

AARP IN THE STATES



SNAPSHOT: Arizona State Retirement System

The Arizona State Retirement System (ASRS) provides benefits to state employees, teachers, and municipal workers.

The ASRS Pension Works for Arizona Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



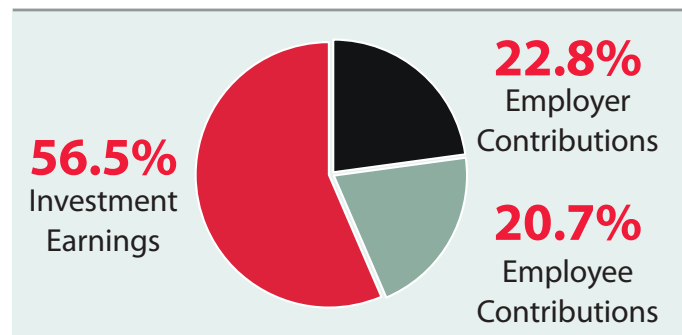
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New ASRS employees contribute 11.5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers paid only 22.8% of the cost of benefits.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:





ASRS serves 204,162 active employees and 139,823 retired members and survivor beneficiaries.



New employees contribute 11.5% to ASRS.



Employers contribute 11.3% to the fund for employees.



The average monthly retirement benefit for members is \$1,825.



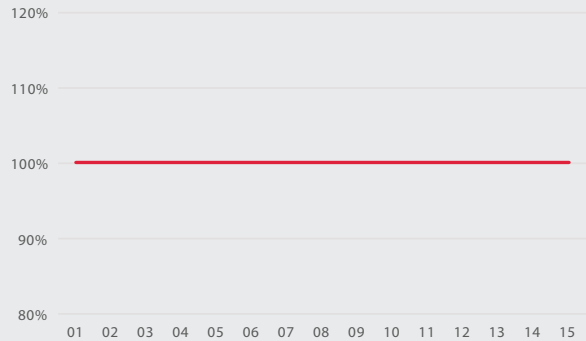
After a 30-year career, ASRS will replace 69% of final average salary.

Historical ASRS Funding Experience

Arizona established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, ASRS had \$35.8 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

Arizona Paid 100% of Weighted Average Percent of ADC from FY2001-FY2015 for ASRS



Arizona Made Plan Changes to ASRS in Recent Years

Following the global stock market crash in 2008-2009, Arizona policymakers proactively made changes to ASRS to ensure long-term sustainability. These included:

- New hires after 7/1/11 earn lower benefits based on a longer average salary calculation and must work longer to reach normal retirement age.
- In 2013, a change eliminated the cost of living adjustment (COLA) for new employees after 9/13/13.

The Economic Impact of Arizona Pensions:



\$5.8 billion

in economic output generated by retirees' spending from public pensions in Arizona.



39,918 jobs

paying \$1.9 billion in wages supported by retirees spending from public pensions in Arizona.



\$1 billion

in federal, state, and local tax revenues generated by retiree benefits and spending in Arizona.

All data come from Arizona, Public Plans Data, or the National Institute on Retirement Security.

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BY THE NUMBERS: Arizona State Retirement System



The **Arizona State Retirement System (ASRS)** provides a defined benefit (DB) pension to state employees, teachers, and municipal workers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees to better serve taxpayers. DB pension payments also support the state's economy.

Key facts about the plan and its benefits:



204,162

Total active members of the Arizona State Retirement System.



69%

After a 30-year career, ASRS will replace 69% of an employee's pre-retirement income.



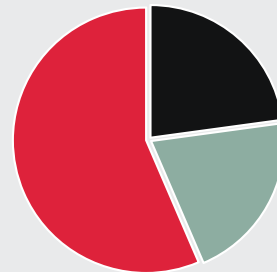
\$1,825

Typical pension benefit paid to retired ASRA members each month.

Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New ASRS employees contribute 11.5% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 22.8% of the cost of pension benefits.

56.5%
Investment Earnings



22.8%
Employer Contributions

20.7%
Employee Contributions

The spending from the pension checks of the 139,823 retired public employees helps support:



\$5.8 billion

in economic output in Arizona.



39,918 jobs

paying those workers in Arizona \$1.9 billion in income.



\$1 billion

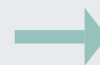
in federal, state, and local tax revenues based on benefits and spending in Arizona.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Arizona taxpayers (employers) in these plans supported \$6.90 in total economic activity in the state.



\$1.00



\$6.90

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Pensions Help Deliver Quality Education in Arizona

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.¹ This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college educated workers, widens for more experienced teachers.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, Arizona can keep teachers in the classrooms and empower students to achieve their highest potential.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 11 percent. In Arizona, teachers experience a 37% wage gap when compared to other college graduates in the workforce.²



17%
teacher
wage gap

offset
by...



6% teacher
benefit
advantage

reduces...



the teacher
compensation
gap to 11%

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



92%

92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



81%

81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.³

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.⁴

12%



Percentage of Arizona teachers who leave education.

1,043



The number of Arizona teachers retained each year due to the DB pension.

\$4.6B to \$9.9B



The DB system savings in teacher turnover costs in school districts across Arizona.

ASRS Key Facts



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ASRS has \$35.8 billion in actuarial value of assets and \$10.3 billion in unfunded actuarial accrued liability.⁵

The Economic Impact of Arizona Pensions

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in economic output generated by retirees' spending from public pensions in Arizona.

39,918 jobs



paying \$1.9 billion supported by retirees spending from public pensions in Arizona.

\$1 billion



in federal, state, and local tax revenues generated by retiree benefits and spending in Arizona.⁶

¹ Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

² Allegretto, S. A. and Mishel, L. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.

³ Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.

⁴ Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."

⁵ All data, unless otherwise noted, as of fiscal year ended 2016.

⁶ Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.