



POPULAR ANNUAL FINANCIAL REPORT

A component unit of the State of Arizona

2020

For fiscal year ended June 30, 2020

A MESSAGE FROM THE DIRECTOR



I am pleased to present the 2020 Popular Annual Financial Report (PAFR) for the Arizona State Retirement System (ASRS) for the fiscal year ended June 30, 2020.

The information presented here is a reader-friendly summary of financial data derived from the Comprehensive Annual Financial Report (CAFR), prepared on the accrual basis of accounting and presented in conformity with Generally Accepted Accounting Principles (GAAP). The PAFR is not intended to supplement the CAFR and does not include all information and disclosures required by GAAP; rather, it is a concise summary of the financial health of the ASRS for fiscal year 2020.

The ASRS Executive Management is responsible for ensuring timely and accurate financial reporting, as well as maintaining the financial sustainability and health of the funds that support retirement benefits, long term disability and health benefit supplement programs for our members. I am pleased to report that the ASRS continues to ensure the financial stability and health of the funds, and to issue timely and accurate financial reporting, as demonstrated by the continued receipt of the awards for excellence in financial reporting for 31 consecutive years.

Detailed information regarding the activities and financial health of the ASRS can be found in our June 30, 2020 CAFR, available at AzASRS.gov.

Overview

The ASRS is a cost-sharing, multiple-employer, defined benefit pension plan that provides benefits to approximately 620,000 current and former public employees. At June 30, 2020, there were 564 employer units participating in the ASRS, including school districts, charter schools, state colleges and universities, and local, county and state government agencies.

In addition to pension benefits, the ASRS provides a health insurance premium benefit supplement (Health Benefit Supplement, HBS), and a long term disability benefit (LTD). The ASRS also sponsors medical and dental coverage for retired and disabled members and their

eligible dependents.

During fiscal year 2020, more than 163,000 retirees, their survivors and 3,200 disabled members received approximately \$3.5 billion in benefits.

Highlights

The ASRS achieved a one-year total fund rate of return of 0.8% during fiscal year 2020. The annualized rates of return for the three, five, and ten year periods are 5.5%, 6.1%, and 8.9%, respectively. Our assumed earnings rate is 7.5%

This year's lower investment returns were driven primarily by lower returns in the overall markets, adversely affected by the market during the early period of the pandemic. While some investment adjustments have been made to take advantage of certain opportunities, primarily in the private markets arena, the ASRS is holding steady with its asset allocation policy, which we believe will serve best in our long-term approach for steady investment returns. Prior to the pandemic, the ASRS ensured ample liquidity would exist to ensure timely and uninterrupted payments of benefits and other obligations during such periods.

At the fiscal-year end, the ASRS total funded status is 72.8%, a slight increase over the 2019 rate of 72.3%. Contribution rates, paid equally by members and employers, remain relatively stable, with a slight increase set for next fiscal year, due partially from the lower investment returns attributed to the pandemic. The forecast remains for a slight upward trend in contribution rates for a few years, then a leveling off, and eventually a gradual but long term decline.

ASRS programs and benefits continue to be stable and sustainable, and members and retirees can have confidence in the system that will deliver a safe, secure retirement income stream now and into the future.

Kind regards,

Paul Matson,
Executive Director



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

Arizona State Retirement System

For its Annual
Financial Report
for the Fiscal Year Ended

June 30, 2019

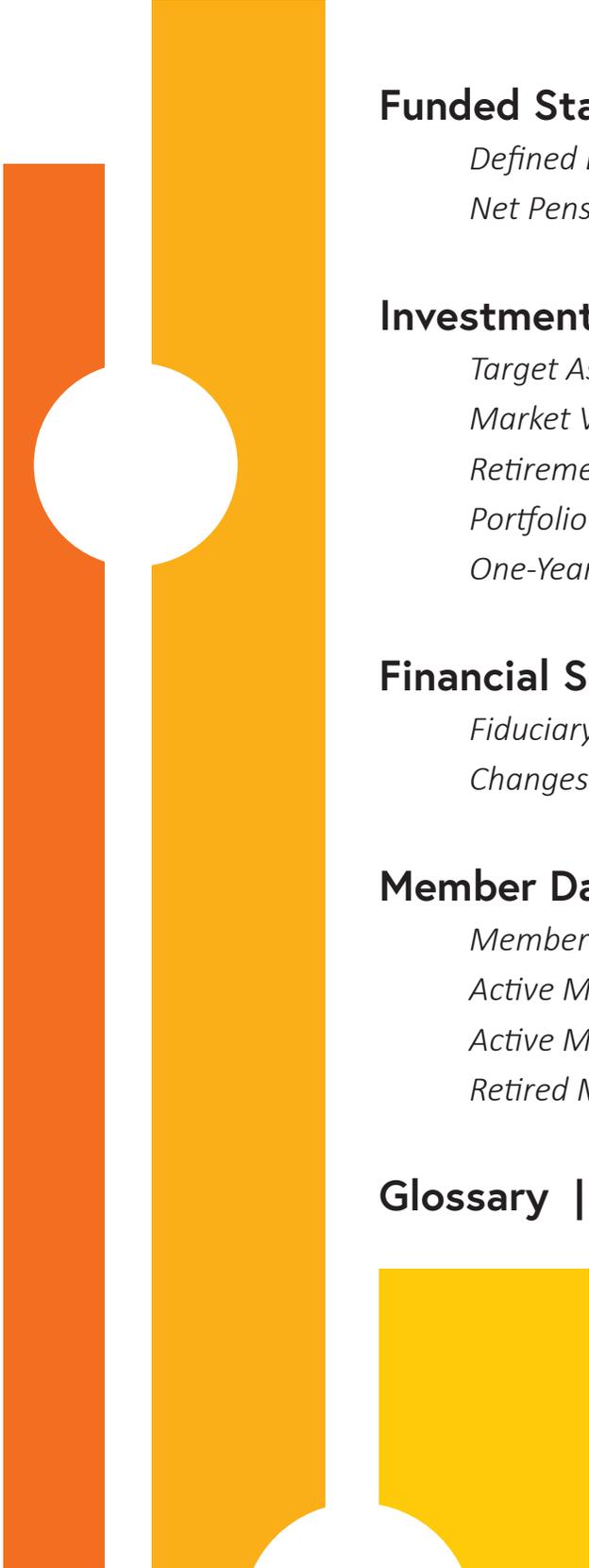
Christopher P. Morill

Executive Director/CEO

The Government Finance Officers Association of the United States and Canada (GFOA) has given an award for “Outstanding Achievement in Popular Annual Financial Reporting” to Arizona State Retirement System for its Popular Annual Financial Report publication for the fiscal year ended June 30, 2019. This Award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive this award, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal. An award for “Outstanding Achievement in Popular Annual Financial Reporting” is valid for a period of one year. Arizona State Retirement System has received this award for the last 8 consecutive years. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.

TABLE OF CONTENTS



Funded Status | page 6

Defined Benefit Program Funding Ratio
Net Pension & OPEB Liability of Employers

Investments Summary | pages 7-8

Target Asset Allocation
Market Value of Investments by Fund
Retirement Fund Market Value of Investments
Portfolio Returns and Benchmarks
One-Year Returns

Financial Summary | page 9

Fiduciary Net Position
Changes in Fiduciary Net Position

Member Data | page 10

Member Composition by Status
Active Members by Employer Type
Active Member Averages
Retired Member Averages

Glossary | page 11

FUNDED STATUS

Defined Benefit Program Funding Ratio

The funding ratio is the ratio of the actuarial value of assets[†] available to pay retirement benefits divided by the present value of anticipated future retirement benefit payments. The actuarial value of assets is determined by a smoothing formula to eliminate short-term market fluctuations and will differ from the market value of investments. Changes in the actuarial assumptions caused a decrease in the 2017 pension funding ratio. Changes included a reduction in the discount rate from 8.0% to 7.5%, updated life expectancies, the inclusion of Permanent Benefit Increase (PBI) assumptions, and a switch to the Entry Age Normal actuarial cost method.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Pension	76.4%	75.5%	75.3%	75.4%	76.3%	77.1%	77.0%	69.7%	70.4%	71.3%
Health Benefit Supplement (HBS)	84.2%	82.9%	85.3%	89.2%	93.1%	90.1%	95.0%	98.0%	98.7%	108.0%
Long Term Disability (LTD)	66.9%	67.5%	67.3%	85.7%	85.0%	79.1%	70.1%	80.4%	75.8%	74.8%

Net Pension and OPEB[†] Liability of Employers *(in thousands)*

The net pension and OPEB liability (asset) of employers is determined using actuarial methods required by the Governmental Accounting Standards Board (GASB[†]) and allows for more comparability of data across government pension plans. The net pension and OPEB liability (asset) of employers represents the present value of the total pension and OPEB liability, less the fiduciary net position of the plan. The value of investment assets for accounting purposes differ from those the ASRS uses for funding purposes. Accordingly, the resulting funding ratio determined under the ASRS accounting methodology is different from the ratio determined by the actuarial funding methodology.

Year Ended June 30, 2020

	Pension	HBS [†]	LTD [†]
Total Pension and OPEB Liability	\$56,494,106	\$1,633,322	\$237,141
Plan Fiduciary Net Position	\$39,167,586	\$1,704,122	\$161,280
Net Pension and OPEB Liability (Asset) of Employers	\$17,326,520	(\$70,800)	\$75,861
Plan Fiduciary Net Position as a Percentage of Total Pension and OPEB Liability	69%	104%	68%
Covered-Employee Payroll	\$10,663,535	\$10,663,535	\$10,663,535
Net Pension and OPEB Liability (Asset) of Employers as a Percentage of Covered Employee Payroll	162%	(0.7%)	0.7%

INVESTMENTS SUMMARY

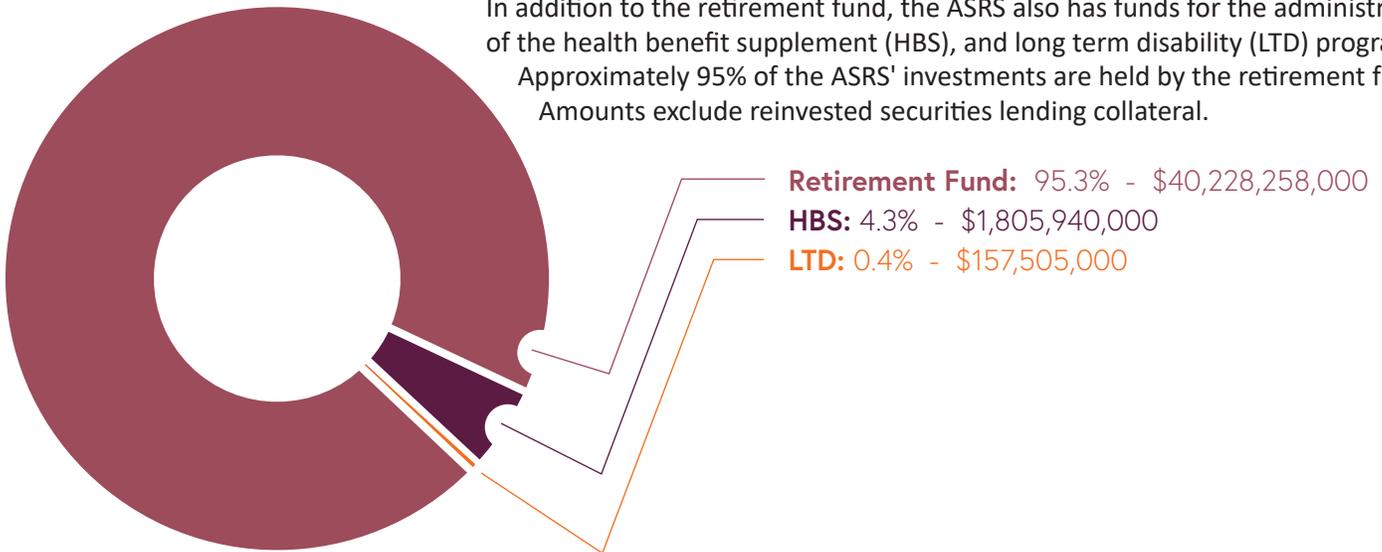
Investment Asset Allocation

The ASRS has a highly diversified portfolio with investments in public and private markets and across market sectors. Below are the ASRS' actual asset allocations as of June 30, 2020.

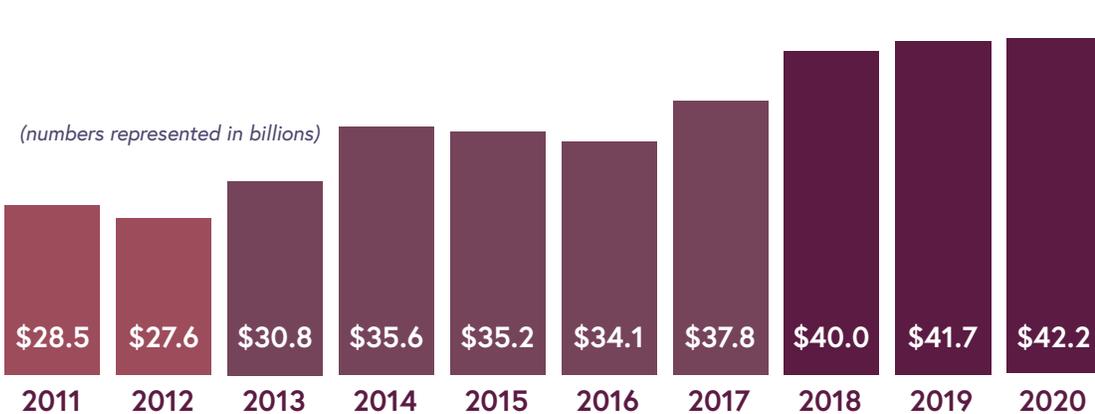


Market Value of Investments by Fund

In addition to the retirement fund, the ASRS also has funds for the administration of the health benefit supplement (HBS), and long term disability (LTD) programs. Approximately 95% of the ASRS' investments are held by the retirement fund. Amounts exclude reinvested securities lending collateral.



Total Fund[†] Market Value of Investments



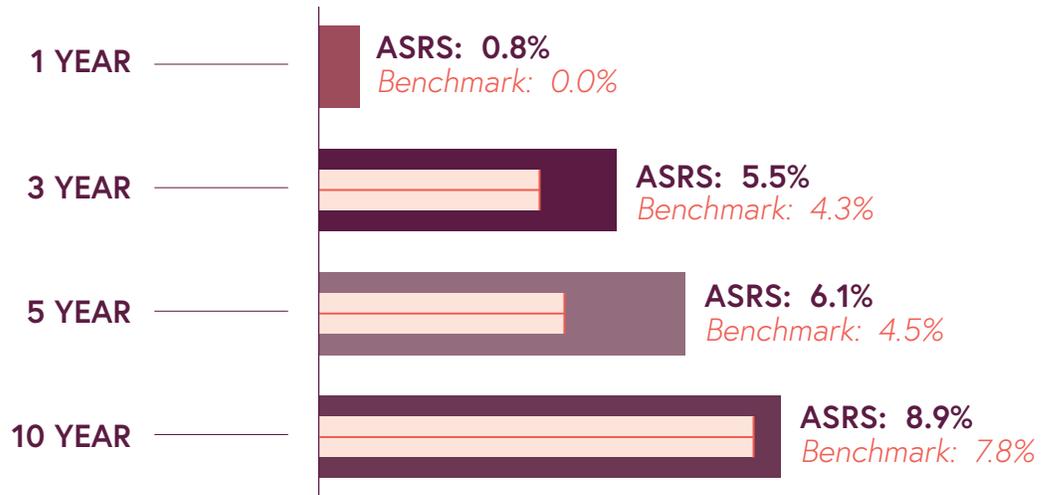
The values at the left represent the market value of investments at fiscal year end over the last 10 years. Contributions, benefit payments and investment returns are significant drivers of changes in the market value of investments from year to year.

INVESTMENTS SUMMARY

CONTINUED

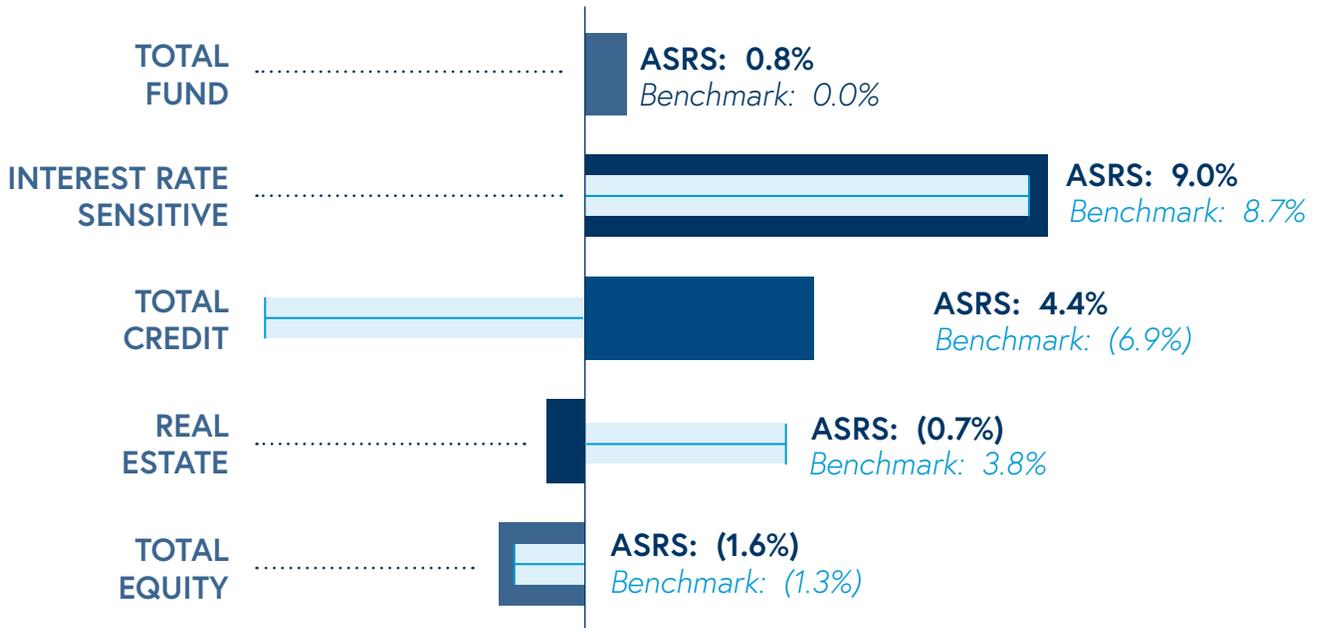
Portfolio Returns and Benchmarks [†]

ASRS funds are well-diversified, professionally managed, and high-performing - outperforming the Total Fund time weighted benchmark during the fiscal year. The ASRS has also outperformed the 3 year, 5 year and 10 year time weighted return [†] benchmarks.



One-Year Returns

Total fund, interest rate sensitive, and total credit returns outperformed their respective benchmarks during the fiscal year 2020.



FINANCIAL SUMMARY

Includes the Retirement Fund, Health Benefit Supplement Fund, and Long Term Disability Fund. The tables below present summarized information. Please refer to the ASRS June 30, 2020, Comprehensive Annual Financial Report (CAFR) [†] for more detailed information.

Combined Fiduciary Net Position *(in thousands)*

This statement presents the assets and liabilities that comprise the ASRS' net position as of June 30, 2020, and 2019.

	2020	2019	Change	Change %
Assets				
Cash, Receivables, & Prepaid Benefits	\$ 191,559	\$223,333	(\$31,774)	(14.2%)
Investments	\$42,191,703	\$41,655,165	\$536,538	1.3%
Securities Lending	\$103,249	\$143,604	(\$40,355)	(28.1%)
Total Assets	\$42,486,511	\$42,022,102	\$464,409	1.1%
Liabilities				
Payables & Other Liabilities	\$1,287,511	\$39,056	\$1,248,455	3,196.6%
Securities Lending	\$103,249	\$143,604	(\$40,355)	(28.1%)
Total Liabilities	\$1,390,760	\$182,660	\$1,208,100	661.4%
Net Position Restricted For Pension / OPEB Benefits [†]	\$41,095,751	\$41,839,442	(\$743,691)	(1.8%)

Combined Changes in Fiduciary Net Position *(in thousands)*

This statement presents information to illustrate how the fiduciary net position changed as a result of financial activity (i.e. contributions, investment activity, and benefit payments.)

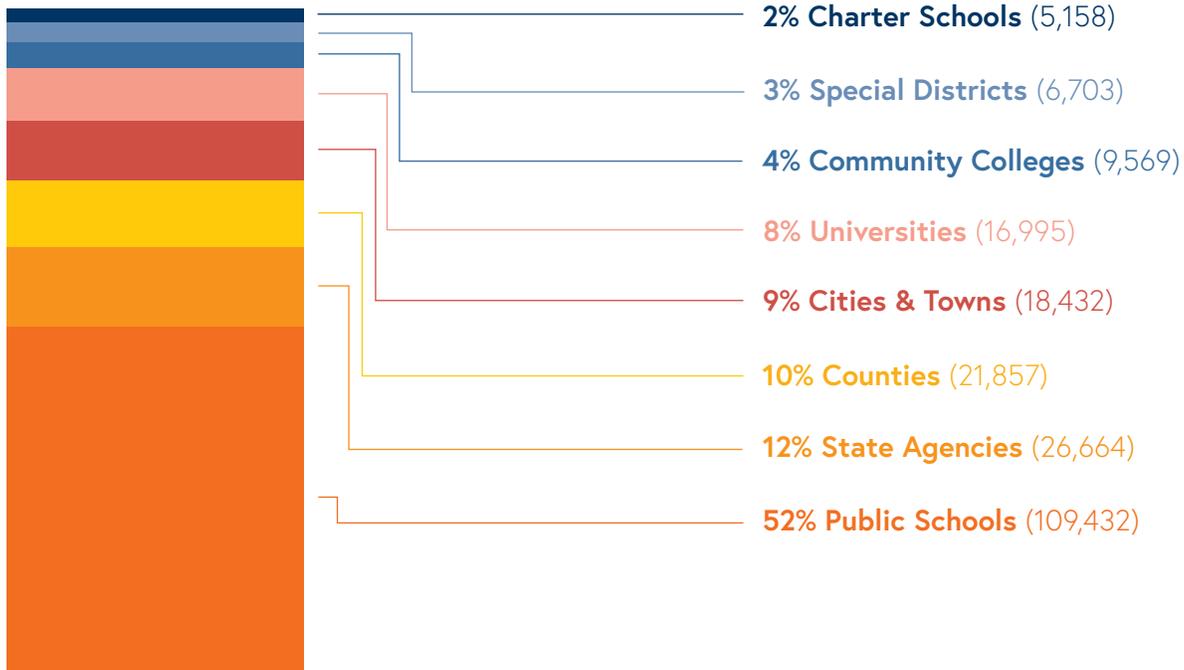
	2020	2019	Change	Change %
Additions				
Member Contributions	\$ 1,290,249	\$1,210,534	\$ 79,715	6.6%
Employer Contributions	\$1,325,419	\$1,244,985	\$80,434	6.5%
Service Credit Purchase & Other	\$13,419	\$27,579	(\$14,160)	(51.3%)
Net Investment Income	\$372,540	\$2,517,739	(\$2,145,199)	(85.2%)
Total Additions	\$3,001,627	\$5,000,837	(\$1,999,210)	(40.0%)
Deductions				
Benefit Payments	\$ 3,471,551	\$3,335,482	\$ 136,069	4.1%
Refunds & Transfers	\$243,214	\$262,138	(\$18,924)	(7.2%)
Administration & Other	\$30,553	\$29,975	\$578	1.9%
Total Deductions	\$3,745,318	\$3,627,595	\$117,723	3.2%
NET CHANGE	(\$743,691)	\$1,373,242	(\$2,116,933)	(154.2%)
Net Position Restricted For Pension / OPEB Benefits				
Net Position Beginning Of Year	\$41,839,442	\$40,466,200	\$1,373,242	3.4%
Net Position End Of Year	\$41,095,751	\$41,839,442	(\$743,691)	(1.8%)

MEMBER DATA

Membership in the ASRS is comprised of employees of the State of Arizona and other participating employers, including public and charter schools, institutions of higher education, cities, counties, and special districts. Members include all participants who have contributions on account with ASRS.

Active Members by Employer Type

(as of June 30, 2020)



Member Composition by Status

(as of June 30, 2020)



Receiving Benefits: 26%



Active: 35%



Inactive[†]: 39%

The following tables summarize member averages determined from the ASRS' June 30, 2019, actuarial valuation.

Active Member Averages (2019)

Active Plan Members	208,244
Average Years of Service	9.4
Average Annual Salary	\$49,655
Average Age	45.5

Retired Member Averages (2019)

Retired Plan Members	151,878
Average Monthly Annuity [†]	\$1,690
Average Years of Service	19.4
Average Age	71.4

GLOSSARY

Actuarial Value of Assets: The value of the fund's assets as of a given date, used by the actuary for valuation purposes. The ASRS uses a smoothed value in order to reduce year-to-year volatility when determining contribution rates.

Average Monthly Annuity: The average monthly payment to ASRS retirees.

Benchmarks: Benchmarks are standards against which investment performance is measured. Benchmarks vary by asset class. See the ASRS June 30, 2020 Comprehensive Annual Financial Report for more information on benchmarks.

Comprehensive Annual Financial Report (CAFR): This detailed financial report can be found at www.AzASRS.gov/content/annual-reports

Government Accounting Standards Board (GASB): The source of Generally Accepted Accounting Principles used by state and local governments.

HBS: Health Benefit Supplement program.

Inactive Member: A member who still has contributions on account with the ASRS, but is no longer accruing service with an ASRS employer.

LTD: Long Term Disability program.

Net Position Restricted for Pension/OPEB Benefits: The residual assets available to pay benefits after deducting liabilities from assets.

Other Post-Employment Benefits (OPEB): Benefits, other than pension benefits, that a member may be eligible to receive.

Time-weighted rate of returns: A measure of the compound rate of growth in a portfolio.

Total Fund: The Total Fund represents the combined activities and balances of all funds, including Retirement, HBS, and LTD.



Your money. Your future. Secure for your lifetime.

3300 N. Central Avenue
Phoenix, AZ 85012

4400 E Broadway Blvd, Suite 200
Tucson, AZ 85711

Visit us online at
AzASRS.gov



An agency of the State of Arizona