

ARIZONA HOUSE OF REPRESENTATIVES  
Fifty-first Legislature – First Regular Session

**COMMITTEE ON INSURANCE AND RETIREMENT**

Minutes of Meeting  
Tuesday, January 15, 2013  
House Hearing Room 3 -- 2:00 p.m.

Chairman Lovas called the meeting to order at 2:04 p.m. and the secretary called the roll.

**Members Present**

Mr. Livingston  
Ms. McCune Davis  
Mr. Mendez

Mr. Robson  
Ms. Steele  
Ms. Townsend

Mr. Allen, Vice-Chairman  
Mr. Lovas, Chairman

**Members Absent**

None

Chairman Lovas welcomed everyone to the Committee on Insurance and Retirement. He commented that the work this Committee will do is not the most high profile in the House but is very important and will cover topics that touch the lives of everyone in the state. Workers' compensation, public pension plans and insurance issues have a profound effect on this state and its citizens. He stated that his goal is that everyone will be heard and that everyone will seek to do what is in the best interest of the State of Arizona.

**INTRODUCTION OF MEMBERS AND STAFF**

Members introduced themselves.

Chairman Lovas asked staff to introduce themselves:

Joanne Bell, Committee Secretary  
Jazmine Snipes, Page  
Carissa Cortez, Page  
Lourdes Peña, Policy Advisor, Democratic Staff  
Melissa Rose, Intern, Democratic Staff  
Chloe Love, Majority Intern  
Jeanine Jones, Majority Research Analyst

**ADOPT COMMITTEE RULES**

Jeanine Jones, Majority Research Analyst, noted that Rule 7 of the Rules on the Committee of Insurance and Retirement states that the amendment deadline will be 2:00 p.m. of the day before

the Committee meets, and that non-substantive verbal amendments may be offered during Committee meetings without prior distribution (Attachment 1).

**Vice-Chairman Allen moved that the Committee on Insurance and Retirement adopt the Committee Rules as printed and distributed (Attachment 1). The motion carried.**

Chairman Lovas stated that in accordance with House Rule 9C, the Rules will be filed with the Office of the Chief Clerk.

### **APPOINT COMMITTEE OF REFERENCE**

Jeanine Jones, Majority Research Analyst, explained that the Committee of Reference is a Subcommittee that acts as a proxy for the standing Committee, meeting during the Interim. It is made up of five Members from the House and five Members from the Senate. No more than three Members from any particular political party may be appointed from each body and they are limited in power to making recommendations only.

Chairman Lovas appointed the following Members to the Committee of Reference:

Representative Allen, Chairman  
Representative Livingston  
Representative McCune Davis  
Representative Mendez  
Representative Townsend

### **PRESENTATIONS**

Jim Hacking, Director, Public Safety Personnel Retirement System (PSPRS), advised that PSPRS is the agency that manages three of the four state pension funds: Public Safety Personnel Retirement System (PSPRS), Corrections Officer Retirement Plan (CORP) and Elected Officials' Retirement Plan (EORP). PSPRS covers firefighters and police officers, CORP covers correction facility personnel and EORP covers elected officials and judges in the state. He gave a powerpoint presentation on the Fiscal Year 2012 Financial Report Summary (Attachment 2) and distributed a report on PSPRS and CORP Annual Actuarial Rates and Funding Levels by Individual Employer for FY 2013 (Attachment 3).

He called attention to the following pages (Attachment 2), explained the data depicted in the charts and answered Members' questions:

- Page 12 - Total Fund vs. Benchmark (as of June 30, 2012)
- Page 13 - Funding Levels
- Page 14 - PSPRS - Aggregate Employer Rates
- Page 15 - CORP - Aggregate Employer Rates
- Page 16 - EORP - Employer Rates
- Page 10 - Total Fund Rates of Return FY'13 (gross of fees)

Mr. Hacking stated that in 2011, the Legislature enacted a major pension reform bill which contained the following: changed the cost-of-living adjustment (COLA) mechanism for the plans, increased member contribution rates for the PSPRS and EORP plans and provided less generous tier benefits for new hires. Prior to the pension reform bill, any time the plans generated a rate of return in excess of nine percent, one half of the return over nine percent was diverted to a reserve. Those reserve assets were drawn upon to fund annual post-retirement benefits on a present value basis. Legislation addressed this issue by stipulating that there would be no new inflow of assets to the reserve. It also put in place an adjustment mechanism that will allow assets in the reserve to fund further increases in member benefits.

He advised that the COLA changes in the legislation affected member rate increases and this is being challenged in the courts. There are four lawsuits pending:

- Lawsuit filed on behalf of all the judges who were retired at the time the pension reform bill became effective on July 20, 2011.
- Lawsuit filed on behalf of the judges who were active contributors to the system on that date.
- Lawsuit filed on behalf of police officers who were retired on that date.
- Lawsuit challenging changes in COLA and member rate increases for police officers in the PSPRS plan.

Vice-Chairman Allen asked whether that is viewed as a change in defined benefits as defined in the Constitution. Mr. Hacking replied that the challenges are based on constitutional arguments because Article XXIX of the Arizona Constitution states that pension benefits are a matter of contractual right and they cannot be diminished or impaired.

Mr. Hacking related that the Maricopa County Superior Court ruled in favor of the retired judges on the basis of constitutionality. Since that decision, the Board of Trustees for the plans, as the named defendant in the lawsuits, filed a motion with the Arizona Supreme Court to take jurisdiction of all of the lawsuits.

Mr. Hacking called attention to pages 22 and 23 of Attachment 2 which shows projection results, taking into consideration the effects of the pension reform legislation. He noted that the legislation improved the overall picture; however, if the constitutional challenges are successful, additional major increases will have to be made to contribution requirements.

In conclusion, Mr. Hacking reviewed the vesting statutes on page 25 (Attachment 2). He said the information on this page summarizes what can happen if the litigation is successful. If the Supreme Court decides in favor of the litigants, the legislative changes may have to be reversed.

Vice-Chairman Allen asked whether there would be penalties and interest on that. Mr. Hacking answered in the affirmative.

Mr. Hacking invited Members to visit PSPRS' website which contains a great deal of information: [www.PSPRS.com](http://www.PSPRS.com).

Lesli Sorensen, Government Relations Officer, Arizona State Retirement System (ASRS), gave a slide presentation on the Arizona State Retirement System (Attachment 4). She reviewed background information, presented ASRS statistics and noted that the system has a nine-member board appointed by the Governor and confirmed by the Senate. Membership consists of state, county, municipality, school district, university, community college and special district employees. She reviewed each of ASRS' five programs and offered to provide additional information to Members who have any questions in the future:

- Defined Benefit Pension Plan
- Health Insurance Program and Supplement
- Hybrid Retirement Plan System
- Long Term Disability Program
- Supplemental Savings Plans

In response to Mr. Livingston's question, Ms. Sorensen answered there is the ability for those vested in the plan to transfer their own funds, plus interest, to an Individual Retirement Account (IRA) or other tax-qualified plan. They can take 25 percent of employer contributions if they have five years of service; thereafter, they can take 15 percent for each additional year of service up to ten years, at which point, they get 100 percent of the match.

Ms. Sorensen revealed that the ASRS does not have a fixed cost-of-living adjustment after retirement. There is no guarantee of any type of increase to benefits; however, the Legislature designed a program called the Permanent Benefit Increases (PBIs) which provides that when there are excess investment returns (over eight percent) in the trust fund in a ten-year period, half of the assets are put into a special account to fund the PBIs. No PBI payments have been paid to retirees since July 1, 2005.

She reviewed the chart on slide 19 showing the cost impact. Cost saving activities implemented since 2003 have impacted the fund and forestalled the necessity for increased contributions.

Mr. Livingston noted that he does not see cost basis on any of the programs and asked whether that information can be provided to Members. Ms. Sorensen replied that she will follow up on that.

Ms. Sorensen reviewed Benefit Guarantee and Litigation (slide 37). She pointed out that the ASRS program is subject to Article XXIX of the Arizona Constitution which requires that the ASRS must utilize actuarial funding methods, be an independent trust and benefits shall not be diminished or impaired. In addition, benefits are subject to state and federal contract law. She advised that the Arizona Supreme Court decision of 1965, *Yeazell v. Copins*, held that benefits that exist on a person's first day of employment are what exist as their contract right.

She explained the structure, key issues, comparison and impact of Defined Benefit (DB) versus Defined Contribution (DC) Retirement Plans (slides 39 through 44) and advised that these will be issues of discussion this year.

The Funded Status Projections were discussed. She pointed out that eight percent was used in the projections. Mr. Livingston queried whether other percentages are available. Ms. Sorensen said they can be made available. She said ASRS generally projects at ten, eight and six percent.

Contribution Rates were reviewed. Currently, the contribution rate is 11.14 percent; it is expected that this rate will increase to 11.54 percent for the next fiscal year.

Ms. Sorensen called Members' attention to its ASRS 2013 legislative package (slide 70):

- Amortization Period
- Federal Conforming Changes
- Member Identity Security
- Spousal Consent Clarification
- Self-Insurance Authorization
- Long Term Disability Program Plan Design Changes
- Eliminate the Permanent Benefit Increase (PBI) for New Members
- Non-retired Survivor Benefits Redesign

In response to Vice-Chairman Allen's question about whether it would be helpful if there was a provision in statute to allow ASRS to adjust the eligibility retirement age as a rule, Ms. Sorensen said she has a concern about the legality of that. Vice-Chairman Allen said he would like to hear more about this because of changes in longevity. Ms. Sorensen said she will look into that.

Mr. Robson brought up the Internal Revenue Service issue referred to by Ms. Sorensen and said this will be an issue that Members will face. Ms. Sorensen explained that this refers to membership issues relating to hazardous duty and it is not certain which retirement system these individuals should be enrolled in. Potential remedies are being looked into to address this issue.

Without objection, the meeting adjourned at 3:35 p.m.

---

Joanne Bell, Committee Secretary  
January 22, 2013

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>)