

NOTICES OF EMERGENCY RULEMAKING

Under the Administrative Procedure Act, an agency may determine that adoption, amendment, or repeal of a rule is necessary for immediate preservation of the public health, safety, or welfare and the notice and public participation requirements are impracticable. Under this determination, the agency may adopt the rule as an emergency and submit it to the Attorney General for review. The Attorney General approves the rule and then files it with the Secretary of State. The rule remains in effect for 180 days. An emergency rule may be renewed for one 180-day period if the requirements of A.R.S. § 41-1026 are met. If the emergency rule is not renewed or the rule is not permanently adopted by the end of the 180-day period, the emergency rule expires and the text of the rule returns to its former language, if any.

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Editor's Note: This emergency rulemaking, effective September 30, 2004, was in effect for five days, after which time the permanent rule was approved by G.R.R.C. The permanent rule was filed with the Office of the Secretary of State on October 5, 2004, and carries an immediate effective date. The Notice of Final Rulemaking will be published in the October 29, 2004, issue of the Register.

TITLE 2. ADMINISTRATION

CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

PREAMBLE

- 1. Sections Affected** **Rulemaking Action**
R2-8-202 Amend
- 2. The statutory authority for the rulemaking, including both the authorizing statute (general) and the statute the rules are implementing (specific):**
Authorizing statute: A.R.S. § 38-714(F)(5)
Implementing statutes: Arizona Session Laws 1995, Chapter 32, Section 24, as amended by Arizona Session Laws 1999, Chapter 66, Section 1
- 3. The effective date of the rules:**
September 30, 2004

The Arizona State Retirement System (ASRS) requests that this rule becomes effective upon filing with the Secretary of State. This immediate effective date is allowed under A.R.S. § 41-1032(A)(4), which allows a rule to become effective immediately when the rule provides a benefit to the public and a penalty is not associated with a violation of the rule. It benefits the public, and in particular System members, to have this amended rule in place so that they are aware of the change in the mortality table, which will affect the funded status for fiscal year 2004. Additionally, the ASRS actuary is required to do an actuarial evaluation for each fiscal year in order to make recommendations to the ASRS Board regarding adjustments to System member's benefits. If the new mortality table is not in place for the 2004 fiscal year evaluation, liabilities may be understated, and may thus create further liabilities to the System's funded status. This rule does not impose any additional requirements upon the public, and there is no penalty associated with the violation of the rule.
- 4. Is this rulemaking a renewal of a previous emergency rulemaking?**
No
- 5. The name and address of agency personnel with whom persons may communicate regarding the rulemaking:**
Name: Nancy Johnson, Rules Coordinator
Address: State Retirement System
Office of External Affairs
3300 N. Central Ave., Suite 1400
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Telephone: (602) 308-5172
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E-mail: NancyJ@asrs.state.az.us

Notices of Emergency Rulemaking

or

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 E-mail: SusanneD@asrs.state.az.us

6. 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 ASRS 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.

In January, 2004 the Board's actuary provided the board with the 2003 actuarial valuation report for the defined contribution program (the System). The report recommended that ASRS update the mortality table for the System to use the 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female.

At the May 21, 2004 Board meeting, the ASRS Board approved a new mortality table (1994 GAM Static Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female) for defined contribution (System) members. R2-8-202 needs to be amended to remove the old mortality table and add the new mortality table.

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

Not applicable

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

If the new mortality table had been used in the valuation of the System as of June 30, 2003, the funded status would have been 97.77% instead of 100.49%. When the funded status is between 95% and 105%, the board does not increase or decrease benefits.

If the board continued to use the old 1983 mortality table in valuing the System, members would tend to live longer than that mortality table projects. As a result, the System would incur losses and the funded status of the System would diminish. When the funded status declined to less than 95%, the board would be compelled to reduce benefits. By changing to the new mortality table, the board can avoid these future mortality losses and decrease the likelihood of future benefit reductions.

While 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, initial monthly benefits will be less using the new mortality table, than under the old mortality table. For example, the table below shows the initial monthly annuity amounts, under both the old and new mortality tables, for System members retiring at ages 60 or 65, each with a total balance of \$200,000:

Retirement Age	Initial Monthly Annuity		% Reduction
	Old Table	New Table	
60	\$1,650.51	\$1,612.10	2.3%
65	\$1,812.38	\$1,751.90	3.3%

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

Not applicable

10. Incorporations by reference and their location in the rules:

None

11. An explanation of the situation justifying the rule's adoption as an emergency rule:

Notices of Emergency Rulemaking

An Emergency Rulemaking is necessary because the ASRS actuary is required to do an actuarial evaluation for each fiscal year in order to make recommendations to the ASRS Board regarding adjustments to System member's benefits. If the new mortality table is not in place for the 2004 fiscal year evaluation, liabilities may be understated, and may thus create further liabilities to the System's funded status. The new mortality table must be in place by the end of the fiscal year so it can be used to calculate the present value of future benefits payable from the Fund. A regular rulemaking, even if instigated on the day the Board approved the new mortality table, would not become effective until after the end of the fiscal year.

12. The date of the Attorney General's approval of the emergency rule:
September 30, 2004

13. The full text of the rules 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 1983 Group Annuity Mortality Table, Unisex 50% male/50% female 1994 Group Annuity Mortality Static Table Projected to 2005 with Scale AA Unisex 50% Male/ 50% Female as provided in Table 1.

Table 1

~~1983 Group Annuity Mortality Table~~
~~Unisex 50% male / 50% female~~

Age	Mortality Rate
1	0.000000
2	0.000000
3	0.000000
4	0.000000
5	0.000257
6	0.000229
7	0.000210
8	0.000199
9	0.000195
10	0.000195
11	0.000201
12	0.000209
13	0.000216
14	0.000224
15	0.000233
16	0.000241
17	0.000251
18	0.000261
19	0.000272

20	0.000283
21	0.000297
22	0.000310
23	0.000325
24	0.000341
25	0.000359
26	0.000378
27	0.000398
28	0.000422
29	0.000446
30	0.000475
31	0.000505
32	0.000538
33	0.000574
34	0.000614
35	0.000668
36	0.000705
37	0.000751
38	0.000806
39	0.000873
40	0.000952
41	0.001043
42	0.001151
43	0.001278
44	0.001426
45	0.001597
46	0.001794
47	0.002014
48	0.002252
49	0.002509
50	0.002778
51	0.003059
52	0.003352
53	0.003659
54	0.003988
55	0.004336
56	0.004711
57	0.005121
58	0.005581
59	0.006103
60	0.006700
61	0.007383
62	0.008172
63	0.009080
64	0.010127
65	0.011328
66	0.012698
67	0.014242
68	0.015966
69	0.017869

70	0.019958
71	0.022241
72	0.024765
73	0.027581
74	0.030740
75	0.034295
76	0.038286
77	0.042715
78	0.047569
79	0.052837
80	0.058508
81	0.064570
82	0.071006
83	0.077798
84	0.084927
85	0.092377
86	0.100370
87	0.108870
88	0.118004
89	0.128107
90	0.139029
91	0.150645
92	0.163045
93	0.176292
94	0.191504
95	0.208253
96	0.225097
97	0.242999
98	0.262351
99	0.283670
100	0.307186
101	0.333156
102	0.361975
103	0.394472
104	0.432808
105	0.478674
106	0.533916
107	0.600414
108	0.680076
109	0.774845
110	1.000000
111	1.000000
112	1.000000
113	1.000000
114	1.000000
115	1.000000
116	1.000000
117	1.000000
118	1.000000
119	1.000000

120

1.000000

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

<u>Age</u>	<u>Probability of Death</u>	<u>Age</u>	<u>Probability of Death</u>	<u>Age</u>	<u>Probability of Death</u>
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
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

<u>40</u>	<u>0.000791</u>	<u>80</u>	<u>0.046001</u>	<u>120</u>	<u>1.000000</u>
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