

State of Arizona
House of Representatives
Fifty-first Legislature
Second Regular Session
2014

HOUSE BILL 2058

AN ACT

AMENDING SECTIONS 38-711, 38-746, 38-749, 38-842, 38-843.04, 38-881 AND
38-895.01, ARIZONA REVISED STATUTES; RELATING TO PUBLIC PENSIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 38-711, Arizona Revised Statutes, is amended to
3 read:

4 38-711. Definitions

5 In this article, unless the context otherwise requires:

6 1. "Active member" means a member as defined in paragraph 23,
7 subdivision (b) of this section who satisfies the eligibility criteria
8 prescribed in section 38-727 and who is currently making member contributions
9 as prescribed in section 38-736.

10 2. "Actuarial equivalent" means equality in value of the aggregate
11 amounts expected to be received under two different forms of payment, based
12 on mortality and interest rate assumptions approved from time to time by the
13 board.

14 3. "ASRS" means the Arizona state retirement system established by
15 this article.

16 4. "Assets" means the resources of ASRS, including all cash,
17 investments or securities.

18 5. "Average monthly compensation" means:

19 (a) For a member whose membership in ASRS commenced before January 1,
20 1984 and who left the member's contributions on deposit or reinstated
21 forfeited credited service pursuant to section 38-742 for a period of
22 employment that commenced before January 1, 1984, the higher of either:

23 (i) The monthly average of compensation that is calculated pursuant to
24 subdivision (b) of this paragraph.

25 (ii) The monthly average of compensation on which contributions were
26 remitted during a period of sixty consecutive months during which the member
27 receives the highest compensation within the last one hundred twenty months
28 of credited service. Any month for which no contributions are reported to
29 ASRS or that falls within a period of nonpaid or partially paid leave of
30 absence or sabbatical leave shall be excluded from the computation. The
31 sixty consecutive months may entirely precede, may be both before and after
32 or may be completely after any excluded months. If the member was employed
33 for less than sixty consecutive months, the average monthly compensation is
34 based on the total consecutive months worked. Payments for accumulated
35 vacation or annual leave, sick leave, compensatory time or other forms of
36 termination pay which, before August 12, 2005, constitute compensation for
37 members whose membership in ASRS commenced before January 1, 1984, do not
38 cease to be included as compensation if paid in the form of nonelective
39 employer contributions under a 26 United States Code section 403(b) plan if
40 all payments of employer and employee contributions are made at the time of
41 termination. Contributions shall be made to ASRS on these amounts pursuant
42 to sections 38-735, 38-736 and 38-737.

43 (b) For a member whose membership in ASRS commenced on or after
44 January 1, 1984 but before July 1, 2011, the monthly average of compensation
45 on which contributions were remitted during a period of thirty-six

1 consecutive months during which a member receives the highest compensation
2 within the last one hundred twenty months of credited service. Any month for
3 which no contributions are reported to ASRS or that falls within a period of
4 nonpaid or partially paid leave of absence or sabbatical leave shall be
5 excluded from the computation. The thirty-six consecutive months may
6 entirely precede, may be both before and after or may be completely after any
7 excluded months. If the member was employed for less than thirty-six
8 consecutive months, the average monthly compensation shall be based on the
9 total consecutive months worked.

10 (c) For a member whose membership in ASRS commenced on or after July
11 1, 2011, the monthly average of compensation on which contributions were
12 remitted during a period of sixty consecutive months during which a member
13 receives the highest compensation within the last one hundred twenty months
14 of credited service. Any month for which no contributions are reported to
15 ASRS or that falls within a period of nonpaid or partially paid leave of
16 absence or sabbatical leave shall be excluded from the computation. The
17 sixty consecutive months may entirely precede, may be both before and after
18 or may be completely after any excluded months. If the member was employed
19 for less than sixty consecutive months, the average monthly compensation
20 shall be based on the total consecutive months worked.

21 6. "Board" means the ASRS board established in section 38-713.

22 7. "Compensation" means, **SUBJECT TO THE LIMITATION SPECIFIED IN**
23 **SECTION 38-746**, the gross amount paid to a member by an employer as salary or
24 wages, including amounts that are subject to deferred compensation or tax
25 shelter agreements, for services rendered to or for an employer, or that
26 would have been paid to the member except for the member's election or a
27 legal requirement that all or part of the gross amount be used for other
28 purposes, but does not include amounts paid in excess of compensation limits
29 established in section 38-746. Compensation includes amounts paid as salary
30 or wages to a member by a second employer if the member meets the
31 requirements prescribed in paragraph 23, subdivision (b) of this section with
32 that second employer. Compensation, as provided in paragraph 5, subdivision
33 (b) or (c) of this section, does not include:

34 (a) Lump sum payments, on termination of employment, for accumulated
35 vacation or annual leave, sick leave, compensatory time or any other form of
36 termination pay whether the payments are made in one payment or by
37 installments over a period of time.

38 (b) Damages, costs, attorney fees, interest or other penalties paid
39 pursuant to a court order or a compromise settlement or agreement to satisfy
40 a grievance or claim even though the amount of the payment is based in whole
41 or in part on previous salary or wage levels, except that, if the court order
42 or compromise settlement or agreement directs salary or wages to be paid for
43 a specific period of time, the payment is compensation for that specific
44 period of time. If the amount directed to be paid is less than the actual
45 salary or wages that would have been paid for the period if service had been

1 performed, the contributions for the period shall be based on the amount of
2 compensation that would have been paid if the service had been performed.

3 (c) Payment, at the member's option, in lieu of fringe benefits that
4 are normally paid for or provided by the employer.

5 (d) Merit awards pursuant to section 38-613 and performance bonuses
6 paid to assistant attorneys general pursuant to section 41-192.

7 (e) Amounts that are paid as salary or wages to a member for which
8 employer contributions have not been paid.

9 8. "Contingent annuitant" means the person named by a member to
10 receive retirement income payable following a member's death after retirement
11 as provided in section 38-760.

12 9. "Credited service" means, subject to section 38-739, the number of
13 years standing to the member's credit on the books of ASRS during which the
14 member made the required contributions.

15 10. "Current annual compensation" means the greater of:

16 (a) Annualized compensation of the typical pay period amount
17 immediately before the date of a request to ASRS to purchase credited service
18 pursuant to section 38-743, 38-744 or 38-745. The typical pay period amount
19 shall be determined by taking the five pay periods immediately before the
20 date of a request, disregarding the highest and lowest compensation amount
21 pay periods and averaging the three remaining pay periods.

22 (b) Annualized compensation of the partial year, disregarding the
23 first compensation amount pay period, if the member has less than twelve
24 months total compensation on the date of a request to purchase credited
25 service pursuant to section 38-743, 38-744 or 38-745.

26 (c) The sum of the twelve months of compensation immediately before
27 the date of a request to ASRS to purchase credited service pursuant to
28 section 38-743, 38-744 or 38-745.

29 (d) The sum of the thirty-six months of compensation immediately
30 before the date of a request to ASRS to purchase credited service pursuant to
31 section 38-743, 38-744 or 38-745 divided by three.

32 (e) If the member has retired one or more times from ASRS, the average
33 monthly compensation that was used for calculating the member's last pension
34 benefit times twelve.

35 11. "Early retirement" means retirement before a member's normal
36 retirement date after five years of total credited service and attainment of
37 age fifty.

38 12. "Effective date" means July 1, 1970, except with respect to
39 employers and members whose contributions to ASRS commence thereafter, the
40 effective date of their membership in ASRS is as specified in the applicable
41 joinder agreement.

42 13. "Employer" means:

43 (a) This state.

44 (b) Participating political subdivisions.

45 (c) Participating political subdivision entities.

- 1 14. "Employer contributions" means all amounts paid into ASRS by an
2 employer on behalf of a member.
- 3 15. "Fiscal year" means the period from July 1 of any year to June 30
4 of the following year.
- 5 16. "Inactive member" means a member who previously made contributions
6 to ASRS and who satisfies each of the following:
- 7 (a) Has not retired.
- 8 (b) Is not eligible for active membership in ASRS.
- 9 (c) Is not currently making contributions to ASRS.
- 10 (d) Has not withdrawn contributions from ASRS.
- 11 17. "Interest" means the assumed actuarial investment earnings rate
12 approved by the board.
- 13 18. "Internal revenue code" means the United States internal revenue
14 code of 1986, as amended.
- 15 19. "Investment manager" means the persons, companies, banks, insurance
16 company investment funds, mutual fund companies, management or any
17 combinations of those entities that are appointed by ASRS and that have
18 responsibility and authority for investment of the monies of ASRS.
- 19 20. "Late retirement" means retirement after normal retirement.
- 20 21. "Leave of absence" means any unpaid leave authorized by the
21 employer, including leaves authorized for sickness or disability or to pursue
22 education or training.
- 23 22. "Life annuity" means equal monthly installments payable during the
24 member's lifetime after retirement.
- 25 23. "Member":
- 26 (a) Means any employee of an employer on the effective date.
- 27 (b) Means all employees of an employer who are eligible for membership
28 pursuant to section 38-727 and who are engaged to work at least twenty weeks
29 in each fiscal year and at least twenty hours each week.
- 30 (c) Means any person receiving a benefit under ASRS.
- 31 (d) Means any person who is a former active member of ASRS and who has
32 not withdrawn contributions from ASRS pursuant to section 38-740.
- 33 (e) Does not include any employee of an employer who is otherwise
34 eligible pursuant to this article and who begins service in a limited
35 appointment for not more than eighteen months on or after July 1, 1979. If
36 the employment exceeds eighteen months, the employee shall be covered by ASRS
37 as of the beginning of the nineteenth month of employment. In order to be
38 excluded under this subdivision, classifications of employees designated by
39 employers as limited appointments must be approved by the director.
- 40 (f) Does not include any leased employee. For the purposes of section
41 414(n) of the internal revenue code, "leased employee" means an individual
42 who:
- 43 (i) Is not otherwise an employee of an employer.

- 1 (ii) Pursuant to a leasing agreement between the employer and another
2 person, performs services for the employer on a substantially full-time basis
3 for at least one year.
- 4 (iii) Performs services under the primary direction or control of the
5 employer.
- 6 24. "Member contributions" means all amounts paid to ASRS by a member.
- 7 25. "Normal costs" means the sum of the individual normal costs for all
8 active members for each fiscal year. The normal cost for an individual
9 active member is the cost that is assigned to the fiscal year using the
10 projected unit credit method.
- 11 26. "Normal retirement age" means the age at which a member reaches the
12 member's normal retirement date.
- 13 27. "Normal retirement date" means the earliest of the following:
- 14 (a) For a member whose membership commenced before July 1, 2011:
- 15 (i) A member's sixty-fifth birthday.
- 16 (ii) A member's sixty-second birthday and completion of at least ten
17 years of credited service.
- 18 (iii) The first day that the sum of a member's age and years of total
19 credited service equals eighty.
- 20 (b) For a member whose membership commenced on or after July 1, 2011:
- 21 (i) A member's sixty-fifth birthday.
- 22 (ii) A member's sixty-second birthday and completion of at least ten
23 years of credited service.
- 24 (iii) A member's sixtieth birthday and completion of at least
25 twenty-five years of credited service.
- 26 (iv) A member's fifty-fifth birthday and completion of at least thirty
27 years of credited service.
- 28 28. "Political subdivision" means any political subdivision of this
29 state and includes a political subdivision entity.
- 30 29. "Political subdivision entity" means an entity:
- 31 (a) That is located in this state.
- 32 (b) That is created in whole or in part by political subdivisions,
33 including instrumentalities of political subdivisions.
- 34 (c) Where a majority of the membership of the entity is composed of
35 political subdivisions.
- 36 (d) Whose primary purpose is the performance of a government related
37 service.
- 38 30. "Retired member" means a member who is receiving retirement
39 benefits pursuant to this article.
- 40 31. "Service year" means fiscal year, except that:
- 41 (a) If the normal work year required of a member is less than the full
42 fiscal year but is for a period of at least nine months, the service year is
43 the normal work year.
- 44 (b) For a salaried member employed on a contract basis under one
45 contract, or two or more consecutive contracts, for a total period of at

1 least nine months, the service year is the total period of the contract or
2 consecutive contracts.

3 (c) In determining average monthly compensation pursuant to paragraph
4 5 of this section, the service year is considered to be twelve months of
5 compensation.

6 32. "State" means this state, including any department, office, board,
7 commission, agency, institution or other instrumentality of this state.

8 33. "Vested" means that a member is eligible to receive a future
9 retirement benefit.

10 Sec. 2. Section 38-746, Arizona Revised Statutes, is amended to read:

11 38-746. Compensation limitation; adjustments

12 A. Except as provided in ~~subsection~~ SUBSECTIONS E AND F OF THIS
13 SECTION, beginning on July 1, 2002, the annual compensation of each employee
14 taken into account under ASRS for any fiscal year or for any other specified
15 twelve consecutive month period shall not exceed two hundred thousand
16 dollars. In determining benefit accruals under ASRS for fiscal years
17 beginning after December 31, 2001 and except as provided for in subsection E
18 OF THIS SECTION, the annual compensation limit under this subsection for
19 fiscal years beginning before January 1, 2002 is two hundred thousand
20 dollars.

21 B. If compensation under ASRS is determined on a period of time that
22 contains fewer than twelve calendar months, the compensation limit for that
23 period of time is equal to the dollar limit for the calendar year during
24 which the period of time begins, multiplied by the fraction in which the
25 numerator is the number of full months in that period of time and the
26 denominator is twelve.

27 C. For fiscal years beginning before July 1, 1997, the annual
28 compensation limit prescribed in this section also applies to the combined
29 compensation of a member who is a member of the group of ten highly
30 compensated employees, as defined in section 414(q) of the internal revenue
31 code, and who is paid the highest compensation during the fiscal year and any
32 family member of the member who is either the member's spouse or the member's
33 lineal descendant and who has not attained the age of nineteen before the
34 close of the fiscal year. If the maximum compensation is adjusted pursuant
35 to subsection D OF THIS SECTION, the adjusted limitation shall be prorated
36 among the affected members' compensation determined pursuant to this section
37 before application of the adjusted limitation to the other provisions of this
38 article.

39 D. The board shall adjust the maximum compensation under subsection A
40 OF THIS SECTION at the same time and in the same manner as adjusted by the
41 United States secretary of the treasury under section 401(a)(17)(B) of the
42 internal revenue code. The adjustment under this subsection for a calendar
43 year applies to annual compensation for the fiscal year of ASRS that begins
44 with or within the calendar year.

1 E. The dollar limitation prescribed in subsection A OF THIS SECTION
2 does not apply to an eligible member to the extent that the annual
3 compensation of an eligible member taken into account by ASRS for any fiscal
4 year or for any other specified twelve consecutive month period would be
5 reduced below two hundred thirty-five thousand eight hundred forty
6 dollars. This was the amount of compensation taken into account by ASRS as
7 of July 1, 1993. The board shall adjust this amount as of the effective date
8 of the increase prescribed by the United States secretary of the
9 treasury. For the purposes of this subsection, "eligible member" means a
10 person who first became a member of ASRS before July 1, 1996.

11 F. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, FOR EMPLOYEES
12 HIRED ON OR AFTER THE EFFECTIVE DATE OF THIS AMENDMENT TO THIS SECTION, THE
13 ANNUAL COMPENSATION OF EACH MEMBER TAKEN INTO ACCOUNT UNDER ASRS FOR ANY
14 FISCAL YEAR OR FOR ANY OTHER SPECIFIED TWELVE CONSECUTIVE MONTH PERIOD MAY
15 NOT EXCEED ONE HUNDRED FIFTY THOUSAND DOLLARS.

16 Sec. 3. Section 38-749, Arizona Revised Statutes, is amended to read:
17 38-749. Employer termination incentive program; employer
18 payment of actuarial cost; definition

19 A. If a termination incentive program that is offered by an employer
20 results in an actuarial unfunded liability to ASRS, the employer shall pay to
21 ASRS the amount of the unfunded liability. ASRS shall determine the amount
22 of the unfunded liability in consultation with its actuary.

23 B. An employer shall notify ASRS if the employer plans to implement a
24 termination incentive program that may affect ASRS funding.

25 C. If ASRS determines that an employer has implemented a termination
26 incentive program that results in an actuarial unfunded liability to ASRS,
27 ASRS shall assess the cost of the unfunded liability to that employer. If
28 the employer does not remit full payment of all monies due within ninety days
29 after being notified by ASRS of the amount due, the unpaid amount accrues
30 interest until the amount is paid in full. The interest rate is the interest
31 rate assumption that is approved by the board for actuarial equivalency for
32 the period in question to the date payment is received.

33 D. For the purposes of this section: ~~—~~

34 1. "PROMOTION" MEANS A TRUE CHANGE IN POSITION, JOB DUTIES AND JOB
35 TITLE FROM THE POSITION OCCUPIED BY THE MEMBER BEFORE ASRS RETIREMENT.

36 2. "Termination incentive program" MEANS:

37 ~~1-~~ (a) ~~Means~~ A total increase in compensation of ~~thirty~~ FIFTEEN per
38 cent or more that is given to a member in any one or more years before
39 termination that are used to calculate the member's average monthly
40 compensation if that increase in compensation is used to calculate the
41 member's retirement benefit and that increase in compensation is not
42 attributed to a promotion.

43 ~~2-~~ (b) ~~Means~~ Anything of value, including any monies, credited
44 service or points that the employer provides to or on behalf of a member that
45 is conditioned on the member's termination except for payments to an employee

1 for accrued vacation, sick leave or compensatory time unless the payment is
2 enhanced beyond the employer's customary payment.

3 Sec. 4. Section 38-842, Arizona Revised Statutes, is amended to read:
4 38-842. Definitions

5 In this article, unless the context otherwise requires:

6 1. "Accidental disability" means a physical or mental condition that
7 the local board finds totally and permanently prevents an employee from
8 performing a reasonable range of duties within the employee's job
9 classification and that was incurred in the performance of the employee's
10 duty.

11 2. "Accumulated contributions" means, for each member, the sum of the
12 amount of the member's aggregate contributions made to the fund and the
13 amount, if any, attributable to the employee's contributions before the
14 member's effective date under another public retirement system, other than
15 the federal social security act, and transferred to the fund minus the
16 benefits paid to or on behalf of the member.

17 3. "Actuarial equivalent" means equality in present value of the
18 aggregate amounts expected to be received under two different forms of
19 payment, based on mortality and interest assumptions adopted by the board.

20 4. "Alternate payee" means the spouse or former spouse of a
21 participant as designated in a domestic relations order.

22 5. "Alternate payee's portion" means benefits that are payable to an
23 alternate payee pursuant to a plan approved domestic relations order.

24 6. "Annuitant" means a person who is receiving a benefit pursuant to
25 section 38-846.01.

26 7. "Average monthly benefit compensation" means the result obtained by
27 dividing the total compensation paid to an employee during a considered
28 period by the number of months, including fractional months, in which such
29 compensation was received. For an employee who becomes a member of the
30 system before January 1, 2012, the considered period shall be the three
31 consecutive years within the last twenty completed years of credited service
32 that yield the highest average. For an employee who becomes a member of the
33 system on or after January 1, 2012, the considered period is the five
34 consecutive years within the last twenty completed years of credited service
35 that yield the highest average. In the computation under this paragraph, a
36 period of nonpaid or partially paid industrial leave shall be considered
37 based on the compensation the employee would have received in the employee's
38 job classification if the employee was not on industrial leave.

39 8. "Board" means the board of trustees of the system, who are the
40 persons appointed to invest and operate the fund.

41 9. "Catastrophic disability" means a physical and not a psychological
42 condition that the local board determines prevents the employee from totally
43 and permanently engaging in any gainful employment and that results from a
44 physical injury incurred in the performance of the employee's duty.

1 10. "Certified peace officer" means a peace officer certified by the
2 Arizona peace officer standards and training board.

3 11. "Claimant" means any member or beneficiary who files an application
4 for benefits pursuant to this article.

5 12. "Compensation" means, for the purpose of computing retirement
6 benefits **AND SUBJECT TO THE LIMITATION SPECIFIED IN SECTION 38-843.04**, base
7 salary, overtime pay, shift differential pay, military differential wage pay,
8 compensatory time used by an employee in lieu of overtime not otherwise paid
9 by an employer and holiday pay paid to an employee by the employer for the
10 employee's performance of services in an eligible group on a regular monthly,
11 semimonthly or biweekly payroll basis and longevity pay paid to an employee
12 at least every six months for which contributions are made to the system
13 pursuant to section 38-843, subsection D. Compensation does not include, for
14 the purpose of computing retirement benefits, payment for unused sick leave,
15 payment in lieu of vacation, payment for unused compensatory time or payment
16 for any fringe benefits. In addition, compensation does not include, for the
17 purpose of computing retirement benefits, payments made directly or
18 indirectly by the employer to the employee for work performed for a third
19 party on a contracted basis or any other type of agreement under which the
20 third party pays or reimburses the employer for the work performed by the
21 employee for that third party, except for third party contracts between
22 public agencies for law enforcement, criminal, traffic and crime suppression
23 activities training or fire, wildfire, emergency medical or emergency
24 management activities or where the employer supervises the employee's
25 performance of law enforcement, criminal, traffic and crime suppression
26 activities training or fire, wildfire, emergency medical or emergency
27 management activities. For the purposes of this paragraph, "base salary"
28 means the amount of compensation each employee is regularly paid for personal
29 services rendered to an employer before the addition of any extra monies,
30 including overtime pay, shift differential pay, holiday pay, longevity pay,
31 fringe benefit pay and similar extra payments.

32 13. "Credited service" means the member's total period of service
33 before the member's effective date of participation, plus those compensated
34 periods of the member's service thereafter for which the member made
35 contributions to the fund.

36 14. "Cure period" means the ninety-day period in which a participant or
37 alternate payee may submit an amended domestic relations order and request a
38 determination, calculated from the time the system issues a determination
39 finding that a previously submitted domestic relations order did not qualify
40 as a plan approved domestic relations order.

41 15. "Depository" means a bank in which all monies of the system are
42 deposited and held and from which all expenditures for benefits, expenses and
43 investments are disbursed.

1 16. "Determination" means a written document that indicates to a
2 participant and alternate payee whether a domestic relations order qualifies
3 as a plan approved domestic relations order.

4 17. "Determination period" means the ninety-day period in which the
5 system must review a domestic relations order that is submitted by a
6 participant or alternate payee to determine whether the domestic relations
7 order qualifies as a plan approved domestic relations order, calculated from
8 the time the system mails a notice of receipt to the participant and
9 alternate payee.

10 18. "Direct rollover" means a payment by the system to an eligible
11 retirement plan that is specified by the distributee.

12 19. "Distributee" means a member, a member's surviving spouse or a
13 member's spouse or former spouse who is the alternate payee under a plan
14 approved domestic relations order.

15 20. "Domestic relations order" means an order of a court of this state
16 that is made pursuant to the domestic relations laws of this state and that
17 creates or recognizes the existence of an alternate payee's right to, or
18 assigns to an alternate payee the right to, receive a portion of the benefits
19 payable to a participant.

20 21. "Effective date of participation" means July 1, 1968, except with
21 respect to employers and their covered employees whose contributions to the
22 fund commence thereafter, the effective date of their participation in the
23 system is as specified in the applicable joinder agreement.

24 22. "Effective date of vesting" means the date a member's rights to
25 benefits vest pursuant to section 38-844.01.

26 23. "Eligible child" means an unmarried child of a deceased member or
27 retired member who meets one of the following qualifications:

28 (a) Is under eighteen years of age.

29 (b) Is at least eighteen years of age and under twenty-three years of
30 age only during any period that the child is a full-time student.

31 (c) Is under a disability that began before the child attained
32 twenty-three years of age and remains a dependent of the surviving spouse or
33 guardian.

34 24. "Eligible groups" means only the following who are regularly
35 assigned to hazardous duty:

36 (a) Municipal police officers who are certified peace officers.

37 (b) Municipal fire fighters.

38 (c) Paid full-time fire fighters employed directly by a fire district
39 organized pursuant to section 48-803 or 48-804 or a joint powers authority
40 pursuant to section 48-805.01 with three or more full-time fire fighters, but
41 not including fire fighters employed by a fire district pursuant to a
42 contract with a corporation.

43 (d) State highway patrol officers who are certified peace officers.

44 (e) State fire fighters.

45 (f) County sheriffs and deputies who are certified peace officers.

1 (g) Game and fish wardens who are certified peace officers.

2 (h) Police officers who are certified peace officers and fire fighters
3 of a nonprofit corporation operating a public airport pursuant to sections
4 28-8423 and 28-8424. A police officer shall be designated pursuant to
5 section 28-8426 to aid and supplement state and local law enforcement
6 agencies and a fire fighter's sole duty shall be to perform fire fighting
7 services, including services required by federal regulations.

8 (i) Police officers who are certified peace officers and who are
9 appointed by the Arizona board of regents.

10 (j) Police officers who are certified peace officers and who are
11 appointed by a community college district governing board.

12 (k) State attorney general investigators who are certified peace
13 officers.

14 (l) County attorney investigators who are certified peace officers.

15 (m) Police officers who are certified peace officers and who are
16 employed by an Indian reservation police agency.

17 (n) Fire fighters who are employed by an Indian reservation fire
18 fighting agency.

19 (o) Department of liquor licenses and control investigators who are
20 certified peace officers.

21 (p) Arizona department of agriculture officers who are certified peace
22 officers.

23 (q) Arizona state parks board rangers and managers who are certified
24 peace officers.

25 (r) County park rangers who are certified peace officers.

26 25. "Eligible retirement plan" means any of the following that accepts
27 a distributee's eligible rollover distribution:

28 (a) An individual retirement account described in section 408(a) of
29 the internal revenue code.

30 (b) An individual retirement annuity described in section 408(b) of
31 the internal revenue code.

32 (c) An annuity plan described in section 403(a) of the internal
33 revenue code.

34 (d) A qualified trust described in section 401(a) of the internal
35 revenue code.

36 (e) An annuity contract described in section 403(b) of the internal
37 revenue code.

38 (f) An eligible deferred compensation plan described in section 457(b)
39 of the internal revenue code that is maintained by a state, a political
40 subdivision of a state or any agency or instrumentality of a state or a
41 political subdivision of a state and that agrees to separately account for
42 amounts transferred into the eligible deferred compensation plan from this
43 plan.

44 26. "Eligible rollover distribution" means a payment to a distributee,
45 but does not include any of the following:

1 (a) Any distribution that is one of a series of substantially equal
2 periodic payments made not less frequently than annually for the life or life
3 expectancy of the member or the joint lives or joint life expectancies of the
4 member and the member's beneficiary or for a specified period of ten years or
5 more.

6 (b) Any distribution to the extent the distribution is required under
7 section 401(a)(9) of the internal revenue code.

8 (c) The portion of any distribution that is not includable in gross
9 income.

10 27. "Employee" means any person who is employed by a participating
11 employer and who is a member of an eligible group but does not include any
12 persons compensated on a contractual or fee basis. If an eligible group
13 requires certified peace officer status or fire fighter certification and at
14 the option of the local board, employee may include a person who is training
15 to become a certified peace officer or fire fighter.

16 28. "Employers" means:

17 (a) Cities contributing to the fire fighters' relief and pension fund
18 as provided in sections 9-951 through 9-971 or statutes amended thereby and
19 antecedent thereto, as of June 30, 1968 on behalf of their full-time paid
20 fire fighters.

21 (b) Cities contributing under the state police pension laws as
22 provided in sections 9-911 through 9-934 or statutes amended thereby and
23 antecedent thereto, as of June 30, 1968 on behalf of their municipal
24 policemen.

25 (c) The state highway patrol covered under the state highway patrol
26 retirement system.

27 (d) The state, or any political subdivision of this state, including
28 towns, cities, fire districts, joint powers authorities, counties and
29 nonprofit corporations operating public airports pursuant to sections 28-8423
30 and 28-8424, that has elected to participate in the system on behalf of an
31 eligible group of public safety personnel pursuant to a joinder agreement
32 entered into after July 1, 1968.

33 (e) Indian tribes that have elected to participate in the system on
34 behalf of an eligible group of public safety personnel pursuant to a joinder
35 agreement entered into after July 1, 1968.

36 29. "Fund" means the public safety personnel retirement fund, which is
37 the fund established to receive and invest contributions accumulated under
38 the system and from which benefits are paid.

39 30. "Local board" means the retirement board of the employer, who are
40 the persons appointed to administer the system as it applies to their members
41 in the system.

42 31. "Member" means any full-time employee who meets all of the
43 following qualifications:

44 (a) Who is either a paid municipal police officer, a paid fire
45 fighter, a law enforcement officer who is employed by this state including

1 the director thereof, a state fire fighter who is primarily assigned to fire
2 fighting duties, a fire fighter or police officer of a nonprofit corporation
3 operating a public airport pursuant to sections 28-8423 and 28-8424, all
4 ranks designated by the Arizona law enforcement merit system council, a state
5 attorney general investigator who is a certified peace officer, a county
6 attorney investigator who is a certified peace officer, a department of
7 liquor licenses and control investigator who is a certified peace officer, an
8 Arizona department of agriculture officer who is a certified peace officer,
9 an Arizona state parks board ranger or manager who is a certified peace
10 officer, a county park ranger who is a certified peace officer, a person who
11 is a certified peace officer and who is employed by an Indian reservation
12 police agency, a fire fighter who is employed by an Indian reservation fire
13 fighting agency or an employee included in a group designated as eligible
14 employees under a joinder agreement entered into by their employer after July
15 1, 1968 and who is or was regularly assigned to hazardous duty or, beginning
16 retroactively to January 1, 2009, who is a police chief or a fire chief.

17 (b) Who, on or after the employee's effective date of participation,
18 is receiving compensation for personal services rendered to an employer or
19 would be receiving compensation except for an authorized leave of absence.

20 (c) Whose customary employment is at least forty hours per week or,
21 for those employees who customarily work fluctuating work weeks, whose
22 customary employment averages at least forty hours per week.

23 (d) Who is engaged to work for more than six months in a calendar
24 year.

25 (e) Who, if economic conditions exist, is required to take furlough
26 days or reduce the hours of the employee's normal work week below forty hours
27 but not less than thirty hours per pay cycle, and maintain the employee's
28 active member status within the system as long as the hour change does not
29 extend beyond twelve consecutive months.

30 (f) Who has not attained age sixty-five before the employee's
31 effective date of participation or who was over age sixty-five with
32 twenty-five years or more of service prior to the employee's effective date
33 of participation.

34 32. "Normal retirement date" means:

35 (a) For an employee who becomes a member of the system before January
36 1, 2012, the first day of the calendar month immediately following the
37 employee's completion of twenty years of service or the employee's
38 sixty-second birthday and the employee's completion of fifteen years of
39 service.

40 (b) For an employee who becomes a member of the system on or after
41 January 1, 2012, the first day of the calendar month immediately following
42 the employee's completion of twenty-five years of service if the employee is
43 at least fifty-two and one-half years of age.

44 33. "Notice of receipt" means a written document that is issued by the
45 system to a participant and alternate payee and that states that the system

1 has received a domestic relations order and a request for a determination
2 that the domestic relations order is a plan approved domestic relations
3 order.

4 34. "Ordinary disability" means a physical condition that the local
5 board determines will prevent an employee totally and permanently from
6 performing a reasonable range of duties within the employee's department or a
7 mental condition that the local board determines will prevent an employee
8 totally and permanently from engaging in any substantial gainful activity.

9 35. "Participant" means a member who is subject to a domestic relations
10 order.

11 36. "Participant's portion" means benefits that are payable to a
12 participant pursuant to a plan approved domestic relations order.

13 37. "Pension" means a series of monthly amounts that are payable to a
14 person who is entitled to receive benefits under the plan but does not
15 include an annuity that is payable pursuant to section 38-846.01.

16 38. "Personal representative" means the personal representative of a
17 deceased alternate payee.

18 39. "Physician" means a physician who is licensed pursuant to title 32,
19 chapter 13 or 17.

20 40. "Plan approved domestic relations order" means a domestic relations
21 order that the system approves as meeting all the requirements for a plan
22 approved domestic relations order as otherwise prescribed in this article.

23 41. "Regularly assigned to hazardous duty" means regularly assigned to
24 duties of the type normally expected of municipal police officers, municipal
25 or state fire fighters, eligible fire district fire fighters, state highway
26 patrol officers, county sheriffs and deputies, fish and game wardens, fire
27 fighters and police officers of a nonprofit corporation operating a public
28 airport pursuant to sections 28-8423 and 28-8424, police officers who are
29 appointed by the Arizona board of regents or a community college district
30 governing board, state attorney general investigators who are certified peace
31 officers, county attorney investigators who are certified peace officers,
32 department of liquor licenses and control investigators who are certified
33 peace officers, Arizona department of agriculture officers who are certified
34 peace officers, Arizona state parks board rangers and managers who are
35 certified peace officers, county park rangers who are certified peace
36 officers, police officers who are certified peace officers and who are
37 employed by an Indian reservation police agency or fire fighters who are
38 employed by an Indian reservation fire fighting agency. Those individuals
39 who are assigned solely to support duties such as secretaries, stenographers,
40 clerical personnel, clerks, cooks, maintenance personnel, mechanics and
41 dispatchers are not assigned to hazardous duty regardless of their position
42 classification title. Since the normal duties of those jobs described in
43 this paragraph are constantly changing, questions as to whether a person is
44 or was previously regularly assigned to hazardous duty shall be resolved by

1 the local board on a case-by-case basis. Resolutions by local boards are
2 subject to rehearing and appeal.

3 42. "Retirement" or "retired" means termination of employment after a
4 member has fulfilled all requirements for a pension or, for an employee who
5 becomes a member of the system on or after January 1, 2012, attains the age
6 and service requirements for a normal retirement date. Retirement shall be
7 considered as commencing on the first day of the month immediately following
8 a member's last day of employment or authorized leave of absence, if later.

9 43. "Segregated funds" means the amount of benefits that would
10 currently be payable to an alternate payee pursuant to a domestic relations
11 order under review by the system, or a domestic relations order submitted to
12 the system that failed to qualify as a plan approved domestic relations
13 order, if the domestic relations order were determined to be a plan approved
14 domestic relations order.

15 44. "Service" means the last period of continuous employment of an
16 employee by the employers before the employee's retirement, except that if
17 such period includes employment during which the employee would not have
18 qualified as a member had the system then been effective, such as employment
19 as a volunteer fire fighter, then only twenty-five per cent of such
20 noncovered employment shall be considered as service. Any absence that is
21 authorized by an employer shall not be considered as interrupting continuity
22 of employment if the employee returns within the period of authorized
23 absence. Transfers between employers also shall not be considered as
24 interrupting continuity of employment. Any period during which a member is
25 receiving sick leave payments or a temporary disability pension shall be
26 considered as service. Notwithstanding any other provision of this
27 paragraph, any period during which a person was employed as a full-time paid
28 fire fighter for a corporation that contracted with an employer to provide
29 firefighting services on behalf of the employer shall be considered as
30 service if the employer has elected at its option to treat part or all of the
31 period the firefighter worked for the company as service in its applicable
32 joinder agreement. Any reference in this system to the number of years of
33 service of an employee shall be deemed to include fractional portions of a
34 year.

35 45. "State" means the state of Arizona, including any department,
36 office, board, commission, agency or other instrumentality of the state.

37 46. "System" means the public safety personnel retirement system
38 established by this article.

39 47. "Temporary disability" means a physical or mental condition that
40 the local board finds totally and temporarily prevents an employee from
41 performing a reasonable range of duties within the employee's department and
42 that was incurred in the performance of the employee's duty.

1 Sec. 5. Section 38-843.04, Arizona Revised Statutes, is amended to
2 read:

3 38-843.04. Compensation limitation; adjustments

4 A. EXCEPT AS PROVIDED IN SUBSECTION D OF THIS SECTION, the annual
5 compensation of each member taken into account for purposes of the system
6 shall not exceed the following:

7 1. Beginning January 1, 1996 through December 31, 2001, one hundred
8 fifty thousand dollars.

9 2. Beginning January 1, 2002, two hundred thousand dollars.

10 B. If compensation under the system is determined on a period of time
11 that contains fewer than twelve calendar months, the compensation limit for
12 that period of time is equal to the dollar limit for the calendar year during
13 which the period of time begins, multiplied by the fraction in which the
14 numerator is the number of full months in that period of time and the
15 denominator is twelve.

16 C. The board shall adjust the annual compensation limits under this
17 section at the same time and in the same manner as adjusted by the United
18 States secretary of the treasury under section 401(a)(17)(B) of the internal
19 revenue code. The adjustment under this subsection for a calendar year
20 applies to annual compensation for the plan year that begins with or within
21 the calendar year.

22 D. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, FOR EMPLOYEES
23 HIRED ON OR AFTER THE EFFECTIVE DATE OF THIS AMENDMENT TO THIS SECTION, THE
24 ANNUAL COMPENSATION OF EACH MEMBER TAKEN INTO ACCOUNT FOR PURPOSES OF THE
25 SYSTEM MAY NOT EXCEED ONE HUNDRED FIFTY THOUSAND DOLLARS.

26 Sec. 6. Section 38-881, Arizona Revised Statutes, is amended to read:

27 38-881. Definitions

28 In this article, unless the context otherwise requires:

29 1. "Accidental disability" means a physical or mental condition that
30 the local board finds totally and permanently prevents an employee from
31 performing a reasonable range of duties within the employee's department, was
32 incurred in the performance of the employee's duties and was the result of
33 any of the following:

34 (a) Physical contact with inmates, prisoners, parolees or persons on
35 probation.

36 (b) Responding to a confrontational situation with inmates, prisoners,
37 parolees or persons on probation.

38 (c) A job related motor vehicle accident while on official business
39 for the employee's employer. A job related motor vehicle accident does not
40 include an accident that occurs on the way to or from work. Persons found
41 guilty of violating a personnel rule, a rule established by the employee's
42 employer or a state or federal law in connection with a job related motor
43 vehicle accident do not meet the conditions for accidental disability.

44 2. "Accumulated member contributions" means for each member the sum of
45 the amount of all the member's contributions deducted from the member's

1 salary and paid to the fund, plus member contributions transferred to the
2 fund by another retirement plan covering public employees of this state, plus
3 previously withdrawn accumulated member contributions that are repaid to the
4 fund in accordance with this article, minus any benefits paid to or on behalf
5 of a member.

6 3. "Actuarial equivalent" means equality in present value of the
7 aggregate amounts expected to be received under two different forms of
8 payment, based on mortality and interest assumptions adopted by the board.

9 4. "Alternate payee" means the spouse or former spouse of a
10 participant as designated in a domestic relations order.

11 5. "Alternate payee's portion" means benefits that are payable to an
12 alternate payee pursuant to a plan approved domestic relations order.

13 6. "Annuitant" means a person who is receiving a benefit pursuant to
14 section 38-911.

15 7. "Average monthly salary" means, for an employee who becomes a
16 member of the plan before January 1, 2012, one-thirty-sixth of the aggregate
17 amount of salary that is paid a member by a participating employer during a
18 period of thirty-six consecutive months of service in which the member
19 received the highest salary within the last one hundred twenty months of
20 service and, for an employee who becomes a member of the plan on or after
21 January 1, 2012, one-sixtieth of the aggregate amount of salary that is paid
22 a member by a participating employer during a period of sixty consecutive
23 months of service in which the member received the highest salary within the
24 last one hundred twenty months of service. Average monthly salary means the
25 aggregate amount of salary that is paid a member divided by the member's
26 months of service if the member has less than thirty-six or sixty months of
27 service. In the computation under this paragraph, a period of nonpaid or
28 partially paid industrial leave shall be considered based on the salary the
29 employee would have received in the employee's job classification if the
30 employee was not on industrial leave.

31 8. "Beneficiary" means an individual who is being paid or who has
32 entitlement to the future payment of a pension on account of a reason other
33 than the individual's membership in the retirement plan.

34 9. "Board" means the board of trustees of the public safety personnel
35 retirement system.

36 10. "Claimant" means a member, beneficiary or estate that files an
37 application for benefits with the retirement plan.

38 11. "Credited service" means credited service transferred to the
39 retirement plan from another retirement system or plan for public employees
40 of this state, plus those compensated periods of service as a member of the
41 retirement plan for which member contributions are on deposit in the fund.

42 12. "Cure period" means the ninety-day period in which a participant or
43 alternate payee may submit an amended domestic relations order and request a
44 determination, calculated from the time the plan issues a determination

1 finding that a previously submitted domestic relations order did not qualify
2 as a plan approved domestic relations order.

3 13. "Designated position" means:

4 (a) For a county:

5 (i) A county detention officer.

6 (ii) A nonuniformed employee of a sheriff's department whose primary
7 duties require direct contact with inmates.

8 (b) For the state department of corrections and the department of
9 juvenile corrections, only the following specifically designated positions:

10 (i) Food service.

11 (ii) Nursing personnel.

12 (iii) Corrections physician assistant.

13 (iv) Therapist.

14 (v) Corrections dental assistant.

15 (vi) Hygienist.

16 (vii) Corrections medical assistant.

17 (viii) Correctional service officer, including assistant deputy
18 warden, deputy warden, warden and superintendent.

19 (ix) State correctional program officer.

20 (x) Parole or community supervision officers.

21 (xi) Investigators.

22 (xii) Teachers.

23 (xiii) Institutional maintenance workers.

24 (xiv) Youth corrections officer.

25 (xv) Youth program officer.

26 (xvi) Behavioral health treatment unit managers.

27 (xvii) The director and assistant directors of the department of
28 juvenile corrections and the superintendent of the state educational system
29 for committed youth.

30 (xviii) The director, deputy directors and assistant directors of the
31 state department of corrections.

32 (xix) Other positions designated by the local board of the state
33 department of corrections or the local board of the department of juvenile
34 corrections pursuant to section 38-891.

35 (c) For a city or town, a city or town detention officer.

36 (d) For an employer of an eligible group as defined in section 38-842,
37 full-time dispatchers.

38 (e) For the judiciary, probation, surveillance and juvenile detention
39 officers and those positions designated by the local board of the judiciary
40 pursuant to section 38-891.

41 (f) For the department of public safety, state detention officers.

42 14. "Determination" means a written document that indicates to a
43 participant and alternate payee whether a domestic relations order qualifies
44 as a plan approved domestic relations order.

1 15. "Determination period" means the ninety-day period in which the
2 plan must review a domestic relations order that is submitted by a
3 participant or alternate payee to determine whether the domestic relations
4 order qualifies as a plan approved domestic relations order, calculated from
5 the time the plan mails a notice of receipt to the participant and alternate
6 payee.

7 16. "Direct rollover" means a payment by the plan to an eligible
8 retirement plan that is specified by the distributee.

9 17. "Distributee" means a member, a member's surviving spouse or a
10 member's spouse or former spouse who is the alternate payee under a plan
11 approved domestic relations order.

12 18. "Domestic relations order" means an order of a court of this state
13 that is made pursuant to the domestic relations laws of this state and that
14 creates or recognizes the existence of an alternate payee's right to, or
15 assigns to an alternate payee the right to, receive a portion of the benefits
16 payable to a participant.

17 19. "Eligible child" means an unmarried child of a deceased active or
18 retired member who meets one of the following qualifications:

19 (a) Is under eighteen years of age.

20 (b) Is at least eighteen years of age and under twenty-three years of
21 age only during any period that the child is a full-time student.

22 (c) Is under a disability that began before the child attained
23 twenty-three years of age and remains a dependent of the surviving spouse or
24 guardian.

25 20. "Eligible retirement plan" means any of the following that accepts
26 a distributee's eligible rollover distribution:

27 (a) An individual retirement account described in section 408(a) of
28 the internal revenue code.

29 (b) An individual retirement annuity described in section 408(b) of
30 the internal revenue code.

31 (c) An annuity plan described in section 403(a) of the internal
32 revenue code.

33 (d) A qualified trust described in section 401(a) of the internal
34 revenue code.

35 (e) An annuity contract described in section 403(b) of the internal
36 revenue code.

37 (f) An eligible deferred compensation plan described in section 457(b)
38 of the internal revenue code that is maintained by a state, a political
39 subdivision of a state or any agency or instrumentality of a state or a
40 political subdivision of a state and that agrees to separately account for
41 amounts transferred into the eligible deferred compensation plan from this
42 plan.

43 21. "Eligible rollover distribution" means a payment to a distributee,
44 but does not include any of the following:

1 (a) Any distribution that is one of a series of substantially equal
2 periodic payments made not less frequently than annually for the life or life
3 expectancy of the member or the joint lives or joint life expectancies of the
4 member and the member's beneficiary or for a specified period of ten years or
5 more.

6 (b) Any distribution to the extent the distribution is required under
7 section 401(a)(9) of the internal revenue code.

8 (c) The portion of any distribution that is not includable in gross
9 income.

10 22. "Employee" means a person employed by a participating employer in a
11 designated position.

12 23. "Employer" means an agency or department of this state or a
13 political subdivision of this state that has one or more employees in a
14 designated position.

15 24. "Fund" means the corrections officer retirement plan fund.

16 25. "Juvenile detention officer" means a juvenile detention officer
17 responsible for the direct custodial supervision of juveniles who are
18 detained in a county juvenile detention center.

19 26. "Local board" means the retirement board of the employer that
20 consists of persons appointed or elected to administer the plan as it applies
21 to the employer's members in the plan.

22 27. "Member" means any employee who meets all of the following
23 qualifications:

24 (a) Who is a full-time paid person employed by a participating
25 employer in a designated position.

26 (b) Who is receiving salary for personal services rendered to a
27 participating employer or would be receiving salary except for an authorized
28 leave of absence.

29 (c) Whose customary employment is at least forty hours each week.

30 28. "Normal retirement date" means:

31 (a) For an employee who becomes a member of the plan before January 1,
32 2012, the first day of the calendar month immediately following the
33 employee's completion of twenty years of service or, in the case of a
34 dispatcher, twenty-five years of service, the employee's sixty-second
35 birthday and completion of ten years of service or the month in which the sum
36 of the employee's age and years of credited service equals eighty.

37 (b) For an employee who becomes a member of the plan on or after
38 January 1, 2012, the first day of the calendar month immediately following
39 the employee's completion of twenty-five years of service if the employee is
40 at least fifty-two and one-half years of age or the employee's sixty-second
41 birthday and completion of ten years of service.

42 29. "Notice of receipt" means a written document that is issued by the
43 plan to a participant and alternate payee and that states that the plan has
44 received a domestic relations order and a request for a determination that
45 the domestic relations order is a plan approved domestic relations order.

1 30. "Ordinary disability" means a physical condition that the local
2 board determines will totally and permanently prevent an employee from
3 performing a reasonable range of duties within the employee's department or a
4 mental condition that the local board determines will totally and permanently
5 prevent an employee from engaging in any substantial gainful activity.

6 31. "Participant" means a member who is subject to a domestic relations
7 order.

8 32. "Participant's portion" means benefits that are payable to a
9 participant pursuant to a plan approved domestic relations order.

10 33. "Participating employer" means an employer that the board has
11 determined to have one or more employees in a designated position or a
12 county, city, town or department of this state that has entered into a
13 joinder agreement pursuant to section 38-902.

14 34. "Pension" means a series of monthly payments by the retirement plan
15 but does not include an annuity that is payable pursuant to section 38-911.

16 35. "Personal representative" means the personal representative of a
17 deceased alternate payee.

18 36. "Physician" means a physician who is licensed pursuant to title 32,
19 chapter 13 or 17.

20 37. "Plan approved domestic relations order" means a domestic relations
21 order that the plan approves as meeting all the requirements for a plan
22 approved domestic relations order as otherwise prescribed in this article.

23 38. "Probation or surveillance officer" means an officer appointed
24 pursuant to section 8-203, 12-251 or 12-259 but does not include other
25 personnel, office assistants or support staff.

26 39. "Retired member" means an individual who terminates employment and
27 who is receiving a pension pursuant to either section 38-885 or 38-886.

28 40. "Retirement" or "retired" means termination of employment after a
29 member has fulfilled all requirements for a pension or, for an employee who
30 becomes a member of the plan on or after January 1, 2012, attains the age and
31 service requirements for a normal retirement date.

32 41. "Retirement plan" or "plan" means the corrections officer
33 retirement plan established by this article.

34 42. "Salary" means, **SUBJECT TO THE LIMITATION SPECIFIED IN SECTION**
35 **38-895.01**, the base salary, shift differential pay, military differential
36 wage pay and holiday pay paid a member for personal services rendered in a
37 designated position to a participating employer on a regular monthly,
38 semimonthly or biweekly payroll basis. Salary includes amounts that are
39 subject to deferred compensation or tax shelter agreements. Salary does not
40 include payment for any remuneration or reimbursement other than as
41 prescribed by this paragraph. For the purposes of this paragraph, "base
42 salary" means the amount of compensation each member is regularly paid for
43 personal services rendered to an employer before the addition of any extra
44 monies, including overtime pay, shift differential pay, holiday pay, fringe
45 benefit pay and similar extra payments.

1 43. "Segregated funds" means the amount of benefits that would
2 currently be payable to an alternate payee pursuant to a domestic relations
3 order under review by the plan, or a domestic relations order submitted to
4 the plan that failed to qualify as a plan approved domestic relations order,
5 if the domestic relations order were determined to be a plan approved
6 domestic relations order.

7 44. "Service" means employment rendered to a participating employer as
8 an employee in a designated position. Any absence that is authorized by an
9 employer, including any periods during which the employee is on an employer
10 sponsored long-term disability program, is considered as service if the
11 employee returns or is deemed by the employer to have returned to a
12 designated position within the period of the authorized absence.

13 45. "Total and permanent disability" means a physical or mental
14 condition that is not an accidental disability, that the local board finds
15 totally and permanently prevents a member from engaging in any gainful
16 employment and that is the direct and proximate result of the member's
17 performance of the member's duty as an employee of a participating employer.

18 Sec. 7. Section 38-895.01, Arizona Revised Statutes, is amended to
19 read:

20 38-895.01. Compensation limitation; adjustments

21 A. EXCEPT AS PROVIDED IN SUBSECTION D OF THIS SECTION, the annual
22 compensation of each member taken into account for purposes of the plan shall
23 not exceed the following:

24 1. Beginning January 1, 1996 through December 31, 2001, one hundred
25 fifty thousand dollars.

26 2. Beginning January 1, 2002, two hundred thousand dollars.

27 B. If compensation under the plan is determined on a period of time
28 that contains fewer than twelve calendar months, the compensation limit for
29 that period of time is equal to the dollar limit for the calendar year during
30 which the period of time begins, multiplied by the fraction in which the
31 numerator is the number of full months in that period of time and the
32 denominator is twelve.

33 C. The board shall adjust the annual compensation limits under this
34 section at the same time and in the same manner as adjusted by the United
35 States secretary of the treasury under section 401(a)(17)(B) of the internal
36 revenue code. The adjustment under this subsection for a calendar year
37 applies to annual compensation for the plan year that begins with or within
38 the calendar year.

39 D. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, FOR EMPLOYEES
40 HIRED ON OR AFTER THE EFFECTIVE DATE OF THIS AMENDMENT TO THIS SECTION, THE
41 ANNUAL COMPENSATION OF EACH MEMBER TAKEN INTO ACCOUNT FOR PURPOSES OF THE
42 PLAN MAY NOT EXCEED ONE HUNDRED FIFTY THOUSAND DOLLARS.