



County Supervisors

A S S O C I A T I O N
o f a r i z o n a

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Revised

**COUNTY SUPERVISORS ASSOCIATION
LEGISLATIVE POLICY COMMITTEE
AGENDA**

April 7, 2017

Teleconference 1-866-228-9900

Access Code 326208#

[Web Link](#)

**County Supervisors Association
1905 W. Washington St.
Phoenix, AZ**

9:00 a.m. Call to Order ~ *President Tommie Martin*

- A) Approval of the Minutes of the March 31, 2017, Legislative Policy Committee Meeting
(*previously distributed*)
- B) State Budget Update
- C) CORP Reform: [SB 1442 corrections officer retirement plan; modifications](#) (*Lesko*) and
[SCR 1023 corrections officer retirement plan](#) (*Lesko*)
[*Please refer to Craig Sullivan's e-mail notice of April 5, 2017, of this added agenda item*]
- D) Legislative Updates
- E) Other Business
- F) Next Meeting Date and Time (*Friday, April 14, at 9:00 a.m.*) [PLEASE NOTE: APRIL 14 IS GOOD FRIDAY; THE CSA BOARD OF DIRECTORS MEETING WILL BE ON THURSDAY, APRIL 20, 2017]
- G) Adjourn



County Supervisors Association of Arizona

April 5, 2017

Members of the Arizona State Legislature
Arizona State Capitol Complex
1700 W Washington Street
Phoenix, Arizona 85007

RE: CSA Urges Support for SB1442: Corrections Officer Retirement Plans; Modifications (*Sen. Lesko*) and SCR1023: Corrections Officer Retirement Plans (*Sen. Lesko*)

Dear Legislators:

The County Supervisors Association of Arizona (CSA) respectfully requests your support of SB1442 and SCR1023, which provides comprehensive reform for the Arizona Corrections Officer Retirement Plan (CORP). With a funded ratio of 53% and \$1.4 billion in unfunded liabilities, CORP is unsustainable and in dire need for reforms to ensure public entities can keep commitments to current employees and to provide retirement security for future employees.

Since 2002, the employer contribution rates for CORP have skyrocketed, rapidly increasing from 3.2% to 20.76%. Among counties, funded liability is as low as 49 per cent. As more taxpayer dollars are dedicated to pension liabilities, these demands strain existing resources and limit available funds for other essential public services. For example, increasing pension costs make it difficult to recruit and retain employees across all county functions, including detention and probation officers and other criminal justice personnel.

The combined effect of SB1442 and SCR1023 will stabilize contribution rates for the long-term, reduce the taxpayer and pension system exposure to financial risk and market volatility, and provide critical financial relief to counties across the state. Just as importantly, we believe this reform protects the commitments made to active employees and retirees, while providing sustainable reforms for new hires.

The County Supervisors Association of Arizona urges you to support SB1442 and SCR1023 to provide retirement security for current and future employees.

Sincerely,

Craig A. Sullivan
Executive Director

Summary of Proposed CORP Reform



HIGHLIGHTS

The proposed CORP reform:

- would put the current CORP plan on the **path to solvency**;
 - CORP is currently only 53% funded, \$1.4 billion in unfunded liabilities
- would place new hires after 7/1/2018 in a retirement plan that will provide **better retirement security** for employees while minimizing financial risks to taxpayers;
- would nearly **eliminate the potential for new unfunded liabilities** once the current pension debt is paid off;
- would **replace the broken permanent benefit increase (PBI)** mechanism with a traditional COLA (replicating Prop 124 approach with PSPRS); and
- would place approximately **90% of new hires in a portable defined contribution plan** (the PSPRS Tier 3 Defined Contribution Plan).

KEY REFORM ELEMENTS

Improvements for Current Employees and Retirees

- The PBI would be eliminated for all members and retirees, replaced with an up to 2.0% COLA, tied to regional CPI, and funded out of normal cost. (*same as PSPRS*)
- Proposed Constitutional amendment replicates Prop. 124 approach

New Defined Contribution Plan for Corrections Hires After 7/1/2018

- All new CORP hires as of July 1, 2018 that are not sworn probation/surveillance officers would be offered a defined contribution (DC) retirement benefit.
 - Employer Contribution: 5% of payroll
 - Employee Contribution: Default = 7% of pay, Minimum = 5%, Max = IRS limit
- Professionally managed, will use PSPRS Tier 3 DC plan
- DC disability & death benefits will provide an equivalent benefit for new hires relative to members in pension plan

New Choice for Probation/Surveillance Hires After 7/1/2018

- All new CORP hires as of July 1, 2018 that are sworn probation officers or surveillance officers would be offered a retirement benefit choice:
 - The Corrections Defined Contribution plan (same terms as above), or
 - A Tier 3-style defined benefit plan:
 - Uses stepped multiplier starting at 1.00% for 10.00-14.99 years of credited service, stepping up to 2.00% for 25+ years of credited service
 - Normal cost split: 33% employer | 67% employee
 - Unfunded liability amortization costs: 50% employer | 50% employee

- Adopts pensionable compensation cap of \$70,000 (indexed every three years to annualized growth in probation pay scales)
- Uses compounding COLA based on regional CPI with cap of 2.0% max, unless the funded ratio of the plan falls below 90%.
- No COLA will be issued in any year with a plan funded ratio below 70%.
- Increases minimum benefit eligibility age from 52.5 years old to 55 years old (actuarially equivalent benefit available at age 52.5)

FISCAL IMPACT

Short-Term Cost Savings:

- The aggregate employer contribution rate and total pension liabilities are immediately reduced under the proposed reform, relative to the current *Post-Hall* projection.
- The PBI to COLA change would also result in an immediate improvement in the funded ratio as measured by GRS (PSPRS' consulting plan actuary).

Long-Term Cost Neutrality:

- In the long run, the proposed reform is essentially cost neutral on a normal cost basis, according to actuarial modeling by both GRS and Reason Foundation.
- By shifting most new CORP hires into a defined contribution plan, the proposed reform would **establish budget predictability** for employers and employees while **nearly eliminating all financial risk to taxpayers** over time.

RISK REDUCTION FOR EMPLOYERS & TAXPAYERS

- The proposed reform would reduce risks over time by shifting the majority (90%) of CORP to a defined contribution plan.
 - By definition, there is **no possibility of new unfunded liabilities in a defined contribution plan**.
 - The reform would reduce the growth in accrued liabilities (total pension promises) by 67% by 2047 and then eventually level-off.
- The primary value of the reform from a solvency perspective is that it creates a long-term path to a scenario where CORP does not carry significant financial risks.
 - The reform **practically eliminates the potential for new unfunded liabilities to accrue for the next generation of workers** (since 90% of the plan would be DC).
- The proposed reform does not reduce the amount of pension benefits already promised — all of those still need to be paid and are exposed to underfunding, particularly if the PSPRS/CORP board does not make substantial changes to key actuarial assumptions.
 - With fewer liabilities exposed to underperforming asset risk, **total unfunded liability payments would be less under the proposed reform in an underperforming scenario** than under the baseline.

BENEFIT IMPROVEMENTS FOR EMPLOYEES

- About 80% of correctional officers leave their job prior to the current 10-year pension vesting period, forfeiting the employer portion of their pension contributions.
 - Employees only get back their own pension contributions, with some interest.
 - Under the proposed reform, after three years employees will get to **keep 100% of both their own pension contributions and their employer's contributions.**
- The proposed reform creates a **portable benefit**, allowing newly hired employees to move their pension benefits anywhere (unlike the current pension plan).
- The reform creates **more beneficiary choices** for new employees.
 - Retirement benefits under reform could be passed on to any beneficiary.
 - Today, only spouses or minor children are entitled to a portion of the employee's pension.
- Adopting a defined contribution plan for new hires helps current employees and retirees in the existing CORP pension plan by **capping liabilities and improving the plan's solvency.**

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