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Study: Arizona pensions should offer 401(k)

By Craig Harris
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Lawmakers should consider creating an optional 401(k)-style retirement plan and raising the retirement age for future public employees if Arizona is interested in changing its financially ailing public-pension system.

A 13-member pension-study committee led by state Treasurer Doug Ducey made that recommendation and others Thursday at the Capitol. It also recommended amending the law to prevent public employees from spiking their pensions.

State Sen. Steve Yarbrough, R-Chandler, a committee member who previously pushed through pension-reform legislation, said he would seek to implement some of the report's recommendations.

Ducey in an interview said the non-binding proposals, if enacted by the Legislature and Gov. Jan. Brewer, would protect public pensions for current employees and provide long-term financial security for Arizona public-pension trusts.

A handful of retirees spoke against the proposal, saying that the current system is financially stable and that changes to the system would make it difficult to recruit new employees into the public sector.

The 2011 Legislature ordered Ducey's office to study Arizona's four public-pension plans and determine whether it is feasible to change the way public retirements are operated and funded. Lawmakers that year also adopted a series of changes that affected the retirements of government employees, teachers, police officers, firefighters and corrections employees.

The legislation came after *The Arizona Republic* in November 2010 detailed how the cost to taxpayers for the state's four pension systems and those in Phoenix and Tucson had skyrocketed in the past decade. The series also detailed how some employees were taking advantage of loopholes to significantly enhance their pensions. The committee did not examine the municipal plans.

The committee recommended:

That mandatory changes to Arizona's public-pension systems apply only to new employees, not current workers who are protected by contract law. It said public employers should keep making payments toward the pension liabilities for current employees.

Adopting an optional defined-contribution plan, similar to a 401(k) but with more financial guarantees, for new employees — or current employees if they voluntarily enroll.

Establishing retirement ages for non-public-safety employees to match that of the U.S. Social Security system, which would require public employees to work longer.

Basing the calculation of retirement benefits only on base-salary compensation. That would prohibit inclusion of off-duty work or lump-sum payouts for remaining vacation and sick time at termination when making those calculations. This would prevent pensions from being spiked.

Ducey's committee noted that the four state plans had unfunded liabilities of up to $39.6 billion, and the number of retired members in each of the systems is growing faster than the number of new workers entering the systems. The pension plan for elected officials has more retirees (992) than active members (845) paying into the system. When this occurs, more public money is needed to prop up the pension plans.

The committee report noted that 10 years ago taxpayers were contributing $131 million to the four plans, compared to $782 million in 2011. Financial-market downturns in 2000 and 2008 also contributed to additional public funding.

The four plans are the Arizona State Retirement System, Corrections Officer Retirement Plan, Elected Officials' Retirement Plan and the Public Safety Personnel Retirement System. Collectively, they cover more than 581,000 employees, retirees or former employees who have yet to retire, according to the report.

The main objective of the study was to determine if it is financially feasible to move the state's pension systems from defined-benefit plans to defined-contribution plans, which are popular with private employers.

The former pays a retiree a lifetime pension based on a formula that includes the highest average wage at the end of a career, years of service and a benefit "multiplier." A defined-contribution plan is like a 401(k), in which employees and possibly employers invest money into a retirement savings plan that grows based on investments.

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