

State of Arizona  
Senate  
Fifty-second Legislature  
First Regular Session  
2015

# SENATE BILL 1096

AN ACT

AMENDING SECTIONS 38-711, 38-714, 38-721 AND 38-737, ARIZONA REVISED STATUTES; RELATING TO THE ARIZONA STATE RETIREMENT SYSTEM.

(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~~ THAT, before August 12, 2005, constitute compensation  
37 for 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 the gross amount paid to a member by an  
23 employer as salary or wages, including amounts that are subject to deferred  
24 compensation or tax shelter agreements, for services rendered to or for an  
25 employer, or that would have been paid to the member except for the member's  
26 election or a legal requirement that all or part of the gross amount be used  
27 for other purposes, but does not include amounts paid in excess of  
28 compensation limits established in section 38-746. Compensation includes  
29 amounts paid as salary or wages to a member by a second employer if the  
30 member meets the requirements prescribed in paragraph 23, subdivision (b) of  
31 this section with that second employer. Compensation, as provided in  
32 paragraph 5, subdivision (b) or (c) of this section, does not include:

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

37 (b) Damages, costs, attorney fees, interest or other penalties paid  
38 pursuant to a court order or a compromise settlement or agreement to satisfy  
39 a grievance or claim even though the amount of the payment is based in whole  
40 or in part on previous salary or wage levels, except that, if the court order  
41 or compromise settlement or agreement directs salary or wages to be paid for  
42 a specific period of time, the payment is compensation for that specific  
43 period of time. If the amount directed to be paid is less than the actual  
44 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,  
16 insurance 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  
8 all 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, **THROUGH JUNE**  
10 **29, 2016**, using the projected unit credit method **AND, BEGINNING JUNE 30,**  
11 **2016, USING THE ACTUARIAL COST METHOD DETERMINED BY THE BOARD PURSUANT TO**  
12 **SECTION 38-714.**

13 26. "Normal retirement age" means the age at which a member reaches  
14 the member's normal retirement date.

15 27. "Normal retirement date" means the earliest of the following:

16 (a) For a member whose membership commenced before July 1, 2011:

17 (i) A member's sixty-fifth birthday.

18 (ii) A member's sixty-second birthday and completion of at least ten  
19 years of credited service.

20 (iii) The first day that the sum of a member's age and years of total  
21 credited service equals eighty.

22 (b) For a member whose membership commenced on or after July 1, 2011:

23 (i) A member's sixty-fifth birthday.

24 (ii) A member's sixty-second birthday and completion of at least ten  
25 years of credited service.

26 (iii) A member's sixtieth birthday and completion of at least  
27 twenty-five years of credited service.

28 (iv) A member's fifty-fifth birthday and completion of at least thirty  
29 years of credited service.

30 28. "Political subdivision" means any political subdivision of this  
31 state and includes a political subdivision entity.

32 29. "Political subdivision entity" means an entity:

33 (a) That is located in this state.

34 (b) That is created in whole or in part by political subdivisions,  
35 including instrumentalities of political subdivisions.

36 (c) Where a majority of the membership of the entity is composed of  
37 political subdivisions.

38 (d) Whose primary purpose is the performance of a government related  
39 service.

40 30. "Retired member" means a member who is receiving retirement  
41 benefits pursuant to this article.

42 31. "Service year" means fiscal year, except that:

1 (a) If the normal work year required of a member is less than the full  
2 fiscal year but is for a period of at least nine months, the service year is  
3 the normal work year.

4 (b) For a salaried member employed on a contract basis under one  
5 contract, or two or more consecutive contracts, for a total period of at  
6 least nine months, the service year is the total period of the contract or  
7 consecutive contracts.

8 (c) In determining average monthly compensation pursuant to paragraph  
9 5 of this section, the service year is considered to be twelve months of  
10 compensation.

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

13 33. "Vested" means that a member is eligible to receive a future  
14 retirement benefit.

15 Sec. 2. Section 38-714, Arizona Revised Statutes, is amended to read:  
16 38-714. Powers and duties of ASRS and board

17 A. ASRS shall have the powers and privileges of a corporation, shall  
18 have an official seal and shall transact all business in the name "Arizona  
19 state retirement system", and in that name may sue and be sued.

20 B. The board is responsible for supervising the administration of this  
21 article by the director of ASRS.

22 C. The board is responsible for the performance of fiduciary duties  
23 and other responsibilities required to preserve and protect the retirement  
24 trust fund established by section 38-712.

25 D. The board shall not advocate for or against legislation providing  
26 for benefit modifications, except that the board shall provide technical and  
27 administrative information regarding the impact of benefit modification  
28 legislation.

29 E. The board may:

30 1. Determine the rights, benefits or obligations of any person under  
31 this article and afford any person dissatisfied with a determination a  
32 hearing on the determination.

33 2. Determine the amount, manner and time of payment of any benefits  
34 under this article.

35 3. Recommend amendments to this article and articles 2.1 and 7 of this  
36 chapter that are required for efficient and effective administration.

37 4. Adopt, amend or repeal rules for the administration of the plan,  
38 this article and articles 2.1 and 7 of this chapter.

39 **F. BEGINNING JUNE 30, 2016, THE BOARD SHALL DETERMINE WHICH OF THE**  
40 **GENERALLY ACCEPTED ACTUARIAL COST METHODS SHALL BE USED IN THE ANNUAL**  
41 **ACTUARIAL VALUATION OF THE PLAN.**

42 ~~F.~~ G. The board shall submit to the governor and legislature for each  
43 fiscal year no later than eight months after the close of the fiscal year a  
44 report of its operations and the operations of ASRS. The report shall follow  
45 generally accepted accounting principles and generally accepted financial

- 1 reporting standards and shall include:
- 2 1. A report on an actuarial valuation of ASRS assets and liabilities.
- 3 2. Any other statistical and financial data that may be necessary for
- 4 the proper understanding of the financial condition of ASRS and the results
- 5 of board operations.
- 6 3. On request of the governor or the legislature, a list of
- 7 investments owned. This list shall be provided in electronic format.
- 8 ~~G.~~ H. The board shall:
- 9 1. Prepare and publish a synopsis of the annual report for the
- 10 information of ASRS members.
- 11 2. Contract for a study of the mortality, disability, service and
- 12 other experiences of the members and employers participating in ASRS. The
- 13 study shall be conducted for fiscal year 1990-1991 and for at least every
- 14 fifth fiscal year thereafter. A report of the study shall be completed
- 15 within eight months of the close of the applicable fiscal year and shall be
- 16 submitted to the governor and the legislature.
- 17 3. Conduct an annual actuarial valuation of ASRS assets and
- 18 liabilities.
- 19 ~~H.~~ I. The auditor general may make an annual audit of ASRS and
- 20 transmit the results to the governor and the legislature.
- 21 Sec. 3. Section 38-721, Arizona Revised Statutes, is amended to read:
- 22 ~~38-721.~~ Administration account
- 23 A. ASRS shall maintain an administration account consisting of all
- 24 monies for administrative purposes. The following monies shall be deposited
- 25 in the administration account:
- 26 1. All monies appropriated by the legislature to pay administrative
- 27 expenses of ASRS.
- 28 2. All monies received for proportionate shares of administrative
- 29 expenses from departments that pay the salaries of their officers and
- 30 employees wholly or in part from monies received from sources other than
- 31 appropriations from the state general fund.
- 32 3. All monies received for proportionate shares of administrative
- 33 expenses from political subdivisions paying employer contributions.
- 34 4. Monies that the director transfers from the investment account and
- 35 that are necessary for the payment of expenditures made pursuant to
- 36 subsections C and D of this section.
- 37 B. Except as provided in subsection C of this section, expenditures
- 38 from the administration account shall be made in accordance with board
- 39 directives, subject to legislative appropriation.
- 40 C. Expenditures for the following are continuously appropriated and
- 41 shall be paid from the administration account in the amount deemed necessary
- 42 by the board:
- 43 1. Investment management fees and related consulting fees necessary to
- 44 meet the board's investment objectives.
- 45 2. Rent.

1           3. Actuarial consulting fees.

2           4. Retiree payroll.

3           D. With the approval of the board, the director:

4           1. May expend monies from the administration account for staff,  
5 expenses and related consulting fees necessary to implement section 38-714,  
6 subsection E, paragraph 1 and subsection ~~G~~ H, paragraphs 2 and 3, section  
7 38-718, subsection D, paragraph 5 and sections 38-755 and 38-756.

8           2. Shall pay from the administration account the costs for  
9 administering the health insurance program for retired members pursuant to  
10 section 38-782, the cost of continuing education programs for the board and  
11 the cost of legal counsel.

12           Sec. 4. Section 38-737, Arizona Revised Statutes, is amended to read:  
13 ~~38-737.~~ Employer contributions

14           A. Employer contributions shall be a percentage of compensation of all  
15 employees of the employers, excluding the compensation of those employees who  
16 are members of the defined contribution program administered by ASRS, as  
17 determined by the ASRS actuary pursuant to this section for June 30 of the  
18 fiscal year immediately preceding the preceding fiscal year, except that  
19 beginning with fiscal year 2001-2002 the contribution rate shall not be less  
20 than two ~~per-cent~~ PERCENT of compensation of all employees of the employers.  
21 Beginning July 1, 2011 ~~THROUGH JUNE 29, 2016~~, the total employer contribution  
22 shall be determined on the projected unit credit method. ~~BEGINNING JUNE 30,~~  
23 ~~2016, THE BOARD SHALL DETERMINE THE ACTUARIAL COST METHOD PURSUANT TO SECTION~~  
24 ~~38-714.~~ The total employer contributions shall be equal to the employer  
25 normal cost plus the amount required to amortize the past service funding  
26 requirement over a period that is determined by the board and consistent with  
27 generally accepted actuarial standards. In determining the past service  
28 funding period, the board shall seek to improve the funded status whenever  
29 the ASRS trust fund is less than one hundred ~~per-cent~~ PERCENT funded.

30           B. All contributions made by the employer and allocated to the fund  
31 established by section 38-712 are irrevocable and shall be used as benefits  
32 under this article or to pay expenses of ASRS.

33           C. The required employer contributions shall be determined on an  
34 annual basis by an actuary who is selected by the board and who is a fellow  
35 of the society of actuaries. ASRS shall provide ~~a preliminary report by~~  
36 ~~November 1 and a final report~~ by December 15 of each fiscal year to the  
37 governor, the speaker of the house of representatives and the president of  
38 the senate ~~on~~ the contribution rate for the ensuing fiscal year ~~AND THE~~  
39 ~~UNFUNDED ACTUARIAL ACCRUED LIABILITY, THE FUNDED STATUS BASED ON THE~~  
40 ~~ACTUARIAL VALUE OF ASSETS AND MARKET VALUE OF ASSETS AND THE ANNUALIZED RATE~~  
41 ~~OF RETURN AND THE TEN-YEAR RATE OF RETURN AS OF JUNE 30 OF THE PRIOR FISCAL~~  
42 ~~YEAR.~~