ECONOMIC, SMALL BUSINESS, AND CONSUMER IMPACT STATEMENT

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

1. Identification of the rulemaking:

   In a five-year-review report approved by the Council on July 13, 2013, the ASRS intentionally allowed R2-8-123, Actuarial Assumptions and Actuarial Value of Assets, to expire. ASRS has determined that some of the information in that rule is valuable so a new R2-8-123 is made in this rulemaking.

   a. The conduct and its frequency of occurrence that the rule is designed to change:
      ASRS has determined it is in the public interest to make public the actuarial assumptions and methods used by the ASRS. This rulemaking is designed to make this information public.

   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 the rulemaking, the actuarial assumptions and methods used by the ASRS will not be easily available to the public.

   c. The estimated change in frequency of the targeted conduct expected from the rule change:
      When the rulemaking is completed, the actuarial assumptions and methods used by the ASRS will be easily available to the public.

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

   The new R2-8-123 has minimal economic impact because it simply makes public the actuarial assumptions and methods used by the ASRS. The rule indicates that when determining the actuarial value of assets, ASRS uses the market value of the assets plus or minus the amount that the actual investment return differs from the expected investment return. Any adjustment in the difference between actual and expected investment return is phased in over ten years. The 10-year phase-in is a technique commonly used by public retirement systems to smooth assets and avoid sharp changes in the required contributions. The Board reviews its assumption regarding interest and investment return rate annually. During the 2014 review, the Board reviewed historical data, determined its assumption of an eight percent rate was reasonable, and decided to leave the assumption at eight percent. This conclusion was consistent with that reached by Gabriel Roeder Smith and Company, an outside auditing actuary that reviewed the same data.[1]

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

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

   ASRS currently has a total membership of 542,845, including 207,572 active members, 208,573 inactive members, 122,257 retired members, and 4,443 disabled members and survivor beneficiaries. There are 690 employer participants, including state agencies.

   Establishing the 10-year smoothing method in rule increases the predictability of contribution rates for both employers and employees. ASRS members and their employers will benefit from stabilized contribution rates.

   ASRS will also be directly affected by, bear the costs of, and directly benefit from the rulemaking. ASRS incurred the cost of the rulemaking. ASRS will benefit from the predictability of contribution rates.

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:

      Because state agencies make contributions to the ASRS on behalf of their employees, state agencies will be affected by the stabilization of contribution rates achieved by the 10-year phase-in of the difference between actual and expected investment return.

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[1] See Arizona State Retirement System Report of an Actuarial Audit, June 13, 2014, prepared by Gabriel Roeder Smith and Company.

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

Political subdivisions with employees who participate in the ASRS will be affected by the stabilization of contribution rates achieved by the 10-year phase-in of the difference between actual and expected investment return.

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 businesses[2]:

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:

Because no businesses, regardless of size, are impacted by this rulemaking, no administrative and other costs are incurred.

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

Because no businesses, regardless of size, are impacted by this rulemaking, no alternative methods can be considered.

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

All members of ASRS will benefit from the previously described stabilization of contribution rates achieved by the 10-year phase-in of the difference between actual and expected investment return specified in R2-8-123.

9. Probable effects on state revenues:

There will be no effect on state revenues.

10. Less intrusive or less costly alternative methods considered:

Prior to 2002, ASRS determined its actuarial value of assets using a five-year smoothing method of investment gains and losses with a 20% corridor. However, in spite of the smoothing process, the large investment loss in fiscal year 2002 would have caused the actuarial value of assets to decline significantly and the required contribution rate to spike upward as a result. ASRS asked its actuary if anything could mitigate the effect of the investment loss on the contribution rate. The ASRS actuary recommended using a ten-year smoothing of investment gains and losses with no corridor. In other words, investment gains and losses would be recognized in actuarial assets at a rate of 10% per year for ten years.

Using ten years instead of five increases the likelihood that gains and losses will offset each other because in virtually every ten-year period, there are both good and bad investment years. By using ten years of data, we eliminate some of the more extreme results that would occur over shorter time frames. By eliminating the corridor, we keep actuarial assets and resulting contribution rates smoother in years when investment gains (or losses) have heavily dominated the last ten years. ASRS and its actuary considered moving to even longer periods, but determined there would be little additional benefit. Moreover, ten years is approximately the longest period that other systems use without a corridor. For these reasons, ASRS decided to use the ten-year smoothing method with no corridor.

[2] Small business has the meaning specified in A.R.S. § 41-1001(21).