Fiscal Note

BILL # SB 1125

TITLE: ASRS eligibility; waiting period

SPONSOR: Livingston

STATUS: As Introduced

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Description

The bill would shorten the requirement that state employees wait 6 months before becoming members of the Arizona State Retirement System (ASRS) to 31 days for new employees hired after October 1, 2020.

Estimated Impact

The bill would increase state General Fund costs by an estimated $2.3 million in FY 2021 and $3.5 million annually thereafter as the state makes additional ASRS contributions for new hires. In addition, the bill would slightly reduce the ASRS contribution rate. However, ASRS does not have an actuarial estimate for the lower contribution rate. When this 6-month policy was originally enacted in FY 2012, ASRS estimated it would increase the contribution rate by 0.13%. If the ASRS contribution rate follows the same percent change, accounting for the change in contributions from 6 months to 5 months (0.11%), then there would be partially offsetting General Fund savings of $(633,000). In total, the net impact of SB 1125 would be an annual General Fund cost increase of $1.7 million in FY 2021 and $2.8 million annually thereafter.

Analysis

Currently, newly-hired state employees are not eligible to become members of ASRS until the 27th week (6 months) of employment. During this time, neither the state nor the employee pay the retirement contribution amounts.

In FY 2019, the state had 5,768 new hires in the ASRS plan which consisted of 3,510 employees from the Arizona Department of Administration (ADOA) Personnel System and 2,258 employees from the Universities. ASRS reports that the average salary for a new employee is approximately $42,500. The JLBC Staff assume 50% of ADOA Personnel System employee salaries are funded from the General Fund while 17% of University employee salaries are funded from the General Fund. Assuming the same annual level of new hires, the total salary paid by the General Fund in a fiscal year for new hires would be $90.9 million annually. This estimation does not account for enacted pay raises to state employees in FY 2020; therefore, the total salary paid to new employees from the General Fund in FY 2020 and beyond will likely be higher as a result.

Because the ASRS waiting period lasts 6 months, the increased costs to the state in a given fiscal year depend on when an employee is hired. For example, if an employee were hired in July at the beginning of the fiscal year, the state would be required to make ASRS contributions for an additional 5 months during July - December. However, if the employee was hired on May 1, the state would only be required to make ASRS contributions for an additional 1 month during that fiscal year under SB 1125. FY 2021 estimates are lower than all Fiscal Years thereafter due to the bill's effective start date of October 1, 2020.

Due to these timing issues, the cost estimate of SB 1125 cannot assume the state will make additional ASRS contributions for 5 out of the 12 months in a fiscal year for each new employee, which would translate into additional contributions made on 42% of the annual new employee salary base. Instead, assuming the state hires an equal number of employees each month during the fiscal year, the state would average 3.8 months of additional ASRS contributions for each new employee, or approximately 31% of the total new employee salary base for all Fiscal Years after 2021.

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After factoring in that additional contributions will be made on 31% of the $90.9 million new hire salary amount paid by the General Fund in a fiscal year (not accounting for pay increases), then applying the FY 2021 ASRS retirement rate of 12.22%, the approximate General Fund cost is $2.3 million in FY 2021 and $3.5 million in the annually thereafter for the additional months of employer contributions.

Retirement contribution rates are determined by calculating the total contribution necessary to meet the retirement system's future obligations. This amount is described as a percentage of payroll. Currently, the contribution rate calculation includes anticipated enrollment of new employees in entities that participate in ASRS. By allowing some future participants to enroll in ASRS sooner, the unfunded liability will be distributed among a greater number of participants. Therefore, current and future participants would pay a lower contribution rate based on a greater amount of contributions from future employees, who would be enrolling in ASRS at an earlier date under SB 1125.

ASRS has not provided an estimate for the exact change in the contribution rate. When this 6-month policy was originally enacted in FY 2012, ASRS estimated it would increase the contribution rate by 0.13%. If the new contribution rate follows the same percent change (0.11%), after applying this to the total ASRS General Fund salary base of $575.7 million, there would be partially offsetting General Fund savings of $(633,000).

Local Government Impact

The lower contribution rate overall will mean savings for local governments that participate in ASRS. The savings cannot be determined in advance because ASRS has not yet estimated the exact change in the contribution rate and the total local government salary base this contribution rate change would apply to.

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