

# Popular Annual Financial Report

## Arizona State Retirement System

A component unit of the State of Arizona



# 2016

For Fiscal Year Ended June 30, 2016

# A Message From The Director



I am pleased to present the 2016 Popular Annual Financial Report (PAFR) for the Arizona State Retirement System (ASRS) for the fiscal year ended June 30, 2016.

The information presented here is a reader-friendly summary of the more detailed 2016 Comprehensive Annual Financial Report (CAFR)

which is prepared on the accrual basis of accounting and presented in conformity with Generally Accepted Accounting Principles. The PAFR is not intended to supplement the CAFR; rather, it is a concise summary of the financial health of the ASRS throughout 2016. 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 issue timely and accurate financial reporting, as demonstrated by the continued receipt of the awards for excellence in financial reporting for 27 consecutive years, and each of the programs offered by the ASRS are sustainable.

## Overview

The ASRS is a cost-sharing, multiple-employer, defined benefit pension system that provides benefits to approximately 574,000 public employees in the state. At June 30, 2016, there were 578 employer units participating in the ASRS, including school districts, charter schools, state colleges and universities, and local, county and state government.

In addition to pension benefits, the ASRS provides a health insurance premium benefit supplement (Health Benefit Supplement, HBS) and sponsors medical and dental coverage for retired and disabled members, and their eligible dependents and children.

During fiscal year 2016, more than 142,203 retired annuitants, their survivors, and 4,032 disabled members received approximately \$3 billion in benefits.

## Highlights

While the ASRS out-performed its total one-year time-weighted return benchmark by 1.2% during fiscal year 2016, the ASRS' assets decreased slightly because the total amount of benefit payments exceeded the total amount of contributions received and investment income earned. Investment returns were lower overall this year compared to the prior year due to the global economy growing at a slower rate.

The global financial crisis of 2008 and 2009, and the 2011 stock market correction affected most public pension plans, including the ASRS. The effects of these events continue to impact ASRS contribution rates today. The ASRS is expected to have slightly higher contribution rates for several more years before gradually beginning to fall.

ASRS funds are well-diversified and professionally managed. The Board of Trustees and executive management is committed to prudent administration of the overall operations and assets of the retirement system for the benefit of our members. Annual actuarially determined contribution rates and continued positive long term investment performance will ensure the long term sustainability of the ASRS.

Kind regards,

Paul Matson,  
Executive Director

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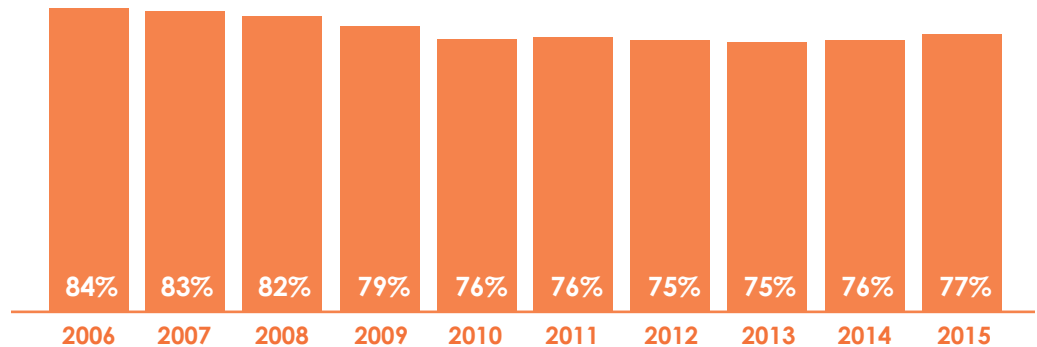
*Member Composition by Status  
Active Members by Employer Type  
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# FUNDED STATUS

## Defined Benefit Program Funding Ratio

The funding ratio is the difference between the present value of anticipated future retirement benefit payments, and the actuarial value of assets available to pay those benefits.

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.



## Net Pension Liability of Employers

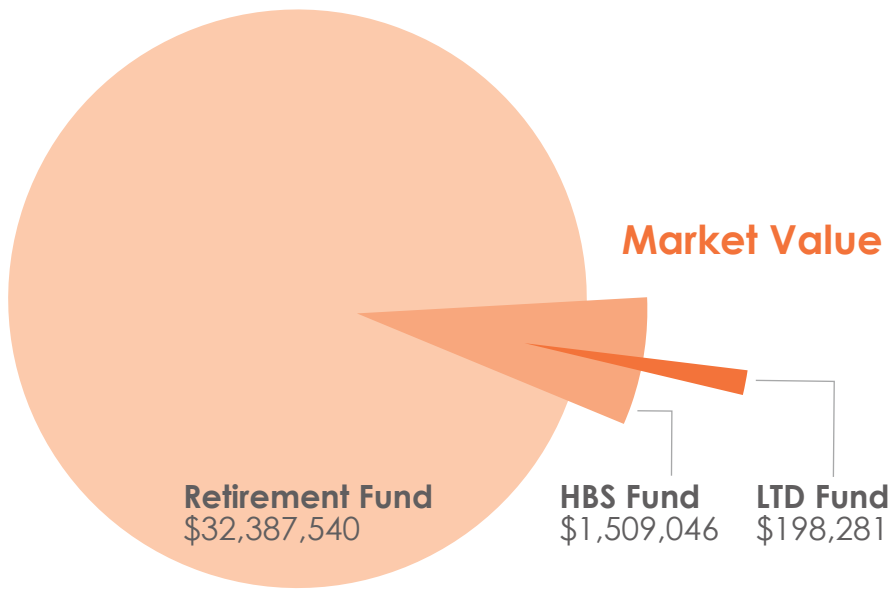
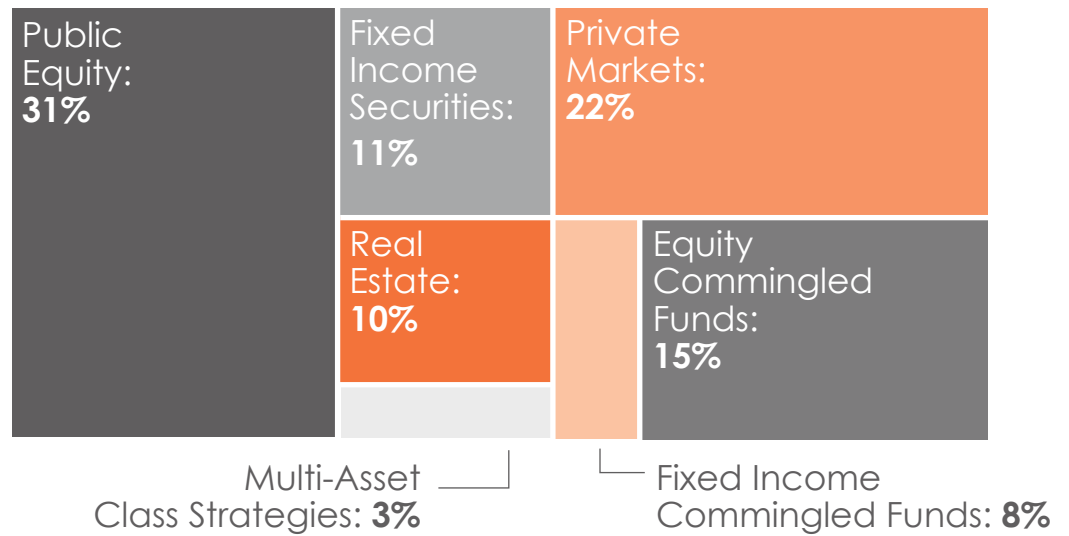
The net pension liability of employers is determined using actuarial methods required by the Governmental Accounting Standards Board and allows for more comparability of data across government pension plans. The net pension liability of employers represents the present value of the total pension liability less the fiduciary net position of the plan. The actuarial valuation methods used to determine the total pension liability and the value of investment assets differ from those the ASRS uses for funding purposes. The resulting funding ratio determined under the ASRS accounting methodology will be different from the ratio determined by the actuarial funding methodology.

Year Ended June 30	2016	2015
<b>Total Pension Liability</b>	<b>49,000,795</b>	49,222,083
<b>Plan Fiduciary Net Position</b>	<b>32,859,791</b>	33,645,646
<b>Net Pension Liability of Employers</b>	<b>16,141,004</b>	15,576,437
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>67%</b>	68%
<b>Covered-Employee Payroll</b>	<b>9,125,089</b>	9,226,319
<b>Net Pension Liability of Employers as a Percentage of Covered Employee Payroll</b>	<b>177%</b>	169%

# INVESTMENTS SUMMARY

## Investment Asset Allocation

The ASRS has a highly diversified portfolio with investments in public and private markets and across market sectors.



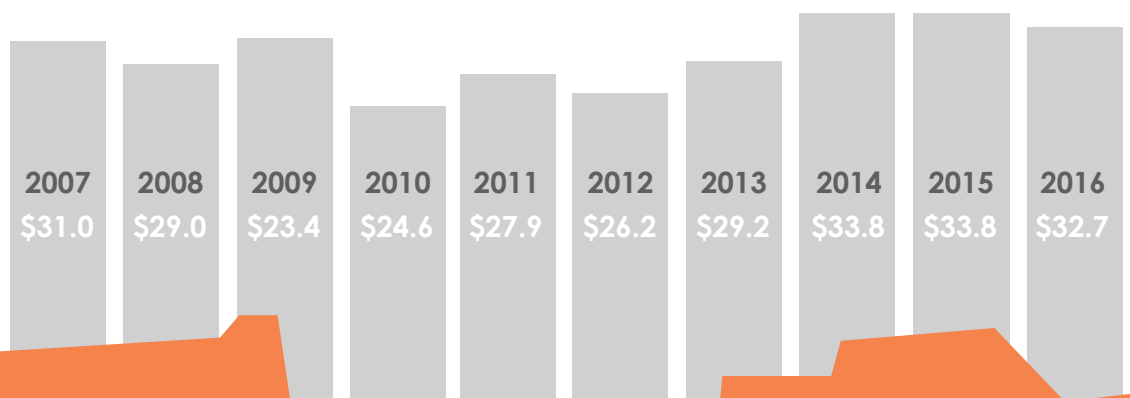
## Market Value of Investments by Fund

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

## Retirement Fund Market Value of Investments

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

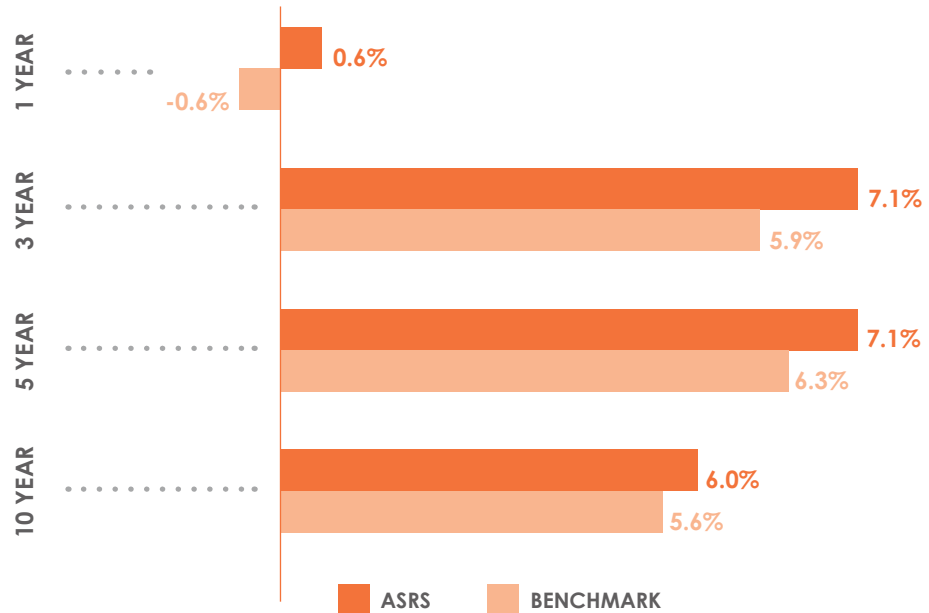
*(numbers represented in billions)*



# INVESTMENTS SUMMARY *(cont'd)*

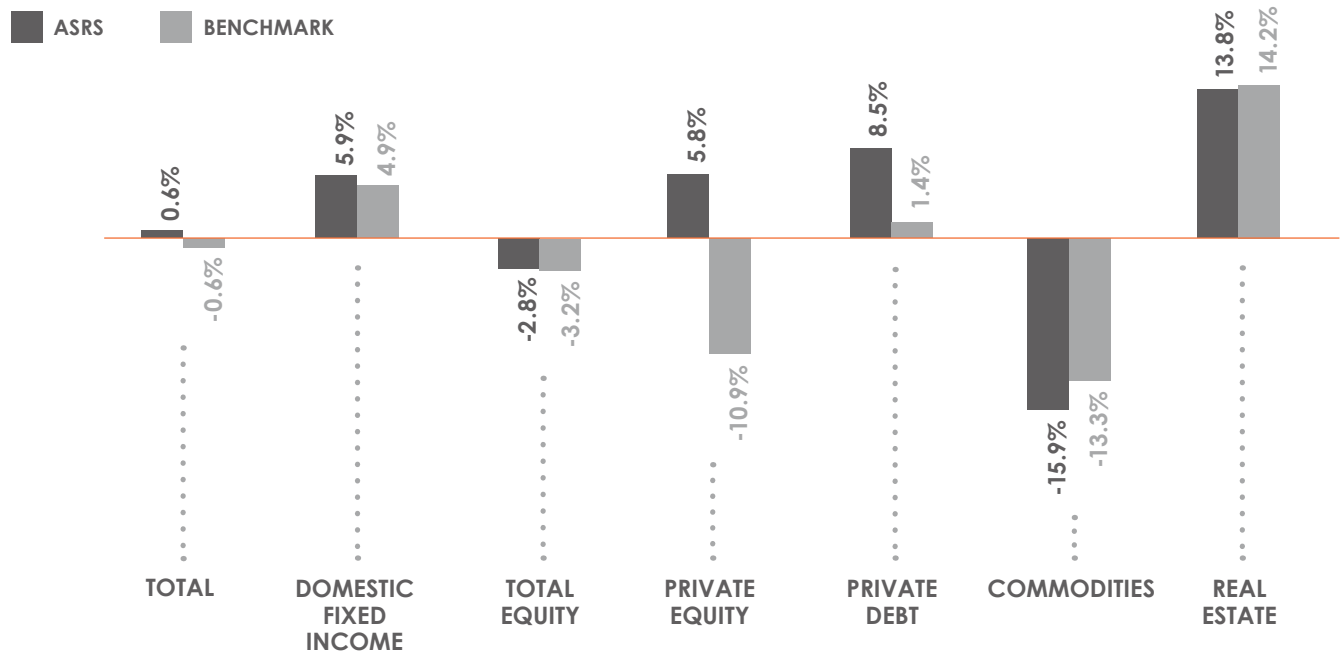
## Portfolio Returns and Benchmarks

As of June 30, 2016, the ASRS outperformed total fund time weighted benchmark returns during the fiscal year. The ASRS has also outperformed its 3 year, 5 year and 10 year time weighted return benchmarks.



## One-Year Returns

Private equity and private debt returns significantly outperformed benchmarks during the fiscal year 2016.



# 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, 2016 Comprehensive Annual Financial Report for more detailed information.

## Combined Fiduciary Net Position

This statement presents the assets and liabilities that comprise the agency's net position as of June 30, 2016.

	2016	2015	Change	Change %
<b>Assets</b>				
Cash & Receivables	\$1,040,295	\$317,175	\$723,120	228.0%
Investments	\$34,094,867	\$35,237,203	(\$1,142,336)	-3.2%
Securities Lending	\$287,489	\$314,730	(\$27,241)	-8.7%
<b>Total Assets</b>	<b>\$35,422,651</b>	<b>\$35,869,108</b>	<b>\$(446,457)</b>	<b>-1.2%</b>
<b>Liabilities</b>				
Payables & Other Liabilities	\$524,910	\$88,164	\$436,746	495.4%
Securities Lending	\$287,489	\$314,730	(\$27,241)	-8.7%
<b>Total Liabilities</b>	<b>\$812,399</b>	<b>\$402,894</b>	<b>\$409,505</b>	<b>101.6%</b>
<b>NET POSITION RESTRICTED FOR PENSION / OPEB BENEFITS</b>	<b>\$34,610,252</b>	<b>\$35,466,214</b>	<b>\$(855,962)</b>	<b>-2.4%</b>

## Combined Changes in Fiduciary Net Position

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)

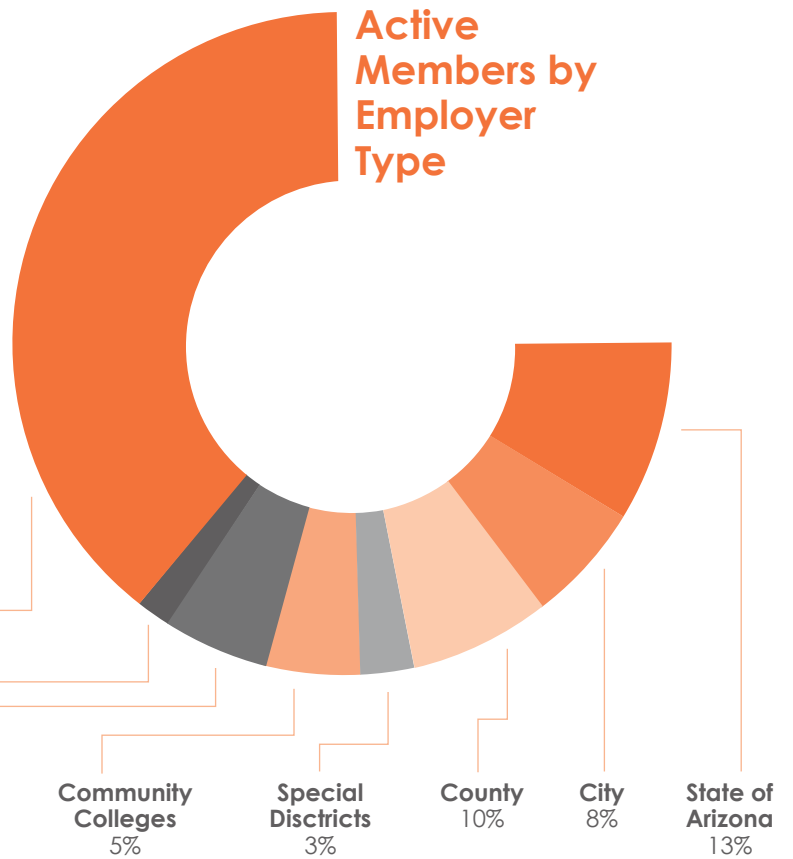
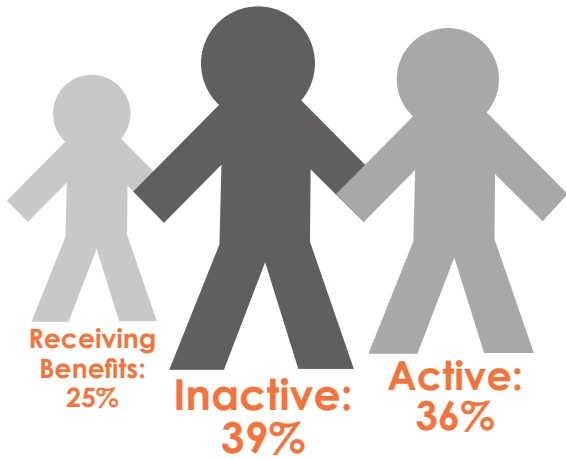
	2016	2015	Change	Change %
<b>Additions</b>				
Member Contributions	\$1,047,704	\$1,042,679	\$5,025	0.5%
Employer Contributions	\$1,073,182	\$1,069,232	\$3,950	0.4%
Service Credit Purchase & Other	\$33,921	\$52,209	(\$18,288)	-35.0%
Net Investment Income	\$234,543	\$891,904	(\$657,361)	-73.7%
<b>Total Additions</b>	<b>\$2,389,350</b>	<b>\$3,056,024</b>	<b>\$(666,674)</b>	<b>-21.8%</b>
<b>Deductions</b>				
Benefit Payments	\$2,959,350	\$2,838,454	\$120,896	4.3%
Refunds & Transfers	\$259,323	\$256,243	\$3,080	1.2%
Administration & Other	\$26,639	\$30,576	(\$3,937)	-12.9%
<b>Total Deductions</b>	<b>\$3,245,312</b>	<b>\$3,125,273</b>	<b>\$120,039</b>	<b>3.8%</b>
<b>NET CHANGE</b>	<b>\$(855,962)</b>	<b>(\$69,249)</b>	<b>(\$786,713)</b>	<b>-1,136.19%</b>
<b>Net Position Restricted For Pension / OPEB Benefits</b>				
Net Position Beginning Of Year	\$35,466,214	\$35,535,463	(\$69,249)	-0.2%
Net Position End Of Year	\$34,610,252	\$35,466,214	(\$855,962)	-2.4%

# 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.

The following charts summarize member statistics as June 30, 2016:

## Member Composition by Status



The following tables summarize member averages determined from the ASRS's most recent actuarial valuation, as of June 30, 2015.

### Active Member Averages

	2015	2014
Active Plan Members	203,252	203,201
Average Years of Service	9.6	9.6
Average Annual Salary	\$44,636	\$43,841
Average Age	45.7	45.7

### Retired Member Averages

	Retired in 2015	All Retired Members
Retired Member Count	8,695	131,536
Average Monthly Annuity	\$1,634	\$1,647



# Arizona State Retirement System

A component unit of the State of Arizona

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