



Arizona State Senate *Issue Brief*

December 8, 2011

Note to Reader:

The Senate Research Staff provides nonpartisan, objective legislative research, policy analysis and related assistance to the members of the Arizona State Senate. The *Research Briefs* series, which includes the *Issue Brief*, *Background Brief* and *Issue Paper*, is intended to introduce a reader to various legislatively related issues and provide useful resources to assist the reader in learning more on a given topic. Because of frequent legislative and executive activity, topics may undergo frequent changes. Additionally, nothing in the *Brief* should be used to draw conclusions on the legality of an issue.

ARIZONA STATE EMPLOYEE RETIREMENT

ARIZONA STATE RETIREMENT SYSTEM

In 1953, the Arizona State Retirement System (ASRS) was created to provide retirement and other benefits for state employees, including university faculty and employees of the state's political subdivisions who signed a membership contract. Active teachers voted to join ASRS in 1954 and transferred to ASRS on January 1, 1955.

ASRS now encompasses the state, including the 3 state universities, all 10 community colleges, all 15 counties, most cities and towns, most school districts and other political subdivisions.

Effective July 1, 1971, the current ASRS defined benefit plan replaced the defined contribution plan. A "defined benefit plan" provides a fixed monthly benefit upon retirement, determined by a formula. The benefit formula is the employee's length of service under ASRS multiplied by a percentage of the average monthly amount of earnings or compensation.

**(Total Credited Service x Multiplier x Average Monthly
Compensation = Defined Benefit)**

ASRS is a cost sharing retirement plan, in this case the employee pays 53% and the employer pays 47% of the contribution (Laws 2011, Chapter 357), and the retirement contribution rate is set annually. ASRS Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

ASRS normal retirement is the earliest age at which a member is first eligible to receive a full retirement benefit as calculated by the ASRS benefit formula. A member reaches normal retirement at age 65, if the member is at least 62 years of age and has at least ten years of credited service, or when the member's age and years of credited service add up to 85.

Graded multiplier is the percentage set by the Legislature and used in the ASRS retirement benefit formula to determine member's monthly retirement annuity.

The graded multiplier begins at 2.1 percent for members with less than 15 years of service and increases as follows:

- 2.15 percent if the member has = 20 < 25 years of credited service.
- 2.20 percent if the member has = 25 < 30 years of credited service.
- 2.3 percent if the member has = 30+ years of credited service.

PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS)

PSPRS is a retirement system created by the Legislature in 1968 to provide a uniform, consistent and equitable statewide retirement program for certain public safety personnel and full-time firefighters who are regularly assigned to hazardous duty of the type expected of peace officers or firefighters.

PSPRS is a defined benefit plan. PSPRS Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

Laws 2011, Chapter 357 made several changes to PSPRS statutes:

- Normal retirement date: Currently 20 years of service or 62nd birthday and completion of 15 years of service. For an employee who becomes a member of the system on or after January 1, 2012, 25 years of service if the member is 52 ½ years of age.
- Deferred Retirement Option Plan (DROP): Retains DROP for only existing members of PSPRS as of January 1, 2012. Members with less than 20 years of service on January 1, 2012 who elect to participate in DROP are required to pay an alternate contribution rate (ACR) equal to the employer contribution rate. Changes the method in which interest is earned on the new DROP accounts.
- Average benefit compensation: Currently, the benefit is calculated based on the highest average of the three most recent years of a 20-year period. For members on or after

January 1, 2012, the calculation is changed to five of the last 20 years.

- Contribution rates: The current employee rate is 7.65%. Rates increase gradually based on the following: For FY 2012, 8.65%; FY 2013, 9.55%; FY 2014, 10.35%; FY 2015, 11.05%; FY 2016 and after, lower of 11.65% or 33.3% of the sum of the member's contribution rate from the preceding fiscal year and the aggregate computed employer contribution rate that is calculated, whichever is lower. Member's contribution rate shall not be less than 7% and employer's rate not less than 8%. Beginning in FY 2012, the amount of the member's contribution that exceeds 7.65% shall not be used to reduce the employer's contributions.
- Normal pension: Become a member on or after January 1, 2012 with 25 or more years of service, monthly amount equal to 62.5% of member's average monthly benefit compensation, not to exceed 80% of average monthly benefit (currently 20 years of credited service monthly amount equal to 50%). Varying percentages apply based on other than 25 years of credited service.

CORRECTIONS OFFICER RETIREMENT PLAN (CORP)

CORP is a defined benefit retirement plan created in 1986 for certain full-time state and county detention officers. CORP provides a uniform, consistent and equitable statewide retirement program to these correctional officers and is designed to meet the special needs of personnel engaged in the prison environment. Correctional officers employed by the Arizona Department of Corrections (ADC) or youth correctional officers employed by the Arizona Department of Juvenile Corrections (ADJC), and certain other designated positions within ADC or ADJC, and many county detention officers are members of CORP.

CORP Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan.

Laws 2011, Chapter 357 made several changes to CORP statutes:

- Normal retirement date: Members before January 1, 2012: 20 years of service or in the case of a dispatcher, 25 years of service or the employee's 62nd birthday and completion of 10 years of service or 80 points. Members on or after January 1, 2012: 25 years of service if employee is at least 52.5 years of age or employee's 62nd birthday and completion of 10 years of service.
- Average monthly salary: Member before January 1, 2012, 36 of 120 months; member on or after January 1, 2012, 60 of 120 months.
- Contribution rates: through June 30, 2011, 8.41% and 7.96% for dispatchers. Beginning FY 2012, lesser of 8.41% or 50% of the sum of member's contribution rate from preceding fiscal year and aggregate employer contribution rate (dispatcher rate either 45 basis points less or same as other CORP members depending on funding value of system). Member contribution rate shall not be less than 7.65% and employer not less than 5%. Beginning in FY 2012, the amount of the member's contribution that exceeds 8.41% or 7.96% shall not be used to reduce the employer's contributions.

ELECTED OFFICIALS' RETIREMENT PLAN (EORP)

EORP was established in 1985 to provide a uniform, consistent and equitable statewide program for eligible elected officials. Elected official means every elected official of this state, every elected official of each county of this state, every justice of the Supreme Court, every judge of the court of appeals, every judge of the superior court, every full-time superior court commissioner, the administrator of the EORP Fund if the administrator is a natural person and each elected official of an incorporated city or town whose employer has executed a proper joinder agreement for coverage of its elected officials. A state elected official who is subject

to term limits may elect not to participate for that specific term of office.

EORP Fund monies consist of member and employer contributions as well as investment income and monies and other assets generated by the operation of the retirement plan. The EORP Fund receives a percentage of monies collected from Supreme Court, court of appeals and superior court fees, as provided by statute. These monies are used to reduce the contributions required of state and county employers. This means that although EORP is an employer sharing plan, state and county employers pay a lower contribution than city and town employers.

Laws 2011, Chapter 357 made several changes to EORP statutes:

- Average yearly salary; from 3/10-year average (member before January 1, 2012) to 5/10-year average (member on or after January 1, 2012).
- Membership termination: An elected official who becomes a member of the plan on or after January 1, 2012 shall be paid the member's accumulated contributions plus interest (no employer contributions). An elected official who received a refund who is subsequently reemployed as an elected official who redeposits the amount withdrawn with interest or who redeems prior service is subject to the benefits and duties in effect at the time of the elected official's most recent reemployment.
- Contribution rates: Currently 7%. For FY 2012, 10%; FY 2013, 11.5%; FY 2014 and after, lower of 13% or 33.3% of the sum of the member's contribution rate from preceding fiscal year and the normal cost plus the actuarially determined amount to amortize the unfunded liability for the employer, whichever is lower. Member's contribution rate shall not be less than 7% and employer's contribution rate not less than 10%. Beginning in FY 2012, the amount of the member's contribution that exceeds 7% shall not be used to reduce the employer's contributions.

Permanent Benefit Increases (PBI)

The current PBI formula will be used for payouts until the account balance is depleted. Once that happens, the new PBI model will take effect. Under the new model, the retirement plan will have to be at least 60% funded and the rate of return will have to exceed 10.5% to trigger a PBI. The legislation requires the amount of monies available to fully fund the increase to be 100% of the earnings of the fund that exceed 10 ½% of the total return of the fund for the fiscal year ending June 30 of the calendar year preceding the July 1 of the increase. If that 100% is insufficient to fully fund the present value of the appropriate percentage increase, the increase is limited to that percentage that can be fully funded.

Forfeiture of Benefit on Felony Conviction

The legislation also requires a court to order forfeiture of all rights and benefits under a state retirement system if that person is convicted or pleads no contest to an offense that is a class 1 through 5 felony and that was committed in the course of the member's employment as a public official or for a public employer.

RETURN TO WORK

Laws 1970, Chapter 134, originally authorized return to work after retirement program for members of ASRS. Laws 2000, Chapter 132, established a pilot program that allowed retired teachers to return to work if they have attained normal retirement age, they have terminated employment at least one year before returning to work, their employment is not subject to dismissal due process protections and they acknowledge in writing the terms and conditions of retired reemployment.

Laws 2001, Chapter 68, expanded the pilot return to work program initially established only for teachers to include all members of ASRS. ASRS members may choose between the temporary return to work program and the original return to work program, which allows retired members to return to work, provided that the member does not work 20 or more hours a week.

Currently, any retired member of ASRS can return to work and still be eligible to receive retirement benefits if all of the following requirements are satisfied:

- the retired member has attained the member's normal retirement age.
- the retired member terminated employment at least 12 months before returning to work.
- if the retired member returns to work as a teacher, the retired member must work as a certificated teacher.
- if the member returns to work as a teacher, the retired member's employment is not subject to the requirements prescribed regarding permanent employment.

Laws 2006, Chapter 241, allows members of CORP, who retired prior to January 1, 2006, to be reemployed by a CORP-participating employer and continue to receive pension benefits. Reemployment must occur at least 90 days after retirement and is required to involve substantial direct inmate contact.

Laws 2011, Chapter 357 requires an employer to pay an alternative contribution rate (ACR) for a retired member who returns to work in any capacity in a position ordinarily filled by a retired member. The ACR is set at the portion of the total required contribution that is applied to the amortization of the unfunded actuarial accrued liability, based on actuarial calculations of the total required contribution for the preceding fiscal year.

ADDITIONAL RESOURCES

- Arizona State Retirement System
3300 N. Central
Phoenix, AZ 85012
602-240-2000
520-239-3100
1-800-621-3778
www.asrs.state.az.us
- PSPRS/CORP/EORP
3010 E. Camelback Rd.
Suite 200
Phoenix, AZ 85016
602-255-5575
www.psprs.com