ATRA SUPPORTS SB1609

Pension Reform Crucial for Long-term Sustainability

Background:
The Arizona Tax Research Association (ATRA) has been involved in policy debates regarding Arizona defined benefit retirement systems for decades. As the generous benefit plans reflect, more often than not ATRA was on the losing side when it cautioned against repeated enhancements to benefits. The reason? Taxpayers have always been at an extraordinary disadvantage in the political shell game that characterizes public pension policy debates.

Certainly, valid arguments can be made for using a defined benefit retirement program for large groups of government employees. Properly designed and managed, they can be an effective recruitment tool for public service. However, considering the staggering levels of unfunded liability and the skyrocketing costs to taxpayers, it is clear these systems have not been properly managed by policymakers.

Basis for Support:
ATRA does not oppose defined benefit retirement programs. However, the benefit levels for some of the plans are unsustainable without major changes. Failure to address this will clearly result in reductions in service levels for education, health care, and public safety or worse; significant tax increases. Moreover, the public's confidence in these retirement programs has been significantly undermined by a litany of abuses.

As ATRA reported in the February 2011 *ATRA Newsletter*, state and local employer contributions to public retirement programs in Arizona climbed 140% between 2004 and 2010. The largest increase during that time period was in the Public Safety Personnel Retirement System (PSPRS), where employer contributions skyrocketed 281%. Sadly, the strongest opposition to SB1609 is coming from the members and retirees of the system (PSPRS) in most need of reform.

Opponents to SB1609 argue that the bill makes changes to benefits that are vested rights and that the bill violates the Arizona Constitution. However, ATRA believes that the prospective application of the key features of the bill puts the state in a good position to survive a legal challenge. In addition, opponents argue that poor market performance is the primary cause for the unfunded liability and that future market growth will eliminate the unfunded liabilities. There is simply no valid actuarial analysis that suggests that unfunded liabilities will decline in the foreseeable future without changes to the benefit structure. In fact, actuarial estimates for PSPRS advise that, if lawmakers take the opponents advice and do nothing, the current average employer contribution rate of 21.3% will climb to 41.1% by 2025.

ATRA Strongly Encourages Your Support of SB1609.

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