

# FINANCIAL HORIZONS

An annual publication



of the ASRS • Aug. 2019

## A Look at the ASRS Approach to Business

by Paul Matson, Executive Director

Here at your ASRS we generally agree with the adage that “What gets measured gets managed.” As a result, we measure and analyze an array of activities that fall into the following general categories: investment performance, member satisfaction, service standards & cost structure, and staff engagement, to ensure top tier performance. When there is not top tier performance – we take positive and supportive action.

Here’s a glimpse of our approach and results.

### Investment Performance

The ASRS manages a portfolio of

approximately \$40 billion in support of your pension, health insurance, long-term disability, and defined contribution plans. These assets are invested broadly according to a strategic asset allocation plan. Once benefit levels are determined, investment performance is the main driver in keeping down the contribution rates paid by our members and employers, and ensuring our plans are sustainable in perpetuity for the benefit of our members.

We measure performance of the various investments against industry benchmarks (such as the S&P500), as well as against a peer universe.

The ASRS investment returns consistently

rank in the top tenth percentile when compared with our peer group, as indicated in the table below.

By producing returns at a rate above the peer median, the ASRS has added approximately an additional \$520 million to the fund last year, and an additional \$5.8 billion over the past 10 years. These significant dollar amounts are in addition to the amounts that would be generated if the ASRS had generated median investment performance. These significant dollar amounts are important for the following reasons: 1. They cause contribution rates to be lower than they

*Director, continued page five*

Annualized Investment Returns as of June 30, 2018	1 Year	3 Years	5 Years	10 Years	Inception (June 30, 1975)
ASRS Actual Returns	9.4%	7.8%	8.9%	7.4%	9.7%
Peer Median Returns	8.0%	6.7%	7.5%	6.1%	N/A
Excess Return Above Peers	1.4%	1.1%	1.4%	1.3%	N/A
ASRS Performance Ranking among Peer Plans	Top 10th percentile	Top 7th percentile	Top 8th percentile	Top 6th percentile	N/A

Data source: NEPC and InvestorForce. All returns listed net of fees.

# A LOOK AT THE NUMBERS...

Each year, the ASRS compiles a Comprehensive Annual Financial Report, detailing the funding status and position of the overall ASRS trust fund and our various plans. Below is a snapshot of some of the over arching numbers. Note that these numbers are for fiscal year which ended June 30, 2018. Reports for fiscal year 2019, which ended just this past June, are still being compiled.

The full report, as well as a reader-friendly summary - the Popular Annual Financial Report - can be found on our website at [AzASRS.gov/AnnualReports](http://AzASRS.gov/AnnualReports). Here is a brief summary of some of our numbers:

## DEMOGRAPHICS

- Active Members: **210,136**
  - Average Age: **45.4**
  - Average Annual Salary: **\$47,901**
- Inactive Members: **232,568**
- Retired Members & Survivor Beneficiaries: **150,420**
- Long Term Disability (LTD) Members: **3,488**

## BENEFIT RECIPIENTS

- Average Monthly Retirement Benefit: **\$1,678**
- Average Age: **71**

## FUNDED STATUS

- \$38 Billion: **71.2% Funded**  
*An increase of 0.7% from the previous year*

## MEMBERS

- Total Members: **596,612**
- Participating Employers: **673**

For more information:  
**Annual Reports** at [AzASRS.gov](http://AzASRS.gov)

## NEW CONTRIBUTION RATES *(for fiscal year beginning July 1, 2019)*

The rate at which an employee pays into their pension account, as well the rate employers pay towards their employee's pension accounts. These adjust yearly based on experience as well as projections and assumptions.

	Pension & Health Benefit Supplement	LTD Plan	TOTAL
Employee	11.94%	0.17%	12.11%
Employer	11.94%	0.17%	12.11%

## ASRS Board of Trustees

by Dave Cannella, Media Relations

The Arizona State Retirement System is governed by a nine-member Board of Trustees, appointed by the Governor and confirmed by the state Senate.

The Board acts as a fiduciary of the ASRS trust fund with powers and duties outlined in state statute.

The Board generally meets six times per year in a public meeting at the ASRS Phoenix office. Topics reviewed and discussed by the Board include investment management, actuarial methods & assumptions, contribution rates, budgets, technology, legislation, policies, and governance. There is also time in each meeting for calls to the public during which anyone may address the Board.

In addition to the Board of Trustees,

there are three committees of the Board: the Investment Committee, the Operations, Audit & Legislative Committee, and the Appeals Committee.

Meeting agendas and discussion materials are posted to the ASRS website, [AzASRS.gov](http://AzASRS.gov). Meeting minutes are also kept there, along with short biographies of each trustee, and board governance materials. All can be found on the *Board of Trustees* page, under the *About Us* tab. |

# An Alternative Savings Plan for ASRS Members

by Dave Cannella, Media Relations

*A low-fee savings plan that offers an additional way to achieve financial independence*

In addition to your pension, long-term disability and retiree health insurance benefits, the ASRS offers another program many of our active members find to be of value – the ASRS Supplemental Savings Deferral Plan – or SSDP for short.

This professionally managed, low-administrative fee savings plan is a great way to supplement your post-employment income, keeping in mind that there are no provisions for regular increases to your pension once you begin collecting it.

The SSDP is qualified under Section 457 of the Internal Revenue Code.

The plan allows employees who work for an employer who has adopted the ASRS SSDP an opportunity to contribute tax deferred money into an account, which then grows tax-deferred until withdrawal.

Overseen by the ASRS and administered by Nationwide Retirement Solutions, the SSDP is professionally managed and offers a variety of investment options to suit both the interested investor as well as those who would like a simple

one-choice retirement date investment solution. The SSDP has a very low administrative cost of 0.06% of assets. A low administrative cost can make a big difference to your savings over time.

This plan is not available to employees of the State of Arizona, but the State of Arizona offers a similar plan which has an equally low administrative cost.

To learn more about the SSDP, visit [AzASRS.gov](http://AzASRS.gov) and the *Supplement Your Savings* page, which includes a short informational video. |



# A Summary of Recent ASRS Legislation

by Jessica Thomas, Government Relations Officer

The 54th Legislature, First Regular Session adjourned sine die on May 28, 2019 and the general effective date for legislation that was passed and signed by the Governor is August 27, 2019. The legislature passed two bills that have a relatively minor impact on members and retirees. Below is a brief summary. You can also find more detailed information about these bills and other retirement-related bills in the 2019 Legislative Summary book at [AzASRS.gov](http://AzASRS.gov), on the *Legislation* page under the *About Us* tab.

**Senate Bill 1018:** ASRS; Compensation; Definition



This bill makes changes to **A.R.S. § 38-711** to define “compensation” for new members as of January 1, 2020. Certain types of pay that are not included as salary and wages on the member’s federal W-2 tax form, will not be considered as “compensation” for ASRS purposes.

**Senate Bill 1079:** ASRS; Long-Term Disability (LTD) Program

This bill makes changes to **A.R.S. § 38-797.07** to remove redundant definitions, change the definition of “disability,” and limit the amount of available disability benefits to no more

than 100% of the member’s pre-disability compensation. It also authorizes the ASRS or its contracted administrator to investigate information related to the falsification of information or records related to the LTD Program.

Be sure to visit our website to see all the latest legislative updates, state statutes, and administrative rules related to the ASRS and public retirement plans.

- Follow legislative sessions on ASRS’ Bill Tracker.
- Check Arizona Revised Statutes.
- Check ASRS administrative rules.

Look for the *Legislation* and *Rules* sections on [AzASRS.gov](http://AzASRS.gov) for details and links. |

**P**ensions are not as common as they used to be, which can lead to not fully understanding what you're a part of, how it benefits you, and how to best take advantage of the benefits available to you. To further that understanding, let's take a look at what the Arizona State Retirement System is, and what it isn't.

For starters, the ASRS is what's called a "Defined Benefit Plan." In technical terms, it's a 401(a) plan that is governed by Arizona statute and IRS rules. A more simple explanation: it's a mandatory-participation retirement plan that provides ASRS retirees with benefit payments for the rest of their life. The basic

structure for retirement is as follows: ASRS members and employers both pay contributions to the ASRS, the ASRS in turn invests those contributions and pays members who meet retirement eligibility a lifetime benefit payment. That benefit amount can vary based on your age at retirement, years of service, and average monthly compensation. It's not determined by your account balance with the ASRS or the performance of ASRS investments.

*(Note: For a more comprehensive look at how your pension is calculated and how to potentially increase your pension before you retire, make sure to read the "The Affect of 'When' on Your Pension" article on page 6.)*

When most people think of a retirement savings plan offered by an employer, they think of a 401(k) savings plan. Instead of being a "Defined **Benefit** Plan" like the ASRS benefit, a 401(k) is classified as a "Defined **Contribution** Plan." It's a subtle but important distinction, and

they each operate very differently. For a 401(k) plan, the funds available to you when you're ready to retire are solely based on your account balance and the performance of investments over the life of the account. Keep in mind that those investment decisions are managed by you, the employee, unlike investment

what they actually paid into the ASRS over their career with contributions. This is made possible through the investing of member and employer contributions. Furthermore, Article 29 of the Arizona Constitution protects your ASRS benefit from being 'diminished or impaired.'

That's not to say a 401(k) isn't a valuable savings tools – it's just important to know the differences. The ASRS even actively suggests members have retirement savings outside of their pension, to help supplement their future retirement benefit. An ASRS pension is designed to be one of a three part strategy for retirement: your ASRS pension, Social

# HOW WELL DO YOU KNOW YOUR PENSION?

by Nathaniel Brengle, Communications & Sara Orozco, Strategic Planning

decisions with your ASRS pension, which are professionally managed by the ASRS. There's also no guarantee that the money in a 401(k) will last as long as a person may need it to. Once the balance of the account has been fully paid out, that's the end of the benefit.

**"IN FACT, IT IS QUITE TYPICAL FOR ASRS RETIREES TO RECEIVE MULTIPLE TIMES MORE IN PENSION PAYMENTS THAN WHAT THEY ACTUALLY PAID INTO THE ASRS OVER THEIR CAREER WITH CONTRIBUTIONS."**

Security, and personal savings. This is partially to help guard against future rising living costs. While your ASRS pension is guaranteed for your lifetime, it does not include any means of automatic increases, such as cost-of-living increases. This means you could expect your retirement benefit to be the same amount after you've been retired for 20 years as it was when you were retired for two years.

Curious to know how much your pension might be when *you* retire? It's easy to find out. If you go to **AzASRS.gov** and select the *Estimate Your Benefits* page from the *Members* drop-down menu, you'll find additional information on how your pension is calculated, including an interactive tool you can use to estimate an ASRS pension. For a more detailed estimate based on your actual salary, log into your secure MyASRS account at **AzASRS.gov** and view the *Your Benefit Estimates* section. |

HOW YOUR PENSION WORKS



MEMBER & EMPLOYER CONTRIBUTIONS POOLED TOGETHER



RETIREMENT BENEFITS PAID OUT TO 150K PLUS RETIREES FOR THE REST OF THEIR LIFE!

## DID YOU KNOW?

There are a number of other benefits included with your membership in the ASRS!

### Long Term Disability (LTD)

If you become disabled while working as an ASRS member, you may qualify to receive a monthly long term disability benefit. If approved, the ASRS will pay you a benefit equal to 66 2/3% of your salary, less any benefit offsets. These benefits will continue to be paid until you: return to work, cease to meet the definition of disability, pass away, or reach retirement eligibility.

### Retiree Health Insurance

When you retire (or become disabled), you become eligible to enroll in an ASRS sponsored health insurance program. The ASRS has health insurance plans geared to retirees who have reached Medicare eligibility, as well as those who have not.

### Health Insurance Premium Benefit Supplement

Retirees with five or more years of service who are enrolled in a health insurance program sponsored by the ASRS or an ASRS employer are eligible to receive a premium benefit supplement each month to help reduce retiree health insurance premiums.

### Service Purchase

Active members may be eligible to purchase additional ASRS service credit in order to increase their total ASRS benefit.

**For additional information** on all of the above benefits (and more!) visit [AzASRS.gov](http://AzASRS.gov) and browse the *Members* and *Retirees* sections. |

## Director's Message, continued

would otherwise be for our active members 2. They increase the likelihood that the ASRS will be able to generate a future Permanent Benefit Increase (PBI) for our retirees 3. They increase the security of all future pension payments

### Member Satisfaction

We track member satisfaction across the spectrum - including phone calls, emails, in-person meetings, and online and in-person educational programs. Members have consistently provided an overall satisfied or very satisfied rating above 90 percent in most all interactions with us.

### Service Standards & Cost Structure

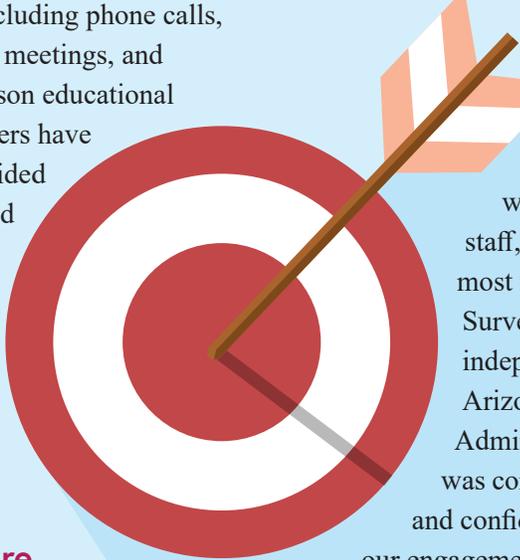
The ASRS participates in an annual global benchmarking survey, which compares our performances against a group of public pension plans across the United States. In the most recent survey, conducted by CEM Benchmarking, the ASRS was shown to be a top-tier provider of services, while maintaining a lower-tier cost structure. Specifically, the ASRS total pension administration cost was \$78 per active member and annuitant, which was \$24 below the peer average of \$102. In addition, the ASRS administration cost has been decreasing in recent years, compared with increased costs of our peer group.

And, at the same time, the ASRS total service score was 88, notably above the

peer average of 82.

### Staff Engagement

As a state agency, the ASRS is highly cognizant of both whom we serve and the fiscal responsibility we have in managing your trust fund. Our successes are the direct result of the efforts of our entire staff.



We are truly doing more with less and are accomplishing this with a highly engaged staff, as evidenced by the most recent Engagement Survey conducted independently by the Arizona Department of Administration. The survey was conducted independently and confidentially. This year, our engagement score was 9.5 – which places the ASRS in the category of an outstanding organization, as indicated below:

- Average Organization: 1.8
- Outstanding Organization: 9.0
- **ASRS: 9.5**

And so the statistics are in – whether it is top tier investment performance, top tier customer service, strong cost effectiveness, or a highly engaged workforce – the ASRS is meeting the high standards that have been set.

And we are very proud to serve each of you – our retirees, active employees, and former employees who maintain credited service at the ASRS. |

# The Affect of "When?" on Your Pension



by Katie Daigneault, Strategic Planning

When considering retirement there are a lot of factors to think about, but did you know that the decision of *when* to retire effects your pension benefit? The ASRS uses the following fairly simple formula to calculate the Straight Life annuity, the highest paying retirement option to calculate your base line monthly benefit:

$$\text{Average Monthly Compensation} \times \text{Years of Service} \times \text{Graded Multiplier} = \text{Monthly Pension}$$

Let's take a look at each part of the equation separately to get a better understanding of how the timing of your retirement effects your pension benefit.

## AVERAGE MONTHLY COMPENSATION

To start calculating your pension, the ASRS looks at your last ten years of your contribution history. For people who became a member on 7/1/2011 or later, we'll then take the average of your highest consecutive 60 months within those 10 years. For those who were members prior to that (but after 1/1/1984), it's your highest consecutive 36 months within those 10 years.

## GRADED MULTIPLIER

Wondering what that "graded multiplier" is? The graded multiplier is one of the major factors used to determine how your pension is calculated. Therefore, it is an important piece in deciding when to retire. The graded multiplier is tiered based on your total years of service. As you accrue more service, you qualify for a higher multiplier of your final average monthly compensation, which increases your benefit. When selecting your retirement

date it is important to look at your service and review if you are close to the next graded multiplier threshold. If you are, it could be worth it to work longer to reach the next graded multiplier and increase your benefit for your lifetime.

GRADED MULTIPLIER TABLE	
YRS OF SERVICE	MULTIPLIER
0 - 19.99	2.10%
20 - 24.99	2.15%
25 - 29.99	2.20%
30 OR HIGHER	2.30%

## YEARS OF SERVICE & AGE

Although your years of service are updated with each contribution applied to your account, the ASRS cannot guarantee your total years of service until a detailed audit is performed on your account, triggered by the processing of your retirement application. We suggest members consider working an additional month past their target retirement date to build a cushion and cover any needed adjustments that could be found during the audit.

When looking at how many years of service you may need to reach normal retirement, remember that your age also becomes a factor. A great way to evaluate your options is to play with the personalized benefit estimator in your secure MyASRS account. Keep in mind that members who retire early

will received a reduced benefit for their lifetime based on their age and total credited service at retirement.

## YOUR PENSION BENEFIT OPTIONS

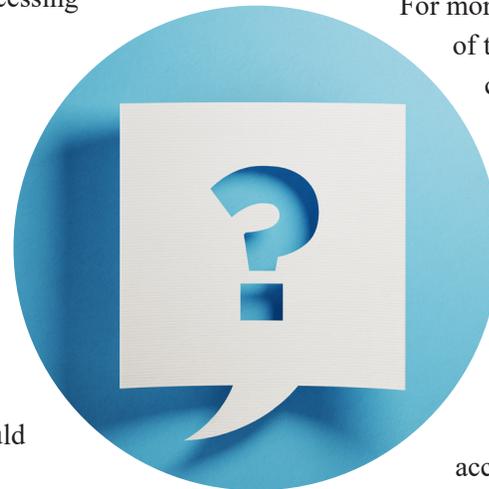
Another major factor to consider is the *annuity option* you decide to select. The ASRS offers seven annuity options, and the option you select will have an effect on the amount of your pension benefit.

All of the annuity options provide a guaranteed lifetime payment to the member along with different options for survivor benefits. If you choose an annuity option to guarantee a benefit to a beneficiary upon your passing, then your monthly benefit will be reduced. The amount of the reduction is determined based on factors such as the annuity option selected and the age of your beneficiary.

For more information on any of the above, make sure to check out *Retirement Central* or the *Member Tool Kit* pages of **AzASRS.gov**.

Also, remember that the ASRS provides a personalized Benefit Estimate tool in your secure MyASRS account at **AzASRS.gov**.

This tool is one of the best ways for you to determine when the best time for you to retire may be. You can see general estimates for your first point of normal retirement or you can customize the estimate based on a date you select. Login to your secure account click 'Retirement' under 'Your Benefit Estimates' to check and customize your own personalized estimate. |



# Member Education from the ASRS

Information for you, no matter how close or far you think retirement may be.

## EARLY CAREER

### Route 1: Your Journey Begins

Are you new to the ASRS? Watch this ten-minute video that explains what Member benefits the ASRS provides to you. Want to learn more? Check out the Member Education section on the website.

Be sure to **set up your myASRS secure account** today to access your account details and sign up for meetings in the future

## MID-CAREER

### Route 2: Map Your Progress

Retirement may still be far off, but start planning now with our interactive **eLearning**. Use this tool to help you navigate toward your retirement path.

### Route 3: Destination in Sight

When you are three years away from retirement, attend this meeting. You will learn how your benefits are calculated and how you can get ready for retirement.

## LATE CAREER

### Know Your Insurance

If you are considering ASRS retiree group health insurance for when you retire, attend this meeting within a year of retirement to learn about ASRS health insurance enrollment and plan coverage details from our plan providers.

### Route 4: Next Exit – Retirement

Six months from retirement you should attend this meeting and get the details on the retirement application process and payment schedules.

**Visit [AzASRS.gov/content/member-education](http://AzASRS.gov/content/member-education) for more info**

*\*Note: Route 3, Route 4, and Know Your Insurance meetings are available both in-person and via webinar. Log into your myASRS account to see upcoming meetings and register!*



**Attending a group meeting or webinar allows you to:**

- Ask questions
- Hear other questions that you didn't even think of
- Manage your retirement planning
- Understand how your retirement income is calculated
- Learn how to finalize the process

**GPS - Guide to Pre-Retirement Services... dynamic interactive online application that will help you chart your future.**

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## Comments?

*Financial Horizons* is published annually and mailed to all members and retirees of the Arizona State Retirement System. We welcome comments from our readers!

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## Member Statements on MyASRS *Have you accessed your member statement online?*



Active and inactive members can view and print a copy of their Member Statement online at any time. This real-time statement includes beneficiary information, a summary of service credit, estimated monthly pension amounts, information on refund, survivor and disability benefits. The ASRS recommends members log into their myASRS account at least once a year to review their statement information and earliest estimated normal retirement date.