

ECONOMIC, SMALL BUSINESS, AND CONSUMER IMPACT STATEMENT¹

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

1. Identification of the rulemaking:

The ASRS needs to amend its rules relating to interest rates in order to provide notice to the public of the new interest rate for the upcoming fiscal year. In 2021, the ASRS Board approved a new assumed rate of return and matching interest rate for FY2022-2023. The Assumed Actuarial Investment Earnings Rate in R4-8-118(A) serves as the interest rate that is applicable to the majority of ASRS transactions, including service purchases, collection of overpayments, and remittance of contributions. These rules will increase understandability of what interest rate will be applied to such various transactions.

a. The conduct and its frequency of occurrence that the rule is designed to change:

Each fiscal year, ASRS collects approximately \$2.7 billion in contributions from members and employers. Each fiscal year, active members' accounts earn interest at the Assumed Actuarial Investment Earnings Rate. Any missed contributions are charged interest at the Assumed Actuarial Investment Earnings Rate applicable for the fiscal year in which the contributions were missed. In the past fiscal year, the ASRS processed approximately 2,279 service purchases, many of which included interest that was charged either as a result of the employer failing to remit a contribution on time or as part of the member's Payroll Deduction Agreement to purchase service credit. Additionally, within the past fiscal year, the ASRS collected approximately \$3.2 million owed to the agency including any applicable interest at the applicable Assumed Actuarial Investment Earnings Rate. The ASRS needs to

¹ If adequate data are not reasonably available, the agency shall explain the limitations of the data, the methods used in an attempt to obtain the data, and characterize the probable impacts in qualitative terms. (A.R.S. § 41-1055(C)).

update its rules to clarify and better reflect the interest rate that is applied in various transactions.

- b. The harm resulting from the conduct the rule is designed to change and the likelihood it will continue to occur if the rule is not changed:

Without this rulemaking, members and employers will not have adequate notice about the interest rate that will be applied to various transactions. Notice of such information is necessary in order to ensure that the correct amounts of payments made to and from members and employers. By promulgating these rules, members and employers will have a better understanding of the applicable interest rate and when it is applied. Increasing understanding of how the ASRS applies the applicable interest rate for various transactions should reduce appeals that arise out of members' and employers' misunderstanding of the applicable interest rate.

- c. The estimated change in frequency of the targeted conduct expected from the rule change:

This rulemaking will clarify how the ASRS applies the Assumed Actuarial Investment Earnings Rate, thereby increasing understandability of how employers remit contributions and how members' benefits may be affected, thereby increasing the efficiency of the administration. Clarifying how the ASRS applies interest will ensure that collection and payment efforts are processed more efficiently. As discussed above and below, these rules will increase the clarity and effectiveness of the applicable interest rate, which should result in reducing confusion, as well as any potential administrative delay caused by a misunderstanding of how interest is applied in various transactions.

- 2. A brief summary of the information included in the economic, small business, and consumer impact statement:

The ASRS promulgates rules that allow the agency to provide for the proper administration of the state retirement trust fund. ASRS rules affect ASRS members and ASRS employers regarding how they contribute to, and receive benefits from, the ASRS. The ASRS effectively administrates how public-sector employers and employees participate in the ASRS. As such, the ASRS does not issue permits or licenses, or charge fees, and its rules have little to no economic impact on private-sector businesses, with the exception of some employer partner charter schools, which have voluntarily contracted to join the ASRS. Thus, there is little to no economic, small business, or consumer impact, other than the minimal cost to the ASRS to prepare the rule package. The rule will have minimal economic impact, if any, because it merely clarifies what interest rate is applied.

3. The person to contact to submit or request additional data on the information included in the economic, small business, and consumer impact statement:

Name: Jessica A.R. Thomas, Rules Writer
Address: Arizona State Retirement System
3300 N. Central Ave., Suite 1400
Phoenix, AZ 85012-0250
Telephone: (602) 240-2039
E-mail: JessicaT@azasrs.gov

4. Persons who will be directly affected by, bear the costs of, or directly benefit from the rulemaking:

All employers and members of the ASRS, as well as their beneficiaries, will be directly affected by, bear the costs of, and directly benefit from this rulemaking. The ASRS incurred the cost of the rulemaking. The ASRS currently has a total membership of approximately 627,975 and 664 employers.

5. Cost-benefit analysis:

- a. Costs and benefits to state agencies directly affected by the rulemaking including the number of new full-time employees at the implementing agency required to implement and enforce the proposed rule:

This rulemaking does not directly affect state agencies and the ASRS has determined that no new full-time employees will be required to implement and enforce the rules.

b. Costs and benefits to political subdivisions directly affected by the rulemaking:

This rulemaking does not provide any benefits or impose any costs on political subdivisions.

c. Costs and benefits to businesses directly affected by the rulemaking:

No businesses are directly affected by the rulemaking.

6. Impact on private and public employment:

The rulemaking will have no impact on private or public employment.

7. Impact on small businesses²:

a. Identification of the small business subject to the rulemaking:

No businesses, regardless of size, are subject to the rulemaking.

b. Administrative and other costs required for compliance with the rulemaking:

Not applicable.

c. Description of methods that may be used to reduce the impact on small businesses:

Not applicable.

8. Cost and benefit to private persons and consumers who are directly affected by the rulemaking:

All ASRS retired members, beneficiaries, and Employers are directly affected by the rulemaking. The effect has been previously described above.

² Small business has the meaning specified in A.R.S. § 41-1001(20).

9. Probable effects on state revenues:

There will be no effect on state revenues.

10. Less intrusive or less costly alternative methods considered:

The ASRS believes this is the least costly and least intrusive method because it will clarify how the ASRS applies the Assumed Actuarial Investment Earnings Rate without imposing additional requirements on the public.