

State of Arizona
Senate
Fifty-second Legislature
Second Regular Session
2016

SENATE BILL 1428

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)

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

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

4 38-651.01. Group health and accident coverage for retired
5 public employees and elected officials and their
6 dependents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 Sec. 2. Section 38-803, Arizona Revised Statutes, is amended to read:
30 38-803. Powers and duties of the board

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

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

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

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

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

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

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

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

10 1. Employ services as it deems necessary.

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

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

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

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

19 38-842. Definitions

20 In this article, unless the context otherwise requires:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 (a) Is under eighteen years of age.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

35 (e) Hardship distributions.

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

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

1 28. "Employers" means:

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

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

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

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

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

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

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

27 31. "Member":

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

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

1 employees under a joinder agreement entered into by their employer after July
2 1, 1968 and who is or was regularly assigned to hazardous duty or, beginning
3 retroactively to January 1, 2009, who is a police chief or a fire chief.

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

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

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

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

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

22 (b) DOES NOT INCLUDE AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1,
23 2017, WHO MAKES THE IRREVOCABLE ELECTION TO PARTICIPATE SOLELY IN THE PUBLIC
24 SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT TO
25 ARTICLE 4.1 OF THIS CHAPTER AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A
26 RETIRED MEMBER OF THE SYSTEM OR A MEMBER OF THE SYSTEM WITH A DISABILITY ON
27 JUNE 30, 2017.

28 32. "Normal retirement date" means:

29 (a) For an employee who becomes a member of the system before January
30 1, 2012, the first day of the calendar month immediately following the
31 employee's completion of twenty years of service or the employee's
32 sixty-second birthday and the employee's completion of fifteen years of
33 service.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 43. "Retirement" or "retired" means termination of employment after a
6 member has fulfilled all requirements for a pension ~~or~~, for an employee who
7 becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1,
8 2017, attains the age and service requirements for a normal retirement date
9 OR FOR AN EMPLOYEE WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1,
10 2017 ATTAINS THE AGE AND CREDITED SERVICE REQUIREMENTS FOR A NORMAL
11 RETIREMENT DATE. Retirement shall be considered as commencing on the first
12 day of the month immediately following a member's last day of employment or
13 authorized leave of absence, if later.

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

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

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

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

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

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

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

5 38-842.01. Benefit election; eligibility; disability; employees
6 hired on or after July 1, 2017

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

24 1. TO PARTICIPATE SOLELY IN THE SYSTEM.

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

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

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

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

12 Sec. 5. Section 38-843, Arizona Revised Statutes, is amended to read:
13 38-843. Contributions

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

25 B. As determined by actuarial valuations reported to the employer and
26 the local board by the board of trustees, each employer shall make ~~level per~~
27 ~~cent of compensation~~ contributions sufficient under such actuarial valuations
28 to meet both the normal cost **FOR MEMBERS HIRED BEFORE JULY 1, 2017** plus the
29 actuarially determined amount required to amortize the unfunded accrued
30 liability **ON A LEVEL PERCENT OF COMPENSATION BASIS FOR ALL EMPLOYEES OF THE**
31 **EMPLOYER WHO ARE MEMBERS OF THE SYSTEM OR PARTICIPANTS AS DEFINED IN SECTION**
32 **38-865, PARAGRAPH 7, SUBDIVISION (a)** over, beginning July 1, ~~2005~~ 2017, a
33 ~~rolling~~ **CLOSED** period of ~~at least~~ **NOT MORE THAN** twenty ~~and not more than~~
34 ~~thirty~~ years that is established by the board of trustees taking into account
35 the recommendation of the system's actuary, except that, beginning with
36 fiscal year 2006-2007, except as otherwise provided, the employer
37 contribution rate shall not be less than eight ~~per-cent~~ **PERCENT** of
38 compensation. For any employer whose actual contribution rate is less than
39 eight ~~per-cent~~ **PERCENT** of compensation for fiscal year 2006-2007, that
40 employer's contribution rate is not subject to the eight ~~per-cent~~ **PERCENT**
41 minimum but, for fiscal year 2006-2007 and each year thereafter, shall be at
42 least five ~~per-cent~~ **PERCENT** and not more than the employer's actual
43 contribution rate. An employer shall have the option of paying a higher
44 level ~~per-cent~~ **PERCENT** of compensation thereby reducing its unfunded past
45 service liability. An employer shall also have the option of increasing its

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

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

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

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

24 E. The amount contributed by a member WHO WAS HIRED BEFORE JULY 1,
25 2017 pursuant to subsection C of this section is:

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

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

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

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

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

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

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

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

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

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

17 2. THE REMAINING FIFTY PERCENT OF BOTH THE NORMAL COST AND ACTUARIALLY
18 DETERMINED AMOUNT REQUIRED TO AMORTIZE THE TOTAL UNFUNDED ACCRUED LIABILITY
19 AS DETERMINED PURSUANT TO PARAGRAPH 1 OF THIS SUBSECTION SHALL BE DIVIDED BY
20 THE TOTAL NUMBER OF THE EMPLOYER'S MEMBERS WHO WERE HIRED ON OR AFTER JULY 1,
21 2017 SUCH THAT EACH MEMBER CONTRIBUTES AN EQUAL PERCENTAGE OF THE MEMBER'S
22 COMPENSATION. MEMBER CONTRIBUTIONS SHALL BEGIN SIMULTANEOUSLY WITH
23 MEMBERSHIP IN THE SYSTEM AND SHALL BE MADE BY PAYROLL DEDUCTION.

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

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

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

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

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

40 38-843.04. Compensation limitation; adjustments; definition

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

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

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

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

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

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

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

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

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

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

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

5 3. If applicable, employee contributions made pursuant to section
6 38-844.06, subsection B.

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

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

11 38-845. Amount of retirement benefit

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

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

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

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

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

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

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

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

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

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

15 G. A member who meets the requirements for a normal pension, who
16 becomes a member of the system on or after January 1, 2012 AND BEFORE JULY 1,
17 2017 and who has twenty-five years of credited service shall receive a
18 monthly amount that equals sixty-two and one-half percent of the member's
19 average monthly benefit compensation. If the member retires with other than
20 twenty-five years of credited service, the foregoing amount shall be:

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

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

29 H. A MEMBER WHO BECOMES A MEMBER OF THE SYSTEM ON OR AFTER JULY 1,
30 2017 AND WHO RETIRES ON OR AFTER THE MEMBER'S NORMAL RETIREMENT DATE SHALL
31 RECEIVE A MONTHLY AMOUNT EQUAL TO THE MEMBER'S AVERAGE MONTHLY BENEFIT
32 COMPENSATION MULTIPLIED BY THE NUMBER OF WHOLE AND FRACTIONAL YEARS OF
33 CREDITED SERVICE MULTIPLIED BY THE FOLLOWING:

34 1. 1.50 PERCENT IF THE MEMBER HAS AT LEAST FIFTEEN YEARS OF CREDITED
35 SERVICE BUT LESS THAN SEVENTEEN YEARS OF CREDITED SERVICE.

36 2. 1.75 PERCENT IF THE MEMBER HAS AT LEAST SEVENTEEN YEARS OF CREDITED
37 SERVICE BUT LESS THAN NINETEEN YEARS OF CREDITED SERVICE.

38 3. 2.00 PERCENT IF THE MEMBER HAS AT LEAST NINETEEN YEARS OF CREDITED
39 SERVICE BUT LESS THAN TWENTY-TWO YEARS OF CREDITED SERVICE.

40 4. 2.25 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-TWO YEARS OF
41 CREDITED SERVICE BUT LESS THAN TWENTY-FIVE YEARS OF CREDITED SERVICE.

42 5. 2.50 PERCENT IF THE MEMBER HAS AT LEAST TWENTY-FIVE YEARS OF
43 CREDITED SERVICE.

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

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

6 38-845.03. Early retirement

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

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

13 38-846.01. Deferred annuity; exception

14 A. If any member who has at least ten years of credited service
15 terminates employment for reasons other than retirement or disability, the
16 member may elect to receive a deferred annuity, except that if the annuitant
17 withdraws all or part of the annuitant's accumulated contributions in the
18 system all rights in and to a deferred annuity shall be forfeited by the
19 annuitant. A deferred annuity is a lifetime monthly payment actuarially
20 equivalent to the annuitant's accumulated contributions in the system plus an
21 equal amount paid by the employer and shall commence on application on or
22 after the sixty-second birthday of the annuitant. The annuity is not a
23 retirement benefit and annuitants are not entitled to receive any amount
24 prescribed by section 38-845, subsection F or section 38-846, 38-856,
25 38-856.02 or 38-857.

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

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

40 38-848. Board of trustees; powers and duties; independent trust
41 fund; administrator; agents and employees; advisory
42 committee

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

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

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

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

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

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

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

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

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

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

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

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

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

3 B. EACH APPOINTMENT MADE PURSUANT TO SUBSECTION A OF THIS SECTION
4 SHALL BE CHOSEN FROM THE LIST OF NOMINEES PROVIDED TO THE APPOINTING ELECTED
5 OFFICIAL. A BOARD MEMBER MAY BE REAPPOINTED. NOTWITHSTANDING SECTION
6 38-295, A BOARD MEMBER MAY BE REMOVED FROM OFFICE ONLY FOR CAUSE BY THE
7 APPOINTING POWER OR BECAUSE THE BOARD MEMBER HAS VACATED THE MEMBER'S SEAT ON
8 THE BOARD. A BOARD MEMBER WHO IS REMOVED FOR CAUSE SHALL BE PROVIDED WRITTEN
9 NOTICE AND AN OPPORTUNITY FOR A RESPONSE. THE APPOINTING POWER MAY REMOVE A
10 BOARD MEMBER BASED ON WRITTEN FINDINGS THAT SPECIFY THE REASON FOR REMOVAL.
11 ANY VACANCY THAT OCCURS OTHER THAN BY EXPIRATION OF A TERM SHALL BE FILLED
12 FOR THE BALANCE OF THE TERM. ALL VACANCIES SHALL BE FILLED IN THE SAME
13 MANNER AS THE INITIAL APPOINTMENT. A BOARD MEMBER VACATES THE OFFICE IF THE
14 MEMBER EITHER:

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

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

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

24 1. A PORTFOLIO MANAGER ACTING IN A FIDUCIARY CAPACITY.

25 2. A SECURITIES ANALYST.

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

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

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

34 6. AN ECONOMIST.

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

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

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

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

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

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

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

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

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

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

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

22 (a) Listed or approved on issuance for listing on an exchange
23 registered under the securities exchange act of 1934, as amended (15 United
24 States Code sections 78a through 7811).

25 (b) Designated or approved on notice of issuance for designation on
26 the national market system of a national securities association registered
27 under the securities exchange act of 1934, as amended (15 United States Code
28 sections 78a through 7811).

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

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

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

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

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

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

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

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

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

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

31 3. Also:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- 1 2. Report the results of the actuarial valuations to the local boards
2 and employers.
- 3 3. Contract on a fee basis with an independent investment counsel to
4 advise the board in the investment management of the fund and assets of other
5 plans that the board administers and with an independent auditing firm to
6 audit the board's accounting.
- 7 4. Permit the auditor general to make an annual audit and the results
8 shall be transmitted to the governor and the legislature.
- 9 5. Contract on a fee basis with an actuary who shall make actuarial
10 valuations of the system and other plans that the board administers, be the
11 technical adviser of the board on matters regarding the operation of the
12 funds created by the provisions of the system, the elected officials'
13 retirement plan, the corrections officer retirement plan and the firefighter,
14 peace officer and corrections officer cancer insurance policy program and
15 perform other duties required in connection therewith. The actuary must be a
16 member of a nationally recognized association or society of actuaries.
- 17 6. Employ, as administrator, a person, state department or other body
18 to serve at the pleasure of the board.
- 19 7. Establish procedures and guidelines for contracts with actuaries,
20 auditors, investment counsel and legal counsel and for safeguarding of
21 securities.
- 22 ~~L~~ N. The administrator, under the direction of the board, shall:
23 1. Administer this article.
24 2. Be responsible for the recruitment, hiring and day-to-day
25 management of employees.
- 26 3. Invest the funds of the system and other plans that the board
27 administers as the board deems necessary and prudent as provided in
28 subsections ~~D~~ F and ~~H~~ J of this section and subject to the investment
29 policies and fund objectives adopted by the board.
- 30 4. Establish and maintain an adequate system of accounts and records
31 for the system and other plans that the board administers, which shall be
32 integrated with the accounts, records and procedures of the employers so that
33 the system and other plans that the board administers operates most
34 effectively and at minimum expense and that duplication of records and
35 accounts is avoided.
- 36 5. In accordance with the board's governance policy and procedures and
37 the budget adopted by the board, hire such employees and services the
38 administrator deems necessary and prescribe their duties, including the
39 hiring of one or more assistant administrators to manage the system's
40 operations, investments and legal affairs.
- 41 6. Be responsible for income, the collection of the income and the
42 accuracy of all expenditures.
- 43 7. Recommend to the board annual contracts for the system's actuary,
44 auditor, investment counsel, legal counsel and safeguarding of securities.

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

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

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

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

- 25 1. Administrator.
- 26 2. Deputy or assistant administrator.
- 27 3. Chief investment officer.
- 28 4. Deputy chief investment officer.
- 29 5. Fiduciary or investment counsel.

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

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

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

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

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

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

18 ~~2. A securities analyst.~~

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

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

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

26 ~~6. An economist.~~

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

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

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

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

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

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

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

15 38-848.04. Board fiduciary obligations and duties; enforcement;
16 definitions

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

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

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

- 35 1. SHALL CONSIDER AT LEAST THE FOLLOWING:
 - 36 (a) THE GENERAL ECONOMIC CONDITIONS.
 - 37 (b) THE POSSIBLE EFFECT OF INFLATION OR DEFLATION.
 - 38 (c) THE ROLE THAT EACH INVESTMENT OR COURSE OF ACTION PLAYS WITHIN THE
39 OVERALL PORTFOLIO OF THE RETIREMENT PLANS AND SYSTEMS ADMINISTERED BY THE
40 BOARD OR APPROPRIATE GROUPING OF PLANS OR SYSTEMS.
 - 41 (d) THE EXPECTED TOTAL RETURN FROM INCOME AND THE APPRECIATION OF
42 CAPITAL.
 - 43 (e) THE NEEDS FOR LIQUIDITY, REGULARITY OF INCOME AND PRESERVATION OR
44 APPRECIATION OF CAPITAL.

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

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

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

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

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

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

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

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

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

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

37 1. TO ENJOIN AN ACT, PRACTICE OR OMISSION THAT VIOLATES THIS SECTION.
38 2. FOR APPROPRIATE EQUITABLE RELIEF TO REDRESS THE VIOLATION OF OR TO
39 ENFORCE THIS SECTION.

40 F. FOR THE PURPOSES OF THIS SECTION:

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

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

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

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

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

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

7 Sec. 13. Repeal

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

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

12 38-856.05. Cost-of-living adjustment; members hired on or
13 before June 30, 2017

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

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

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

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

34 38-856.06. Cost-of-living adjustment; members hired on or after
35 July 1, 2017; definition

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

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

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

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

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

13 2. ONE AND ONE-HALF PERCENT OF THE RETIRED MEMBER'S OR SURVIVOR'S BASE
14 BENEFIT IF THE FUNDED RATIO FOR MEMBERS WHO ARE HIRED ON OR AFTER JULY 1,
15 2017 IS EIGHTY PERCENT OR MORE BUT LESS THAN NINETY PERCENT, AS REPORTED IN
16 THE MOST RECENT ACTUARIAL VALUATION.

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

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

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

26 38-861. Future benefit increases: payment; cost calculation;
27 definition

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

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

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

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

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

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

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

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

6 ARTICLE 4.1. PUBLIC SAFETY PERSONNEL DEFINED
7 CONTRIBUTION RETIREMENT PLAN

8 38-865. Definitions

9 IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

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

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

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

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

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

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

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

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

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

35 8. "PENSIONABLE COMPENSATION" MEANS THE AMOUNT OF THE PARTICIPANT'S
36 ANNUAL COMPENSATION THAT DOES NOT EXCEED THE LIMITATION SPECIFIED IN SECTION
37 38-843.04.

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

40 38-865.01. Definition of participant

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

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

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

9 E. THE BOARD MAY:

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

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

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

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

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

32 38-867. Contributions; member; employer; pick-up

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

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

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

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

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

3 C. ALTHOUGH DESIGNATED AS EMPLOYEE CONTRIBUTIONS, ALL PARTICIPANT
4 CONTRIBUTIONS MADE TO THE DEFINED CONTRIBUTION PLAN SHALL BE PICKED UP AND
5 PAID BY THE EMPLOYER IN LIEU OF CONTRIBUTIONS BY THE EMPLOYEE. THE
6 CONTRIBUTIONS PICKED UP BY AN EMPLOYER MAY BE MADE THROUGH A REDUCTION IN THE
7 PARTICIPANT'S COMPENSATION. A PARTICIPANT IN THE DEFINED CONTRIBUTION PLAN
8 MAY NOT CHOOSE TO RECEIVE THE CONTRIBUTED AMOUNTS DIRECTLY INSTEAD OF THE
9 EMPLOYER PAYING THE AMOUNTS TO THE DEFINED CONTRIBUTION PLAN. ALL
10 PARTICIPANT CONTRIBUTIONS THAT ARE PICKED UP BY THE EMPLOYER AS PROVIDED IN
11 THIS SUBSECTION SHALL BE TREATED AS EMPLOYER CONTRIBUTIONS UNDER SECTION
12 414(h) OF THE INTERNAL REVENUE CODE, SHALL BE EXCLUDED FROM PARTICIPANT'S
13 GROSS INCOME FOR FEDERAL AND STATE INCOME TAX PURPOSES AND ARE INCLUDABLE IN
14 THE GROSS INCOME OF THE PARTICIPANT OR THE PARTICIPANT'S BENEFICIARIES ONLY
15 IN THE TAXABLE YEAR IN WHICH THEY ARE DISTRIBUTED.

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

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

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

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

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

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

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

36 38-868. Contributions; member; employer; applicability of
37 article

38 A. BEGINNING JULY 1, 2017, A PARTICIPANT AS DEFINED IN SECTION
39 38-865.01 IN THE DEFINED CONTRIBUTION PLAN SHALL CONTRIBUTE THREE PERCENT OF
40 THE PARTICIPANT'S GROSS PENSIONABLE COMPENSATION BY SALARY REDUCTION THAT
41 SHALL BE DEPOSITED IN THE PARTICIPANT'S ANNUITY ACCOUNT.

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

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

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

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

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

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

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

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

16 D. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865.01, AN EMPLOYER MAY
17 CHOOSE TO PAY A PORTION OF THE PARTICIPANT'S CONTRIBUTIONS UNDER THIS SECTION
18 IN AN AMOUNT OF NOT MORE THAN THE DIFFERENCE BETWEEN THE CONTRIBUTION RATE
19 SPECIFIED UNDER SECTION 38-843 FOR EMPLOYEES HIRED ON OR AFTER JANUARY 1,
20 2012 AND BEFORE JULY 1, 2017 AND FOR ANY EMPLOYEE HIRED BEFORE JANUARY 1,
21 2012.

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

24 38-870. Definitions

25 IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

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

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

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

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

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

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

37 38-870.01. Disability program; administration; power and duties
38 of the board; hearing

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

1 B. THE BOARD MAY DELEGATE AUTHORITY TO ADMINISTER THE PROGRAM AS IT
2 DEEMS NECESSARY AND PRUDENT TO THE ADMINISTRATOR EMPLOYED PURSUANT TO SECTION
3 38-848.

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

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

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

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

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

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

19 1. EMPLOY SERVICES AS IT DEEMS NECESSARY.

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

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

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

28 38-870.02. Disability program trust fund

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

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

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

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

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

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

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

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

19 38-870.03. Eligibility

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

22 38-870.04. Employer and participant contributions

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

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

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

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

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

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

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

12 G. PARTICIPANT CONTRIBUTIONS ARE NOT REFUNDABLE.

13 38-870.05. Contribution rate

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

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

29 38-870.06. Disability program benefit

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

33 B. A PARTICIPANT WHO MEETS THE REQUIREMENTS FOR A DISABILITY PENSION
34 AS PRESCRIBED IN SECTION 38-844 SHALL RECEIVE A MONTHLY DISABILITY BENEFIT
35 EQUAL TO A MONTHLY DISABILITY PENSION THAT WOULD BE PROVIDED TO A PUBLIC
36 SAFETY PERSONNEL RETIREMENT SYSTEM MEMBER WHO IS HIRED ON OR AFTER JULY 1,
37 2017, REDUCED BY AN AMOUNT EQUAL TO THE MONTHLY ANNUITIZED VALUE OF THE
38 PARTICIPANT'S ANNUITY ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER THAT DOES NOT
39 INCLUDE A COST-OF-LIVING ADJUSTMENT, AS DETERMINED BY THE BOARD. IN
40 DETERMINING THE MONTHLY ANNUITIZED OFFSET VALUE OF THE PARTICIPANT'S ANNUITY
41 ACCOUNT UNDER ARTICLE 4.1 OF THIS CHAPTER TO BE USED IN REDUCING THE
42 DISABILITY BENEFIT PAID PURSUANT TO THIS SECTION, THE BOARD SHALL INSTRUCT
43 THE ACTUARY FOR THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM TO CALCULATE
44 THE MONTHLY PAYMENT THAT WOULD BE PAID TO THE PARTICIPANT ASSUMING THE
45 PARTICIPANT HAD ELECTED A STRAIGHT LIFE ANNUITY COMMENCING ON THE

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

4 Sec. 16. Section 38-883, Arizona Revised Statutes, is amended to read:
5 38-883. Board of trustees; powers and duties

6 A. The board shall:

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

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

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

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

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

31 B. The board of trustees may:

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

34 2. Utilize separate or commingled investment vehicles.

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

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

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

1 Sec. 17. Section 38-952, Arizona Revised Statutes, is amended to read:
2 38-952. Supplemental defined contribution plan: establishment:
3 administration

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

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

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

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

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

18 4. The board or employer may:

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

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

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

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

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

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

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

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

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

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

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

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

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

36 1. The governor shall appoint:

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

38 (b) One member representing firefighters in this state.

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

40 (d) One member representing counties in this state.

41 (e) One member as specified in section 38-848, subsection A, paragraph
42 5, Arizona Revised Statutes.

43 2. The president of the senate shall appoint:

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

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

1 3. The speaker of the house of representatives shall appoint:

2 (a) One member representing firefighters in this state.

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

4 C. The appointments shall be made in the following order:

5 1. On or before November 1, 2016, the governor shall make one
6 appointment to the board from the list of nominees followed by one
7 appointment made in turn from the president of the senate and the speaker of
8 the house of representatives until eight members are appointed to the board.

9 2. The eight members initially appointed to the board pursuant to
10 paragraph 1 of this subsection shall elect a chairperson who shall appoint
11 the advisory committee pursuant to section 38-848, subsection X, Arizona
12 Revised Statutes. The advisory committee shall forward to the newly
13 appointed board of trustees of the public safety personnel retirement system
14 at least five nominees who are qualified pursuant to section 38-848, Arizona
15 Revised Statutes, and willing to serve on the board for the appointment of
16 the ninth member of the board. From that list of nominees, the newly
17 appointed board of trustees of the public safety personnel retirement system
18 shall forward to the governor at least three nominees for the appointment of
19 the ninth member of the board, which shall be made on or before December 1,
20 2016.

21 D. If the board members specified in subsection B of this section,
22 except the board member specified in section 38-848, subsection A, paragraph
23 5, Arizona Revised Statutes, are not appointed by November 1, 2016, the
24 elected official who fails to make an appointment forfeits the appointment
25 and the appointment will be made within fifteen days by the next elected
26 official in the rotation specified in subsection C, paragraph 1 of this
27 section. This rotation shall continue until the eight board members are
28 appointed.

29 E. Notwithstanding section 38-848, Arizona Revised Statutes, the
30 initial terms of the public safety personnel retirement system board members
31 are:

32 1. Four terms ending on January 1, 2019 that include:

33 (a) One member representing law enforcement.

34 (b) One member representing firefighters.

35 (c) Two members representing cities and towns in this state.

36 2. Five terms ending on January 1, 2021 that include:

37 (a) One member representing law enforcement.

38 (b) One member representing firefighters.

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

40 (d) One member representing counties in this state.

41 (e) The member specified in section 38-848, subsection A, paragraph 5,
42 Arizona Revised Statutes.

43 F. The chairperson shall notify the appointing elected officials
44 regarding which appointment is filling each term. The subsequent

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

3 Sec. 20. Annual compensation adjustment: employers: public
4 safety wage index

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

18 Sec. 21. Legislative findings and intent

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

31 B. The legislature further finds:

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

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

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

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

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

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

26 Sec. 22. Conditional enactment

27 A. Sections 38-856, 38-856.01, 38-856.02, 38-856.03 and 38-856.04,
28 Arizona Revised Statutes, as repealed by this act, section 38-844.05, Arizona
29 Revised Statutes, as amended by this act, and sections 38-856.05, 38-865.01
30 and 38-868, Arizona Revised Statutes, as added by this act, do not become
31 effective unless the Constitution of Arizona is amended as prescribed in
32 Senate concurrent resolution 1019, fifty-second legislature, second regular
33 session, by vote of the people at the special election conducted on May 17,
34 2016.

35 B. The enactment of any provision of this act conditioned on the
36 results of the election does not constitute a submission of any provision of
37 this act to the voters under the power of referendum.

38 Sec. 23. Severability

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