

# How Does Arizona's Public Employee Retirement System Perform?





Four key practices can put state's pensions on the path to long-term success

## Overview

Arizona's public retirement system, like those in all states and localities, aims to balance providing plans that support government workforce objectives and ensuring that the cost of benefits is stable and sustainable over the long term, all while putting workers on a pathway to retirement security.

To help states identify whether they are on a solid path and provide a roadmap for improvement, The Pew Charitable Trusts developed its "model retirement framework," which articulates four key practices common to the nation's most successful systems: provide a path to retirement security, set and meet sustainable cost targets, plan for and manage risk, and ensure that policies are transparent and communicated to stakeholders.

Additionally, the framework outlines metrics for evaluating progress toward adoption of those practices. This fact sheet, which looks at Arizona, is part of a 50-state series in which Pew applies the metrics to each state's retirement systems to provide a benchmark from which to measure progress.

 <b>Fiscal sustainability</b>	 <b>Retirement security</b>	 <b>Planning for uncertainty</b>	 <b>Investment transparency</b>
 Positive or stable net amortization <b>Yes</b>	 Replacement income ratio of at least 90% <b>Yes</b>	 Risk reporting <b>Yes</b>	 Disclosures report returns net of fees <b>Yes</b>
 Operating cash flow above -5% <b>Yes</b>	 Savings rate of at least 10% for workers who are eligible for Social Security; 18% for workers who are not <b>Yes</b>	 Normal cost sensitivity <b>Mid</b>	 Investment policy statement publicly available <b>Yes</b>
 Historical contribution volatility within plus or minus 3% of payroll <b>No</b>			

Notes: Pew's metrics cover about 90% of public retirement assets nationally and were applied to all 50 states. They are not, however, inclusive of every system. For more information and methodology, see <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2024/08/successful-retirement-systems-offer-a-roadmap-for-other-states>.

## About the metrics

### Fiscal sustainability: Do funding policies yield predictable and affordable costs?

- Net amortization—the amount of money needed to pay for new benefits earned by current employees in a given year and to cover interest on the plan’s debt at the start of the same year—should be positive or stable, indicating that contributions were sufficient to keep pension debt from growing.
- The operating cash flow ratio—the amount by which benefit payments exceed contributions as a share of plan assets—should be above -5% to avoid insolvency risk.
- Historical contribution volatility—the difference between highest and lowest employer contributions from 2008 to 2022—should be within plus or minus 3% of payroll, meaning that costs are relatively stable.

### Retirement security: Do benefits put workers on a secure path?

- The replacement income ratio—the share of workers’ preretirement take-home pay replaced by retirement benefit—should be at least 90%. This metric assesses how much income career workers can expect in retirement.
- The savings rate—the share of their annual salary that workers who leave a public job can take with them—should be at least 10% for workers who are eligible for Social Security and at least 18% for those who are not. This metric helps capture how financially prepared people who leave public employment early- or midcareer will be for retirement.

### Risk management: Does the system employ policies to plan for economic and demographic uncertainty?

- Stress-testing tools should be used to regularly assess the effects of investment risk on plan balance sheets and government budgets—and results should be publicly reported.
- Normal cost sensitivity—expected volatility of employer costs for future benefits under a low return scenario—should be kept low through the use of risk-sharing features.

### Transparency: Are benefits, funding, and investment policies, including their implementation and performance, clear to all stakeholders?

- Fee disclosures should reflect investment returns “net of fees”—that is, adjusted to account for fees paid to investment managers.
- Investment policy statements—which outline objectives, risk parameters, and asset allocations—should be publicly available online.

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## The Pew Charitable Trusts

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