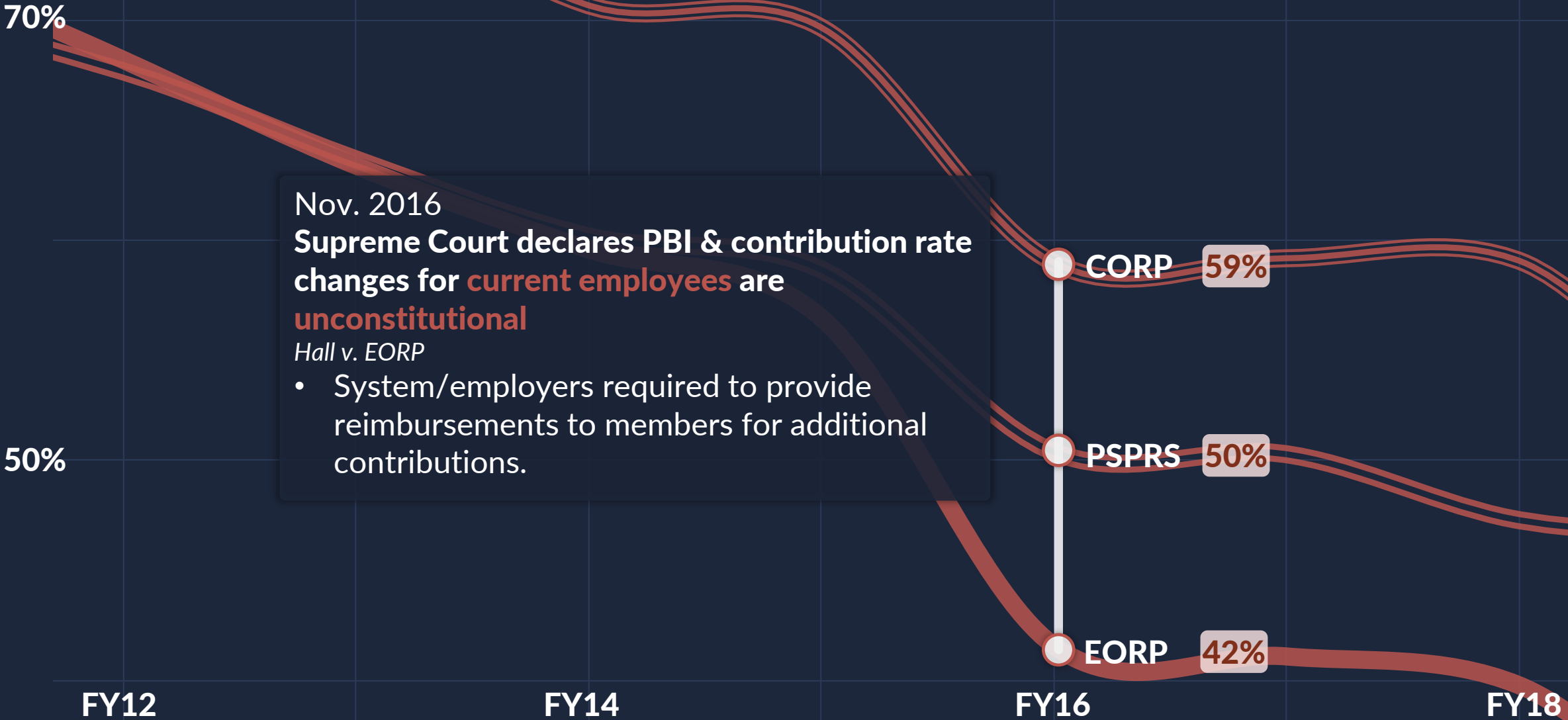
PSPRS

60%

EORP

60%

2014
Supreme Court declares the change from PBI to COLA for **current retirees** is **unconstitutional**
Fields v. EORP
• System required to pay retroactive permanent benefit increases.



Nov. 2016
Supreme Court declares PBI & contribution rate changes for **current employees** are **unconstitutional**
Hall v. EORP

- System/employers required to provide reimbursements to members for additional contributions.



2016

Legislature passes PSPRS reform, creates Tier 3

“...the legislature intends to modify and amend the provisions of the current system for both current and new members to make the system viable and sustainable now and into the future.”

- Amends AZ Constitution to **replace PBI with COLA for all members**
 - Approved by voters in special election
- Designs Tier 3 to remove problematic elements of legacy PSPRS:
 - **Aligns cost incentives** through 50/50 cost share
 - **Sustainable** COLAs, instead of PBI
 - **Responsible debt repayment** structure
 - Reduces ability for pension spiking
 - Minimum retirement age
 - Graded multipliers
 - No DROP

Select provisions only

50%

CORP 59%

PSPRS 50%

EORP 42%

FY14

FY16

FY18



2017

Legislature passes CORP reform, creates DC plan

- Amends AZ Constitution to **replace PBI with COLA for all CORP & EORP members**
 - Approved by voters in special election
- **Creates defined contribution (DC) plan for new detention & corrections personnel:**
 - 7% employee default, 5% employer
 - Supporters cited majority of DO/COs not making it to minimum retirement years of service in existing DB.
- Creates **Tier 3 CORP defined benefit (DB) for new probation officers:**
 - 66/33 employee-employer cost share

Select provisions only

50%

CORP 59%

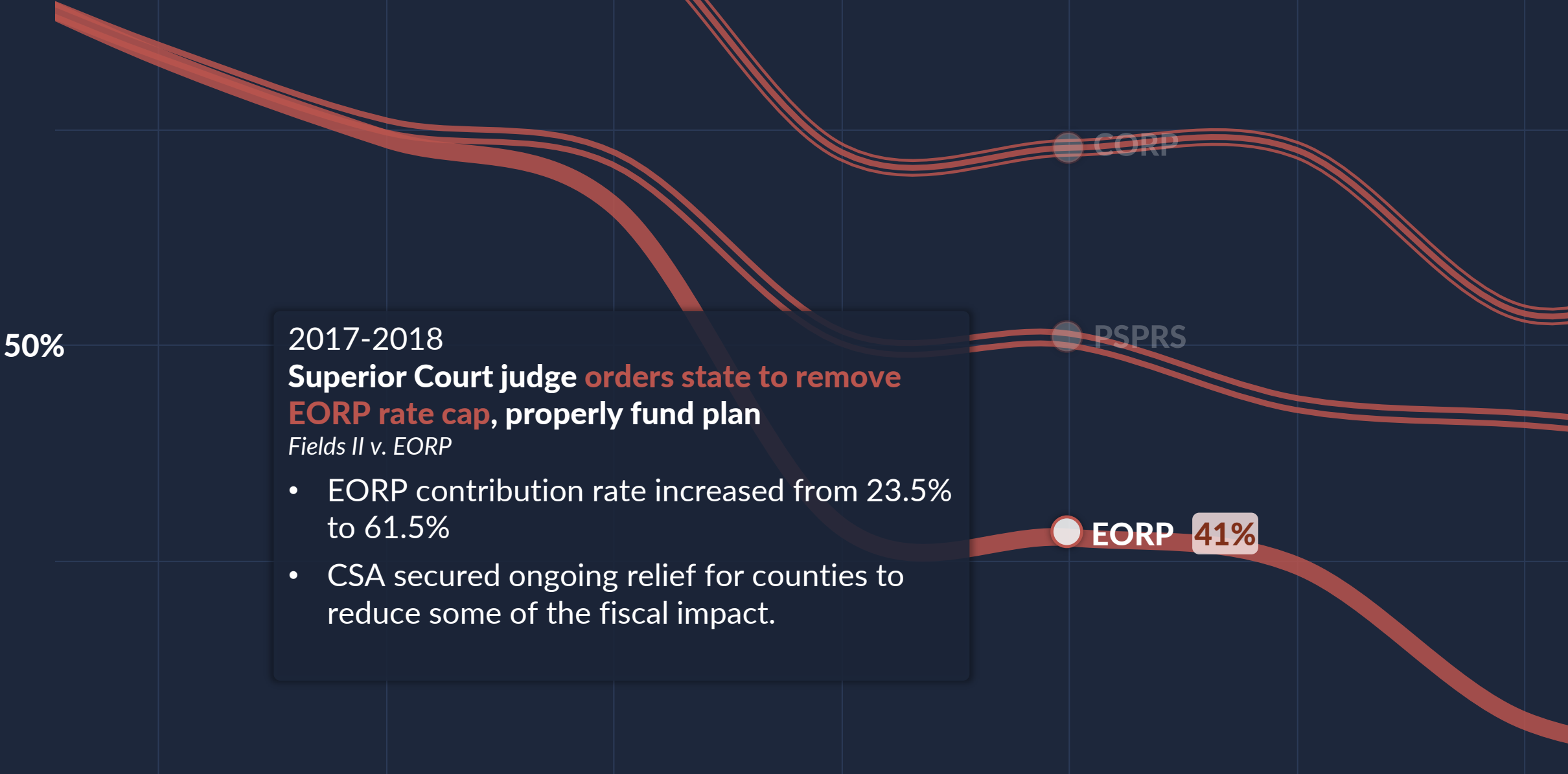
PSPRS

EORP 41%

FY14

FY16

FY18



2017-2018
Superior Court judge orders state to remove EORP rate cap, properly fund plan
Fields II v. EORP

- EORP contribution rate increased from 23.5% to 61.5%
- CSA secured ongoing relief for counties to reduce some of the fiscal impact.

50%

CORP

PSPRS

EORP 41%

FY14

FY16

FY18



Bisbee Mayor: Public safety pension costs are **bleeding us dry**

David Smith, AZ Central, July 2017

CORP 59%

Study concludes AZ's public safety pension fund among **worst-performing in nation.**

Craig Harris, AZ Central, April 2017

*"It's pretty easy to see what happened. A lack of fiduciary oversight from the Legislature, greed from the fire and police unions, an up-and-down economy, poor management and employers withholding payments into the fund. **It was a perfect storm for failure.**"*

Bill Richardson, AZ I See It, AZ Central, July 2017

EOI 41%
Pension payments swallow **hope for more police officers.**

Tim Stellar, Arizona Daily Star, January 2018

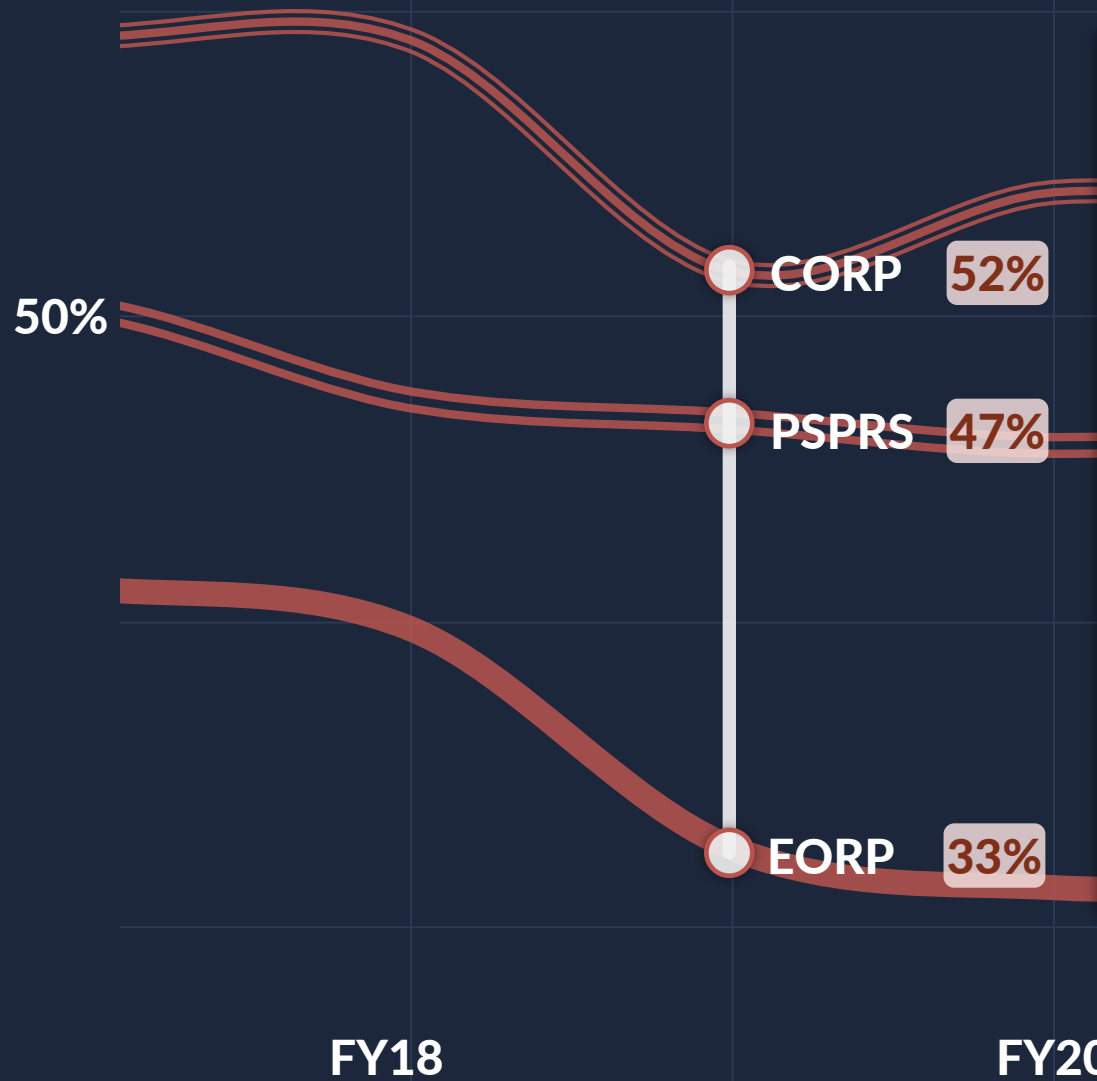
50%

FY14

FY16

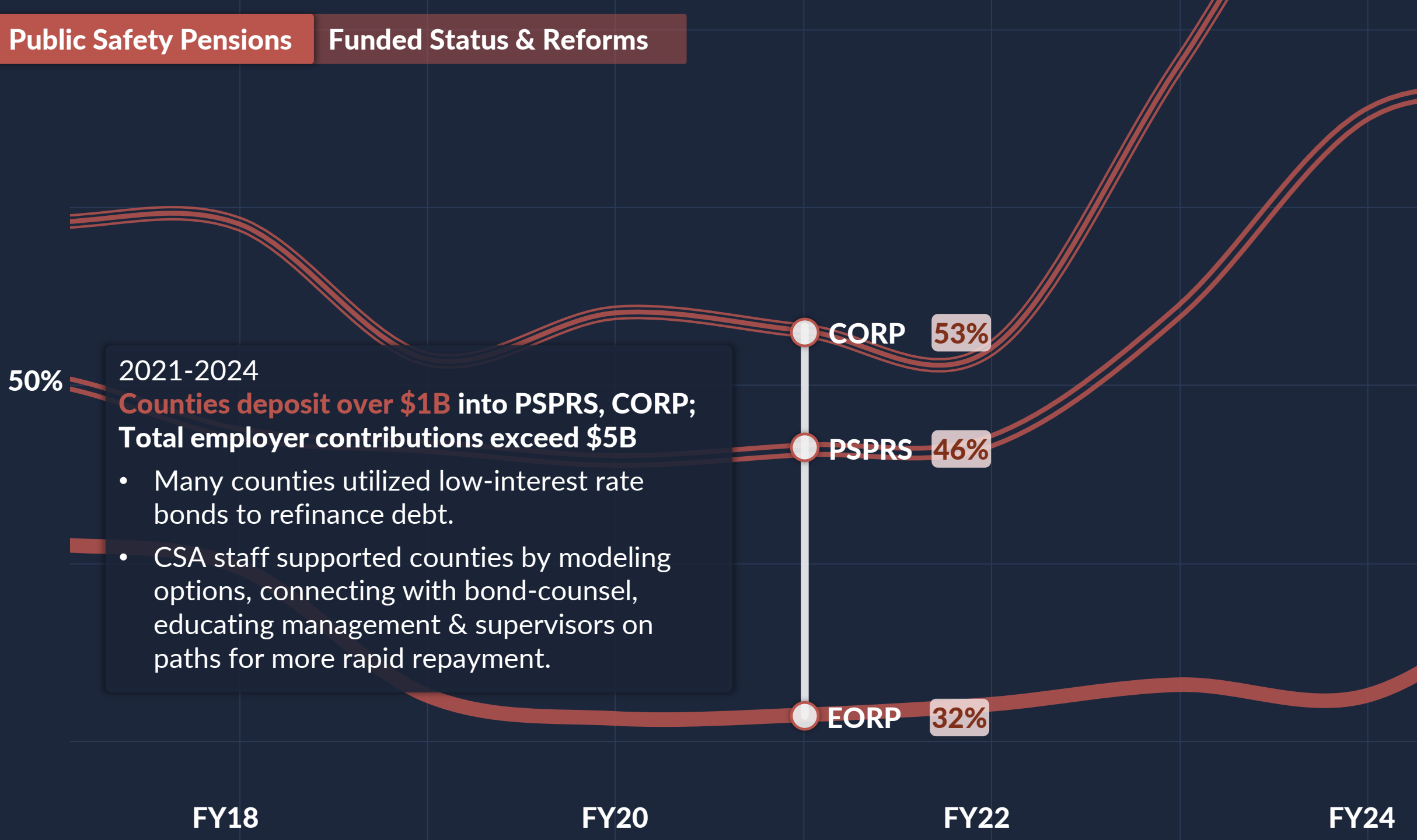
FY18

FY20



2019
PSPRS debt repayment plan assumptions fixed, projected to *save est. \$1.2B*

- New PSPRS actuary identified problems with current repayment plan.
- CSA worked, under direction from county management, with PSPRS staff, Advisory Committee to push for more aggressive changes and savings in CORP, EORP.
 - CSA modeled options for counties, presented solution sets.
 - Phased in changes to balance short-term cost increases with long-term taxpayer savings.



50%

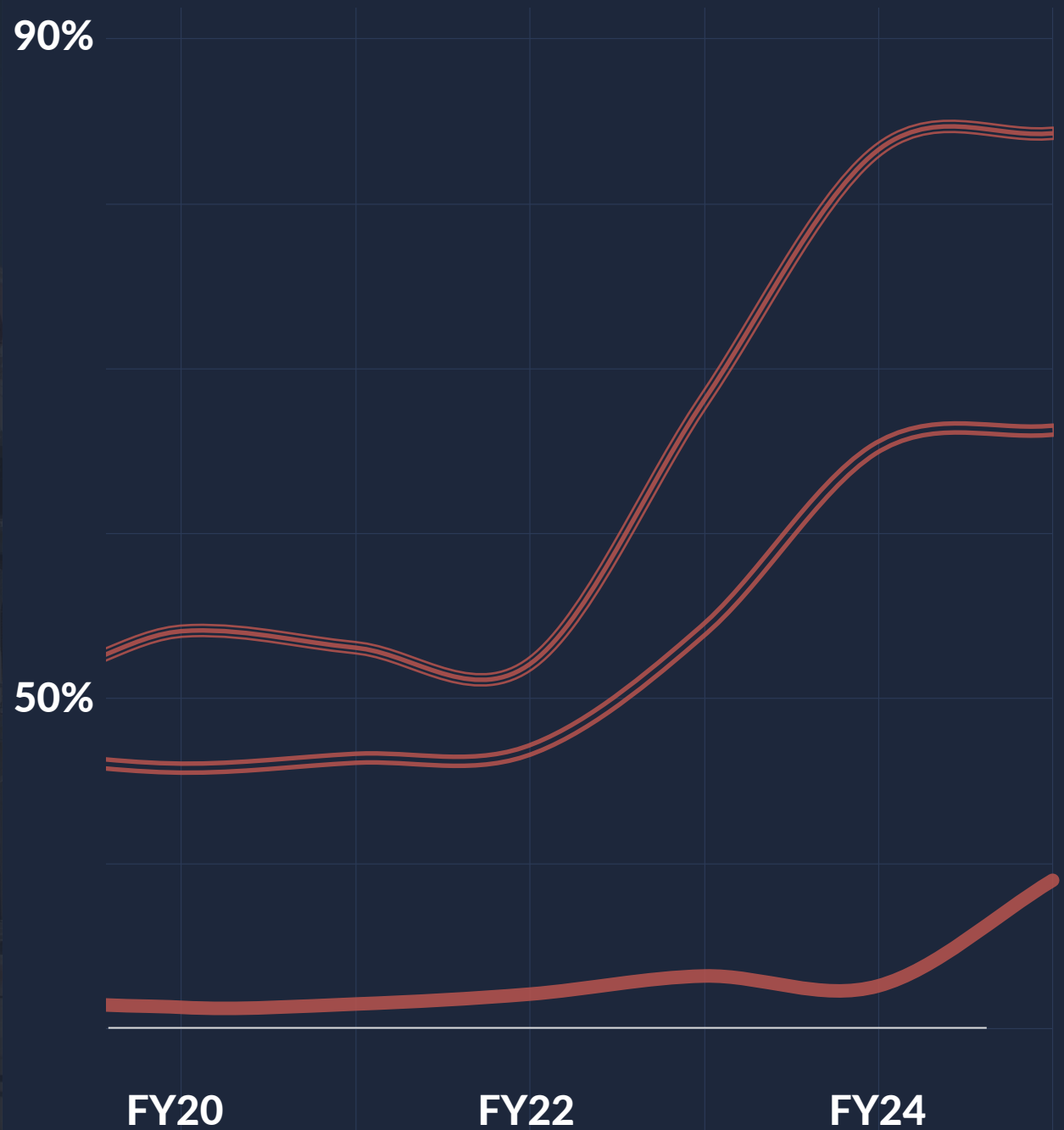
2021-2024
**Counties deposit over \$1B into PSPRS, CORP;
Total employer contributions exceed \$5B**

- Many counties utilized low-interest rate bonds to refinance debt.
- CSA staff supported counties by modeling options, connecting with bond-counsel, educating management & supervisors on paths for more rapid repayment.

CORP 53%

PSPRS 46%

EORP 32%





90%

Total county pension bond debt issued

50%

\$986M

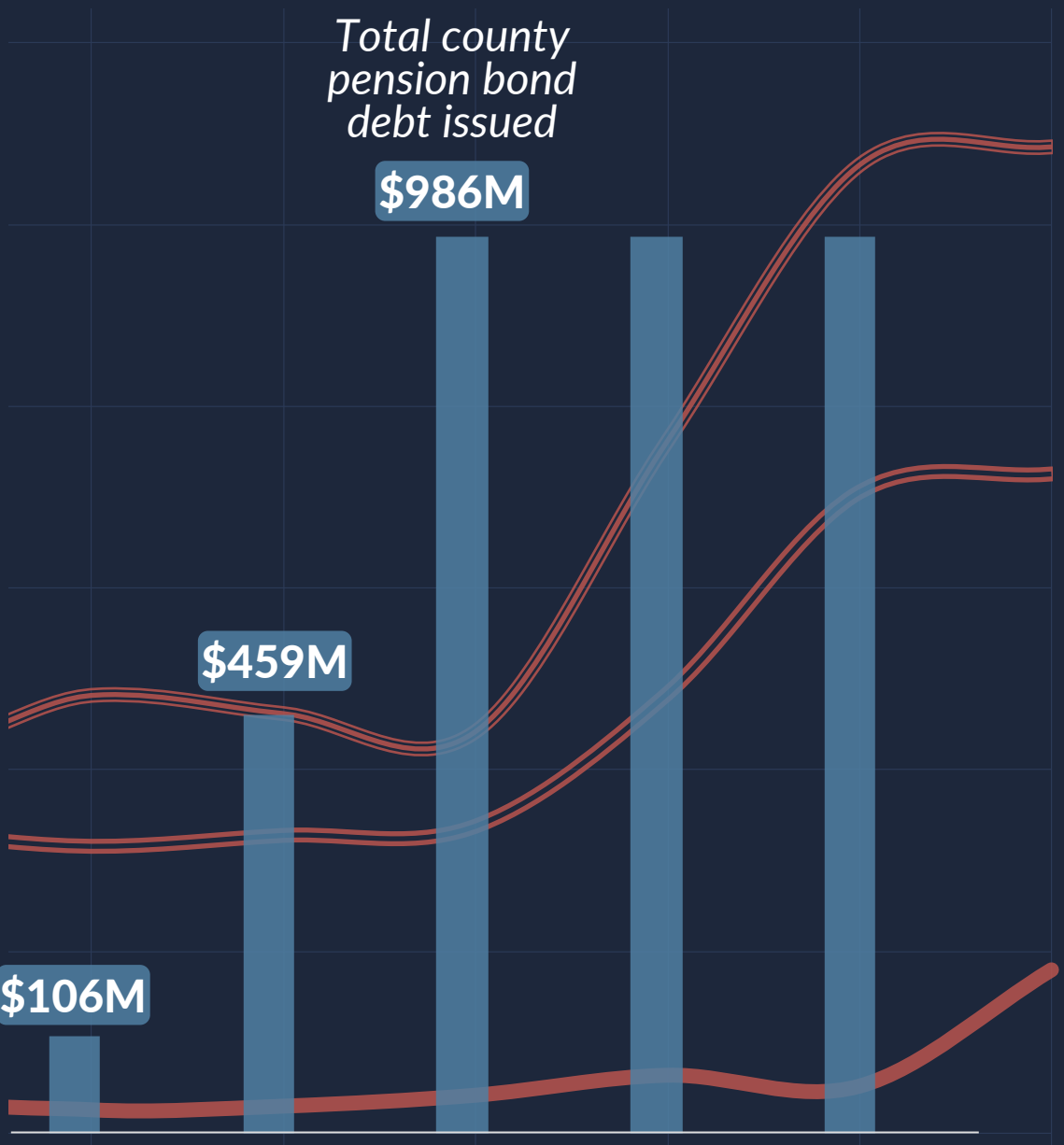
\$459M

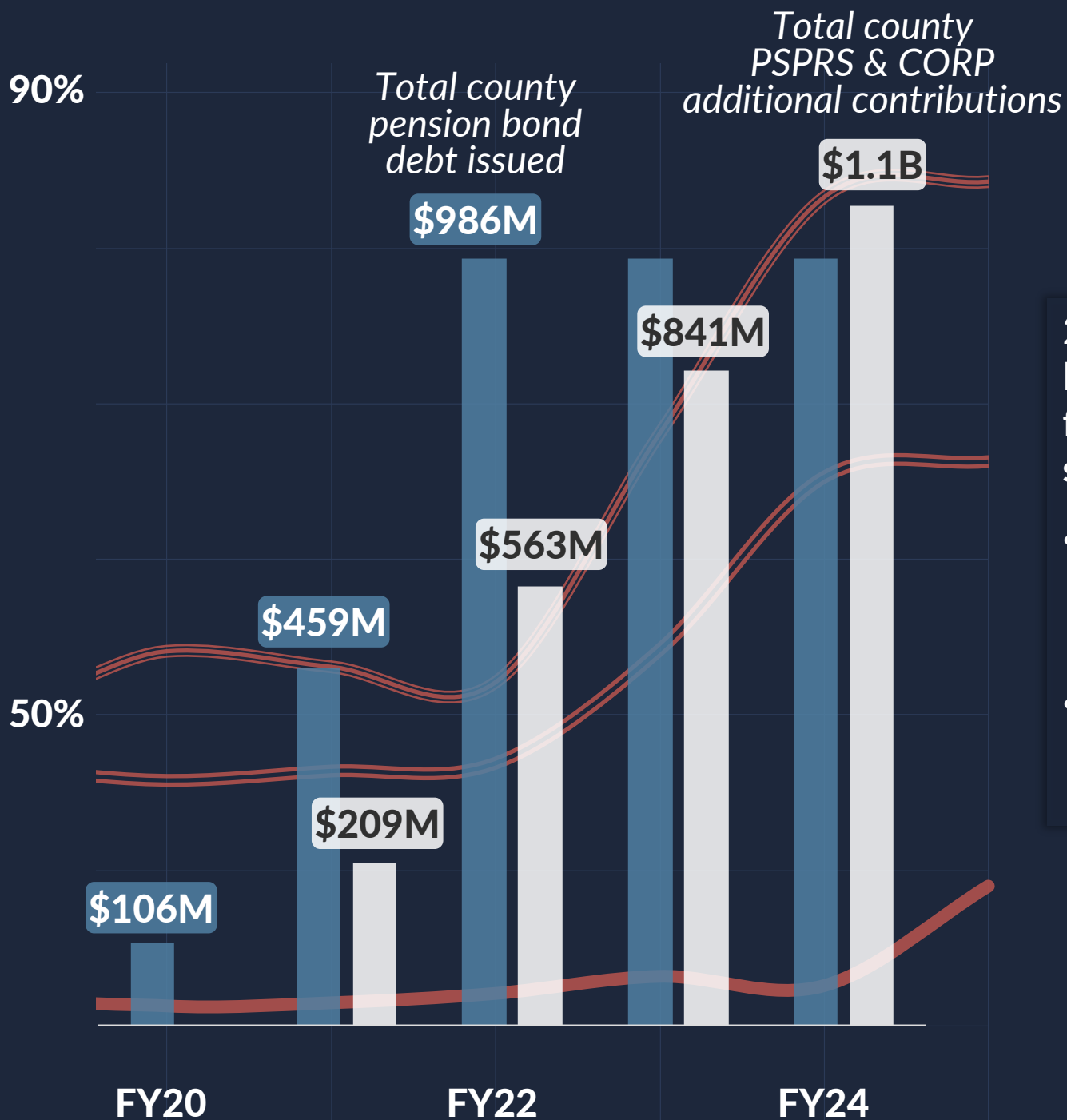
\$106M

FY20

FY22

FY24





2025
Individual county legacy plans improved funded status from additional contributions; still hold over \$700M in pension bonds

- Funded status of legacy plans is improving largely due to employer action to deposit funds, and changes to bad assumptions
- Pooled plans, EORP & probation CORP, continued to be underfunded.



100%

50%

FY22

FY24

PSPRS T3 107%

AOC CORP T3 101%

CORP 84%

PSPRS 66%

EORP 39%

2025

New plans are well funded in current structure, individual legacy plans sustainable due to ballot referral, additional contributions, and assumption changes

- Plan changes, including creation of DC plans, is having desired effect of a more sustainable plan moving forward.
- Key is to protect investments, new structures to ensure plans remain sustainable for members and affordable for taxpayers.



Benefit Modifications: Policy Lens

Key County Perspective

- Counties **still carry over \$1.1B in pension debt** through POBs, remaining UAL.
 - Not including ~\$1B in pooled plan UAL
- Pension benefits are **irrevocable once extended**, policies should be considered carefully.
- Want to **efficiently deploy limited taxpayer resources** to most effective tools for specific issues.
- Pensions are a **very broad, blunt tool** to address workforce challenges.

CSA Pension Modification

Evaluation Framework

1. Is this the **appropriate policy solution** to this problem? Are there other policy avenues that should be evaluated?
2. Is there a **demonstrable taxpayer value**?
3. What is the funding mechanism? Is it **sustainable long-term**?
4. Are their potential cost drivers that may cause **long-term issues** with providing the benefit?