

# Quickly Paying Down PSPRS Debt is a Win for Taxpayers



## Carrying Pension Debt is Expensive

- ❖ Arizona state government accounts for nearly \$1.1 billion (11%) of the current unfunded pension liabilities held by the Public Safety Personnel Retirement System (PSPRS)—including \$900 million in pension debt accrued by the Department of Public Safety (DPS).
- ❖ Unfunded pension liabilities accrue interest at the same rates as the PSPRS discount rate—currently 7.3% annually—making PSPRS unfunded liabilities among the most expensive taxpayer-backed debt held by the state, second only to ASRS debt which accrues interest at an even higher 7.5% rate annually.
- ❖ Major reforms to PSPRS enacted by the legislature since 2016, along with several prudent policy and assumption changes made by the PSPRS board of trustees, have dramatically reduced the system’s risk, prompting employers like Tucson, Flagstaff, Prescott, Globe and other jurisdictions to adopt various new funding tools designed to pay down their PSPRS debt faster, thus avoiding the high costs of pension debt accrual.

***Unfunded PSPRS and ASRS liabilities make those pension systems more costly, squeezing government budgets. Paying down pension debt as fast as possible avoids interest costs and saves taxpayers money.***

## Paying Down Pension Debt Faster is Prudent Fiscal Policy

- ❖ The negotiated 2021 budget includes a supplemental, one-time appropriation of \$300 million to pay down the state’s DPS unfunded liability.
- ❖ Paying down debt associated with promised, constitutionally protected pension benefits faster is a **time-tested way to save taxpayers long-term money by avoiding interest costs.**
- ❖ Actuarial modeling by the Pension Integrity Project at Reason Foundation finds that a \$300 million infusion into PSPRS to shore up DPS’s unfunded liabilities would:
  - Yield between **\$421 million - \$502 million in taxpayer savings** over the next 30 years, depending on investment performance.
  - Yield an **estimated annual savings between \$9-\$42 million** through 2050.

**Takeaway:** The budget’s proposed \$300 million “catch-up” payment for DPS unfunded liabilities would benefit taxpayers by reducing pension debt and yielding long-term savings.

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