Paying Down PSPRS Debt Faster Is a Win for Taxpayers

Carrying Pension Debt Is Expensive

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

- Arizona state government accounts for nearly $473 million (5%) of the current unfunded pension liabilities held by the Public Safety Personnel Retirement System (PSPRS)—including $431 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. For comparison, the Arizona State Retirement System (ASRS) accrues interest at a 7.0% 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 dozens of employers, like Tucson, Flagstaff, and Prescott, to adopt various new funding tools designed to pay down their PSPRS debt faster, thus avoiding the high costs of pension debt accrual.

Paying Down Pension Debt Faster Is Prudent

- The proposed supplemental, one-time appropriation would pay down unfunded liabilities for state agency employers participating in PSPRS.
- Paying down debt associated with promised, constitutionally protected pension benefits faster is a **time-tested way to save taxpayers money by avoiding interest costs.**
- Actuarial modeling by the Pension Integrity Project at Reason Foundation finds that Gov. Doug Ducey's proposed supplemental $611.3 million infusion into PSPRS would:
  - Yield between **$137 million and $322 million in taxpayer savings** over the next 30 years, depending on investment performance.
- A $1 billion infusion into PSPRS similar to that outlined in Senate Bill 1087 would:
  - Yield between **$240 million and $564 million in taxpayer savings** over the next 30 years, depending on investment performance.

Takeaway: The proposed "catch-up" payments for PSPRS' unfunded liabilities would benefit taxpayers by reducing pension debt and producing long-term cost savings.

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