



# ARIZONA STATE RETIREMENT SYSTEM

## Contribution Prepayment Program (CPP)

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# 1. Background

Recognizing current financial conditions and supporting employer requests, the Arizona State Retirement System has implemented an innovative program for employers to voluntarily prepay their future pension contribution obligations, while also maintaining significant future budget flexibility.

## 2. Summary

- The Contribution Prepayment Program is a voluntary program available to employers that allows an employer to prepay their future pension contributions.
- Employers may deposit a lump-sum payment to the ASRS, which is credited with actual ASRS investment returns.
- Employers determine when to utilize their prepaid contributions. Utilization occurs when an employer decides to offset their future contribution payments.
- Employers determine the length of time (amortization period) over which to utilize their prepaid contributions.

### 3. Potential Advantages

1. Utilization of available, and possibly non-recurring, employer cash.
2. Long-term investment returns possibly greater than short-term investment returns.
3. Obtain budget flexibility by allowing employers to determine when to utilize their prepaid CPP balances (possibly during future economic downturns when budgets are more restricted).
4. Prepaid balances recorded on the employer's financial statements.

## 4. Potential Disadvantages

1. Possible better options for employer funds, which is an employer decision to make.
2. ASRS rates of return may not meet expectations.
3. Future employer budget flexibility limited by annual offset amount.

## 5. How the Program Works – An example

- An employer determines it has an additional cash balance of \$1 million and decides to send that balance to the ASRS CPP program on June 30, 2023.
- Employer decides at some point to use those funds to offset future pension contributions over a 10-year period, beginning July 1, 2025.
- Employer's future contributions to the ASRS from July 1, 2025 to June 30, 2035 would be decreased by the pro-rated prepaid amount.
- Interest accrues on the non-utilized prepaid balances.

## 6. FAQs

What will be the rate of return?

*The prepaid balances will earn the actual ASRS rate of return.*

Is there a minimum of how much can be prepaid?

*Yes – no amount less than \$100,000 can be prepaid.*

Must I utilize the prepayments?

*The prepaid balances will need to be utilized once either the employer's Net Pension Liability (NPL), or the employer's NPL less the employer's prepayment balance, become zero or less.*



## 6. FAQs (Continued)

When can I begin utilizing my prepayments?

*Anytime after providing the ASRS with 60 days notice.*

Can I offset future employee contributions with the prepaid balances as well?

*No, only employer contributions can be offset.*

Can the prepaid contributions be used to offset LTD or Health Insurance contributions?

*No, only employer's future pension contributions may be offset.*

# 7. Key Prepayment Decisions for an Employer

- To participate or not?
- How much to prepay?
- When to amortize the prepaid balances?
- How much to amortize each year once amortization begins?

## 8. Contact information

For questions and inquiries into the ASRS Contribution Prepayment Program (CPP), please contact:

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