



Arizona State Retirement System

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Fact Sheet

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PERMANENT BENEFIT INCREASE

Q&A

Question: What exactly is the Permanent Benefit Increase? Is it the same as a cost of living increase or a raise?

Answer: State statute 38-767 outlines the provisions for providing what is termed a Permanent Benefit Increase to retired members. Funds to pay for the PBI come from excess earnings on the actuarial value of the overall ASRS fund. When excess earnings are identified, a formula that includes years of service is used to determine the individual retired member's PBI, which, if available, is applied at the beginning of each fiscal year, July 1. Once granted, the PBI cannot be taken away; pension checks cannot be reduced, even in years when there are no excess earnings or negative earnings. The purpose of the PBI is to help retired members keep pace with increasing living expenses, but the PBI is not tied to any cost of living index and is not guaranteed to be paid every year. The PBI should not be seen as a "raise," as the pension check is an annuity, not a paycheck.

Q: How much has the PBI been in the past?

A: The monthly increase varies for each retiree based upon their years of service. A set amount is calculated for each year of credit service, and has ranged from \$8 per year of service in 1994 to more than \$35 per year of service in 2003 and 2004. For 2005, the increase was \$25.90 per year of service. Over the past 10 years, retirees have seen an average of a 35 percent increase to their monthly pension checks due to the PBI.

Q: How do you arrive at the amount available to fund the PBI?

A: The pool of money for the PBI is generated from excess returns on the actuarial value of the overall fund; it is not the same as the market rate of return. To determine if there are excess earnings, the fund must have earned more than the actuarial assumed rate of return of 8 percent; however, investment gains and losses to the fund are "smoothed" over a 10-year rolling period; that is, the gains and losses are not applied all in the same year, but instead recognized over a 10-year period. The reason gains and losses are "smoothed" over a 10-year rolling period is to minimize excessive increases or decreases in the contribution rate.

Q: Why were there no funds available for a PBI for 2007 even though the ASRS fund has experienced returns greater than 8 percent in the last few years?

A: Because of losses to the fund - years in which the rate of return did not meet or exceed 8 percent – specifically fiscal years 2001, 2002 and 2003, the pool of funds for the PBI have been exhausted. Keep in mind that although the fund has earned more than 8 percent the past three fiscal years, earnings were below the 8 percent mark for the three previous years. The years in which losses and gains are applied to the formula to determine the availability of PBI funds remains each year throughout the 10-year rolling period. As years in which losses are applied pass the 10-year mark, the outlook for future PBIs improves.

Q: When will another PBI be available?

A: Depending upon rates of return in future years, it could be several more years before the PBI pool is built back up to the point where a future PBI will be available. Once excess returns are identified and made available for a PBI, it will likely begin at a much smaller rate than some retirees have experienced in the past.