



# The Widening Gap Update

# ARIZONA

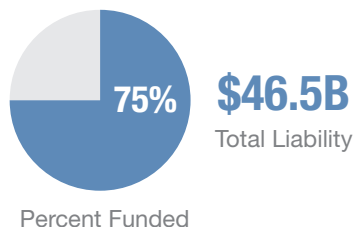
Although Arizona consistently paid, or exceeded, its full annual pension contribution from 2005 to 2010, the system was 75 percent funded in fiscal year 2010 and faced a \$12 billion funding gap. Most experts agree that a fiscally sustainable system should be at least 80 percent funded. The state also had a \$713 million bill for retiree health care costs, 69 percent of which was funded, well above the 8 percent national average in 2010.

Arizona lawmakers approved pension cuts in 2010 and 2011, including raising employee contributions, lowering state contributions, and limiting cost-of-living increases. But a district court judge said in 2012 that the higher contributions were unconstitutional, leaving their status in doubt.

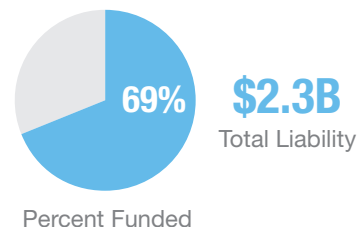
## TOTAL BILL COMING DUE

Arizona's retirement plans had a liability of \$48.8 billion and the state has fallen \$12 billion short in setting aside money to pay for it.

### Pensions



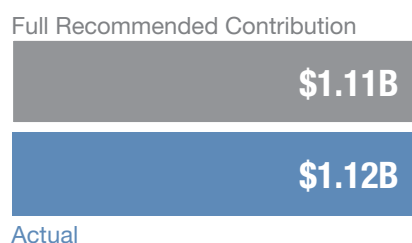
### Retiree Health Care



## ANNUAL RECOMMENDED CONTRIBUTION

In 2010, Arizona paid 101 percent of the recommended contribution to its pension plans and 100 percent of what the state should have paid to fund retiree health benefits.

### Pensions



### Retiree Health Care



## HOW DID THIS STATE FARE?

Arizona's management of its long-term liabilities for pensions was cause for **serious concern** but the state was a **solid performer** in managing its retiree health care bill.

### Pensions



### Retiree Health Care



The grades for pensions and retiree health benefits assess how well the states have managed these liabilities. The pension grade is based on being above 80 percent funded (2 points), having an unfunded liability that is less than the payroll for active members (1 point), and paying at least 90 percent of the recommended pension contribution over the last five years (1 point). Plans that got all four points were solid performers, plans with two or three needed improvement, and plans with one or no points were cause for serious concern. Grades for retiree health benefits were based on whether the state's benefits had a funding level above the national average (1 point), whether 90 percent of the recommended contribution was made in the most recent year (1 point), and whether the state's plans were better funded based on the most recent data than they were in the prior year (1 point). States with two or three points were solid performers, those with just one point needed improvement, and states with no points were cause for serious concern. This fact sheet stems from a 50-state analysis of states' retiree benefit obligations by the Pew Center on the States. The full report and 50 state fact sheets can be found at [www.pewstates.org](http://www.pewstates.org).