REFERENCE TITLE: PSPRS modifications

State of Arizona
Senate
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2016

SB 1428

Introduced by
Senators Lesko, Begay, Bradley, Burges, Cajero Bedford, Driggs, Farley, Hobbs, Kavanagh, Miranda, Pancrazi, Sherwood, Smith, Worsley, Yarbrough, Yee; Representatives Alston, Brophy McGee, Cardenas, Carter, Clark, Coleman, Fann, Fernandez, Gray, Larkin, Meyer, Saldate, Thorpe, Weninger, Wheeler: Senators Allen S, Barto, Biggs, Contreras, Dalessandro, Dial, Donahue, Farnsworth D, Griffin, McGuire, Meza, Pierce, Quezada, Shooter; Representatives Ackerley, Allen J, Andrade, Barton, Benally, Borrelli, Bowers, Boyer, Campbell, Cobb, Espinoza, Gonzales, Hale, Lawrence, Leach, Lovas, McCune Davis, Mesnard, Norgaard, Pratt, Rios, Rivero, Shope, Velasquez

AN ACT

AMENDING SECTIONS 38-651.01, 38-803 AND 38-842, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-842.01; AMENDING SECTIONS 38-843, 38-843.04, 38-844.05 AND 38-845, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-845.03; AMENDING SECTIONS 38-846.01 AND 38-848, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-848.04; REPEALING SECTIONS 38-856, 38-856.01, 38-856.02, 38-856.03 AND 38-856.04, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 38-856.05, 38-856.06 AND 38-861; AMENDING TITLE 38, CHAPTER 5, ARIZONA REVISED STATUTES, BY ADDING ARTICLES 4.1 AND 4.2; AMENDING SECTIONS 38-883 AND 38-952, ARIZONA REVISED STATUTES; RELATING TO THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 38-651.01, Arizona Revised Statutes, is amended to read:

38-651.01. Group health and accident coverage for retired public employees and elected officials and their dependents

A. The department of administration, by rule, shall adopt standards to establish group health and accident coverage for former employees who worked for the state of Arizona and who opt on retirement to enroll or continue enrollment in the group health and accident coverage for active employees working for the state of Arizona, or with a disability, and receiving either income from a retirement program of this state or long-term disability income benefits pursuant to section 38-651.03 or chapter 5, article 2.1 of this title and their dependents and to establish eligibility for retired STATE EMPLOYEES or state employees with a disability to participate in the coverage. The department of administration may adopt rules that provide that if a retired INSURED or insured person with a disability dies before an insured surviving dependent, the insured surviving dependent is entitled to extended coverage at group rates if the insured surviving dependent elects to continue in the coverage within six months of THE DEATH OF the retired INSURED or insured ~~person's~~ PERSON with a disability ~~death~~ and the insured surviving dependent agrees to pay the cost of the premium for group health and accident insurance. On notification of the ~~retired or with a disability insured's~~ death, the department of administration shall immediately notify an insured surviving dependent of the provisions of this section. The department of administration may enter into agreements with former state employees with a disability and their dependents who elect to obtain the coverage provided by this section. The agreements may include provisions for the payment of amounts sufficient to pay for the premium and administrative expense of providing the coverage. The department of administration may adopt rules that provide that on the death of a state employee who at the time of death was eligible for normal retirement pursuant to section 38-757 under the Arizona state retirement system, the insured surviving spouse and eligible dependent children are entitled to continue coverage under group rates provided that the deceased insured state employee, spouse and dependent children were insured at the time of the employee's death. The insured surviving spouse shall be charged an amount sufficient to pay the full premium for the coverage.

B. The department of administration, by rule, may adopt standards to establish group health and accident coverage for former elected officials of this state or its political subdivisions and their dependents and to establish eligibility for former elected officials to participate in the coverage. Qualifications for eligibility shall include that the former elected official has at least five years of credited service in the elected officials' retirement plan pursuant to chapter 5 of this title, had been

covered under a group health or group health and accident plan while serving as an elected official and had been serving as an elected official on or after January 1, 1983. The department of administration may adopt rules that provide that on the death of an elected official or insured former elected official, the insured surviving spouse is entitled to coverage at group rates provided that the deceased insured former elected official met or would have met the qualifications for eligibility pursuant to this subsection or that the deceased elected official would have met the qualifications for eligibility had the deceased not been in office at the time of death. Except as provided in subsection J of this section, the insured former elected official or the insured surviving spouse shall be charged amounts that are sufficient to pay for the premium and state administrative expense of providing coverage. Notwithstanding subsection J of this section, the standards shall provide that all or any portion of the former state employees or former elected officials or their dependents shall be grouped with officers and employees of the state and its departments and agencies or their dependents as necessary to obtain health and accident coverage at favorable rates.

C. The Arizona state retirement system board may enter into agreements with ~~retired and~~ state employee members of the system and plan ~~with~~ WHO ARE RETIRED OR WHO HAVE a disability, ~~and~~ retired members of the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title AND RETIRED PARTICIPANTS OF THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE who elect to obtain the coverage provided pursuant to subsection A of this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

D. Retired state employee MEMBERS or state employee members with a disability of the public safety personnel retirement system, THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title, the corrections officer retirement plan or the optional retirement programs authorized pursuant to section 15-1628 who opt on retirement to enroll or continue enrollment in the group health and accident coverage for active employees working for the state of Arizona and their dependents and who are receiving benefits from the public safety personnel retirement system, THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE, the elected officials' retirement plan, the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title, the corrections officer

retirement plan or the optional retirement programs authorized pursuant to section 15-1628 may participate in group health and accident coverage provided pursuant to this section. The department of administration shall adopt rules that are necessary for the implementation of this subsection.

E. The board of trustees of the public safety personnel retirement system may enter into agreements with retired state employee members and their dependents who elect to obtain the coverage provided pursuant to this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

F. The board of trustees of the public safety personnel retirement system may enter into agreements with retired judges and retired elected officials and their dependents who elect to obtain the coverage provided pursuant to this section. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain coverage of amounts sufficient to pay for the premium not covered under retirement benefits and state administrative expense of providing coverage.

G. The board of trustees of the public safety personnel retirement system may contract with an insurance carrier and adopt standards to establish a group health and accident insurance coverage program for retired members of the public safety personnel retirement system, their dependents and their spouses. Any members or spouses who elect to obtain the group health and accident coverage provided under this subsection shall agree to a deduction from their monthly retirement benefits of an amount sufficient to pay for the premium not covered under retirement benefits and the administrative expense of providing coverage.

H. A county board of supervisors may enter into agreements to establish group health and accident coverage for retired COUNTY EMPLOYEES or county employees with a disability and their dependents who elect to obtain the coverage provided pursuant to section 11-263, subsection B. The agreements may include provision for the deduction from the retirement benefits of participants of a retirement program of this state who elect to obtain the coverage of amounts sufficient to pay for the premium not covered under retirement benefits and the administrative expense of providing for the coverage.

I. Nonmedicare eligible retirees who live in this state, who enroll in a qualifying plan under this section and who reside outside the area of a qualifying health maintenance organization shall be offered the option to enroll with a qualified health maintenance organization offered through their provider under the same premiums as if they lived within the area boundaries of the qualified health maintenance organization provided that:

1. All medical services are rendered and received at an office designated by the qualifying health maintenance organization or at a facility referred by the health maintenance organization.

2. All nonemergency or nonurgent travel, ambulatory and other expenses from the residence area of the retiree to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization are the responsibility of and at the expense of the retiree.

3. All emergency or urgent travel, ambulatory and other expenses from the residence area of the retiree to the designated office of the qualifying health maintenance organization or the facility referred by the health maintenance organization shall be paid pursuant to any agreement between the health maintenance organization and the retiree living outside the area of the qualifying health maintenance organization.

J. Public funds shall not be expended to pay all or any part of the premium of insurance pursuant to this section except for monies authorized to be paid for any insured from the retirement plan from which the insured is receiving benefits.

K. A retired member of the elected officials' defined contribution retirement system established pursuant to chapter 5, article 3.1 of this title may elect to obtain the coverage provided pursuant to subsection A of this section, but shall pay the premium for the coverage selected and is not eligible for benefits pursuant to section 38-783 or 38-817.

L. A RETIRED PARTICIPANT OF THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO CHAPTER 5, ARTICLE 4.1 OF THIS TITLE MAY ELECT TO OBTAIN THE COVERAGE PROVIDED PURSUANT TO SUBSECTION A OF THIS SECTION, BUT SHALL PAY THE PREMIUM FOR THE COVERAGE SELECTED.

Sec. 2. Section 38-803, Arizona Revised Statutes, is amended to read:

38-803. Powers and duties of the board

A. The board, in the administration, management and operation of the plan and fund, shall:

1. Account for the operation, administration and investment expenses and allocate them against investment income.

2. Contract on a fee basis with an actuary to make an actuarial valuation of the plan based on the valuation method and valuation assumptions recommended by the actuary and approved by the board. The actuary shall be a member of the American academy of actuaries.

3. Contract on a fee basis with an independent auditing firm to make an annual audit of the accounting records of the fund and file a copy of the audit with the auditor general.

4. Invest the monies in the fund as provided in article 4 of this chapter.

5. Within a period of six months after the close of each fiscal year, submit a detailed report of the operation and the investment performance of the plan to the governor, the legislature and the members of the plan.

6. By November 1 of each year provide a preliminary report and by December 15 of each year provide a final report to the governor, the speaker of the house of representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

B. The board, in the administration, management and operation of the plan and fund, may:

1. Employ services as it deems necessary.

2. Either keep invested monies separate or commingle invested monies as it deems appropriate.

3. Delegate authority as it deems necessary and prudent to the administrator employed pursuant to section 38-848, subsection ~~K~~ M, paragraph 6.

4. Do all acts, whether expressly authorized, which may be deemed necessary or proper for the protection of the fund.

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

38-842. Definitions

In this article, unless the context otherwise requires:

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

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

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

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

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

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

7. "Average monthly benefit compensation" means the result obtained by dividing the total compensation paid to an employee during a considered period by the number of months, including fractional months, in which such compensation was received. For an employee who becomes a member of the system:

(a) Before January 1, 2012, the considered period shall be the three consecutive years within the last twenty completed years of credited service that yield the highest average. ~~For an employee who becomes a member of the system~~

(b) On or after January 1, 2012 AND BEFORE JULY 1, 2017, the considered period is the five consecutive years within the last twenty completed years of credited service that yield the highest average. In the computation under this paragraph, a period of nonpaid or partially paid industrial leave shall be considered based on the compensation the employee would have received in the employee's job classification if the employee was not on industrial leave.

(c) ON OR AFTER JULY 1, 2017, THE CONSIDERED PERIOD IS THE FIVE CONSECUTIVE YEARS WITHIN THE LAST FIFTEEN COMPLETED YEARS OF CREDITED SERVICE THAT YIELD THE HIGHEST AVERAGE. IN THE COMPUTATION UNDER THIS PARAGRAPH, A PERIOD OF NONPAID OR PARTIALLY PAID INDUSTRIAL LEAVE SHALL BE CONSIDERED BASED ON THE COMPENSATION THE EMPLOYEE WOULD HAVE RECEIVED IN THE EMPLOYEE'S JOB CLASSIFICATION IF THE EMPLOYEE WAS NOT ON INDUSTRIAL LEAVE.

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

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

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

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

12. "Compensation" means, for the purpose of computing retirement benefits, base salary, overtime pay, shift differential pay, military differential wage pay, compensatory time used by an employee in lieu of overtime not otherwise paid by an employer and holiday pay paid to an employee by the employer for the employee's performance of services in an eligible group on a regular monthly, semimonthly or biweekly payroll basis and longevity pay paid to an employee at least every six months for which contributions are made to the system pursuant to section 38-843, subsection D. Compensation does not include, for the purpose of computing retirement benefits, payment for unused sick leave, payment in lieu of vacation, payment for unused compensatory time or payment for any fringe benefits. In addition, compensation does not include, for the purpose of computing retirement benefits, payments made directly or indirectly by the employer to the employee for work performed for a third party on a contracted basis or any other type of agreement under which the third party pays or reimburses the employer for the work performed by the employee for that third party, except for third party contracts between public agencies for law enforcement, criminal, traffic and crime suppression activities training or

fire, wildfire, emergency medical or emergency management activities or where the employer supervises the employee's performance of law enforcement, criminal, traffic and crime suppression activities training or fire, wildfire, emergency medical or emergency management activities. For the purposes of this paragraph, "base salary" means the amount of compensation each employee is regularly paid for personal services rendered to an employer before the addition of any extra monies, including overtime pay, shift differential pay, holiday pay, longevity pay, fringe benefit pay and similar extra payments.

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

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

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

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

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

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

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

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

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

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

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

(a) Is under eighteen years of age.

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

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

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

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

(b) Municipal ~~fire fighters~~ FIREFIGHTERS.

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

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

(e) State ~~fire fighters~~ FIREFIGHTERS.

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

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

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

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

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

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

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

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

(n) ~~Fire fighters~~ FIREFIGHTERS who are employed by an Indian reservation ~~fire fighting~~ FIREFIGHTING agency.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(d) Any distribution made to satisfy the requirements of section 415 of the internal revenue code.

(e) Hardship distributions.

(f) Similar items designated by the commissioner of the United States internal revenue service in revenue rulings, notices and other guidance published in the internal revenue bulletin.

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

28. "Employers" means:

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

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

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

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

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

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

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

31. "Member":

(a) Means any full-time employee who meets all of the following qualifications:

~~(a)~~ (i) Who is either a paid municipal police officer, a paid ~~fire fighter~~ FIREFIGHTER, a law enforcement officer who is employed by this state including the director thereof, a state ~~fire fighter~~ FIREFIGHTER who is primarily assigned to ~~fire fighting~~ FIREFIGHTING duties, a ~~fire fighter~~ FIREFIGHTER or police officer of a nonprofit corporation operating a public airport pursuant to sections 28-8423 and 28-8424, all ranks designated by the Arizona law enforcement merit system council, a state attorney general investigator who is a certified peace officer, a county attorney investigator who is a certified peace officer, a department of liquor licenses and control investigator who is a certified peace officer, an Arizona department of agriculture officer who is a certified peace officer, an Arizona state parks board ranger or manager who is a certified peace officer, a county park ranger who is a certified peace officer, a person who is a certified peace officer and who is employed by an Indian reservation police agency, a ~~fire fighter~~ FIREFIGHTER who is employed by an Indian reservation ~~fire fighting~~ FIREFIGHTING agency or an employee included in a group designated as eligible

employees under a joinder agreement entered into by their employer after July 1, 1968 and who is or was regularly assigned to hazardous duty or, beginning retroactively to January 1, 2009, who is a police chief or a fire chief.

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

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

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

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

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

(b) DOES NOT INCLUDE AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2017, WHO MAKES THE IRREVOCABLE ELECTION TO PARTICIPATE SOLELY IN THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE SYSTEM WITH A DISABILITY ON JUNE 30, 2017.

32. "Normal retirement date" means:

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

(b) For an employee who becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1, 2017, the first day of the calendar month immediately following the employee's completion of twenty-five years of service if the employee is at least fifty-two and one-half years of age.

(c) FOR AN EMPLOYEE WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1, 2017, THE FIRST DAY OF THE CALENDAR MONTH IMMEDIATELY FOLLOWING THE EMPLOYEE'S COMPLETION OF FIFTEEN YEARS OF CREDITED SERVICE IF THE EMPLOYEE IS AT LEAST FIFTY-FIVE YEARS OF AGE.

33. "Notice of receipt" means a written document that is issued by the system to a participant and alternate payee and that states that the system has received a domestic relations order and a request for a determination

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

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

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

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

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

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

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

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

41. "Plan year" or "fiscal year" means the period beginning on July 1 of any year and ending on June 30 of the next succeeding year.

42. "Regularly assigned to hazardous duty" means regularly assigned to duties of the type normally expected of municipal police officers, municipal or state ~~fire fighters~~ FIREFIGHTERS, eligible fire district ~~fire fighters~~ FIREFIGHTERS, state highway patrol officers, county sheriffs and deputies, fish and game wardens, ~~fire fighters~~ FIREFIGHTERS and police officers of a nonprofit corporation operating a public airport pursuant to sections 28-8423 and 28-8424, police officers who are appointed by the Arizona board of regents or a community college district governing board, state attorney general investigators who are certified peace officers, county attorney investigators who are certified peace officers, department of liquor licenses and control investigators who are certified peace officers, Arizona department of agriculture officers who are certified peace officers, Arizona state parks board rangers and managers who are certified peace officers, county park rangers who are certified peace officers, police officers who are certified peace officers and who are employed by an Indian reservation police agency or ~~fire fighters~~ FIREFIGHTERS who are employed by an Indian reservation ~~fire fighting~~ FIREFIGHTING agency. Those individuals who are assigned solely to support duties such as secretaries, stenographers, clerical personnel, clerks, cooks, maintenance personnel, mechanics and dispatchers are not assigned to hazardous duty regardless of their position classification title. Since the normal duties of those jobs described in

this paragraph are constantly changing, questions as to whether a person is or was previously regularly assigned to hazardous duty shall be resolved by the local board on a case-by-case basis. Resolutions by local boards are subject to rehearing and appeal.

43. "Retirement" or "retired" means termination of employment after a member has fulfilled all requirements for a pension ~~or~~, for an employee who becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1, 2017, attains the age and service requirements for a normal retirement date OR FOR AN EMPLOYEE WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1, 2017 ATTAINS THE AGE AND CREDITED SERVICE REQUIREMENTS FOR A NORMAL RETIREMENT DATE. Retirement shall be considered as commencing on the first day of the month immediately following a member's last day of employment or authorized leave of absence, if later.

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

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

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

47. "System" means the public safety personnel retirement system established by this article.

48. "Temporary disability" means a physical or mental condition that the local board finds totally and temporarily prevents an employee from

performing a reasonable range of duties within the employee's department and that was incurred in the performance of the employee's duty.

Sec. 4. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding section 38-842.01, to read:

38-842.01. Benefit election; eligibility; disability; employees hired on or after July 1, 2017

A. AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2017 AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE SYSTEM WITH A DISABILITY ON JUNE 30, 2017 IS ELIGIBLE TO PARTICIPATE IN THE SYSTEM OR THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER, DEPENDING ON THE EMPLOYEE'S ELECTION UNDER THIS SECTION. THE EMPLOYEE'S PARTICIPATION IN EITHER THE SYSTEM OR THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER BEGINS NINETY DAYS AFTER THE DATE THE EMPLOYEE IS HIRED. UNLESS THE ELECTIONS MADE UNDER THIS SECTION ARE MADE BEFORE THE NINETIETH DAY AFTER THE DATE OF EMPLOYMENT, THE EMPLOYEE IS AUTOMATICALLY ENROLLED IN THE SYSTEM FOR THE REMAINDER OF THE EMPLOYEE'S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM. ANY ELECTION MADE UNDER THIS SECTION IS IRREVOCABLE AND IS THE EMPLOYEE'S ELECTION FOR THE REMAINDER OF THE EMPLOYEE'S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM, REGARDLESS OF WHETHER THE EMPLOYEE'S EMPLOYMENT IS CONTINUOUS. THE EMPLOYEE MAY MAKE ONE OF THE FOLLOWING IRREVOCABLE ELECTIONS:

1. TO PARTICIPATE SOLELY IN THE SYSTEM.

2. TO PARTICIPATE SOLELY IN THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER.

B. AN EMPLOYEE WHO MAKES AN ELECTION TO PARTICIPATE SOLELY IN THE SYSTEM OR IS AUTOMATICALLY ENROLLED IN THE SYSTEM PURSUANT TO SUBSECTION A OF THIS SECTION AND WHO IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM IS ALSO ENROLLED IN THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER DURING ANY PERIOD THAT THE EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM THROUGH AN EMPLOYER UNDER THE SYSTEM. IF SUCH EMPLOYEE IS SUBSEQUENTLY COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM, THE EMPLOYEE MAY NOT MAKE ANY CONTRIBUTIONS TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER THAT ARE DESCRIBED IN SECTION 38-867, SUBSECTION A, PARAGRAPH 1 OR SUBSECTION B DURING THE PERIOD THE EMPLOYEE IS COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM. IF AT ANY LATER TIME THE EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM THROUGH AN EMPLOYER UNDER THE SYSTEM, THE EMPLOYEE SHALL AGAIN BE REQUIRED TO CONTRIBUTE TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER AS REQUIRED BY SECTION 38-867, SUBSECTION A, PARAGRAPH 1 AND, IF THE EMPLOYEE MADE AN

IRREVOCABLE ELECTION TO CONTRIBUTE MORE OF THE EMPLOYEE'S GROSS PENSIONABLE COMPENSATION TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION PLAN AS PROVIDED IN SECTION 38-867, SUBSECTION B, SUCH CONTRIBUTIONS SHALL BE REESTABLISHED FOR THE PERIOD THE EMPLOYEE IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM.

C. IF AN EMPLOYEE IN THE EMPLOYEE'S FIRST NINETY DAYS OF EMPLOYMENT IS DETERMINED TO BE ELIGIBLE FOR AN ACCIDENTAL DISABILITY PENSION PURSUANT TO SECTION 38-844, THE EMPLOYEE SHALL BE AUTOMATICALLY ENROLLED IN THE SYSTEM FOR THE REMAINDER OF THE EMPLOYEE'S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM COMMENCING ON THE EMPLOYEE'S DATE OF DISABILITY AND SHALL RECEIVE AN ACCIDENTAL DISABILITY PENSION AS PRESCRIBED IN THIS ARTICLE.

Sec. 5. Section 38-843, Arizona Revised Statutes, is amended to read:

38-843. Contributions

A. Each employer who participates in the system on behalf of a group of employees who were covered under a prior public retirement system, other than the federal social security act, shall transfer all securities and monies attributable to the taxes and contributions of the state other than the state contribution to social security, the employer and the employees for the covered group of employees under the other system, such transfer to be made to the fund subject to all existing liabilities and on or within sixty days following the employer's effective date. All monies and securities transferred to the fund shall be credited to the employer's account in the fund. A record of the market value and the cost value of such transferred contributions shall be maintained for actuarial and investment purposes.

B. As determined by actuarial valuations reported to the employer and the local board by the board of trustees, each employer shall make ~~level per cent of compensation~~ contributions sufficient under such actuarial valuations to meet both the normal cost FOR MEMBERS HIRED BEFORE JULY 1, 2017 plus the actuarially determined amount required to amortize the unfunded accrued liability ON A LEVEL PERCENT OF COMPENSATION BASIS FOR ALL EMPLOYEES OF THE EMPLOYER WHO ARE MEMBERS OF THE SYSTEM OR PARTICIPANTS AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a) over, beginning July 1, ~~2005~~ 2017, a ~~rolling~~ CLOSED period of ~~at least~~ NOT MORE THAN twenty ~~and not more than thirty~~ years that is established by the board of trustees taking into account the recommendation of the system's actuary, except that, beginning with fiscal year 2006-2007, except as otherwise provided, the employer contribution rate shall not be less than eight ~~per cent~~ PERCENT of compensation. For any employer whose actual contribution rate is less than eight ~~per cent~~ PERCENT of compensation for fiscal year 2006-2007, that employer's contribution rate is not subject to the eight ~~per cent~~ PERCENT minimum but, for fiscal year 2006-2007 and each year thereafter, shall be at least five ~~per cent~~ PERCENT and not more than the employer's actual contribution rate. An employer shall have the option of paying a higher level ~~per cent~~ PERCENT of compensation thereby reducing its unfunded past service liability. An employer shall also have the option of increasing its

contributions in order to reduce the contributions required from its members under subsection C of this section, except that if an employer elects this option the employer shall pay the same higher level percentage contribution for all members of the eligible group. A county employer that elected to pay a higher level percentage contribution rate may eliminate that higher level percentage contribution rate amount for members who are hired on or after January 1, 2015. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employer shall make the contributions based on the compensation the employee would have received in the employee's job classification if the employee was in normal employment status. All contributions made by the employers and all state taxes allocated to the fund shall be irrevocable and shall be used to pay benefits under the system or to pay expenses of the system and fund. The minimum employer contribution that is paid and that is in excess of the normal cost plus the actuarially determined amount required to amortize the unfunded accrued liability as calculated pursuant to this subsection shall be used to reduce future employer contribution increases and shall not be used to pay for an increase in benefits that are otherwise payable to members. The board shall separately account for these monies in the fund. Forfeitures arising because of severance of employment before a member becomes eligible for a pension or any other reason shall be applied to reduce the cost of the employer, not to increase the benefits otherwise payable to members. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account contains excess valuation assets other than excess valuation assets that were in the employer's account as of fiscal year 2004-2005 and is more than one hundred ~~per cent~~ PERCENT funded, the board shall account for fifty ~~per cent~~ PERCENT of the excess valuation assets in a stabilization reserve account. After the close of any fiscal year, if the system's actuary determines that the actuarial valuation of an employer's account has a valuation asset deficiency and an unfunded actuarial accrued liability, the board shall use any valuation assets in the stabilization reserve account for that employer, to the extent available, to limit the decline in that employer's funding ratio to not more than two ~~per cent~~ PERCENT.

C. Each member WHO WAS HIRED BEFORE JULY 1, 2017, throughout the member's period of service from the member's effective date of participation, shall contribute to the fund an amount equal to the amount prescribed in subsection E of this section, except as provided in subsection B of this section. EACH MEMBER WHO WAS HIRED ON OR AFTER JULY 1, 2017, THROUGHOUT THE MEMBER'S PERIOD OF SERVICE FROM THE MEMBER'S EFFECTIVE DATE OF PARTICIPATION, SHALL CONTRIBUTE TO THE FUND AN AMOUNT EQUAL TO THE AMOUNT PRESCRIBED IN SUBSECTION G OF THIS SECTION. During a period when an employee is on industrial leave and the employee elects to continue contributions during the period of industrial leave, the employee shall make the employee's contribution based on the compensation the employee would have received in

the employee's job classification if the employee was in normal employment status. Contributions of members shall be required as a condition of employment and membership in the system and shall be made by payroll deductions. Every employee shall be deemed to consent to such deductions. Payment of an employee's compensation, less such payroll deductions, shall constitute a full and complete discharge and satisfaction of all claims and demands by the employee relating to remuneration for the employee's services rendered during the period covered by the payment, except with respect to the benefits provided under the system. A member may not, under any circumstance, borrow from, take a loan against or remove contributions from the member's account before the termination of membership in the plan or the receipt of a pension.

D. Each employer shall transfer to the board the employer and employee contributions provided for in subsections B, ~~and~~ C AND G of this section within ten working days after each payroll date. Contributions transferred after that date shall include a penalty of ten ~~per cent~~ PERCENT per annum, compounded annually, for each day the contributions are late, such penalty to be paid by the employer. Delinquent payments due under this subsection, together with interest charges as provided in this subsection, may be recovered by action in a court of competent jurisdiction against an employer liable for the payments or, at the request of the board, may be deducted from any other monies, including excise revenue taxes, payable to such employer by any department or agency of this state.

E. The amount contributed by a member WHO WAS HIRED BEFORE JULY 1, 2017 pursuant to subsection C of this section is:

1. Through June 30, 2011, 7.65 ~~per cent~~ PERCENT of the member's compensation.

2. For fiscal year 2011-2012, 8.65 ~~per cent~~ PERCENT of the member's compensation.

3. For fiscal year 2012-2013, 9.55 ~~per cent~~ PERCENT of the member's compensation.

4. For fiscal year 2013-2014, 10.35 ~~per cent~~ PERCENT of the member's compensation.

5. For fiscal year 2014-2015, 11.05 ~~per cent~~ PERCENT of the member's compensation.

6. For fiscal year 2015-2016 and each fiscal year thereafter, 11.65 ~~per cent~~ PERCENT of the member's compensation or 33.3 ~~per cent~~ PERCENT of the sum of the member's contribution rate from the preceding fiscal year and the aggregate computed employer contribution rate that is calculated pursuant to subsection B of this section, whichever is lower, except that the member contribution rate shall not be less than 7.65 ~~per cent~~ PERCENT of the member's compensation and the employer contribution rate shall not be less than the rate prescribed in subsection B of this section.

F. For fiscal year 2011-2012 and each fiscal year thereafter, the amount of the member's contribution that exceeds 7.65 ~~per cent~~ PERCENT of the

member's compensation shall not be used to reduce the employer's contributions that are calculated pursuant to subsection B of this section.

G. FOR MEMBERS HIRED ON OR AFTER JULY 1, 2017, THE EMPLOYER AND MEMBER CONTRIBUTIONS ARE DETERMINED AS FOLLOWS:

1. AS DETERMINED BY ACTUARIAL VALUATIONS REPORTED TO THE EMPLOYER AND THE LOCAL BOARD BY THE BOARD OF TRUSTEES, EACH EMPLOYER SHALL MAKE CONTRIBUTIONS SUFFICIENT UNDER SUCH ACTUARIAL VALUATIONS TO PAY FIFTY PERCENT OF BOTH THE NORMAL COST PLUS THE ACTUARIALLY DETERMINED AMOUNT REQUIRED TO AMORTIZE THE TOTAL UNFUNDED ACCRUED LIABILITY FOR EACH EMPLOYER ATTRIBUTABLE ONLY TO THOSE MEMBERS HIRED ON OR AFTER JULY 1, 2017. FOR EACH YEAR THAT NEW UNFUNDED LIABILITIES ARE ATTRIBUTABLE TO THE EMPLOYER'S OWN MEMBERS HIRED ON OR AFTER JULY 1, 2017, A NEW AMORTIZATION BASE REPRESENTING THE MOST RECENT ANNUAL GAIN OR LOSS, SMOOTHED OVER A PERIOD NOT MORE THAN FIVE YEARS AS DETERMINED BY THE BOARD, SHALL BE CREATED ON A LEVEL-DOLLAR BASIS OVER A CLOSED PERIOD EQUAL TO THE AVERAGE EXPECTED REMAINING SERVICE LIVES OF ALL MEMBERS BUT NOT MORE THAN TEN YEARS, AS DETERMINED BY THE BOARD.

2. THE REMAINING FIFTY PERCENT OF BOTH THE NORMAL COST AND ACTUARIALLY DETERMINED AMOUNT REQUIRED TO AMORTIZE THE TOTAL UNFUNDED ACCRUED LIABILITY AS DETERMINED PURSUANT TO PARAGRAPH 1 OF THIS SUBSECTION SHALL BE DIVIDED BY THE TOTAL NUMBER OF THE EMPLOYER'S MEMBERS WHO WERE HIRED ON OR AFTER JULY 1, 2017 SUCH THAT EACH MEMBER CONTRIBUTES AN EQUAL PERCENTAGE OF THE MEMBER'S COMPENSATION. MEMBER CONTRIBUTIONS SHALL BEGIN SIMULTANEOUSLY WITH MEMBERSHIP IN THE SYSTEM AND SHALL BE MADE BY PAYROLL DEDUCTION.

H. IN ANY FISCAL YEAR, AN EMPLOYER'S CONTRIBUTION TO THE SYSTEM IN COMBINATION WITH MEMBER CONTRIBUTIONS MAY NOT BE LESS THAN THE ACTUARIALLY DETERMINED NORMAL COST FOR THAT FISCAL YEAR. THE BOARD MAY NOT SUSPEND CONTRIBUTIONS TO THE SYSTEM UNLESS BOTH OF THE FOLLOWING APPLY:

1. THE RETIREMENT SYSTEM ACTUARY, BASED ON THE ANNUAL VALUATION, DETERMINES THAT CONTINUING TO ACCRUE EXCESS EARNINGS COULD RESULT IN DISQUALIFICATION OF THE SYSTEM'S TAX-EXEMPT STATUS UNDER THE PROVISIONS OF THE UNITED STATES INTERNAL REVENUE CODE.

2. THE BOARD DETERMINES THAT THE RECEIPT OF ANY ADDITIONAL CONTRIBUTIONS REQUIRED UNDER THIS SECTION WOULD CONFLICT WITH ITS FIDUCIARY RESPONSIBILITY.

I. IF A MEMBER'S EMPLOYMENT IS TERMINATED WITH AN EMPLOYER BY EITHER PARTY, THE TOTAL LIABILITY UNDER THE SYSTEM ASSOCIATED WITH THE MEMBER'S SERVICE WITH THE EMPLOYER REMAINS WITH THE EMPLOYER.

Sec. 6. Section 38-843.04, Arizona Revised Statutes, is amended to read:

38-843.04. Compensation limitation; adjustments; definition

A. The annual compensation of each member taken into account for purposes of the system shall not exceed the following:

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

2. EXCEPT FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, beginning January 1, 2002, two hundred thousand dollars. THE BOARD SHALL ADJUST THE TWO HUNDRED THOUSAND DOLLAR ANNUAL COMPENSATION LIMIT UNDER THIS PARAGRAPH AT THE SAME TIME AND IN THE SAME MANNER AS ADJUSTED BY THE UNITED STATES SECRETARY OF THE TREASURY UNDER SECTION 401(a)(17)(B) OF THE INTERNAL REVENUE CODE. THE ADJUSTMENT UNDER THIS PARAGRAPH FOR A CALENDAR YEAR APPLIES TO ANNUAL COMPENSATION FOR THE PLAN YEAR THAT BEGINS WITH OR WITHIN THE CALENDAR YEAR.

3. FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, ONE HUNDRED TEN THOUSAND DOLLARS. THE BOARD SHALL ADJUST THE ONE HUNDRED TEN THOUSAND DOLLAR ANNUAL COMPENSATION LIMIT UNDER THIS PARAGRAPH AS PRESCRIBED IN SUBSECTION C OF THIS SECTION. NOTWITHSTANDING THE ADJUSTMENTS MADE UNDER SUBSECTION C OF THIS SECTION, THE LIMIT UNDER THIS PARAGRAPH, AS ADJUSTED BY THE BOARD, MAY NOT EXCEED THE MAXIMUM COMPENSATION LIMIT OF SECTION 401(a)(17) OF THE INTERNAL REVENUE CODE, AS ADJUSTED BY THE UNITED STATES SECRETARY OF THE TREASURY.

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

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

C. BEGINNING IN FISCAL YEAR 2020-2021, AND EVERY THIRD FISCAL YEAR THEREAFTER, THE BOARD SHALL ADJUST THE ANNUAL COMPENSATION LIMIT SPECIFIED IN SUBSECTION A, PARAGRAPH 3 OF THIS SECTION BY THE AVERAGE CHANGE IN THE PUBLIC SAFETY WAGE INDEX AS DETERMINED IN THIS SUBSECTION. THE BOARD SHALL ANNUALLY PUBLISH THE PUBLIC SAFETY WAGE INDEX IN JANUARY. TO DETERMINE THE PUBLIC SAFETY WAGE INDEX:

1. EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX SHALL PROVIDE THE BOARD PAY SCALES FOR THE MONTH OF JULY FOR THE ENFORCEMENT CLASSIFICATIONS OF PUBLIC SAFETY OFFICERS ANNUALLY IN JULY.

2. THE BOARD SHALL DETERMINE THE WEIGHTED AVERAGE OF THE CHANGE IN THE TOP OF THE PAY SCALE FOR PUBLIC SAFETY OFFICERS OF THE EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX. THE AVERAGE CHANGE SHALL BE WEIGHTED BY MEASURING EACH EMPLOYER'S TOTAL NUMBER OF MEMBERS DIVIDED BY THE TOTAL NUMBER OF MEMBERS OF ALL EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX.

D. THE BOARD SHALL ESTABLISH A PUBLIC SAFETY WAGE INDEX THAT IS COMPOSED OF A GROUP OF EMPLOYERS THAT REPRESENT GEOGRAPHIC DIVERSITY ACROSS THIS STATE AND THAT REPRESENT:

1. SEVEN LARGE EMPLOYERS, EACH OF WHICH HAS ONE THOUSAND OR MORE TOTAL SYSTEM MEMBERS, COMPOSED OF ONE STATE LAW ENFORCEMENT AGENCY, ONE COUNTY LAW ENFORCEMENT AGENCY, THREE MUNICIPAL LAW ENFORCEMENT AGENCIES AND TWO MUNICIPAL FIRE AGENCIES.

2. NINE MIDSIZED EMPLOYERS, EACH OF WHICH HAS MORE THAN TWO HUNDRED BUT LESS THAN ONE THOUSAND TOTAL SYSTEM MEMBERS, COMPOSED OF ONE STATE LAW ENFORCEMENT AGENCY, TWO COUNTY LAW ENFORCEMENT AGENCIES, FOUR MUNICIPAL LAW ENFORCEMENT AGENCIES, ONE MUNICIPAL FIRE AGENCY AND ONE FIRE DISTRICT.

3. TEN SMALL EMPLOYERS, EACH OF WHICH HAS TWO HUNDRED OR LESS TOTAL SYSTEM MEMBERS, COMPOSED OF THREE MUNICIPAL LAW ENFORCEMENT AGENCIES, FOUR MUNICIPAL FIRE AGENCIES AND THREE FIRE DISTRICTS.

E. THE BOARD MAY NOT CHANGE THE EMPLOYERS REPRESENTED IN THE PUBLIC SAFETY WAGE INDEX MORE FREQUENTLY THAN EVERY TEN YEARS, UNLESS REQUIRED TO MAINTAIN THE COMPOSITION OF EMPLOYERS AS PRESCRIBED IN SUBSECTION E OF THIS SECTION.

F. FOR THE PURPOSES OF THIS SECTION, "PUBLIC SAFETY OFFICERS" MEANS THE CLASSIFICATION OF POLICE OFFICERS, SHERIFF'S DEPUTIES, FIREFIGHTERS OR WILDLIFE MANAGERS OR THEIR EQUIVALENT ENFORCEMENT CLASSIFICATIONS.

Sec. 7. Section 38-844.05, Arizona Revised Statutes, is amended to read:

38-844.05. Deferred retirement option benefits and participation accounts

A. A deferred retirement option plan participation account is an account established within the system on behalf of each deferred retirement option plan participant. All benefits accrued pursuant to this article shall be accounted for in the deferred retirement option plan participation account. A deferred retirement option plan participant does not have a claim on the assets of the system with respect to the member's deferred retirement option plan participation account and assets shall not be set aside for any deferred retirement option plan participant that are separate from all other system assets.

B. All amounts credited to a member's deferred retirement option plan participation account are fully vested.

C. A member's deferred retirement option plan participation account shall be credited with the following:

1. An amount, credited monthly, that is computed in the same manner as a normal retirement benefit using the factors of credited service and average monthly benefit compensation in effect on the date of deferred retirement option plan participation.

2. An amount, credited monthly, that represents interest on the amount credited pursuant to paragraph 1 of this subsection at a rate equal to the assumed rate of return determined by the board, except that for a member who has less than twenty years of credited service on January 1, 2012 and who elects to participate in the deferred retirement option plan on or after January 1, 2012, the amount credited monthly is the amount that represents

interest at a rate equal to the average annual return of the system over the period of years established by the board for use in the calculation of the actuarial value of assets for the previous year, but not to exceed the system's assumed investment rate of return but at least two ~~per cent~~ PERCENT.

3. If applicable, employee contributions made pursuant to section 38-844.06, subsection B.

D. The participant is not entitled to receive any amount prescribed by section ~~38-856, 38-856.02~~ 38-856.05 or 38-857 during the deferred retirement option plan participation period.

Sec. 8. Section 38-845, Arizona Revised Statutes, is amended to read:

38-845. Amount of retirement benefit

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

1. Reduced by four percent for each year of credited service under twenty years, with pro rata reduction for any fractional year.

2. Increased by a monthly amount equal to two percent of the member's average monthly benefit compensation multiplied by the number of the member's years of credited service in excess of twenty years, with pro rata increase for any fractional year, except that if a member retires with twenty-five or more years of credited service the amount shall be increased by a monthly amount equal to two and one-half percent of the member's average monthly benefit compensation multiplied by the number of the member's years of credited service in excess of twenty years, with pro rata increase for any fractional year. Notwithstanding this subsection, the maximum amount payable as a normal pension shall be eighty percent of the average monthly benefit compensation.

B. A member who meets the requirements for an accidental disability pension shall receive a monthly amount, which shall be computed in the same manner as a normal pension, using the member's average monthly benefit compensation before termination of employment and the member's actual credited service or twenty years of credited service, whichever is greater.

C. A member who meets the requirements for an ordinary disability pension shall receive a monthly amount that is equal to a fraction times the member's normal pension that is computed according to subsection A, ~~or~~ G OR H of this section if the member had twenty years of credited service. The fraction is the result obtained by dividing the member's actual years of credited service, not to exceed twenty years of credited service, by twenty.

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

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

1. For the first sixty months, ninety percent of the member's average monthly benefit compensation before termination of employment.

2. After sixty months, sixty-two and one-half percent of the member's average monthly benefit compensation before termination of employment or computed in the same manner as a normal pension using the member's average monthly benefit compensation before termination of employment and the member's actual credited service, whichever is greater.

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

G. A member who meets the requirements for a normal pension, who becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1, 2017 and who has twenty-five years of credited service shall receive a monthly amount that equals sixty-two and one-half percent of the member's average monthly benefit compensation. If the member retires with other than twenty-five years of credited service, the foregoing amount shall be:

1. Reduced by four percent for each year of credited service under twenty-five years, with pro rata reduction for any fractional year.

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

H. A MEMBER WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1, 2017 AND WHO RETIRES ON OR AFTER THE MEMBER'S NORMAL RETIREMENT DATE SHALL RECEIVE A MONTHLY AMOUNT EQUAL TO THE MEMBER'S AVERAGE MONTHLY BENEFIT COMPENSATION MULTIPLIED BY THE NUMBER OF WHOLE AND FRACTIONAL YEARS OF CREDITED SERVICE MULTIPLIED BY THE FOLLOWING:

1. 1.50 PERCENT IF THE MEMBER HAS AT LEAST FIFTEEN YEARS OF CREDITED SERVICE BUT LESS THAN SEVENTEEN YEARS OF CREDITED SERVICE.

2. 1.75 PERCENT IF THE MEMBER HAS AT LEAST SEVENTEEN YEARS OF CREDITED SERVICE BUT LESS THAN NINETEEN YEARS OF CREDITED SERVICE.

3. 2.00 PERCENT IF THE MEMBER HAS AT LEAST NINETEEN YEARS OF CREDITED SERVICE BUT LESS THAN TWENTY-TWO YEARS OF CREDITED SERVICE.

4. 2.25 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-TWO YEARS OF CREDITED SERVICE BUT LESS THAN TWENTY-FIVE YEARS OF CREDITED SERVICE.

5. 2.50 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-FIVE YEARS OF CREDITED SERVICE.

I. NOTWITHSTANDING SUBSECTION H OF THIS SECTION, THE MAXIMUM AMOUNT PAYABLE AS A NORMAL PENSION IS EIGHTY PERCENT OF THE AVERAGE MONTHLY BENEFIT COMPENSATION.

Sec. 9. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding section 38-845.03, to read:

38-845.03. Early retirement

MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 AND WHO HAVE EARNED AT LEAST FIFTEEN YEARS OF CREDITED SERVICE MAY RETIRE AT FIFTY-TWO AND ONE-HALF YEARS OF AGE AND WILL RECEIVE AN ACTUARIALLY EQUIVALENT RETIREMENT BENEFIT TO THE BENEFIT AMOUNT PRESCRIBED IN SECTION 38-845, SUBSECTION H.

Sec. 10. Section 38-846.01, Arizona Revised Statutes, is amended to read:

38-846.01. Deferred annuity; exception

A. If any member who has at least ten years of credited service terminates employment for reasons other than retirement or disability, the member may elect to receive a deferred annuity, except that if the annuitant withdraws all or part of the annuitant's accumulated contributions in the system all rights in and to a deferred annuity shall be forfeited by the annuitant. A deferred annuity is a lifetime monthly payment actuarially equivalent to the annuitant's accumulated contributions in the system plus an equal amount paid by the employer and shall commence on application on or after the sixty-second birthday of the annuitant. The annuity is not a retirement benefit and annuitants are not entitled to receive any amount prescribed by section 38-845, subsection F or section 38-846, 38-856, 38-856.02 or 38-857.

B. This section does not apply to a member who becomes a member of the system on or after January 1, 2012. ~~Such~~ FOR A MEMBER WHO IS HIRED ON OR AFTER JANUARY 1, 2012 AND BEFORE JULY 1, 2017, a ~~person~~ MEMBER who attains a normal retirement date is eligible for retirement and a retirement benefit even if the member terminates employment with an employer before the age requirement for normal retirement if the member attains the service requirement for normal retirement. FOR A MEMBER WHO IS HIRED ON OR AFTER JULY 1, 2017, A MEMBER WHO ATTAINS A NORMAL RETIREMENT DATE IS ELIGIBLE FOR RETIREMENT AND A RETIREMENT BENEFIT EVEN IF THE MEMBER TERMINATES EMPLOYMENT WITH AN EMPLOYER BEFORE THE AGE REQUIREMENT FOR NORMAL RETIREMENT IF THE MEMBER ATTAINS THE CREDITED SERVICE REQUIREMENT FOR NORMAL RETIREMENT. ONCE A MEMBER DESCRIBED IN THIS SUBSECTION REACHES THE NORMAL RETIREMENT AGE, THE MEMBER MAY RECEIVE PAYMENTS MADE UNDER SECTION 38-845.

Sec. 11. Section 38-848, Arizona Revised Statutes, is amended to read:

38-848. Board of trustees; powers and duties; independent trust fund; administrator; agents and employees; advisory committee

A. BEGINNING JANUARY 1, 2017, the board of trustees shall consist of ~~seven~~ NINE members and shall have the rights, powers and duties that are set forth in this section. The term of office of members shall be five years to

expire on the third Monday in January of the appropriate year. THE BOARD SHALL SELECT A CHAIRPERSON FROM AMONG ITS MEMBERS EACH CALENDAR YEAR. Members are eligible to receive compensation in an amount of fifty dollars a day, but not to exceed one thousand dollars in any one fiscal year, and are eligible for reimbursement of expenses pursuant to chapter 4, article 2 of this title. BEGINNING JANUARY 1, 2017, the board consists of the following members appointed ~~by the governor pursuant to section 38-211~~ AS FOLLOWS:

~~1. Two elected members from a local board to represent the employees.~~

~~2. One member to represent this state as an employer of public safety personnel. This member shall have the qualifications prescribed in subsection T of this section.~~

~~3. One member to represent the cities as employers of public safety personnel.~~

~~4. An elected county or state official or a judge of the superior court, court of appeals or supreme court.~~

~~5. Two public members. These members shall have the qualifications prescribed in subsection T of this section.~~

1. TWO MEMBERS REPRESENTING LAW ENFORCEMENT, ONE OF WHOM IS APPOINTED BY THE PRESIDENT OF THE SENATE AND ONE OF WHOM IS APPOINTED BY THE GOVERNOR. A STATEWIDE ASSOCIATION REPRESENTING LAW ENFORCEMENT IN THIS STATE SHALL FORWARD NOMINATIONS TO THE APPOINTING ELECTED OFFICIALS, PROVIDING AT LEAST THREE NOMINEES FOR EACH POSITION. AT LEAST ONE OF THE MEMBERS APPOINTED UNDER THIS PARAGRAPH SHALL BE AN ELECTED LOCAL BOARD MEMBER.

2. TWO MEMBERS REPRESENTING FIREFIGHTERS, ONE OF WHOM IS APPOINTED BY THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND ONE OF WHOM IS APPOINTED BY THE GOVERNOR. A STATEWIDE ASSOCIATION REPRESENTING FIREFIGHTERS IN THIS STATE SHALL FORWARD NOMINATIONS TO THE APPOINTING ELECTED OFFICIALS, PROVIDING AT LEAST THREE NOMINEES FOR EACH POSITION. AT LEAST ONE OF THE MEMBERS APPOINTED UNDER THIS PARAGRAPH SHALL BE AN ELECTED LOCAL BOARD MEMBER.

3. THREE MEMBERS REPRESENTING CITIES AND TOWNS IN THIS STATE, ONE OF WHOM IS APPOINTED BY THE PRESIDENT OF THE SENATE, ONE OF WHOM IS APPOINTED BY THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND ONE OF WHOM IS APPOINTED BY THE GOVERNOR. AN ASSOCIATION REPRESENTING CITIES AND TOWNS IN THIS STATE SHALL FORWARD NOMINATIONS TO THE APPOINTING ELECTED OFFICIALS, PROVIDING AT LEAST THREE NOMINEES FOR EACH POSITION. THESE NOMINEES SHALL REPRESENT TAXPAYERS OR EMPLOYERS AND MAY NOT BE MEMBERS OF THE SYSTEM.

4. ONE MEMBER WHO REPRESENTS COUNTIES IN THIS STATE AND WHO IS APPOINTED BY THE GOVERNOR. AN ASSOCIATION REPRESENTING COUNTY SUPERVISORS IN THIS STATE SHALL FORWARD NOMINATIONS TO THE GOVERNOR, PROVIDING AT LEAST THREE NOMINEES FOR THE POSITION. THESE NOMINEES SHALL REPRESENT TAXPAYERS OR EMPLOYERS AND MAY NOT BE MEMBERS OF THE SYSTEM.

5. ONE MEMBER WHO IS APPOINTED BY THE GOVERNOR FROM A LIST OF THREE NOMINEES FORWARDED BY THE BOARD. THE BOARD SHALL SELECT THE NOMINEES TO

FORWARD TO THE GOVERNOR FROM A LIST OF AT LEAST FIVE NOMINEES RECEIVED FROM THE ADVISORY COMMITTEE.

B. EACH APPOINTMENT MADE PURSUANT TO SUBSECTION A OF THIS SECTION SHALL BE CHOSEN FROM THE LIST OF NOMINEES PROVIDED TO THE APPOINTING ELECTED OFFICIAL. A BOARD MEMBER MAY BE REAPPOINTED. NOTWITHSTANDING SECTION 38-295, A BOARD MEMBER MAY BE REMOVED FROM OFFICE ONLY FOR CAUSE BY THE APPOINTING POWER OR BECAUSE THE BOARD MEMBER HAS VACATED THE MEMBER'S SEAT ON THE BOARD. A BOARD MEMBER WHO IS REMOVED FOR CAUSE SHALL BE PROVIDED WRITTEN NOTICE AND AN OPPORTUNITY FOR A RESPONSE. THE APPOINTING POWER MAY REMOVE A BOARD MEMBER BASED ON WRITTEN FINDINGS THAT SPECIFY THE REASON FOR REMOVAL. ANY VACANCY THAT OCCURS OTHER THAN BY EXPIRATION OF A TERM SHALL BE FILLED FOR THE BALANCE OF THE TERM. ALL VACANCIES SHALL BE FILLED IN THE SAME MANNER AS THE INITIAL APPOINTMENT. A BOARD MEMBER VACATES THE OFFICE IF THE MEMBER EITHER:

1. IS ABSENT WITHOUT EXCUSE FROM THREE CONSECUTIVE REGULAR MEETINGS OF THE BOARD.

2. RESIGNS, DIES OR BECOMES UNABLE TO PERFORM BOARD MEMBER DUTIES.

C. THE MEMBERS OF THE BOARD WHO ARE APPOINTED PURSUANT TO SUBSECTION A OF THIS SECTION AND WHO ARE NOT MEMBERS OF THE SYSTEM SHALL BE INDEPENDENT, QUALIFIED PROFESSIONALS WHO ARE RESPONSIBLE FOR THE PERFORMANCE OF FIDUCIARY DUTIES AND OTHER RESPONSIBILITIES REQUIRED TO PRESERVE AND PROTECT THE FUND AND SHALL HAVE AT LEAST TEN YEARS' SUBSTANTIAL EXPERIENCE AS ANY ONE OR A COMBINATION OF THE FOLLOWING:

1. A PORTFOLIO MANAGER ACTING IN A FIDUCIARY CAPACITY.

2. A SECURITIES ANALYST.

3. A SENIOR EXECUTIVE OR PRINCIPAL OF A TRUST INSTITUTION, INVESTMENT ORGANIZATION OR ENDOWMENT FUND ACTING EITHER IN A MANAGEMENT OR AN INVESTMENT-RELATED CAPACITY.

4. A CHARTERED FINANCIAL ANALYST IN GOOD STANDING AS DETERMINED BY THE CHARTERED FINANCIAL ANALYST INSTITUTE.

5. A CURRENT OR FORMER PROFESSOR OR INSTRUCTOR AT THE COLLEGE OR UNIVERSITY LEVEL IN THE FIELD OF ECONOMICS, FINANCE, ACTUARIAL SCIENCE, ACCOUNTING OR PENSION-RELATED SUBJECTS.

6. AN ECONOMIST.

7. ANY OTHER SENIOR EXECUTIVE ENGAGED IN THE FIELD OF PUBLIC OR PRIVATE FINANCES OR WITH EXPERIENCE WITH PUBLIC PENSION SYSTEMS.

8. A SENIOR EXECUTIVE IN INSURANCE, BANKING, UNDERWRITING, AUDITING, HUMAN RESOURCES OR RISK MANAGEMENT.

~~B.~~ D. All monies in the fund shall be deposited and held in a public safety personnel retirement system depository. Monies in the fund shall be disbursed from the depository separate and apart from all monies or funds of this state and the agencies, instrumentalities and subdivisions of this state, except that the board may commingle the assets of the fund and the assets of all other plans entrusted to its management in one or more group trusts, subject to the crediting of receipts and earnings and charging of

payments to the appropriate employer, system or plan. The monies shall be secured by the depository in which they are deposited and held to the same extent and in the same manner as required by the general depository law of this state. For purposes of making the decision to invest in securities owned by the fund or any plan or trust administered by the board, the fund and assets of the plans and the plans' trusts are subject to the sole management of the board for the purpose of this article except that, on the board's election to invest in a particular security or make a particular investment, the assets comprising the security or investment may be chosen and managed by third parties approved by the board. The board may invest in portfolios of securities chosen and managed by a third party. The board's decision to invest in securities such as mutual funds, commingled investment funds, exchange traded funds, private equity or venture capital limited partnerships, real estate limited partnerships or limited liability companies and real estate investment trusts whose assets are chosen and managed by third parties does not constitute an improper delegation of the board's investment authority.

~~C.~~ E. All contributions under this system and other retirement plans that the board administers shall be forwarded to the board and shall be held, invested and reinvested by the board as provided in this article. All property and monies of the fund and other retirement plans that the board administers, including income from investments and from all other sources, shall be retained for the exclusive benefit of members, as provided in the system and other retirement plans that the board administers, and shall be used to pay benefits to members or their beneficiaries or to pay expenses of operation and administration of the system and fund and other retirement plans that the board administers.

~~D.~~ F. The board shall have the full power in its sole discretion to invest and reinvest, alter and change the monies accumulated under the system and other retirement plans and trusts that the board administers as provided in this article. In addition to its power to make investments managed by others, the board may delegate the authority the board deems necessary and prudent to investment management pursuant to section 38-848.03, as well as to the administrator, employed by the board pursuant to subsection ~~K~~ M, paragraph 6 of this section, and any assistant administrators to invest the monies of the system and other retirement plans and trusts that the board administers if the administrator, investment management and any assistant administrators follow the investment policies that are adopted by the board. The board may commingle securities and monies of the fund, the elected officials' retirement plan, the corrections officer retirement plan and other plans or monies entrusted to its care, subject to the crediting of receipts and earnings and charging of payments to the account of the appropriate employer, system or plan. In making every investment, the board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion and intelligence exercise in the

management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income from their funds as well as the probable safety of their capital, provided:

1. That not more than eighty ~~per cent~~ PERCENT of the combined assets of the system or other plans that the board manages shall be invested at any given time in corporate stocks, based on cost value of such stocks irrespective of capital appreciation.

2. That no more than five ~~per cent~~ PERCENT of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the United States government or corporate stock issued by a bank or insurance company.

3. That not more than five ~~per cent~~ PERCENT of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.

4. That corporate stocks and exchange traded funds eligible for direct purchase shall be restricted to stocks and exchange traded funds that, except for bank stocks, insurance stocks, stocks acquired for coinvestment in connection with the system's or the plans' or trusts' commingled investments and interests in limited liability companies and mutual funds, are either:

(a) Listed or approved on issuance for listing on an exchange registered under the securities exchange act of 1934, as amended (15 United States Code sections 78a through 78ll).

(b) Designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the securities exchange act of 1934, as amended (15 United States Code sections 78a through 78ll).

(c) Listed or approved on issuance for listing on an exchange registered under the laws of this state or any other state.

(d) Listed or approved on issuance for listing on an exchange of a foreign country with which the United States is maintaining diplomatic relations at the time of purchase, except that no more than twenty ~~per cent~~ PERCENT of the combined assets of the system and other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation.

(e) An exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the investment company act of 1940 (15 United States Code sections 80a-1 through 80a-64) and that is both traded on a public exchange and based on a publicly recognized index.

~~E.~~ G. Notwithstanding any other law, the board shall not be required to invest in any type of investment that is dictated or required by any entity of the federal government and that is intended to fund economic development projects, public works or social programs, but may consider such

economically targeted investments pursuant to its fiduciary responsibility. The board, on behalf of the system and all other plans or trusts the board administers, may invest in, lend monies to or guarantee the repayment of monies by a limited liability company, limited partnership, joint venture, partnership, limited liability partnership or trust in which the system and plans or trusts have a financial interest, whether the entity is closely held or publicly traded and that, in turn, may be engaged in any lawful activity, including venture capital, private equity, the ownership, development, management, improvement or operation of real property and any improvements or businesses on real property or the lending of monies.

~~F.~~ H. Conference call meetings of the board that are held for investment purposes only are not subject to chapter 3, article 3.1 of this title, except that the board shall maintain minutes of these conference call meetings and make them available for public inspection within twenty-four hours after the meeting. The board shall review the minutes of each conference call meeting and shall ratify all legal actions taken during each conference call meeting at the next scheduled meeting of the board.

~~G.~~ I. The board shall not be held liable for the exercise of more than ordinary care and prudence in the selection of investments and performance of its duties under the system and shall not be limited to so-called "legal investments for trustees", but all monies of the system and other plans that the board administers shall be invested subject to all of the conditions, limitations and restrictions imposed by law.

~~H.~~ J. Except as provided in subsection ~~D~~ F of this section, the board may:

1. Invest and reinvest the principal and income of all assets that the board manages without distinction between principal and income.

2. Sell, exchange, convey, transfer or otherwise dispose of any investments made on behalf of the system or other plans the board administers in the name of the system or plans by private contract or at public auction.

3. Also:

(a) Vote on any stocks, bonds or other securities.

(b) Give general or special proxies or powers of attorney with or without power of substitution.

(c) Exercise any conversion privileges, subscription rights or other options and make any payments incidental to the exercise of the conversion privileges, subscription rights or other options.

(d) Consent to or otherwise participate in corporate reorganizations or other changes affecting corporate securities, delegate discretionary powers and pay any assessments or charges in connection therewith.

(e) Generally exercise any of the powers of an owner with respect to stocks, bonds, securities or other investments held in or owned by the system or other plans whose assets the board administers.

4. Make, execute, acknowledge and deliver any other instruments that may be necessary or appropriate to carry out the powers granted in this section.

5. Register any investment held by the system or other plans whose assets the board administers in the name of the system or plan or in the name of a nominee or trust.

6. At the expense of the system or other plans that the board administers, enter into an agreement with any bank or banks for the safekeeping and handling of securities and other investments coming into the possession of the board. The agreement shall be entered into under terms and conditions that secure the proper safeguarding, inventory, withdrawal and handling of the securities and other investments. No access to and no deposit or withdrawal of the securities from any place of deposit selected by the board shall be permitted or made except as the terms of the agreement may provide.

7. Appear before local boards and the courts of this state and political subdivisions of this state through counsel or appointed representative to protect the fund or the assets of other plans that the board administers. The board is not responsible for the actions or omissions of the local boards under this system but may seek review or rehearing of actions or omissions of local boards. The board does not have a duty to review actions of the local boards but may do so in its discretion in order to protect the fund. No limitations period precludes the board or administrator from contesting, or requires the board or administrator to implement or comply with, a local board decision that violates the internal revenue code or that threatens to impair the tax qualified status of the system or any plan administered by the board or administrator.

8. Empower the fund administrator to take actions on behalf of the board that are necessary for the protection and administration of the fund or the assets of other plans that the board administers pursuant to the guidelines of the board.

9. Do all acts, whether or not expressly authorized, that may be deemed necessary or proper for the protection of the investments held in the fund or owned by other plans or trusts that the board administers.

10. Settle threatened or actual litigation against any system or plan that the board administers.

~~I.~~ K. Investment expenses and operation and administrative expenses of the board shall be accounted for separately and allocated against investment income.

~~J.~~ L. The board, as soon as possible within a period of six months following the close of any fiscal year, shall transmit to the governor and the legislature a comprehensive annual financial report on the operation of the system and other plans that the board administers containing, among other things:

1. A balance sheet.
2. A statement of income and expenditures for the year.
3. A report on an actuarial valuation of its assets and liabilities.
4. A list of investments owned.
5. The total rate of return, yield on cost, and ~~per cent~~ PERCENT of cost to market value of the fund and the assets of other plans that the board administers.
6. Any other statistical and financial data that may be necessary for the proper understanding of the financial condition of the system and other plans that the board administers and the results of their operations. A synopsis of the annual report shall be published for the information of members of the system, the elected officials' retirement plan or the corrections officer retirement plan.
7. An analysis of the long-term level ~~per cent~~ PERCENT of employer contributions and compensation structure and whether the funding methodology is sufficient to pay one hundred ~~per cent~~ PERCENT of the unfunded accrued liability under the elected officials' retirement plan.
8. An estimate of the aggregate employer contribution rate for the public safety personnel retirement system for the next ten fiscal years and an estimate of the aggregate employer contribution rate for the corrections officer retirement plan for the next ten fiscal years.
9. An estimate of the employer contribution rates for the next ten fiscal years for each of the following employers within the public safety personnel retirement system:
(a) Department of liquor licenses and control.
(b) Department of public safety.
(c) Northern Arizona university.
(d) University of Arizona.
(e) Arizona state university.
(f) Arizona game and fish department.
(g) Department of law.
(h) Department of emergency and military affairs.
(i) Arizona state parks board.
10. An estimate of the employer contribution rates for the next ten fiscal years for each of the following employers within the corrections officer retirement plan:
(a) State department of corrections.
(b) Department of public safety.
(c) The judiciary.
(d) Department of juvenile corrections.
~~K.~~ M. The board shall:
1. Maintain the accounts of the system and other plans that the board administers and issue statements to each employer annually and to each member who may request it.

2. Report the results of the actuarial valuations to the local boards and employers.

3. Contract on a fee basis with an independent investment counsel to advise the board in the investment management of the fund and assets of other plans that the board administers and with an independent auditing firm to audit the board's accounting.

4. Permit the auditor general to make an annual audit and the results shall be transmitted to the governor and the legislature.

5. Contract on a fee basis with an actuary who shall make actuarial valuations of the system and other plans that the board administers, be the technical adviser of the board on matters regarding the operation of the funds created by the provisions of the system, the elected officials' retirement plan, the corrections officer retirement plan and the firefighter, peace officer and corrections officer cancer insurance policy program and perform other duties required in connection therewith. The actuary must be a member of a nationally recognized association or society of actuaries.

6. Employ, as administrator, a person, state department or other body to serve at the pleasure of the board.

7. Establish procedures and guidelines for contracts with actuaries, auditors, investment counsel and legal counsel and for safeguarding of securities.

~~L.~~ N. The administrator, under the direction of the board, shall:

1. Administer this article.

2. Be responsible for the recruitment, hiring and day-to-day management of employees.

3. Invest the funds of the system and other plans that the board administers as the board deems necessary and prudent as provided in subsections ~~D~~ F and ~~H~~ J of this section and subject to the investment policies and fund objectives adopted by the board.

4. Establish and maintain an adequate system of accounts and records for the system and other plans that the board administers, which shall be integrated with the accounts, records and procedures of the employers so that the system and other plans that the board administers operates most effectively and at minimum expense and that duplication of records and accounts is avoided.

5. In accordance with the board's governance policy and procedures and the budget adopted by the board, hire such employees and services the administrator deems necessary and prescribe their duties, including the hiring of one or more assistant administrators to manage the system's operations, investments and legal affairs.

6. Be responsible for income, the collection of the income and the accuracy of all expenditures.

7. Recommend to the board annual contracts for the system's actuary, auditor, investment counsel, legal counsel and safeguarding of securities.

8. Perform additional duties and powers prescribed by the board and delegated to the administrator.

~~M.~~ O. The system is an independent trust fund and the board is not subject to title 41, chapter 6. Contracts for goods and services approved by the board are not subject to title 41, chapter 23. As an independent trust fund whose assets are separate and apart from all other funds of this state, the system and the board are not subject to the restrictions prescribed in section 35-154 or article IX, sections 5 and 8, Constitution of Arizona. Loans, guarantees, investment management agreements and investment contracts that are entered into by the board are contracts memorializing obligations or interests in securities that the board has concluded, after thorough due diligence, do not involve investments in Sudan or Iran or otherwise provide support to terrorists or in any way facilitate illegal immigration into the United States. These contracts do not involve the procurement, supply or provision of goods, equipment, labor, materials or services that would require the warranties required by section 41-4401.

~~N.~~ P. The board, the administrator, the assistant administrators and all persons employed by them are subject to title 41, chapter 4, article 4. The administrator, assistant administrators and other employees of the board are entitled to receive compensation pursuant to section 38-611.

~~O.~~ Q. In consultation with the director of the department of administration, the board may enter into employment agreements and establish the terms of those agreements with persons holding any of the following system positions:

1. Administrator.
2. Deputy or assistant administrator.
3. Chief investment officer.
4. Deputy chief investment officer.
5. Fiduciary or investment counsel.

~~P.~~ R. The attorney general or an attorney approved by the attorney general and paid by the fund shall be the attorney for the board and shall represent the board in any legal proceeding or forum that the board deems appropriate. The board, administrator, assistant administrators and employees of the board are not personally liable for any acts done in their official capacity in good faith reliance on the written opinions of the board's attorney.

~~Q.~~ S. At least once in each five-year period after the effective date, the actuary shall make an actuarial investigation into the mortality, service and compensation experience of the members and beneficiaries of the system and other plans that the board administers and shall make a special valuation of the assets and liabilities of the monies of the system and plans. Taking into account the results of the investigation and special valuation, the board shall adopt for the system and other plans that the board administers those mortality, service and other tables deemed necessary.

~~R.~~ T. On the basis of the tables the board adopts, the actuary shall make a valuation of the assets and liabilities of the funds of the system and other plans that the board administers not less frequently than every year. By November 1 of each year the board shall provide a preliminary report and by December 15 of each year provide a final report to the governor, the speaker of the house of representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

~~S.~~ U. Neither the board nor any member or employee of the board shall directly or indirectly, for himself or as an agent, in any manner use the monies or deposits of the fund except to make current and necessary payments, nor shall the board or any member or employee become an endorser or surety or in any manner an obligor for monies loaned by or borrowed from the fund or the assets of any other plans that the board administers.

~~T. The members of the board who are appointed pursuant to subsection A, paragraphs 2 and 5 of this section shall have at least ten years' substantial experience as any one or a combination of the following:~~

~~1. A portfolio manager acting in a fiduciary capacity.~~

~~2. A securities analyst.~~

~~3. An employee or principal of a trust institution, investment organization or endowment fund acting either in a management or an investment related capacity.~~

~~4. A chartered financial analyst in good standing as determined by the association for investment management and research.~~

~~5. A professor at the university level teaching economics or investment related subjects.~~

~~6. An economist.~~

~~7. Any other professional engaged in the field of public or private finances.~~

~~U.~~ V. Financial or commercial information that is provided to the board, employees of the board and attorneys of the board in connection with investments in which the board has invested or investments the board has considered for investment is confidential, proprietary and not a public record if the information is information that would customarily not be released to the public by the person or entity from whom the information was obtained.

W. A PERSON WHO IS A DEALER AS DEFINED IN SECTION 44-1801 AND WHO IS INVOLVED IN SECURITIES OR INVESTMENTS RELATED TO THE BOARD'S INVESTMENTS IS NOT ELIGIBLE TO SERVE ON THE BOARD.

X. BEGINNING JANUARY 1, 2017, THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM ADVISORY COMMITTEE IS ESTABLISHED AND SHALL SERVE AS A LIAISON BETWEEN THE BOARD AND THE MEMBERS AND EMPLOYERS OF THE SYSTEM. THE COMMITTEE SHALL BE APPOINTED BY THE CHAIRPERSON OF THE BOARD FROM NAMES SUBMITTED TO THE CHAIRPERSON BY ASSOCIATIONS REPRESENTING LAW ENFORCEMENT, FIREFIGHTERS, STATE GOVERNMENT, COUNTIES, CITIES AND TOWNS AND TRIBAL GOVERNMENTS. THE COMMITTEE

SHALL SELECT A CHAIRPERSON FROM AMONG ITS MEMBERS EACH CALENDAR YEAR. THE COMMITTEE SHALL CONSIST OF THE FOLLOWING TEN MEMBERS:

1. A MEMBER WHO IS A LAW ENFORCEMENT OFFICER.
2. A MEMBER WHO IS A FIREFIGHTER.
3. A MEMBER OF THE ELECTED OFFICIALS' RETIREMENT PLAN.
4. A MEMBER OF THE CORRECTIONS OFFICER RETIREMENT PLAN.
5. A RETIREE FROM THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.
6. A REPRESENTATIVE FROM A CITY OR TOWN IN THIS STATE.
7. A REPRESENTATIVE FROM A COUNTY IN THIS STATE.
8. A REPRESENTATIVE FROM A FIRE DISTRICT IN THIS STATE.
9. A REPRESENTATIVE FROM A STATE EMPLOYER.
10. A REPRESENTATIVE FROM A TRIBAL GOVERNMENT LOCATED IN THIS STATE.

Sec. 12. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding section 38-848.04, to read:

38-848.04. Board fiduciary obligations and duties; enforcement; definitions

A. THE BOARD AND ANY OTHER FIDUCIARY OF THE SYSTEM SHALL DISCHARGE THEIR DUTIES:

1. SOLELY IN THE INTEREST OF THE MEMBERS AND BENEFICIARIES.
2. FOR THE EXCLUSIVE PURPOSE OF PROVIDING BENEFITS TO MEMBERS AND BENEFICIARIES AND PAYING REASONABLE EXPENSES IN ADMINISTERING THE PLANS AND SYSTEMS ADMINISTERED BY THE BOARD.
3. WITH THE CARE, SKILL AND CAUTION UNDER THE CIRCUMSTANCES THEN PREVAILING THAT A PRUDENT PERSON ACTING IN A LIKE CAPACITY AND FAMILIAR WITH THOSE MATTERS WOULD USE IN THE CONDUCT OF AN ACTIVITY OF LIKE CHARACTER AND PURPOSE.
4. IMPARTIALLY, TAKING INTO ACCOUNT ANY DIFFERING INTERESTS OF MEMBERS AND BENEFICIARIES.
5. INCURRING ONLY COSTS THAT ARE APPROPRIATE AND REASONABLE.
6. PURSUANT TO A GOOD-FAITH INTERPRETATION OF THE LAW GOVERNING THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD.

B. IN INVESTING AND MANAGING ASSETS OF THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD, A TRUSTEE WITH AUTHORITY TO INVEST AND MANAGE ASSETS:

1. SHALL CONSIDER AT LEAST THE FOLLOWING:

(a) THE GENERAL ECONOMIC CONDITIONS.

(b) THE POSSIBLE EFFECT OF INFLATION OR DEFLATION.

(c) THE ROLE THAT EACH INVESTMENT OR COURSE OF ACTION PLAYS WITHIN THE OVERALL PORTFOLIO OF THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS.

(d) THE EXPECTED TOTAL RETURN FROM INCOME AND THE APPRECIATION OF CAPITAL.

(e) THE NEEDS FOR LIQUIDITY, REGULARITY OF INCOME AND PRESERVATION OR APPRECIATION OF CAPITAL.

(f) FOR DEFINED BENEFIT PLANS, THE ADEQUACY OF FUNDING FOR THE PLAN BASED ON REASONABLE ACTUARIAL FACTORS.

2. SHALL DIVERSIFY THE INVESTMENTS OF THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS UNLESS THE TRUSTEE REASONABLY DETERMINES THAT, BECAUSE OF SPECIAL CIRCUMSTANCES, IT IS CLEARLY PRUDENT NOT TO DO SO.

3. SHALL MAKE A REASONABLE EFFORT TO VERIFY FACTS RELEVANT TO THE INVESTMENT AND MANAGEMENT OF ASSETS OF A RETIREMENT PLAN OR SYSTEM.

4. MAY INVEST IN ANY KIND OF PROPERTY OR TYPE OF INVESTMENT CONSISTENT WITH THIS ARTICLE.

5. MAY CONSIDER BENEFITS CREATED BY AN INVESTMENT IN ADDITION TO INVESTMENT RETURN ONLY IF THE TRUSTEE DETERMINES THAT THE INVESTMENT PROVIDING THESE COLLATERAL BENEFITS WOULD BE PRUDENT EVEN WITHOUT THE COLLATERAL BENEFITS.

C. A TRUSTEE WITH AUTHORITY TO INVEST AND MANAGE ASSETS OF A RETIREMENT PLAN OR SYSTEM SHALL ADOPT A STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES FOR EACH RETIREMENT PLAN AND SYSTEM ADMINISTERED BY THE BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS. THE STATEMENT MUST INCLUDE THE DESIRED RATE OF RETURN ON ASSETS OVERALL, THE DESIRED RATES OF RETURN AND ACCEPTABLE LEVELS OF RISK FOR EACH ASSET CLASS, ASSET-ALLOCATION GOALS, GUIDELINES FOR THE DELEGATION OF AUTHORITY AND INFORMATION ON THE TYPES OF REPORTS TO BE USED TO EVALUATE INVESTMENT PERFORMANCE. AT LEAST ANNUALLY, THE TRUSTEE SHALL REVIEW THE STATEMENT AND CHANGE OR REAFFIRM IT.

D. IN EVALUATING THE PERFORMANCE OF A TRUSTEE OR ANY OTHER FIDUCIARY OF THE PLAN OR SYSTEM:

1. COMPLIANCE WITH THIS SECTION MUST BE DETERMINED IN LIGHT OF THE FACTS AND CIRCUMSTANCES EXISTING AT THE TIME OF THE TRUSTEE'S OR FIDUCIARY'S DECISION OR ACTION AND NOT BY HINDSIGHT.

2. THE TRUSTEE'S INVESTMENT AND MANAGEMENT DECISIONS MUST BE EVALUATED NOT IN ISOLATION BUT IN THE CONTEXT OF THE TRUST PORTFOLIO AS A WHOLE AND AS A PART OF AN OVERALL INVESTMENT STRATEGY HAVING RISK AND RETURN OBJECTIVES REASONABLY SUITED TO THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS.

E. AN EMPLOYER, MEMBER, BENEFICIARY OR FIDUCIARY MAY MAINTAIN AN ACTION IN WHICH THE COURT MAY AWARD REASONABLE ATTORNEY FEES AND COSTS TO EITHER PARTY:

1. TO ENJOIN AN ACT, PRACTICE OR OMISSION THAT VIOLATES THIS SECTION.

2. FOR APPROPRIATE EQUITABLE RELIEF TO REDRESS THE VIOLATION OF OR TO ENFORCE THIS SECTION.

F. FOR THE PURPOSES OF THIS SECTION:

1. "FIDUCIARY" MEANS A PERSON WHO DOES ANY OF THE FOLLOWING:

(a) EXERCISES ANY DISCRETIONARY AUTHORITY TO MANAGE A RETIREMENT PLAN OR SYSTEM ADMINISTERED BY THE BOARD.

(b) EXERCISES ANY AUTHORITY TO INVEST OR MANAGE ASSETS OF A RETIREMENT PLAN OR SYSTEM ADMINISTERED BY THE BOARD.

(c) PROVIDES INVESTMENT ADVICE FOR A FEE OR OTHER DIRECT OR INDIRECT COMPENSATION WITH RESPECT TO ASSETS OF THE SYSTEM OR HAS ANY AUTHORITY OR RESPONSIBILITY TO DO SO.

(d) SERVES AS A TRUSTEE OR MEMBER OF THE BOARD.

2. "TRUSTEE" MEANS A PERSON WHO HAS ULTIMATE AUTHORITY TO MANAGE A RETIREMENT SYSTEM OR PLAN OR TO INVEST OR MANAGE ITS ASSETS.

Sec. 13. Repeal

Sections 38-856, 38-856.01, 38-856.02, 38-856.03 and 38-856.04, Arizona Revised Statutes, are repealed.

Sec. 14. Title 38, chapter 5, article 4, Arizona Revised Statutes, is amended by adding sections 38-856.05, 38-856.06 and 38-861, to read:

38-856.05. Cost-of-living adjustment; members hired on or before June 30, 2017

A. FOR MEMBERS HIRED ON OR BEFORE JUNE 30, 2017, EACH RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER IS ELIGIBLE TO RECEIVE A COMPOUNDING COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT AS PROVIDED IN THIS SECTION. THE FIRST PAYMENT UNDER THIS SECTION SHALL BE MADE IMMEDIATELY FOLLOWING THE FIRST YEAR THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION C OF THIS SECTION IS PAID. THE COST-OF-LIVING ADJUSTMENT SHALL BE MADE ON JULY 1 EACH YEAR THEREAFTER.

B. A RETIRED MEMBER OR A SURVIVOR OF A RETIRED MEMBER SHALL RECEIVE ANNUALLY A COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT BASED ON THE AVERAGE ANNUAL PERCENTAGE CHANGE IN THE METROPOLITAN PHOENIX-MESA CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, WITH THE IMMEDIATELY PRECEDING YEAR AS THE BASE YEAR FOR MAKING THE DETERMINATION, NOT TO EXCEED ANNUALLY TWO PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT.

C. IN THE FIRST YEAR OF A MEMBER'S RETIREMENT, THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION B OF THIS SECTION SHALL BE PRORATED BASED ON THE DATE OF RETIREMENT.

D. THE SYSTEM ACTUARY SHALL INCLUDE THE PROJECTED COST OF PROVIDING THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION B OF THIS SECTION IN THE CALCULATION OF NORMAL COST AND ACCRUED LIABILITY.

38-856.06. Cost-of-living adjustment; members hired on or after July 1, 2017; definition

A. FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017, EACH ELIGIBLE RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER MAY RECEIVE A COMPOUNDING COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT AS PROVIDED IN THIS SECTION.

B. A RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER IS ELIGIBLE TO RECEIVE A COST-OF-LIVING ADJUSTMENT UNDER THIS SECTION BEGINNING THE EARLIER OF THE FIRST CALENDAR YEAR AFTER THE SEVENTH ANNIVERSARY OF THE RETIRED MEMBER'S RETIREMENT OR WHEN THE RETIRED MEMBER IS OR WOULD HAVE BEEN SIXTY YEARS OF AGE.

C. A COST-OF-LIVING ADJUSTMENT SHALL BE PAID ON JULY 1 EACH YEAR THAT THE FUNDED RATIO FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 IS SEVENTY PERCENT OR MORE, AS REPORTED IN THE MOST RECENT ACTUARIAL VALUATION.

D. AN ELIGIBLE RETIRED MEMBER OR SURVIVOR OF A RETIRED MEMBER SHALL RECEIVE ANNUALLY A COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT BASED ON THE AVERAGE ANNUAL PERCENTAGE CHANGE IN THE METROPOLITAN PHOENIX-MESA CONSUMER PRICE INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, WITH THE IMMEDIATELY PRECEDING YEAR AS THE BASE YEAR FOR MAKING THE DETERMINATION, NOT TO EXCEED ANNUALLY THE FOLLOWING:

1. TWO PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT IF THE FUNDED RATIO FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 IS NINETY PERCENT OR MORE, AS REPORTED IN THE MOST RECENT ACTUARIAL VALUATION.

2. ONE AND ONE-HALF PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT IF THE FUNDED RATIO FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 IS EIGHTY PERCENT OR MORE BUT LESS THAN NINETY PERCENT, AS REPORTED IN THE MOST RECENT ACTUARIAL VALUATION.

3. ONE PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT IF THE FUNDED RATIO FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1, 2017 IS SEVENTY PERCENT OR MORE BUT LESS THAN EIGHTY PERCENT, AS REPORTED IN THE MOST RECENT ACTUARIAL VALUATION.

E. THE SYSTEM ACTUARY SHALL INCLUDE THE PROJECTED COST OF PROVIDING THE COST OF LIVING ADJUSTMENT SPECIFIED IN SUBSECTION D OF THIS SECTION IN THE CALCULATION OF NORMAL COST AND ACCRUED LIABILITY.

F. FOR THE PURPOSES OF THIS SECTION, "FUNDED RATIO" MEANS THE RATIO OF THE MARKET VALUE OF ASSETS TO THE ACTUAL ACCRUED LIABILITIES.

38-861. Future benefit increases; payment; cost calculation; definition

A. ANY FUTURE BENEFIT INCREASE ADOPTED BY THE LEGISLATURE FOR ANY MEMBER OF THE SYSTEM SHALL BE FULLY PAID IN THE YEAR OF ENACTMENT OF THE BENEFIT AND MAY NOT BE AMORTIZED OVER ANY PERIOD OF YEARS. A BENEFIT FOR MEMBERS HIRED BEFORE JULY 1, 2017 SHALL BE PAID BY THE EMPLOYER AND THE COST OF THE BENEFIT FOR MEMBERS HIRED ON OR AFTER JULY 1, 2017 SHALL BE SPLIT EQUALLY BETWEEN THE EMPLOYER AND THE MEMBER PURSUANT TO SECTION 38-843, SUBSECTION G.

B. THE PLAN ACTUARY SHALL CALCULATE THE COST OF THE BENEFIT INCREASE USING ALL OF THE FOLLOWING:

1. A DISCOUNT RATE EQUAL TO THE TEN-YEAR TREASURY CONSTANT MATURITY RATE FOR THE FISCAL YEAR IN WHICH THE BENEFIT IS ENACTED.

2. AN EXPECTED RATE OF RETURN ON ASSETS EQUAL TO THE TEN-YEAR TREASURY CONSTANT MATURITY RATE FOR THE FISCAL YEAR IN WHICH THE BENEFIT IS ENACTED.

3. A MORTALITY TABLE BASED ON THE MOST RECENT PROPOSAL FROM THE RETIREMENT PLANS EXPERIENCE COMMITTEE OF THE SOCIETY OF ACTUARIES THAT IS NOT OLDER THAN THE RP-2014 MORTALITY TABLE.

4. ALL OTHER ACTUARIAL ASSUMPTIONS APPROVED BY THE BOARD FOR THE MOST RECENT FISCAL YEAR VALUATION.

C. FOR THE PURPOSES OF THIS SECTION, "FUTURE BENEFIT INCREASE" INCLUDES ANY BENEFIT INCREASE THAT LEADS TO A CHANGE IN THE PRESENT VALUE OF FUTURE BENEFITS OR A CHANGE TO ACCRUED LIABILITIES.

Sec. 15. Title 38, chapter 5, Arizona Revised Statutes, is amended by adding articles 4.1 and 4.2, to read:

ARTICLE 4.1. PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN

38-865. Definitions

IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

1. "ANNUITY ACCOUNT" MEANS AN ACCOUNT THAT IS ESTABLISHED FOR EACH PARTICIPANT TO RECORD THE DEPOSIT OF PARTICIPANT CONTRIBUTIONS, EMPLOYER CONTRIBUTIONS AND INTEREST, DIVIDENDS OR OTHER ACCUMULATIONS CREDITED ON BEHALF OF THE PARTICIPANT.

2. "BOARD" MEANS THE BOARD OF TRUSTEES OF THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM ESTABLISHED BY SECTION 38-848.

3. "COMPENSATION" HAS THE SAME MEANING PRESCRIBED IN SECTION 38-842.

4. "DEFINED CONTRIBUTION PLAN" MEANS THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO THIS ARTICLE.

5. "EMPLOYER" HAS THE SAME MEANING PRESCRIBED IN SECTION 38-842.

6. "EMPLOYER CONTRIBUTION" MEANS AN AMOUNT DEPOSITED BY AN EMPLOYER, FROM THE EMPLOYER'S OWN MONIES, IN THE PARTICIPANT'S ANNUITY ACCOUNT ON A PERIODIC BASIS COINCIDING WITH THE PARTICIPANT'S REGULAR PAY PERIOD.

7. "PARTICIPANT" MEANS A MEMBER AS DEFINED IN SECTION 38-842, PARAGRAPH 31, EXCLUDING SUBDIVISION (a), ITEM (vi), WHO IS ONE OF THE FOLLOWING:

(a) AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2017, WHO MAKES THE IRREVOCABLE ELECTION TO PARTICIPATE SOLELY IN THE DEFINED CONTRIBUTION PLAN ESTABLISHED PURSUANT TO THIS ARTICLE AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE SYSTEM WITH A DISABILITY ON JUNE 30, 2017.

(b) AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2017, WHO IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM AND WHO MAKES THE IRREVOCABLE ELECTION TO PARTICIPATE IN THE SYSTEM OR IS ENROLLED IN THE SYSTEM PURSUANT TO SECTION 38-842.01, SUBSECTION A.

8. "PENSIONABLE COMPENSATION" MEANS THE AMOUNT OF THE PARTICIPANT'S ANNUAL COMPENSATION THAT DOES NOT EXCEED THE LIMITATION SPECIFIED IN SECTION 38-843.04.

9. "SYSTEM" MEANS THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM ESTABLISHED BY ARTICLE 4 OF THIS CHAPTER.

38-865.01. Definition of participant

FOR THE PURPOSES OF THIS ARTICLE, "PARTICIPANT" INCLUDES A MEMBER AS DEFINED IN SECTION 38-842, PARAGRAPH 31, EXCLUDING SUBDIVISION (a), ITEM (vi), WHO IS HIRED ON OR AFTER JANUARY 1, 2012 AND BEFORE JULY 1, 2017, WHO IS NOT COVERED BY THE FEDERAL OLD AGE AND SURVIVORS INSURANCE SYSTEM AND WHO IS A MEMBER OF THE SYSTEM.

38-866. Defined contribution plan design; purpose; powers and duties of the board; administration

A. THE BOARD SHALL ESTABLISH, DESIGN AND ADMINISTER A DEFINED CONTRIBUTION PLAN TO PROVIDE FOR THE RETIREMENT OF SPECIFIED PARTICIPANTS BEGINNING JULY 1, 2017.

B. THE PURPOSE OF THIS ARTICLE IS TO PROVIDE A DEFINED CONTRIBUTION PLAN THAT IS FULLY FUNDED ON A CURRENT BASIS FROM EMPLOYER AND PARTICIPANT CONTRIBUTIONS.

C. THE LEGISLATURE INTENDS THAT THE DEFINED CONTRIBUTION PLAN FOR PARTICIPANTS UNDER THIS ARTICLE BE DESIGNED TO BE A QUALIFIED GOVERNMENTAL PLAN UNDER SECTION 401(a) OF THE INTERNAL REVENUE CODE, AS AMENDED, OR SUCCESSOR PROVISIONS OF LAW, AND BE EXEMPT FROM TAXATION UNDER SECTION 501 OF THE INTERNAL REVENUE CODE. THE BOARD MAY ADOPT ANY ADDITIONAL PROVISION TO THE DEFINED CONTRIBUTION PLAN THAT IS NECESSARY TO FULFILL THIS INTENT. CONSISTENT WITH THIS INTENT, THE BOARD MAY SUBMIT TO THE INTERNAL REVENUE SERVICE A REQUEST FOR A DETERMINATION LETTER THAT THE DEFINED CONTRIBUTION PLAN IS A PLAN QUALIFIED UNDER SECTION 401(a) OF THE INTERNAL REVENUE CODE AND A PRIVATE LETTER RULING THAT ALL PARTICIPANT CONTRIBUTIONS THAT ARE PICKED UP BY THE EMPLOYER AS PROVIDED IN SECTION 38-867 SHALL BE TREATED AS EMPLOYER CONTRIBUTIONS PURSUANT TO SECTION 414(h) OF THE INTERNAL REVENUE CODE.

D. THE BOARD SHALL:

1. ENTER INTO A CONTRACT WITH A PROVIDER TO PROVIDE FULLY BUNDLED RETIREMENT PLAN INVESTMENTS, PLAN ADMINISTRATION AND SERVICES TO PARTICIPANTS IN THE DEFINED CONTRIBUTION PLAN. THE CONTRACT SHALL PROVIDE FOR APPROPRIATE LONG-TERM RETIREMENT-ORIENTED INVESTMENTS AND SHALL INCLUDE BOTH FIXED AND VARIABLE DEFERRED ANNUITIES. THE BOARD SHALL CONSIDER ALL OF THE FOLLOWING WHEN DETERMINING A COMPANY WITH WHICH TO CONTRACT:

(a) THE FINANCIAL STABILITY OF THE COMPANY AND THE ABILITY OF THE COMPANY TO PROVIDE THE CONTRACTED RIGHTS AND BENEFITS TO THE PARTICIPANTS.

(b) THE COST OF THE INVESTMENTS, PLAN ADMINISTRATION AND SERVICES TO THE PARTICIPANTS.

(c) THE EXPERIENCE OF THE COMPANY IN PROVIDING DEFINED CONTRIBUTION RETIREMENT PLANS IN LIEU OF DEFINED BENEFIT PLAN PARTICIPATION TO PUBLIC EMPLOYEES.

(d) THE EXPERIENCE OF THE COMPANY IN PAYING RETIREMENT INCOME TO PUBLIC EMPLOYEES.

(e) THE EXPERIENCE OF THE COMPANY IN PROVIDING PLAN EDUCATION, COUNSELING AND ADVICE TO PARTICIPANTS IN PUBLIC EMPLOYEE RETIREMENT PLANS THAT ARE OFFERED IN LIEU OF STATE DEFINED BENEFIT PLAN PARTICIPATION.

2. REQUIRE UNDER THE CONTRACT THAT THE PROVIDER PROVIDE EDUCATION, COUNSELING AND OBJECTIVE PARTICIPANT-SPECIFIC PLAN ADVICE TO PARTICIPANTS.

3. REQUIRE UNDER THE CONTRACT THAT THE DEFINED CONTRIBUTION PLAN INCLUDE NOT LESS THAN FIVE AND NOT MORE THAN FIFTEEN PREDETERMINED INVESTMENT PORTFOLIO OPTIONS TO PARTICIPANTS. THE PREDETERMINED INVESTMENT PORTFOLIO

OPTIONS SHALL INCLUDE OPTIONS THAT REFLECT DIFFERENT RISK PROFILES AND OPTIONS THAT AUTOMATICALLY REALLOCATE AND REBALANCE CONTRIBUTIONS AS A PARTICIPANT AGES. IN ADDITION, THE DEFINED CONTRIBUTION PLAN MAY PERMIT PARTICIPANTS TO CONSTRUCT INVESTMENT PORTFOLIOS USING SOME OR ALL OF THE INVESTMENT OPTIONS COMPRISING THE PREDETERMINED INVESTMENT PORTFOLIO OPTIONS.

4. REQUIRE UNDER THE CONTRACT THAT THE DEFINED CONTRIBUTION RETIREMENT PLAN OFFER PARTICIPANTS A MENU OF LIFETIME ANNUITY OPTIONS, EITHER FIXED OR VARIABLE OR A COMBINATION OF BOTH.

E. THE BOARD MAY:

1. EMPLOY OTHER SERVICES IT DEEMS NECESSARY, INCLUDING LEGAL SERVICES, FOR THE OPERATION AND ADMINISTRATION OF THE DEFINED CONTRIBUTION PLAN.

2. PERFORM ALL ACTS, WHETHER OR NOT EXPRESSLY AUTHORIZED, THAT IT DEEMS NECESSARY AND PROPER FOR THE OPERATION AND PROTECTION OF THE SYSTEM.

F. THE BOARD SHALL ADOPT POLICIES REGARDING THE DEFINED CONTRIBUTION PLAN, INCLUDING THE ADMINISTRATION OF THE PARTICIPANT AND EMPLOYER CONTRIBUTIONS, INVESTMENT OPTIONS, TERMINATION OF PARTICIPATION IN THE DEFINED CONTRIBUTION PLAN, ADMINISTRATION OF THE PAYOUT OPTIONS UNDER THE DEFINED CONTRIBUTION PLAN AND ADMINISTRATION OF THE PARTICIPANT DISTRIBUTIONS.

G. THE BOARD SHALL PARTICIPATE IN A COMPETITIVE BID PROCESS AT LEAST ONCE EVERY FIVE YEARS TO CONTRACT WITH A PRIVATE PERSON OR ANY QUALIFIED COMPANY OR COMPANIES TO ADMINISTER THE DEFINED CONTRIBUTION PLAN ESTABLISHED PURSUANT TO THIS ARTICLE.

H. ANY CONTRACT FOR A THIRD-PARTY ADMINISTRATOR OF THE DEFINED CONTRIBUTION PLAN SHALL INCLUDE COMPETITIVE FEES AND PROVISIONS REQUIRING QUARTERLY MEETINGS WITH THE SYSTEM, ANNUAL UPDATES TO THE BOARD ON THE STATUS OF THE DEFINED CONTRIBUTION PLAN AND QUARTERLY STATEMENTS TO EACH PARTICIPANT. ON OR BEFORE DECEMBER 31 OF EACH YEAR, THE BOARD SHALL REPORT THE STATUS OF THE DEFINED CONTRIBUTION PLAN TO THE GOVERNOR, THE PRESIDENT OF THE SENATE, THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND THE JOINT LEGISLATIVE BUDGET COMMITTEE.

38-867. Contributions; member; employer; pick-up

A. EACH PARTICIPANT IN THE DEFINED CONTRIBUTION PLAN SHALL CONTRIBUTE THE FOLLOWING PERCENTAGE OF THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION BY SALARY REDUCTION THAT SHALL BE DEPOSITED IN THE PARTICIPANT'S ANNUITY ACCOUNT:

1. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (b), THREE PERCENT.

2. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a), NINE PERCENT.

B. A PARTICIPANT AS DEFINED IN SECTION 38-865 MAY MAKE A ONE-TIME IRREVOCABLE ELECTION, BEFORE THE PARTICIPANT IS ELIGIBLE TO PARTICIPATE IN ANY QUALIFIED PLAN OF THE EMPLOYER, TO CONTRIBUTE MORE THAN THE PERCENTAGE OF THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION SPECIFIED IN THIS SECTION, UP TO THE AMOUNT ALLOWABLE UNDER SECTION 415(c) OF THE INTERNAL REVENUE CODE,

WHICH SHALL BE THE PARTICIPANT'S CONTRIBUTION RATE FOR THE REMAINDER OF THE PARTICIPANT'S EMPLOYMENT WITH ANY EMPLOYER UNDER THE SYSTEM.

C. ALTHOUGH DESIGNATED AS EMPLOYEE CONTRIBUTIONS, ALL PARTICIPANT CONTRIBUTIONS MADE TO THE DEFINED CONTRIBUTION PLAN SHALL BE PICKED UP AND PAID BY THE EMPLOYER IN LIEU OF CONTRIBUTIONS BY THE EMPLOYEE. THE CONTRIBUTIONS PICKED UP BY AN EMPLOYER MAY BE MADE THROUGH A REDUCTION IN THE PARTICIPANT'S COMPENSATION. A PARTICIPANT IN THE DEFINED CONTRIBUTION PLAN MAY NOT CHOOSE TO RECEIVE THE CONTRIBUTED AMOUNTS DIRECTLY INSTEAD OF THE EMPLOYER PAYING THE AMOUNTS TO THE DEFINED CONTRIBUTION PLAN. ALL PARTICIPANT CONTRIBUTIONS THAT ARE PICKED UP BY THE EMPLOYER AS PROVIDED IN THIS SUBSECTION SHALL BE TREATED AS EMPLOYER CONTRIBUTIONS UNDER SECTION 414(h) OF THE INTERNAL REVENUE CODE, SHALL BE EXCLUDED FROM PARTICIPANT'S GROSS INCOME FOR FEDERAL AND STATE INCOME TAX PURPOSES AND ARE INCLUDABLE IN THE GROSS INCOME OF THE PARTICIPANT OR THE PARTICIPANT'S BENEFICIARIES ONLY IN THE TAXABLE YEAR IN WHICH THEY ARE DISTRIBUTED.

D. EACH EMPLOYER SHALL ANNUALLY MAKE A CONTRIBUTION EQUAL TO THE FOLLOWING PERCENTAGES OF EACH PARTICIPANT'S GROSS PENSIONABLE COMPENSATION:

1. FOR A PARTICIPANT DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (b), THREE PERCENT.

2. FOR A PARTICIPANT DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a), NINE PERCENT.

E. THE PRO RATA SHARE OF THE AMOUNT PAID IN SUBSECTION D OF THIS SECTION SHALL BE PAID ON EACH DATE THAT A PARTICIPANT CONTRIBUTION IS MADE AND SHALL BE CREDITED TO THE PARTICIPANT'S ANNUITY ACCOUNT.

F. A PARTICIPANT OF THE DEFINED CONTRIBUTION PLAN MAY NOT TAKE LOANS ON ANY PORTION OF THE ACCUMULATED ASSETS IN THE PARTICIPANT'S ANNUITY ACCOUNT.

G. EACH PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a) AND EACH EMPLOYER SHALL CONTRIBUTE TO THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM ESTABLISHED BY ARTICLE 4.2 OF THIS CHAPTER.

H. A PARTICIPANT'S CONTRIBUTIONS AND EARNINGS ON THOSE CONTRIBUTIONS ARE IMMEDIATELY VESTED. A PARTICIPANT IS FULLY VESTED IN THE DEFINED CONTRIBUTION PLAN AFTER TEN YEARS OF SERVICE, WITH EMPLOYER CONTRIBUTIONS VESTING AT A RATE OF TEN PERCENT PER YEAR.

38-868. Contributions; member; employer; applicability of article

A. BEGINNING JULY 1, 2017, A PARTICIPANT AS DEFINED IN SECTION 38-865.01 IN THE DEFINED CONTRIBUTION PLAN SHALL CONTRIBUTE THREE PERCENT OF THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION BY SALARY REDUCTION THAT SHALL BE DEPOSITED IN THE PARTICIPANT'S ANNUITY ACCOUNT.

B. EACH EMPLOYER OF A PARTICIPANT AS DEFINED IN SECTION 38-865.01 SHALL ANNUALLY MAKE A CONTRIBUTION EQUAL TO THE FOLLOWING PERCENTAGES OF THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION:

1. FOR A PARTICIPANT THAT IS HIRED IN 2012, FOUR PERCENT FOR SEVEN YEARS AND THREE PERCENT FOR EACH YEAR THEREAFTER.

2. FOR A PARTICIPANT THAT IS HIRED IN 2013, FOUR PERCENT FOR SIX YEARS AND THREE PERCENT FOR EACH YEAR THEREAFTER.

3. FOR A PARTICIPANT THAT IS HIRED IN 2014, FOUR PERCENT FOR FIVE YEARS AND THREE PERCENT FOR EACH YEAR THEREAFTER.

4. FOR A PARTICIPANT THAT IS HIRED IN 2015, FOUR PERCENT FOR FOUR YEARS AND THREE PERCENT FOR EACH YEAR THEREAFTER.

5. FOR A PARTICIPANT THAT IS HIRED IN 2016, FOUR PERCENT FOR THREE YEARS AND THREE PERCENT FOR EACH YEAR THEREAFTER.

6. FOR A PARTICIPANT THAT IS HIRED ON OR AFTER JANUARY 1, 2017 AND BEFORE JULY 1, 2017, FOUR PERCENT FOR ONE YEAR AND THREE PERCENT FOR EACH YEAR THEREAFTER.

C. ALL OF THE PROVISIONS OF THIS ARTICLE APPLY TO A PARTICIPANT AS DEFINED IN SECTION 38-865.01.

D. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865.01, AN EMPLOYER MAY CHOOSE TO PAY A PORTION OF THE PARTICIPANT'S CONTRIBUTIONS UNDER THIS SECTION IN AN AMOUNT OF NOT MORE THAN THE DIFFERENCE BETWEEN THE CONTRIBUTION RATE SPECIFIED UNDER SECTION 38-843 FOR EMPLOYEES HIRED ON OR AFTER JANUARY 1, 2012 AND BEFORE JULY 1, 2017 AND FOR ANY EMPLOYEE HIRED BEFORE JANUARY 1, 2012.

ARTICLE 4.2. PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM

38-870. Definitions

IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

1. "ASSETS" MEANS THE ACCUMULATED RESOURCES OF THE DISABILITY PROGRAM.

2. "BOARD" MEANS THE BOARD OF TRUSTEES ESTABLISHED BY SECTION 38-848.

3. "COMPENSATION" HAS THE SAME MEANING PRESCRIBED IN SECTION 38-842.

4. "DISABILITY PROGRAM" OR "PROGRAM" MEANS THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM ESTABLISHED BY THIS ARTICLE.

5. "PARTICIPANT" MEANS A PARTICIPANT WHO IS IN THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN AND WHO IS A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, SUBDIVISION (a).

6. "PENSIONABLE COMPENSATION" HAS THE SAME MEANING PRESCRIBED IN SECTION 38-865.

38-870.01. Disability program; administration; power and duties of the board; hearing

A. THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN DISABILITY PROGRAM IS ESTABLISHED FOR PARTICIPANTS IN THE PUBLIC SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN WHO HAVE ELECTED TO PARTICIPATE SOLELY IN THE DEFINED CONTRIBUTION PLAN ESTABLISHED PURSUANT TO ARTICLE 4.1 OF THIS CHAPTER. THE BOARD SHALL ADMINISTER THE DISABILITY PROGRAM.

B. THE BOARD MAY DELEGATE AUTHORITY TO ADMINISTER THE PROGRAM AS IT DEEMS NECESSARY AND PRUDENT TO THE ADMINISTRATOR EMPLOYED PURSUANT TO SECTION 38-848.

C. THE BOARD, IN THE ADMINISTRATION, MANAGEMENT AND OPERATION OF THE PROGRAM, SHALL:

1. ACCOUNT FOR THE OPERATION, ADMINISTRATION AND INVESTMENT EXPENSES AND ALLOCATE THEM AGAINST INVESTMENT INCOME.

2. CONTRACT ON A FEE BASIS WITH AN ACTUARY TO MAKE AN ACTUARIAL VALUATION OF THE PROGRAM BASED ON THE VALUATION METHOD AND VALUATION ASSUMPTIONS RECOMMENDED BY THE ACTUARY AND APPROVED BY THE BOARD. THE ACTUARY SHALL BE A MEMBER OF THE AMERICAN ACADEMY OF ACTUARIES.

3. CONTRACT ON A FEE BASIS WITH AN INDEPENDENT AUDITING FIRM TO MAKE AN ANNUAL AUDIT OF THE ACCOUNTING RECORDS OF THE FUND AND FILE A COPY OF THE AUDIT WITH THE AUDITOR GENERAL.

4. INVEST THE MONIES IN THE FUND AS PROVIDED IN ARTICLE 4 OF THIS CHAPTER.

D. THE BOARD, IN THE ADMINISTRATION, MANAGEMENT AND OPERATION OF THE PROGRAM, MAY:

1. EMPLOY SERVICES AS IT DEEMS NECESSARY.

2. EITHER KEEP INVESTED MONIES SEPARATE OR COMMINGLE INVESTED MONIES AS IT DEEMS APPROPRIATE.

3. DO ALL ACTS, WHETHER EXPRESSLY AUTHORIZED, THAT MAY BE DEEMED NECESSARY OR PROPER FOR THE PROTECTION OF THE FUND.

4. DETERMINE THE RIGHTS, BENEFITS OR OBLIGATIONS OF ANY PERSON UNDER THIS ARTICLE AND AFFORD ANY PERSON DISSATISFIED WITH A DETERMINATION OF THE PERSON'S RIGHTS, BENEFITS OR OBLIGATIONS UNDER THIS ARTICLE WITH A HEARING ON THE DETERMINATION.

38-870.02. Disability program trust fund

A. THE DISABILITY PROGRAM TRUST FUND IS ESTABLISHED FOR THE PURPOSE OF PAYING BENEFITS UNDER AND COSTS OF ADMINISTERING THE DISABILITY PROGRAM. THE TRUST FUND SHALL BE ADMINISTERED BY THE BOARD.

B. THE DISABILITY PROGRAM TRUST FUND CONSISTS OF ALL MONIES PAID INTO THE TRUST FUND PURSUANT TO THIS ARTICLE, WHETHER IN THE FORM OF CASH, SECURITIES OR OTHER ASSETS, AND ALL MONIES RECEIVED FROM ANY OTHER SOURCE. EXCEPT AS PROVIDED IN SUBSECTION C, PARAGRAPH 1 OF THIS SECTION, THE DISABILITY PROGRAM TRUST FUND IS EXEMPT FROM TITLE 44, CHAPTER 3.

C. ABANDONED MONIES SHALL REVERT TO THE DISABILITY PROGRAM TRUST FUND UNDER THE FOLLOWING CONDITIONS:

1. MONIES IN THE TRUST FUND ARE PRESUMED ABANDONED IF THE SYSTEM HAS TAKEN THE REQUIRED ACTION DESCRIBED IN THIS SUBSECTION TO IDENTIFY AND LOCATE THE APPARENT OWNER AND THE APPARENT OWNER AS DEFINED IN SECTION 44-301 HAS NOT COMMUNICATED IN WRITING WITH THE SYSTEM AND HAS NOT OTHERWISE INDICATED AN INTEREST IN THE MONIES FOR THE THREE-YEAR PERIOD FOLLOWING THE REQUIRED BEGINNING DATE OF DISTRIBUTIONS.

2. BEFORE MONIES ARE PRESUMED ABANDONED, THE SYSTEM SHALL ATTEMPT TO CONTACT THE APPARENT OWNER IN WRITING. IF THIS NOTICE IS RETURNED BY THE POSTAL AUTHORITY AS UNDELIVERABLE, EACH YEAR FOR THREE YEARS FROM THE DATE THAT DISTRIBUTIONS SHOULD HAVE BEGUN, THE SYSTEM SHALL MAKE A GOOD FAITH ATTEMPT TO LOCATE THE APPARENT OWNER, INCLUDING CONTACTING ANY KNOWN BENEFICIARY ON RECORD WITH THE SYSTEM, SEARCHING PUBLIC DATABASES TO IDENTIFY THE ADDRESS OF THE APPARENT OWNER OR USING THE SERVICES OF A THIRD-PARTY ADDRESS VERIFICATION SERVICE. IF THE GOOD FAITH ATTEMPT TO LOCATE THE APPARENT OWNER FAILS, MONIES ARE PRESUMED ABANDONED PURSUANT TO THIS SUBSECTION.

3. AT THE TIME MONIES ARE PRESUMED ABANDONED PURSUANT TO THIS SUBSECTION, ANY OTHER PROPERTY RIGHT ACCRUED OR ACCRUING TO THE OWNER AS A RESULT OF THE INTEREST IN THOSE MONIES, AND NOT PREVIOUSLY PRESUMED ABANDONED, IS ALSO PRESUMED ABANDONED.

4. INTEREST CEASES TO ACCRUE ON THE MONIES ON THE DATE THE MONIES ARE PRESUMED ABANDONED.

D. THE CUSTODY, MANAGEMENT AND INVESTMENT OF THE DISABILITY PROGRAM TRUST FUND ARE AS PRESCRIBED BY THIS ARTICLE AND ARTICLE 4 OF THIS CHAPTER.

38-870.03. Eligibility

ALL PARTICIPANTS ARE SUBJECT TO THIS ARTICLE AND SHALL PARTICIPATE IN THE DISABILITY PROGRAM.

38-870.04. Employer and participant contributions

A. BEGINNING JULY 1, 2017, EMPLOYERS SHALL CONTRIBUTE THE PERCENTAGE OF THE GROSS PENSIONABLE COMPENSATION OF ALL OF THE PARTICIPANTS UNDER THEIR EMPLOYMENT SO THAT THE TOTAL EMPLOYER CONTRIBUTIONS EQUALS THE AMOUNT THAT THE BOARD DETERMINES IS NECESSARY TO PAY ONE-HALF OF ALL BENEFITS UNDER AND COSTS OF ADMINISTERING THE DISABILITY PROGRAM.

B. BEGINNING JULY 1, 2017, A PARTICIPANT SHALL CONTRIBUTE A PERCENTAGE OF THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION EQUAL TO THE EMPLOYER CONTRIBUTION FOR THE PARTICIPANT REQUIRED PURSUANT TO SUBSECTION A OF THIS SECTION.

C. THE EMPLOYER SHALL PAY THE PARTICIPANT CONTRIBUTIONS REQUIRED OF PARTICIPANTS ON ACCOUNT OF GROSS PENSIONABLE COMPENSATION EARNED. ALL EMPLOYER AND PARTICIPANT CONTRIBUTIONS SHALL BE PAID TO THE BOARD. THE BOARD SHALL ALLOCATE THE CONTRIBUTIONS TO THE DISABILITY PROGRAM TRUST FUND AND SHALL PLACE THE CONTRIBUTIONS IN THE DISABILITY PROGRAM'S DEPOSITORY.

D. EACH EMPLOYER SHALL CERTIFY ON EACH PAYROLL THE AMOUNT TO BE CONTRIBUTED TO THE DISABILITY PROGRAM AND SHALL REMIT THAT AMOUNT TO THE BOARD.

E. THE DEPARTMENT OF ADMINISTRATION AND THE TREASURER OF EACH COUNTY AND PARTICIPATING CITY AND TOWN SHALL TRANSFER TO THE BOARD THE CONTRIBUTIONS PROVIDED FOR IN SUBSECTIONS A AND B OF THIS SECTION WITHIN TEN WORKING DAYS AFTER EACH PAYROLL DATE. CONTRIBUTIONS TRANSFERRED AFTER THESE DATES SHALL INCLUDE A PENALTY EQUAL TO TEN PERCENT PER ANNUM, COMPOUNDED DAILY, FOR EACH DAY THAT THE CONTRIBUTIONS ARE LATE. DELINQUENT PAYMENTS DUE UNDER THIS

SUBSECTION, TOGETHER WITH INTEREST CHARGES AS PROVIDED IN THIS SUBSECTION AND COURT COSTS, MAY BE RECOVERED BY ACTION IN A COURT OF COMPETENT JURISDICTION AGAINST THE PERSON OR PERSONS RESPONSIBLE FOR THE PAYMENTS OR, AT THE REQUEST OF THE BOARD, MAY BE DEDUCTED FROM ANY OTHER MONIES, INCLUDING EXCISE REVENUE TAXES, PAYABLE TO A POLITICAL SUBDIVISION BY ANY DEPARTMENT OR AGENCY OF THIS STATE.

F. IF MORE THAN THE CORRECT AMOUNT OF CONTRIBUTIONS REQUIRED IS PAID BY AN EMPLOYER, PROPER ADJUSTMENT SHALL BE MADE IN CONNECTION WITH SUBSEQUENT PAYMENTS. THE BOARD SHALL RETURN EXCESS CONTRIBUTIONS TO THE EMPLOYER IF THE EMPLOYER REQUESTS RETURN OF THE CONTRIBUTIONS WITHIN ONE YEAR AFTER THE DATE OF OVERPAYMENT.

G. PARTICIPANT CONTRIBUTIONS ARE NOT REFUNDABLE.

38-870.05. Contribution rate

A. EMPLOYER CONTRIBUTIONS SHALL BE A PERCENTAGE OF GROSS PENSIONABLE COMPENSATION FOR EACH PARTICIPANT, AS THE SYSTEM ACTUARY DETERMINES PURSUANT TO THIS SECTION. THE ACTUARY SHALL MAKE THIS DETERMINATION IN AN ANNUAL VALUATION PERFORMED AS OF JUNE 30. THE VALUATION AS OF JUNE 30 OF A CALENDAR YEAR SHALL DETERMINE THE PERCENTAGE TO BE APPLIED TO COMPENSATION FOR THE FISCAL YEAR BEGINNING JULY 1 OF THE FOLLOWING CALENDAR YEAR. THE ACTUARY SHALL DETERMINE THE TOTAL EMPLOYER CONTRIBUTION USING AN ACTUARIAL COST METHOD CONSISTENT WITH GENERALLY ACCEPTED ACTUARIAL STANDARDS. THE TOTAL EMPLOYER CONTRIBUTIONS SHALL BE EQUAL TO THE EMPLOYER NORMAL COST PLUS THE AMOUNT REQUIRED TO AMORTIZE THE PAST SERVICE FUNDING REQUIREMENT OVER A PERIOD CONSISTENT WITH GENERALLY ACCEPTED ACTUARIAL STANDARDS.

B. ALL CONTRIBUTIONS MADE BY THE EMPLOYER AND ALLOCATED TO THE DISABILITY PROGRAM TRUST FUND ESTABLISHED BY SECTION 38-870.02 ARE IRREVOCABLE AND SHALL BE USED AS BENEFITS UNDER THIS ARTICLE OR TO PAY EXPENSES OF THE DISABILITY PROGRAM.

38-870.06. Disability program benefit

A. THE BOARD SHALL FOLLOW THE SAME PROCEDURES AND METHOD AS PRESCRIBED IN SECTION 38-844 TO DETERMINE ELIGIBILITY FOR AND CONTINUATION OF A DISABILITY BENEFIT AND IN COMPUTING THE AMOUNT AVAILABLE TO THE PARTICIPANT.

B. A PARTICIPANT WHO MEETS THE REQUIREMENTS FOR A DISABILITY PENSION AS PRESCRIBED IN SECTION 38-844 SHALL RECEIVE A MONTHLY DISABILITY BENEFIT EQUAL TO A MONTHLY DISABILITY PENSION THAT WOULD BE PROVIDED TO A PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM MEMBER WHO IS HIRED ON OR AFTER JULY 1, 2017, REDUCED BY AN AMOUNT EQUAL TO THE MONTHLY ANNUITIZED VALUE OF THE PARTICIPANT'S ANNUITY ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER THAT DOES NOT INCLUDE A COST-OF-LIVING ADJUSTMENT, AS DETERMINED BY THE BOARD. IN DETERMINING THE MONTHLY ANNUITIZED OFFSET VALUE OF THE PARTICIPANT'S ANNUITY ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER TO BE USED IN REDUCING THE DISABILITY BENEFIT PAID PURSUANT TO THIS SECTION, THE BOARD SHALL INSTRUCT THE ACTUARY FOR THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM TO CALCULATE THE MONTHLY PAYMENT THAT WOULD BE PAID TO THE PARTICIPANT ASSUMING THE PARTICIPANT HAD ELECTED A STRAIGHT LIFE ANNUITY COMMENCING ON THE

PARTICIPANT'S DATE OF DISABILITY, USING THE MORTALITY AND INTEREST FACTORS THEN USED BY THE ACTUARY IN DETERMINING THE VALUATION OF THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.

Sec. 16. Section 38-883, Arizona Revised Statutes, is amended to read:

38-883. Board of trustees; powers and duties

A. The board shall:

1. Maintain records of the operation and administration of the plan and fund.

2. Contract on a fee basis for an independent annual audit of the accounting records of the plan and fund and file a copy of the audit report with the auditor general.

3. Employ on a fee basis an independent firm of actuaries to perform annual actuarial valuations for each participating employer of the plan and fund based on an actuarial cost method and actuarial assumptions recommended by the actuary and adopted by the board. The actuarial valuations shall be performed by or under the direct supervision of an actuary who is a member of the American academy of actuaries. By November 1 of each year, the board shall provide a preliminary report and by December 15 of each year provide a final report to the governor, the speaker of the house of representatives and the president of the senate on the contribution rate for the ensuing fiscal year.

4. Invest and reinvest the monies and assets of the fund in accordance with the investment provisions of the public safety personnel retirement system. The board may commingle securities and monies of the fund subject to the crediting of receipts and earnings and charging of payments to the account of the appropriate employer.

5. Submit a detailed annual report of the operation and investment performance of the plan and fund to the governor, the legislature and the members of the plan. The board shall submit the annual report no later than six months after the end of the fiscal year to which it pertains.

B. The board of trustees may:

1. Employ services it deems necessary, including legal services, for the operation and administration of the plan and fund.

2. Utilize separate or commingled investment vehicles.

3. Delegate authority to the administrator employed pursuant to section 38-848, subsection ~~K~~ M, paragraph 6.

4. Appear before local boards and the courts and political subdivisions of this state through counsel or appointed representatives to protect the fund. The board of trustees is not responsible for the actions or omissions of the local boards under this plan but may seek review or a rehearing of actions or omissions of local boards. The board of trustees does not have a duty to review actions of the local boards but may do so, in its discretion, in order to protect the fund.

5. Perform all acts, whether or not expressly authorized, that it deems necessary and proper for the protection of the plan and fund.

Sec. 17. Section 38-952, Arizona Revised Statutes, is amended to read:

38-952. Supplemental defined contribution plan; establishment; administration

A. The board or employer of an eligible group may establish, administer, manage and operate a supplemental defined contribution plan. The board of trustees established by section 38-848 may establish a single supplemental defined contribution plan for all contributing members of the retirement system and plans it administers.

B. If a board or employer establishes a supplemental defined contribution plan:

1. The Arizona state retirement system board may delegate authority to implement the plan to its director appointed pursuant to section 38-715.

2. The employer may delegate authority to implement the plan to its internal benefits administrator or designee.

3. The board of trustees may delegate authority to implement the plan to the administrator employed pursuant to section 38-848, subsection ~~K~~ M, paragraph 6.

4. The board or employer may:

(a) Employ services it deems necessary, including legal services, for the operation and administration of the plan.

(b) Administer the plan through contracts with multiple vendors.

(c) Perform all acts, whether or not expressly authorized, that it deems necessary and proper for the operation and protection of the plan.

(d) For the purposes of this article, enter into intergovernmental agreements pursuant to title 11, chapter 7, article 3.

C. A supplemental defined contribution plan shall be designed to be a qualified governmental plan under section 401(a) of the internal revenue code. The legislature intends that a supplemental defined contribution plan is a qualified plan under section 401 of the internal revenue code, as amended, or successor provisions of law, and that a plan is exempt from taxation under section 501 of the internal revenue code. The board or employer may adopt any additional provisions to a plan that are necessary to fulfill this intent.

D. Although designated as employee contributions, all employee contributions made to a plan shall be picked up and paid by the employer in lieu of contributions by the employee. The contributions picked up by an employer may be made through a reduction in the employee's compensation or an offset against future compensation increases, or a combination of both. An employee participating in a plan does not have the option of choosing to receive the contributed amounts directly instead of the employer paying the amounts to the plan. It is intended that all employee contributions that are picked up by the employer as provided in this subsection shall be treated as employer contributions under section 414(h) of the internal revenue code, shall be excluded from employees' gross income for federal and state income tax purposes and are includable in the gross income of the employees or their

beneficiaries only in the taxable year in which they are distributed. The specified effective date of the pickup pursuant to this subsection shall not be before the date the plan receives notification from the internal revenue service that all employee contributions that are picked up by the employer as provided in this subsection shall be treated as employer contributions pursuant to section 414(h) of the internal revenue code. Until notification is received, any employee contributions made under section 38-953 are made with after-tax contributions.

Sec. 18. Study; risk pooling; local board consolidation and structure; recommendations

A. Within fifteen days after the effective date of this act, the public safety personnel retirement system shall commence a study to determine various methods in which risk pooling may be structured and local board consolidation and structure may be accomplished and to determine which methods, if any, are in the best interests of the public safety personnel retirement system's fund, members, beneficiaries and employers.

B. The study shall be presented to the board of trustees of the public safety personnel retirement system on or before January 15, 2017. The board shall consider the study and report its recommendations for legislation to the president of the senate, the speaker of the house of representatives and the governor on or before February 15, 2017.

Sec. 19. Initial appointments of the board of trustees of the public safety personnel retirement system; initial terms

A. For the initial appointments to the board of trustees of the public safety personnel retirement system, on or before August 1, 2016, associations representing public safety personnel, cities and towns in this state and counties in this state shall establish a list of nominees who are qualified pursuant to section 38-848, Arizona Revised Statutes, and willing to serve on the board. The list shall include at least three nominees for each position on the board, which will be forwarded to the appointing elected officials.

B. Each member of the board of trustees of the public safety personnel retirement system shall be selected from the list of nominees presented to the appointing elected officials for each position on the board. The following elected officials shall make the following appointments:

1. The governor shall appoint:

(a) One member representing law enforcement in this state.

(b) One member representing firefighters in this state.

(c) One member representing cities and towns in this state.

(d) One member representing counties in this state.

(e) One member as specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes.

2. The president of the senate shall appoint:

(a) One member representing law enforcement in this state.

(b) One member representing cities and towns in this state.

3. The speaker of the house of representatives shall appoint:
(a) One member representing firefighters in this state.
(b) One member representing cities and towns in this state.
C. The appointments shall be made in the following order:
1. On or before November 1, 2016, the governor shall make one appointment to the board from the list of nominees followed by one appointment made in turn from the president of the senate and the speaker of the house of representatives until eight members are appointed to the board.
2. The eight members initially appointed to the board pursuant to paragraph 1 of this subsection shall elect a chairperson who shall appoint the advisory committee pursuant to section 38-848, subsection X, Arizona Revised Statutes. The advisory committee shall forward to the newly appointed board of trustees of the public safety personnel retirement system at least five nominees who are qualified pursuant to section 38-848, Arizona Revised Statutes, and willing to serve on the board for the appointment of the ninth member of the board. From that list of nominees, the newly appointed board of trustees of the public safety personnel retirement system shall forward to the governor at least three nominees for the appointment of the ninth member of the board, which shall be made on or before December 1, 2016.
D. If the board members specified in subsection B of this section, except the board member specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes, are not appointed by November 1, 2016, the elected official who fails to make an appointment forfeits the appointment and the appointment will be made within fifteen days by the next elected official in the rotation specified in subsection C, paragraph 1 of this section. This rotation shall continue until the eight board members are appointed.
E. Notwithstanding section 38-848, Arizona Revised Statues, the initial terms of the public safety personnel retirement system board members are:
1. Four terms ending on January 1, 2019 that include:
(a) One member representing law enforcement.
(b) One member representing firefighters.
(c) Two members representing cities and towns in this state.
2. Five terms ending on January 1, 2021 that include:
(a) One member representing law enforcement.
(b) One member representing firefighters.
(c) One member representing cities and towns in this state.
(d) One member representing counties in this state.
(e) The member specified in section 38-848, subsection A, paragraph 5, Arizona Revised Statutes.
F. The chairperson shall notify the appointing elected officials regarding which appointment is filling each term. The subsequent

appointments shall be made as prescribed in section 38-848, Arizona Revised Statutes.

Sec. 20. Annual compensation adjustment; employers; public safety wage index

Notwithstanding section 38-843.04, subsection D, Arizona Revised Statutes, as added by this act, beginning July 1, 2017, the employers for the purposes of the public safety wage index are the central Yavapai fire district, department of public safety, Drexel heights fire district, Flagstaff fire department, Flagstaff police department, Arizona game and fish department, Gilbert police department, Glendale police department, Golder ranch fire district, Kingman fire department, Kingman police department, Maricopa county sheriff's department, Mesa police department, Nogales fire department, Nogales police department, Northwest fire district, Phoenix fire department, Phoenix police department, Pima county sheriff's department, Pinal county sheriff's department, Prescott fire department, Prescott police department, Scottsdale police department, Tempe fire department, Tucson fire department and Tucson police department.

Sec. 21. Legislative findings and intent

A. The legislature recognizes that in order to have a sound public retirement system that benefits this state, taxpayers and members of the retirement system, pursuant to article XXIX, Constitution of Arizona, the public retirement system must be funded with contributions and investment earnings based on actuarial methods and assumptions that are consistent with generally accepted actuarial standards. The legislature finds that the current structure of the public safety personnel retirement system does not achieve this goal and that the current system imperils the retirement security that the members of that system have come to expect. For these reasons, the legislature intends to modify and amend the provisions of the current system for both current and new members to make the system viable and sustainable now and into the future.

B. The legislature further finds:

1. That the current structure of the public safety personnel retirement system does not lead to the goal of attaining one hundred percent funded status and jeopardizes the future payment of benefits to current and future retirees of the retirement program.

2. That the current structure of the public safety personnel retirement system, which requires a fixed employee contribution rate, requires a contribution rate from employees that is insufficient in relation to the cost associated with the benefits required by the plan design and therefore places a greater financial burden on employers. By moving to a shared cost structure, public safety employees will bear increased responsibility for the fiscal health of the fund and, as the fund improves its funded status and approaches fully funded or overfunded status, the employees will realize decreased contribution costs that will be lower than currently required.

3. That the current method of funding benefit increases to retirees of the public safety personnel retirement system is flawed and makes it highly unlikely that this fund will achieve its actuarially assumed earning rates during positive and negative investment environments and creates an undesirable possibility of greater investment risk on the part of the fund's trustees. It is fundamentally unsound to provide a benefit increase during periods when the funded status of the retirement program is less than seventy percent. Changing the manner of funding these benefit increases is intended to improve the funded status of the public safety personnel retirement system and is in the best interests of the members and beneficiaries of this retirement program in that it will preserve future benefits for plan participants.

4. It is necessary to change the future plan and system structures for nonvested members to take into consideration the increased life expectancy of members and future employees and make the reforms necessary to preserve the funded status of the retirement program in future years.

5. To protect the future benefits of retired, active and future employees, it is necessary to make the changes outlined in this act to preserve the funded status of this retirement program and return the program to fiscal solvency.

C. It is the legislature's intent that this act does not impair or amend any agreement between an employee and employer that addresses participation in or contributions to alternative retirement plans or compensation arrangements not administered through the public safety personnel retirement system.

Sec. 22. Conditional enactment

Sections 38-856, 38-856.01, 38-856.02, 38-856.03 and 38-856.04, Arizona Revised Statutes, as repealed by this act, section 38-844.05, Arizona Revised Statutes, as amended by this act, and sections 38-856.05, 38-865.01 and 38-868, Arizona Revised Statutes, as added by this act, do not become effective unless the Constitution of Arizona is amended as prescribed in Senate concurrent resolution ___, fifty-second legislature, second regular session, by vote of the people at the special election conducted on May 17, 2016.

Sec. 23. Severability

If a provision of this act or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of the act that can be given effect without the invalid provision or application, and to this end the provisions of this act are severable.