

NOTICES OF PROPOSED RULEMAKING

Unless exempted by A.R.S. § 41-1005, each agency shall begin the rulemaking process by first submitting to the Secretary of State's Office a Notice of Rulemaking Docket Opening followed by a Notice of Proposed Rulemaking that contains the preamble and the full text of the rules. The Secretary of State's Office publishes each Notice in the next available issue of the *Register* according to the schedule of deadlines for *Register* publication. Under the Administrative Procedure Act (A.R.S. § 41-1001 et seq.), an agency must allow at least 30 days to elapse after the publication of the Notice of Proposed Rulemaking in the *Register* before beginning any proceedings for making, amending, or repealing any rule. (A.R.S. §§ 41-1013 and 41-1022)

NOTICE OF PROPOSED RULEMAKING

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

[R07-216]

PREAMBLE

- 1. Sections Affected**
R2-8-202
- Rulemaking Action**
Amend
- 2. The specific authority for the rulemaking, including both the authorizing statute (general) and the statutes the rules are implementing (specific):**
Authorizing statute: A.R.S. § 38-714(F)(5)
Implementing statute: Arizona Session Laws 1995, Chapter 32, Section 24, as amended by Arizona Session Laws 1999, Chapter 66, Section 1
- 3. A list of all previous notices appearing in the Register addressing the proposed rule:**
Notice of Rulemaking Docket Opening: 13 A.A.R. 2449, July 6, 2007 (*in this issue*)
- 4. The name and address of agency personnel with whom persons may communicate regarding the rule:**
Name: Susanne Dobel, Manager, External Affairs
Address: State Retirement System Board
3300 N. Central, 14th Fl.
Phoenix, AZ 85012
Telephone: (602) 240-2039
Fax: (602) 240-5303
E-mail: SusanneD@azasrs.gov
or
Name: Patrick Klein
Address: State Retirement System Board
3300 N. Central, 14th Fl.
Phoenix, AZ 85012
Telephone: (602) 240-2044
Fax: (602) 246-5303
E-mail: PatK@azasrs.gov
- 5. An explanation of the rule, including the agency's reasons for initiating the rule:**
R2-8-202 and its table constitute the Board's direction to the Actuary, the professional organization contracted by the Arizona State Retirement System (ASRS) under A.R.S. § 38-714(H) (2) and (3), to perform the actuarial analysis of the ASRS defined contribution plan (the "System") for financial reporting purposes and for determining the appropriateness of the current annuity amounts. The Actuary must use the mortality table and interest assumption to calculate the present value of future benefits payable from the System and to determine the funded status of the System. R2-8-202 will be amended to change the methodology of valuation of liabilities and calculation of benefits.

Notices of Proposed Rulemaking

6. A reference to any study that the agency proposes to rely on in its evaluation of or justification for the proposed rule and where the public may obtain or review the study, all data underlying each study, any analysis of the study and other supporting material:

2005 Actuarial Valuation Report, November 23, 2005, and 2006 Actuarial Valuation Report, October 20, 2006, both issued by the actuarial firm, Buck Consultants, LLC. The public may obtain a copy of the reports from the individuals listed in item 9.

7. A showing of good cause why the rule is necessary to promote a statewide interest if the rule will diminish a previous grant authority of a political subdivision of this state:

Not applicable

8. The preliminary summary of the economic, small business, and consumer impact:

The proposed rule change will have no economic impact on the group of ASRS defined contribution system members as a whole. Rather, it will potentially limit increases in monthly benefits in the short term in order to prevent significant decreases in benefits in the long term. Ultimately the total amount of benefits paid will remain the same. If the Board continues to use the current mortality table in valuating the System's liabilities and calculating new retirees' benefits, members will likely live longer than the mortality table projects. As a result the System may incur unrecognized losses in the short term and pay out greater benefits than it should. This would lead to retirees being subject to potentially significant benefit reductions in the future when the members outlive their projected mortality under the current table and the true liabilities are finally recognized. Simply put, paying out too much in benefits today will result in reduction of benefits tomorrow.

Both retired and non-retired members of the System and their named beneficiaries will benefit from this rule in that their annuity amounts will be less subject to future reductions arising from improved longevity. However, initial monthly benefits will be less using the generational mortality table, than under the current mortality table. For example, the table below shows the initial monthly annuity amounts, under both the current and new mortality table for 2008, for System members retiring at ages 60 or 65, each with total balances of \$200,000:

Retirement Age	Initial Monthly Annuity		% Reduction
	Current Table	New Table For 2008	
60	\$1,607.84	\$1,581.46	1.64%
65	\$1,747.68	\$1,716.34	1.79%

9. The name and address of agency personnel with whom persons may communicate regarding the accuracy of the economic, small business, and consumer impact statement:

Name: Susanne Dobel, Manager, External Affairs

Address: State Retirement System Board
3300 N. Central, 14th Fl.
Phoenix, AZ 85012

Telephone: (602) 240-2039

Fax: (602) 240-5303

E-mail: SusanneD@azasrs.gov

or

Name: Patrick Klein

Address: State Retirement System Board
3300 N. Central, 14th Fl.
Phoenix, AZ 85012

Telephone: (602) 240-2044

Fax: (602) 246-5303

E-mail: PatK@azasrs.gov

10. The time, place, and nature of the proceedings for the adoption, amendment, or repeal of the rule or, if no proceeding is scheduled, where, when, and how persons may request an oral proceeding on the proposed rule:

The ASRS has scheduled an oral proceeding on the proposed rulemaking:

Date: August 20, 2007

Notices of Proposed Rulemaking

Location: 3300 N. Central, Board Room, 10th Floor
Phoenix, AZ 85012

Time: 2:00 p.m.

The close of record is 5:00 p.m., August 20, 2007.

A person may also submit written comments on the proposed rules no later than 5:00 p.m., August 20, 2007 to the individuals listed in questions 4 and 9.

11. Any other matters prescribed by statute that are applicable to the specific agency or to any specific rule or class of rules:

Not applicable

12. Incorporation by reference and their location in the rules:

Not applicable

13. The full text of the rule follows:

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

ARTICLE 2. STATE RETIREMENT DEFINED CONTRIBUTION PROGRAM

Section

R2-8-202. Actuarial Assumptions

ARTICLE 2. STATE RETIREMENT DEFINED CONTRIBUTION PROGRAM

R2-8-202. Actuarial Assumptions

The following actuarial assumptions apply to this Article:

1. The interest and investment yield rate is 8% per annum, compounded annually; ~~and~~
2. ~~Mortality rates are based on the 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/50% Female as provided in Table 1. The mortality table used for benefit determination purposes is the generational table based on the 1994 Group Annuity Reserving Table projected with Scale AA Unisex 50% Male/50% Female, the construction of which is described in subsection (3) below. For valuation purposes, these mortality rates are reduced for members with annual incomes from the System in excess of \$14,400, as described in subsection (4) below.~~
3. The 1994 Group Annuity Reserving Table and projection scale AA are published in the Transactions of the Society of Actuaries, Volume 47, Table 1, pages 866 and 867. This publication can be viewed at the Phoenix office of the ASRS during regular business hours, 3300 N. Central Ave., Phoenix, AZ 85012. The rates in this table are sex-distinct. The ASRS Table converts them to sex-neutral rates by adding 50% of the rate for males and 50% of the rate for females at each age. The ASRS mortality rate for benefit determination purposes for a member age x in year y is the unisex rate of the published table for age x, projected to year y by the unisex projection scale AA.
4. ~~For valuation purposes, the mortality rates are the same as those determined in subsection (3) above, except that they are reduced for members with annual annuities in excess of \$14,400. The reduction factors are: 80% for member ages 0 to 75 and 86% for member ages above 75.~~

Table 1. ~~1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female~~

Age	Probability of Death	Age	Probability of Death	Age	Probability of Death
1	0.000450	41	0.000849	81	0.051402
2	0.000299	42	0.000910	82	0.057321
3	0.000236	43	0.000970	83	0.063155
4	0.000181	44	0.001029	84	0.069697
5	0.000165	45	0.001091	85	0.076704
6	0.000156	46	0.001165	86	0.084615
7	0.000148	47	0.001259	87	0.094330
8	0.000135	48	0.001374	88	0.104971

Arizona Administrative Register / Secretary of State

Notices of Proposed Rulemaking

9	0.000130	49	0.001499	89	0.116582
10	0.000131	50	0.001647	90	0.129410
11	0.000139	51	0.001819	91	0.142306
12	0.000150	52	0.002029	92	0.156856
13	0.000168	53	0.002270	93	0.172239
14	0.000198	54	0.002526	94	0.187824
15	0.000230	55	0.002842	95	0.205337
16	0.000261	56	0.003226	96	0.222079
17	0.000286	57	0.003692	97	0.240105
18	0.000303	58	0.004227	98	0.258633
19	0.000315	59	0.004797	99	0.275951
20	0.000324	60	0.005440	100	0.293584
21	0.000335	61	0.006215	101	0.315045
22	0.000350	62	0.007056	102	0.333712
23	0.000372	63	0.008071	103	0.353524
24	0.000393	64	0.009147	104	0.374436
25	0.000421	65	0.010310	105	0.395411
26	0.000454	66	0.011618	106	0.415408
27	0.000476	67	0.012902	107	0.433391
28	0.000494	68	0.014069	108	0.450956
29	0.000514	69	0.015317	109	0.468810
30	0.000536	70	0.016544	110	0.484535
31	0.000559	71	0.017986	111	0.495733
32	0.000579	72	0.019784	112	0.500000
33	0.000592	73	0.021701	113	0.500000
34	0.000603	74	0.023851	114	0.500000
35	0.000614	75	0.026316	115	0.500000
36	0.000632	76	0.029086	116	0.500000
37	0.000660	77	0.032686	117	0.500000
38	0.000696	78	0.036667	118	0.500000
39	0.000738	79	0.041097	119	0.500000
40	0.000791	80	0.046001	120	1.000000