

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

**CHAPTER 64**  
**SENATE BILL 1057**

AN ACT

AMENDING SECTIONS 38-842, 38-844.08, 38-845, 38-846.02, 38-856.01, 38-857 AND 38-858, ARIZONA REVISED STATUTES; RELATING TO THE PUBLIC SAFETY PERSONNEL 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 38-842, Arizona Revised Statutes, is amended to  
3 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.

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

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

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

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

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

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

42           16. "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.

45           17. "Determination period" means the ninety-day period in which the  
46 system must review a domestic relations order that is submitted by a

1 participant or alternate payee to determine whether the domestic relations  
2 order qualifies as a plan approved domestic relations order, calculated from  
3 the time the system mails a notice of receipt to the participant and  
4 alternate payee.

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

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

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

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

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

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

23 (a) Is under eighteen years of age.

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

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

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

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

32 (b) Municipal fire fighters.

33 (c) Paid full-time fire fighters employed directly by a fire district  
34 organized pursuant to section 48-803 or 48-804 or a joint powers authority  
35 pursuant to section 48-805.01 with three or more full-time fire fighters, but  
36 not including fire fighters employed by a fire district pursuant to a  
37 contract with a corporation.

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

39 (e) State fire fighters.

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

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

42 (h) Police officers who are certified peace officers and fire fighters  
43 of a nonprofit corporation operating a public airport pursuant to sections  
44 28-8423 and 28-8424. A police officer shall be designated pursuant to  
45 section 28-8426 to aid and supplement state and local law enforcement

1 agencies and a fire fighter's sole duty shall be to perform fire fighting  
2 services, including services required by federal regulations.

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

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

7 (k) State attorney general investigators who are certified peace  
8 officers.

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

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

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

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

16 (p) Arizona department of agriculture officers who are certified peace  
17 officers.

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

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

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

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

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

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

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

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

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

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

41 (a) Any distribution that is one of a series of substantially equal  
42 periodic payments made not less frequently than annually for the life or life  
43 expectancy of the member or the joint lives or joint life expectancies of the  
44 member and the member's beneficiary or for a specified period of ten years or  
45 more.

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

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

5 (d) ANY DISTRIBUTION MADE TO SATISFY THE REQUIREMENTS OF SECTION 415  
6 OF THE INTERNAL REVENUE CODE.

7 (e) HARDSHIP DISTRIBUTIONS.

8 (f) SIMILAR ITEMS DESIGNATED BY THE COMMISSIONER OF THE UNITED STATES  
9 INTERNAL REVENUE SERVICE IN REVENUE RULINGS, NOTICES AND OTHER GUIDANCE  
10 PUBLISHED IN THE INTERNAL REVENUE BULLETIN.

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

17 28. "Employers" means:

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

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

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

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

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

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

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

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

45 (a) Who is either a paid municipal police officer, a paid fire  
46 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  
46 has received a domestic relations order and a request for a determination

1 that the domestic relations order is a plan approved domestic relations  
2 order.

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

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

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

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

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

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

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

23 41. "PLAN YEAR" OR "FISCAL YEAR" MEANS THE PERIOD BEGINNING ON JULY 1  
24 OF ANY YEAR AND ENDING ON JUNE 30 OF THE NEXT SUCCEEDING YEAR.

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

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

3 ~~42.~~ 43. "Retirement" or "retired" means termination of employment  
4 after a member has fulfilled all requirements for a pension or, for an  
5 employee who becomes a member of the system on or after January 1, 2012,  
6 attains the age and service requirements for a normal retirement date.  
7 Retirement shall be considered as commencing on the first day of the month  
8 immediately following a member's last day of employment or authorized leave  
9 of absence, if later.

10 ~~43.~~ 44. "Segregated funds" means the amount of benefits that would  
11 currently be payable to an alternate payee pursuant to a domestic relations  
12 order under review by the system, or a domestic relations order submitted to  
13 the system that failed to qualify as a plan approved domestic relations  
14 order, if the domestic relations order were determined to be a plan approved  
15 domestic relations order.

16 ~~44.~~ 45. "Service" means the last period of continuous employment of  
17 an employee by the employers before the employee's retirement, except that if  
18 such period includes employment during which the employee would not have  
19 qualified as a member had the system then been effective, such as employment  
20 as a volunteer fire fighter, then only twenty-five ~~per-cent~~ PERCENT of such  
21 noncovered employment shall be considered as service. Any absence that is  
22 authorized by an employer shall not be considered as interrupting continuity  
23 of employment if the employee returns within the period of authorized  
24 absence. Transfers between employers also shall not be considered as  
25 interrupting continuity of employment. Any period during which a member is  
26 receiving sick leave payments or a temporary disability pension shall be  
27 considered as service. Notwithstanding any other provision of this  
28 paragraph, any period during which a person was employed as a full-time paid  
29 fire fighter for a corporation that contracted with an employer to provide  
30 firefighting services on behalf of the employer shall be considered as  
31 service if the employer has elected at its option to treat part or all of the  
32 period the firefighter worked for the company as service in its applicable  
33 joinder agreement. Any reference in this system to the number of years of  
34 service of an employee shall be deemed to include fractional portions of a  
35 year.

36 ~~45.~~ 46. "State" means the state of Arizona, including any department,  
37 office, board, commission, agency or other instrumentality of the state.

38 ~~46.~~ 47. "System" means the public safety personnel retirement system  
39 established by this article.

40 ~~47.~~ 48. "Temporary disability" means a physical or mental condition  
41 that the local board finds totally and temporarily prevents an employee from  
42 performing a reasonable range of duties within the employee's department and  
43 that was incurred in the performance of the employee's duty.

44 Sec. 2. Section 38-844.08, Arizona Revised Statutes, is amended to  
45 read:

46 38-844.08. Payment of deferred retirement option plan benefits

1 A. On the simultaneous termination of deferred retirement option plan  
2 participation and employment, a member is entitled to receive all of the  
3 following:

4 1. The monthly retirement allowance in the amount determined pursuant  
5 to section 38-845 that was credited monthly to the member's deferred  
6 retirement option plan participation account at the date of termination of  
7 deferred retirement option plan participation.

8 2. All amounts credited to the member's deferred retirement option  
9 plan participation account on the effective date of termination of deferred  
10 retirement option plan participation.

11 3. Interest on the amount credited pursuant to section 38-844.05,  
12 subsection C, paragraph 3 at a rate equal to two ~~per cent~~ PERCENT but only if  
13 the average annual return of the system over the period of years established  
14 by the board for use in the calculation of the actuarial value of assets is  
15 at least two ~~per cent~~ PERCENT for the previous fiscal year.

16 B. The form of payment shall be a lump sum distribution. ~~If allowed  
17 by the internal revenue service, the participant may elect to transfer the  
18 lump sum distribution to an eligible retirement plan or individual retirement  
19 account.~~ THE MEMBER OR THE MEMBER'S BENEFICIARY MAY MAKE A DIRECT ROLLOVER OF  
20 THE LUMP SUM DISTRIBUTION TO AN ELIGIBLE RETIREMENT PLAN UNDER THE SAME RULES  
21 SPECIFIED IN SECTION 38-846.02, SUBSECTIONS E, F AND G.

22 Sec. 3. Section 38-845, Arizona Revised Statutes, is amended to read:  
23 38-845. Amount of retirement benefit

24 A. A member who meets the requirements for a normal pension, who  
25 becomes a member of the system before January 1, 2012 and who has twenty  
26 years of credited service shall receive a monthly amount that equals fifty  
27 ~~per cent~~ PERCENT of the member's average monthly benefit compensation. If  
28 the member retires with other than twenty years of credited service, the  
29 foregoing amount shall be:

30 1. Reduced by four ~~per cent~~ PERCENT for each year of credited service  
31 under twenty years, with pro rata reduction for any fractional year.

32 2. Increased by a monthly amount equal to two ~~per cent~~ PERCENT of the  
33 member's average monthly benefit compensation multiplied by the number of the  
34 member's years of credited service in excess of twenty years, with pro rata  
35 increase for any fractional year, except that if a member retires with  
36 twenty-five or more years of credited service the amount shall be increased  
37 by a monthly amount equal to two and one-half ~~per cent~~ PERCENT of the  
38 member's average monthly benefit compensation multiplied by the number of the  
39 member's years of credited service in excess of twenty years, with pro rata  
40 increase for any fractional year. Notwithstanding ~~the provisions of~~ this  
41 subsection, the maximum amount payable as a normal pension shall be eighty  
42 ~~per cent~~ PERCENT of the average monthly benefit compensation.

43 B. A member who meets the requirements for an accidental disability  
44 pension shall receive a monthly amount, which shall be computed in the same  
45 manner as a normal pension, using the member's average monthly benefit

1 compensation before termination of employment and the member's actual  
2 credited service or twenty years of credited service, whichever is greater.

3 C. A member who meets the requirements for an ordinary disability  
4 pension shall receive a monthly amount that is equal to a fraction times the  
5 member's normal pension that is computed according to subsection A or G OF  
6 THIS SECTION if the member had twenty years of credited service. The  
7 fraction is the result obtained by dividing the member's actual years of  
8 credited service, not to exceed twenty years of credited service, by twenty.

9 D. A member who meets the requirements for a temporary disability  
10 pension shall receive a monthly amount that is equal to one-twelfth of fifty  
11 ~~per-cent~~ PERCENT of the member's annual compensation received immediately  
12 prior to the date on which the member's disability was incurred.

13 E. A member who meets the requirements for a catastrophic disability  
14 pension is entitled to receive a monthly amount computed as follows:

15 1. For the first sixty months, ninety ~~per-cent~~ PERCENT of the member's  
16 average monthly benefit compensation before termination of employment.

17 2. After sixty months, sixty-two and one-half ~~per-cent~~ PERCENT of the  
18 member's average monthly benefit compensation before termination of  
19 employment or computed in the same manner as a normal pension using the  
20 member's average monthly benefit compensation before termination of  
21 employment and the member's actual credited service, whichever is greater.

22 F. A member who was employed before September 15, 1989 by an employer  
23 participating in the system and who retires on or after November 1, 2001 is  
24 entitled to receive a tax equity benefit allowance consisting of a permanent  
25 increase of two ~~per-cent~~ PERCENT of the member's base benefit retroactive to  
26 the day of retirement.

27 G. A member who meets the requirements for a normal pension, who  
28 becomes a member of the system on or after January 1, 2012 and who has  
29 twenty-five years of credited service shall receive a monthly amount that  
30 equals sixty-two and one-half ~~per-cent~~ PERCENT of the member's average  
31 monthly benefit compensation. If the member retires with other than  
32 twenty-five years of credited service, the foregoing amount shall be:

33 1. Reduced by four ~~per-cent~~ PERCENT for each year of credited service  
34 under twenty-five years, with pro rata reduction for any fractional year.

35 2. Increased by a monthly amount equal to two and one-half ~~per-cent~~  
36 PERCENT of the member's average monthly benefit compensation multiplied by  
37 the number of the member's years of credited service in excess of twenty-five  
38 years, with pro rata increase for any fractional year. Notwithstanding ~~the~~  
39 ~~provisions of~~ this subsection, the maximum amount payable as a normal pension  
40 shall be eighty ~~per-cent~~ PERCENT of the average monthly benefit compensation.

41 ~~H. In addition to the amounts received under subsection A, B, C, D, E~~  
42 ~~or G and subject to the approval of the employer, the pension includes the~~  
43 ~~ability of a member to purchase the handgun or shotgun issued by the employer~~  
44 ~~to the member at less than fair market value.~~

45 Sec. 4. Section 38-846.02, Arizona Revised Statutes, is amended to  
46 read:

1           38-846.02. Termination of membership

2           A. On termination of employment for any reason other than death or  
3 retirement, within twenty days after filing a completed application with the  
4 board, a member who becomes a member of the system before January 1, 2012 is  
5 entitled to receive the following amounts, less any benefit payments the  
6 member has received or any amount the member may owe to the system:

7           1. If the member has less than five years of credited service with the  
8 system, the member may withdraw the member's accumulated contributions from  
9 the system.

10          2. If the member has five or more years of credited service with the  
11 system, the member may withdraw the member's accumulated contributions plus  
12 an amount equal to the amount determined as follows:

13           (a) 5.0 to 5.9 years of credited service, twenty-five ~~per cent~~ PERCENT  
14 of all member contributions deducted from the member's salary pursuant to  
15 section 38-843, subsection C.

16           (b) 6.0 to 6.9 years of credited service, forty ~~per cent~~ PERCENT of  
17 all member contributions deducted from the member's salary pursuant to  
18 section 38-843, subsection C.

19           (c) 7.0 to 7.9 years of credited service, fifty-five ~~per cent~~ PERCENT  
20 of all member contributions deducted from the member's salary pursuant to  
21 section 38-843, subsection C.

22           (d) 8.0 to 8.9 years of credited service, seventy ~~per cent~~ PERCENT of  
23 all member contributions deducted from the member's salary pursuant to  
24 section 38-843, subsection C.

25           (e) 9.0 to 9.9 years of credited service, eighty-five ~~per cent~~ PERCENT  
26 of all member contributions deducted from the member's salary pursuant to  
27 section 38-843, subsection C.

28           (f) 10.0 or more years of credited service, one hundred ~~per cent~~  
29 PERCENT of all member contributions deducted from the member's salary  
30 pursuant to section 38-843, subsection C.

31          B. If a member who becomes a member of the system before January 1,  
32 2012 has more than ten years of credited service with the system, leaves the  
33 monies prescribed in subsection A of this section on account with the system  
34 for more than thirty days after termination of employment and after that time  
35 period requests a refund of those monies, the member is entitled to receive  
36 the amount prescribed in subsection A of this section plus interest at a rate  
37 determined by the board for each year computed from and after the member's  
38 termination of employment.

39          C. On termination of employment for any reason other than death or  
40 retirement, within twenty days after filing a completed application with the  
41 board, a member who becomes a member of the system on or after January 1,  
42 2012 is entitled to receive a lump sum payment equal to the member's  
43 accumulated contribution plus interest at a rate determined by the board as  
44 of the date of termination, less any benefit payments the member has received  
45 as of the date of termination or any amount the member may owe to the system.

1 D. If the amount prescribed in subsection A, B or C of this section  
2 includes monies that are an eligible rollover distribution and the member  
3 elects to have the distribution paid directly to an eligible retirement plan  
4 or individual retirement account or annuity and specifies the eligible  
5 retirement plan or individual retirement account or annuity to which the  
6 distribution is to be paid, the distribution shall be made in the form of a  
7 direct trustee-to-trustee transfer to the specified eligible retirement plan.  
8 The distribution shall be made in the form and at the time prescribed by the  
9 board. A member who withdraws the amount prescribed in subsection A, B or C  
10 of this section from the system or who elects a transfer pursuant to this  
11 section forfeits all rights to benefits under the system and rights to  
12 rehearing and appeal, except as provided in section 38-849.

13 E. FOR DISTRIBUTIONS OCCURRING FROM AND AFTER DECEMBER 31, 2007, A  
14 MEMBER OR A MEMBER'S BENEFICIARY, INCLUDING A NONSPOUSE DESIGNATED  
15 BENEFICIARY TO THE EXTENT PERMITTED UNDER SUBSECTION F OF THIS SECTION, MAY  
16 ROLLOVER AN ELIGIBLE ROLLOVER DISTRIBUTION AS DEFINED IN SECTION 402(c)(4) OF  
17 THE INTERNAL REVENUE CODE TO A ROTH INDIVIDUAL RETIREMENT ACCOUNT, IF, FOR  
18 DISTRIBUTIONS OCCURRING BEFORE JANUARY 1, 2010, THE MEMBER OR THE MEMBER'S  
19 BENEFICIARY SATISFIES THE REQUIREMENTS FOR MAKING A ROTH INDIVIDUAL  
20 RETIREMENT ACCOUNT CONTRIBUTION UNDER SECTION 408A(c)(3)(B) OF THE INTERNAL  
21 REVENUE CODE, AS IN EFFECT ON THE DATE OF THE ROLLOVER. ANY AMOUNT ROLLED  
22 OVER TO A ROTH INDIVIDUAL RETIREMENT ACCOUNT IS INCLUDED IN THE GROSS INCOME  
23 OF THE MEMBER OR THE MEMBER'S BENEFICIARY TO THE EXTENT THE AMOUNTS WOULD  
24 HAVE BEEN INCLUDED IN GROSS INCOME IF NOT ROLLED OVER AS REQUIRED UNDER  
25 SECTION 408A(d)(3)(A) OF THE INTERNAL REVENUE CODE. FOR THE PURPOSES OF THIS  
26 SUBSECTION, THE ADMINISTRATOR IS NOT RESPONSIBLE FOR ENSURING THE MEMBER OR  
27 THE MEMBER'S BENEFICIARY IS ELIGIBLE TO MAKE A ROLLOVER TO A ROTH INDIVIDUAL  
28 RETIREMENT ACCOUNT.

29 F. FOR DISTRIBUTIONS MADE FROM AND AFTER DECEMBER 31, 2009, A  
30 NONSPOUSE DESIGNATED BENEFICIARY AS DEFINED IN SECTION 401(a)(9)(E) OF THE  
31 INTERNAL REVENUE CODE MAY ELECT TO DIRECTLY ROLLOVER AN ELIGIBLE ROLLOVER  
32 DISTRIBUTION TO AN INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408(a) OF THE  
33 INTERNAL REVENUE CODE OR AN INDIVIDUAL RETIREMENT ANNUITY UNDER SECTION  
34 408(b) OF THE INTERNAL REVENUE CODE THAT IS ESTABLISHED ON BEHALF OF THE  
35 DESIGNATED BENEFICIARY AND THAT WILL BE TREATED AS AN INHERITED INDIVIDUAL  
36 RETIREMENT PLAN PURSUANT TO SECTION 402(c)(11) OF THE INTERNAL REVENUE CODE.  
37 IN ORDER TO BE ABLE TO ROLLOVER THE DISTRIBUTION, THE DISTRIBUTION OTHERWISE  
38 MUST SATISFY THE DEFINITION OF AN ELIGIBLE ROLLOVER DISTRIBUTION AS DEFINED  
39 IN SECTION 402(c)(4) OF THE INTERNAL REVENUE CODE. IN APPLYING THIS  
40 SUBSECTION, A NONSPOUSE ROLLOVER IS NOT SUBJECT TO THE DIRECT ROLLOVER  
41 REQUIREMENTS UNDER SECTION 401(a)(31) OF THE INTERNAL REVENUE CODE, THE  
42 ROLLOVER NOTICE REQUIREMENTS UNDER SECTION 402(f) OF THE INTERNAL REVENUE  
43 CODE OR THE MANDATORY WITHHOLDING REQUIREMENTS UNDER SECTION 3405(c) OF THE  
44 INTERNAL REVENUE CODE.

45 G. FOR PLAN YEARS OCCURRING BEFORE JANUARY 1, 2007, THE PERIOD FOR  
46 PROVIDING THE ROLLOVER NOTICE AS REQUIRED UNDER SECTION 402(f) OF THE

1 INTERNAL REVENUE CODE IS NO LESS THAN THIRTY DAYS AND NO MORE THAN NINETY  
2 DAYS BEFORE THE DATE OF DISTRIBUTION AND, FOR PLAN YEARS BEGINNING FROM AND  
3 AFTER DECEMBER 31, 2006, THE PERIOD FOR PROVIDING THE ROLLOVER NOTICE AS  
4 REQUIRED UNDER SECTION 402(f) OF THE INTERNAL REVENUE CODE IS NO LESS THAN  
5 THIRTY DAYS AND NO MORE THAN ONE HUNDRED EIGHTY DAYS BEFORE THE DATE OF  
6 DISTRIBUTION.

7 Sec. 5. Section 38-856.01, Arizona Revised Statutes, is amended to  
8 read:

9 38-856.01. Lump sum payment of benefit increases

10 Notwithstanding any provision of this article, the board, at the  
11 request of a retired member, a survivor or the retired member's or survivor's  
12 guardian or conservator, may pay any increase in retirement benefits pursuant  
13 to this article in a lump sum payment based on the actuarial present value of  
14 the increase in the retirement benefits if the payment of the increase in  
15 retirement benefits would result in ineligibility for, reduction of or  
16 elimination of social service programs provided to the retired member or  
17 survivor by this state, a political subdivision of this state or the federal  
18 government. ~~Lump sum payments made pursuant to this section are eligible for  
19 a direct rollover distribution.~~

20 Sec. 6. Section 38-857, Arizona Revised Statutes, is amended to read:

21 38-857. Group health and accident coverage for retired members;  
22 payment; forfeiture of interest

23 A. ~~Upon~~ **ON** notification, the board shall pay from the assets of the  
24 separate account established pursuant to subsection G of this section part of  
25 the single coverage premium of any group health and accident insurance for  
26 each retired member or survivor of the system who receives a pension and who  
27 has elected to participate in the coverage provided by section 38-651.01 or  
28 38-782 or any other retiree health and accident insurance coverage provided  
29 or administered by a participating employer of the system. The board shall  
30 pay up to:

31 1. One hundred fifty dollars per month for each retired member or  
32 survivor of the system who is not eligible for medicare.

33 2. One hundred dollars per month for each retired member or survivor  
34 of the system who is eligible for medicare.

35 B. ~~Upon~~ **ON** notification, the board shall pay from assets of the  
36 separate account established pursuant to subsection G of this section part of  
37 the family coverage premium of any group health and accident insurance each  
38 month for a benefit recipient who elects family coverage and otherwise  
39 qualifies for payment pursuant to subsection A of this section. The board  
40 shall pay up to:

41 1. Two hundred sixty dollars per month if the retired member or  
42 survivor of the system and one or more dependents are not eligible for  
43 medicare.

44 2. One hundred seventy dollars per month if the retired member or  
45 survivor of the system and one or more dependents are eligible for medicare.

46 3. Two hundred fifteen dollars per month if either:

1 (a) The retired member or survivor of the system is not eligible for  
2 medicare and one or more dependents are eligible for medicare.

3 (b) The retired member or survivor of the system is eligible for  
4 medicare and one or more dependents are not eligible for medicare.

5 C. The board shall not pay from assets of the fund more than the  
6 amount prescribed in this section for a benefit recipient as a member or  
7 survivor of the system.

8 D. A retired member or survivor of the system may elect to purchase  
9 individual health care coverage and receive a payment pursuant to this  
10 section through the retired member's former employer if that former employer  
11 assumes the administrative functions associated with the payment, including  
12 verification that the payment is used to pay for health insurance coverage if  
13 the payment is made to the retired member or survivor of the system.

14 E. This section does not apply to a retired member of the system who  
15 becomes a member on or after ~~the effective date of this amendment to this~~  
16 ~~section~~ SEPTEMBER 13, 2013 and who is reemployed and participates in health  
17 care coverage provided by the member's new employer.

18 F. This section does not apply to a survivor of the system whose  
19 deceased spouse becomes a member on or after ~~the effective date of this~~  
20 ~~amendment to this section~~ SEPTEMBER 13, 2013 and who is reemployed and  
21 participates in health care coverage provided by the survivor's new employer.

22 G. The board shall establish a separate account that consists of the  
23 benefits provided in this section. The board shall deposit the benefits  
24 provided by this section in the account. The board shall not use or divert  
25 any part of the corpus or income of the account for any purpose other than  
26 the provision of benefits pursuant to this section unless the liabilities to  
27 provide the benefits pursuant to this section are satisfied. If the  
28 liabilities to provide the benefits described in this section are satisfied,  
29 the board shall return any amount remaining in the account to the employer.

30 H. Payment of the benefits provided by this section is subject to the  
31 following conditions:

32 1. The payment of the benefits is subordinate to the payment of  
33 retirement benefits payable by the system.

34 2. The total of the contributions for the benefits and actual  
35 contributions for life insurance protection, if any, shall not exceed  
36 twenty-five ~~per cent~~ PERCENT of the total actual employer and employee  
37 contributions to the system, minus the contributions to fund past service  
38 credits, after the day the account is established.

39 3. The contributions by the employer to the account shall be  
40 reasonable and ascertainable.

41 I. IF A MEMBER WHO IS ELIGIBLE FOR BENEFITS UNDER THIS SECTION  
42 FORFEITS THE MEMBER'S INTEREST IN THE ACCOUNT BEFORE THE TERMINATION OF THE  
43 PLAN, AN AMOUNT EQUAL TO THE AMOUNT OF THE FORFEITURE SHALL BE APPLIED AS  
44 SOON AS POSSIBLE TO REDUCE EMPLOYER CONTRIBUTIONS TO FUND THE BENEFITS  
45 PROVIDED BY THIS SECTION.

46 Sec. 7. Section 38-858, Arizona Revised Statutes, is amended to read:

1           38-858. Credit for military service

2           A. A member of the system who has at least ten years of service with  
3 the system may receive credited service for periods of active military  
4 service performed before employment with the member's current employer if:

5           1. The member was honorably separated from the military service.

6           2. The period of military service for which the member receives  
7 credited service does not exceed sixty months.

8           3. The period of military service for which the member receives  
9 credited service is not on account with any other retirement system, except  
10 as provided by 10 United States Code section 12736 or except if the member is  
11 not yet eligible for a military retirement benefit.

12           4. The member pays the cost to purchase the prior active military  
13 service. The cost is the amount necessary to equal the increase in the  
14 actuarial present value of projected benefits resulting from the additional  
15 credited service.

16           5. The amount of benefits purchased pursuant to this subsection is  
17 subject to limits established by section 415 of the internal revenue code.

18           B. An active member of the system who volunteers or is ordered to  
19 perform military service may receive credited service for not more than sixty  
20 months of military service as provided by the uniformed services employment  
21 and reemployment rights act (38 United States Code part III, chapter 43).  
22 The member's employer shall make employer contributions and the member shall  
23 make the member contributions pursuant to subsection C of this section if the  
24 member meets the following requirements:

25           1. Was an active member of the system on the day before the member  
26 began military service.

27           2. Entered into and served in the armed forces of the United States or  
28 is a member of the national guard.

29           3. Complies with the notice and return to work provisions of 38 United  
30 States Code section 4312.

31           C. Contributions made pursuant to subsection B of this section shall  
32 be for the period of time beginning on the date the member began military  
33 service and ending on the later of one of the following dates:

34           1. The date the member is separated from military service.

35           2. The date the member is released from service related  
36 hospitalization or two years after initiation of service related  
37 hospitalization, whichever date is earlier.

38           3. The date the member dies as a result of or during military service.

39           D. Notwithstanding any other law, on payment of the contributions made  
40 pursuant to subsection B of this section, the member shall be credited with  
41 service for retirement purposes for the period of military service of not  
42 more than sixty months. The member shall submit a copy of the military  
43 discharge certificate (DD-256A) and a copy of the military service record  
44 (DD-214) or its equivalent with the member's application when applying for  
45 credited service corresponding to the period of military service.

1 E. The employer and the member shall make contributions pursuant to  
2 subsection B of this section as follows:

3 1. Contributions shall be based on the compensation that the member  
4 would have received but for the period that the member was ordered into  
5 active military service.

6 2. If the employer cannot reasonably determine the member's rate of  
7 compensation for the period that the member was ordered into military  
8 service, contributions shall be based on the member's average rate of  
9 compensation during the twelve-month period immediately preceding the period  
10 of military service.

11 3. If a member has been employed less than twelve months before being  
12 ordered into military service, contributions shall be based on the member's  
13 compensation being earned immediately preceding the period of military  
14 service.

15 4. The member has up to three times the length of military service,  
16 not to exceed sixty months, to make the member contributions. Once the  
17 member has made the member contributions or on receipt of the member's death  
18 certificate, the employer shall make the employer contributions in a lump  
19 sum. Death benefits shall be calculated as prescribed by law.

20 5. If the member's employer pays military differential wage pay to  
21 members serving in the military, contributions shall be paid to the system  
22 pursuant to section 38-843 for any military differential wage pay paid to the  
23 member while performing military service.

24 F. In computing the length of total credited service of a member for  
25 the purpose of determining retirement benefits or eligibility, the period of  
26 military service, as prescribed by this section, shall be included.

27 G. If a member performs military service due to a presidential  
28 call-up, not to exceed forty-eight months, the employer shall make the  
29 employer and member contributions computed pursuant to subsection E of this  
30 section on the member's return and in compliance with subsection B of this  
31 section.

32 H. In addition to, but not in duplication of, the provisions of  
33 subsection B of this section, beginning December 12, 1994 contributions,  
34 benefits and credited service provided pursuant to this section shall be  
35 provided pursuant to section 414(u) of the internal revenue code, and this  
36 section shall be interpreted in a manner consistent with that internal  
37 revenue code section.

38 I. FOR PLAN YEARS BEGINNING AFTER DECEMBER 31, 2008, A MEMBER WHO DOES  
39 NOT CURRENTLY PERFORM SERVICES FOR AN EMPLOYER BY REASON OF QUALIFIED  
40 MILITARY SERVICE AS DEFINED IN SECTION 414(u)(5) OF THE INTERNAL REVENUE CODE  
41 IS NOT CONSIDERED HAVING A SEVERANCE FROM EMPLOYMENT DURING THAT QUALIFIED  
42 MILITARY SERVICE. ANY PAYMENTS BY THE EMPLOYER TO THE MEMBER DURING THE  
43 QUALIFIED MILITARY SERVICE SHALL BE CONSIDERED COMPENSATION TO THE EXTENT  
44 THOSE PAYMENTS DO NOT EXCEED THE AMOUNTS THE MEMBER WOULD HAVE RECEIVED IF  
45 THE MEMBER HAD CONTINUED TO PERFORM SERVICES FOR THE EMPLOYER RATHER THAN  
46 ENTERING QUALIFIED MILITARY SERVICE.

1 J. FOR DEATHS OCCURRING FROM AND AFTER DECEMBER 31, 2006, IN THE CASE  
2 OF A MEMBER WHO DIES WHILE PERFORMING QUALIFIED MILITARY SERVICE AS DEFINED  
3 IN SECTION 414(u)(5) OF THE INTERNAL REVENUE CODE, THE SURVIVORS OF THE  
4 MEMBER ARE ENTITLED TO ANY BENEFITS, OTHER THAN BENEFIT ACCRUALS RELATING TO  
5 THE PERIOD OF QUALIFIED MILITARY SERVICE, PROVIDED UNDER THE SYSTEM AS THOUGH  
6 THE MEMBER RESUMED AND THEN TERMINATED EMPLOYMENT ON ACCOUNT OF DEATH.

7 Sec. 8. Retroactivity

8 Section 38-857, Arizona Revised Statutes, as amended by this act,  
9 applies retroactively to from and after September 29, 1988.

APPROVED BY THE GOVERNOR MARCH 26, 2015.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MARCH 27, 2015.