

REFERENCE TITLE: corrections officer retirement plan; modifications

State of Arizona
Senate
Fifty-third Legislature
First Regular Session
2017

SB 1442

Introduced by
Senators Lesko: Allen S, Fann, Pratt, Worsley

AN ACT

AMENDING SECTIONS 38-843, 38-865, 38-867, 38-870, 38-870.01, 38-870.06 AND 38-881, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-881.01; AMENDING SECTIONS 38-884, 38-885, 38-885.01, 38-886.01 AND 38-891, ARIZONA REVISED STATUTES; REPEALING SECTION 38-905, 38-905.01, 38-905.02, 38-905.03 AND 38-905.04, ARIZONA REVISED STATUTES; AMENDING TITLE 38, CHAPTER 5, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 38-905.05; AMENDING SECTION 38-911, ARIZONA REVISED STATUTES; RELATING TO THE CORRECTIONS OFFICER RETIREMENT PLAN.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 38-843, Arizona Revised Statutes, is amended to
3 read:

4 **38-843. Contributions**

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

17 B. As determined by actuarial valuations reported to the employer
18 and the local board by the board of trustees, each employer shall make
19 contributions sufficient under such actuarial valuations to meet both the
20 normal cost for members hired before July 1, 2017 plus the actuarially
21 determined amount required to amortize the unfunded accrued liability on a
22 level percent of compensation basis for all employees of the employer who
23 are members of the system or participants as defined in section 38-865,
24 paragraph 7, subdivision (a), **ITEM (i)** over, beginning July 1, 2017, a
25 closed period of not more than twenty years that is established by the
26 board of trustees taking into account the recommendation of the system's
27 actuary, except that, beginning with fiscal year 2006-2007, except as
28 otherwise provided, the employer contribution rate shall not be less than
29 eight percent of compensation. For any employer whose actual contribution
30 rate is less than eight percent of compensation for fiscal year 2006-2007,
31 that employer's contribution rate is not subject to the eight percent
32 minimum but, for fiscal year 2006-2007 and each year thereafter, shall be
33 at least five percent and not more than the employer's actual contribution
34 rate. An employer shall have the option of paying a higher level percent
35 of compensation thereby reducing its unfunded past service liability. An
36 employer shall also have the option of increasing its contributions in
37 order to reduce the contributions required from its members under
38 subsection C of this section, except that if an employer elects this
39 option the employer shall pay the same higher level percentage
40 contribution for all members of the eligible group. A county employer
41 that elected to pay a higher level percentage contribution rate may
42 eliminate that higher level percentage contribution rate amount for
43 members who are hired on or after January 1, 2015. During a period when
44 an employee is on industrial leave and the employee elects to continue
45 contributions during the period of industrial leave, the employer shall

1 make the contributions based on the compensation the employee would have
2 received in the employee's job classification if the employee was in
3 normal employment status. All contributions made by the employers and all
4 state taxes allocated to the fund shall be irrevocable and shall be used
5 to pay benefits under the system or to pay expenses of the system and
6 fund. The minimum employer contribution that is paid and that is in
7 excess of the normal cost plus the actuarially determined amount required
8 to amortize the unfunded accrued liability as calculated pursuant to this
9 subsection shall be used to reduce future employer contribution increases
10 and shall not be used to pay for an increase in benefits that are
11 otherwise payable to members. The board shall separately account for
12 these monies in the fund. Forfeitures arising because of severance of
13 employment before a member becomes eligible for a pension or any other
14 reason shall be applied to reduce the cost of the employer, not to
15 increase the benefits otherwise payable to members. After the close of
16 any fiscal year, if the system's actuary determines that the actuarial
17 valuation of an employer's account contains excess valuation assets other
18 than excess valuation assets that were in the employer's account as of
19 fiscal year 2004-2005 and is more than one hundred percent funded, the
20 board shall account for fifty percent of the excess valuation assets in a
21 stabilization reserve account. After the close of any fiscal year, if the
22 system's actuary determines that the actuarial valuation of an employer's
23 account has a valuation asset deficiency and an unfunded actuarial accrued
24 liability, the board shall use any valuation assets in the stabilization
25 reserve account for that employer, to the extent available, to limit the
26 decline in that employer's funding ratio to not more than two percent.

27 C. Each member who was hired before July 1, 2017, throughout the
28 member's period of service from the member's effective date of
29 participation, shall contribute to the fund an amount equal to the amount
30 prescribed in subsection E of this section, except as provided in
31 subsection B of this section. Each member who was hired on or after
32 July 1, 2017, throughout the member's period of service from the member's
33 effective date of participation, shall contribute to the fund an amount
34 equal to the amount prescribed in subsection G of this section. During a
35 period when an employee is on industrial leave and the employee elects to
36 continue contributions during the period of industrial leave, the employee
37 shall make the employee's contribution based on the compensation the
38 employee would have received in the employee's job classification if the
39 employee was in normal employment status. Contributions of members shall
40 be required as a condition of employment and membership in the system and
41 shall be made by payroll deductions. Every employee shall be deemed to
42 consent to such deductions. Payment of an employee's compensation, less
43 such payroll deductions, shall constitute a full and complete discharge
44 and satisfaction of all claims and demands by the employee relating to
45 remuneration for the employee's services rendered during the period

1 covered by the payment, except with respect to the benefits provided under
2 the system. A member may not, under any circumstance, borrow from, take a
3 loan against or remove contributions from the member's account before the
4 termination of membership in the plan or the receipt of a pension.

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

16 E. The amount contributed by a member who was hired before July 1,
17 2017 pursuant to subsection C of this section is:

18 1. Through June 30, 2011, 7.65 percent of the member's
19 compensation.

20 2. For fiscal year 2011-2012, 8.65 percent of the member's
21 compensation.

22 3. For fiscal year 2012-2013, 9.55 percent of the member's
23 compensation.

24 4. For fiscal year 2013-2014, 10.35 percent of the member's
25 compensation.

26 5. For fiscal year 2014-2015, 11.05 percent of the member's
27 compensation.

28 6. For fiscal year 2015-2016 and each fiscal year thereafter, 11.65
29 percent of the member's compensation or 33.3 percent of the sum of the
30 member's contribution rate from the preceding fiscal year and the
31 aggregate computed employer contribution rate that is calculated pursuant
32 to subsection B of this section, whichever is lower, except that the
33 member contribution rate shall not be less than 7.65 percent of the
34 member's compensation and the employer contribution rate shall not be less
35 than the rate prescribed in subsection B of this section.

36 F. For fiscal year 2011-2012 and each fiscal year thereafter, the
37 amount of the member's contribution that exceeds 7.65 percent of the
38 member's compensation shall not be used to reduce the employer's
39 contributions that are calculated pursuant to subsection B of this
40 section.

41 G. For members hired on or after July 1, 2017, the employer and
42 member contributions are determined as follows:

43 1. As determined by actuarial valuations reported to the employer
44 and the local board by the board of trustees, each employer shall make
45 contributions sufficient under such actuarial valuations to pay fifty

1 percent of both the normal cost plus the actuarially determined amount
2 required to amortize the total unfunded accrued liability for each
3 employer attributable only to those members hired on or after July 1,
4 2017. For each year that new unfunded liabilities are attributable to the
5 employer's own members hired on or after July 1, 2017, a new amortization
6 base representing the most recent annual gain or loss, smoothed over a
7 period not more than five years as determined by the board, shall be
8 created on a level-dollar basis over a closed period equal to the average
9 expected remaining service lives of all members but not more than ten
10 years, as determined by the board.

11 2. The remaining fifty percent of both the normal cost and
12 actuarially determined amount required to amortize the total unfunded
13 accrued liability as determined pursuant to paragraph 1 of this subsection
14 shall be divided by the total number of the employer's members who were
15 hired on or after July 1, 2017 such that each member contributes an equal
16 percentage of the member's compensation. Member contributions shall begin
17 simultaneously with membership in the system and shall be made by payroll
18 deduction.

19 H. In any fiscal year, an employer's contribution to the system in
20 combination with member contributions may not be less than the actuarially
21 determined normal cost for that fiscal year. The board may not suspend
22 contributions to the system unless both of the following apply:

23 1. The retirement system actuary, based on the annual valuation,
24 determines that continuing to accrue excess earnings could result in
25 disqualification of the system's tax-exempt status under the provisions of
26 the United States internal revenue code.

27 2. The board determines that the receipt of any additional
28 contributions required under this section would conflict with its
29 fiduciary responsibility.

30 I. If a member's employment is terminated with an employer by
31 either party, the total liability under the system associated with the
32 member's service with the employer remains with the employer.

33 Sec. 2. Section 38-865, Arizona Revised Statutes, is amended to
34 read:

35 **38-865. Definitions**

36 In this article, unless the context otherwise requires:

37 1. "Annuity account" means an account that is established for each
38 participant to record the deposit of participant contributions, employer
39 contributions and interest, dividends or other accumulations credited on
40 behalf of the participant.

41 2. "Board" means the board of trustees of the public safety
42 personnel retirement system established by section 38-848.

43 3. "Compensation":
44 (a) **FOR PARTICIPANTS AS DEFINED IN PARAGRAPH 7, SUBDIVISION (a) OF**
45 **THIS SECTION, has the same meaning prescribed in section 38-842.**

1 (b) FOR PARTICIPANTS AS DEFINED IN PARAGRAPH 7, SUBDIVISION (b) OF
2 THIS SECTION, MEANS SALARY AS DEFINED IN SECTION 38-881.

3 4. "Defined contribution plan" means the public safety personnel
4 defined contribution retirement plan established pursuant to this article.

5 5. "Employer" has the same meaning prescribed in section 38-842 OR
6 38-881, AS APPLICABLE.

7 6. "Employer contribution" means an amount deposited by an
8 employer, from the employer's own monies, in the participant's annuity
9 account on a periodic basis coinciding with the participant's regular pay
10 period.

11 7. "Participant" means:

12 (a) A member as defined in section 38-842, paragraph 31, excluding
13 subdivision (a), item (vi), who is one of the following:

14 ~~(a)~~ (i) An employee who is hired on or after July 1, 2017, who
15 makes the irrevocable election to participate solely in the defined
16 contribution plan established pursuant to this article and who was not an
17 active, an inactive or a retired member of the system or a member of the
18 system with a disability on June 30, 2017.

19 ~~(b)~~ (ii) An employee who is hired on or after July 1, 2017, who is
20 not covered by the federal old age and survivors insurance system and who
21 makes the irrevocable election to participate in the system or is enrolled
22 in the system pursuant to section 38-842.01, subsection A.

23 (b) A MEMBER AS DEFINED IN SECTION 38-881 WHO IS AN EMPLOYEE WHO IS
24 HIRED ON OR AFTER JULY 1, 2018 AND WHO WAS NOT AN ACTIVE, AN INACTIVE OR A
25 RETIRED MEMBER OF THE CORRECTIONS OFFICER RETIREMENT PLAN OR A MEMBER OF
26 THE CORRECTIONS OFFICER RETIREMENT PLAN WITH A DISABILITY ON JUNE 30,
27 2018.

28 8. "Pensionable compensation" means the amount of the participant's
29 annual compensation that does not exceed the limitation specified in
30 section 38-843.04 OR 38-895.01, AS APPLICABLE.

31 9. "System" means the public safety personnel retirement system
32 established by article 4 of this chapter.

33 Sec. 3. Section 38-867, Arizona Revised Statutes, is amended to
34 read:

35 38-867. Contributions: member: employer: pickup

36 A. Each participant in the defined contribution plan shall
37 contribute the following percentage of the participant's gross pensionable
38 compensation by salary reduction that shall be deposited in the
39 participant's annuity account:

40 1. For a participant as defined in section 38-865, paragraph 7,
41 subdivision ~~(b)~~ (a), ITEM (ii), three percent.

42 2. For a participant as defined in section 38-865, paragraph 7,
43 subdivision (a), ITEM (i), nine percent.

44 3. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
45 SUBDIVISION (b), FIVE PERCENT.

1 B. A participant as defined in section 38-865 may make a one-time
2 irrevocable election, before the participant is eligible to participate in
3 any qualified plan of the employer, to contribute more than the percentage
4 of the participant's gross pensionable compensation specified in this
5 section, up to the amount allowable under section 415(c) of the internal
6 revenue code, which shall be the participant's contribution rate for the
7 remainder of the participant's employment with any employer under the
8 system **OR THE CORRECTIONS OFFICER RETIREMENT PLAN, AS APPLICABLE.**

9 C. Although designated as employee contributions, all participant
10 contributions made to the defined contribution plan shall be picked up and
11 paid by the employer in lieu of contributions by the employee. The
12 contributions picked up by an employer may be made through a reduction in
13 the participant's compensation. A participant in the defined contribution
14 plan may not choose to receive the contributed amounts directly instead of
15 the employer paying the amounts to the defined contribution plan. All
16 participant contributions that are picked up by the employer as provided
17 in this subsection shall be treated as employer contributions under
18 section 414(h) of the internal revenue code, shall be excluded from **THE**
19 participant's gross income for federal and state income tax purposes and
20 are includable in the gross income of the participant or the participant's
21 beneficiaries only in the taxable year in which they are distributed.

22 D. Each employer shall annually make a contribution equal to the
23 following percentages of each participant's gross pensionable
24 compensation:

25 1. For a participant **AS** defined in section 38-865, paragraph 7,
26 subdivision ~~(b)~~ (a), **ITEM (ii)**, three percent.

27 2. For a participant **AS** defined in section 38-865, paragraph 7,
28 subdivision (a), **ITEM (i)**, nine percent.

29 3. **FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7,**
30 **SUBDIVISION (b), FIVE PERCENT.**

31 E. The pro rata share of the amount paid in subsection D of this
32 section shall be paid on each date that a participant contribution is made
33 and shall be credited to the participant's annuity account.

34 F. A participant of the defined contribution plan may not take
35 loans on any portion of the accumulated assets in the participant's
36 annuity account.

37 G. Each participant as defined in section 38-865, paragraph 7,
38 subdivision (a), **ITEM (i) AND SUBDIVISION (b)** and each employer shall
39 contribute to the public safety personnel defined contribution retirement
40 plan disability program established by article 4.2 of this chapter.

41 H. A participant's contributions and earnings on those
42 contributions are immediately vested. A participant is fully vested in
43 the defined contribution plan after ten years of service, with employer
44 contributions vesting at a rate of ten percent per year.

1 Sec. 4. Section 38-870, Arizona Revised Statutes, is amended to
2 read:

3 **38-870. Definitions**

4 In this article, unless the context otherwise requires:

5 1. "Assets" means the accumulated resources of the disability
6 program.

7 2. "Board" means the board of trustees established by section
8 38-848.

9 3. "Compensation":

10 (a) FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
11 SUBDIVISION (a), ITEM (i), has the same meaning prescribed in section
12 38-842.

13 (b) FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
14 SUBDIVISION (b), MEANS SALARY AS DEFINED IN SECTION 38-881.

15 4. "Disability program" or "program" means the public safety
16 personnel defined contribution retirement plan disability program
17 established by this article.

18 5. "Participant" means a participant who is in the public safety
19 personnel defined contribution retirement plan and who is a participant as
20 defined in section 38-865, paragraph 7, subdivision (a), ITEM (i) OR
21 SUBDIVISION (b).

22 6. "Pensionable compensation" has the same meaning prescribed in
23 section 38-865.

24 Sec. 5. Section 38-870.01, Arizona Revised Statutes, is amended to
25 read:

26 **38-870.01. Disability program; administration; power and**
27 **duties of the board; hearing**

28 A. The public safety personnel defined contribution retirement plan
29 disability program is established for participants in the public safety
30 personnel defined contribution retirement plan who EITHER have elected to
31 participate solely in the defined contribution plan established pursuant
32 to article 4.1 of this chapter OR ARE PARTICIPANTS AS DEFINED IN SECTION
33 38-865, PARAGRAPH 7, SUBDIVISION (b). The board shall administer the
34 disability program.

35 B. The board may delegate authority to administer the program as it
36 deems necessary and prudent to the administrator employed pursuant to
37 section 38-848.

38 C. The board, in the administration, management and operation of
39 the program, shall:

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

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

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

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

6 D. The board, in the administration, management and operation of
7 the program, may:

8 1. Employ services as it deems necessary.
9 2. Either keep invested monies separate or commingle invested
10 monies as it deems appropriate.

11 3. Do all acts, whether expressly authorized, that may be deemed
12 necessary or proper for the protection of the fund.

13 4. Determine the rights, benefits or obligations of any person
14 under this article and afford any person dissatisfied with a determination
15 of the person's rights, benefits or obligations under this article with a
16 hearing on the determination.

17 Sec. 6. Section 38-870.06, Arizona Revised Statutes, is amended to
18 read:

19 38-870.06. Disability program benefit

20 A. The board shall follow the same procedures and method as
21 prescribed in section 38-844, FOR A PARTICIPANT WHO IS EMPLOYED BY AN
22 EMPLOYER AS DEFINED IN SECTION 38-842, AND SECTION 38-886.01, FOR A
23 PARTICIPANT WHO IS EMPLOYED BY AN EMPLOYER AS DEFINED IN SECTION 38-881,
24 to determine eligibility for and continuation of a disability benefit and
25 in computing the amount available to the participant.

26 B. A participant, AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
27 SUBDIVISION (a), ITEM (i), who meets the requirements for a disability
28 pension as prescribed in section 38-844 shall receive a monthly disability
29 benefit equal to a monthly disability pension that would be provided to a
30 public safety personnel retirement system member who is hired on or after
31 July 1, 2017, reduced by an amount equal to the monthly annuitized value
32 of the participant's annuity account under article 4.1 of this chapter
33 that does not include a cost-of-living adjustment, as determined by the
34 board. A PARTICIPANT, AS DEFINED IN SECTION 38-865, PARAGRAPH 7,
35 SUBDIVISION (b), WHO MEETS THE REQUIREMENTS FOR A DISABILITY PENSION AS
36 PRESCRIBED IN SECTION 38-886.01 SHALL RECEIVE A MONTHLY DISABILITY BENEFIT
37 EQUAL TO A MONTHLY DISABILITY PENSION THAT WOULD BE PROVIDED TO A
38 CORRECTIONS OFFICER RETIREMENT PLAN MEMBER WHO IS HIRED ON OR AFTER
39 JULY 1, 2012 AND BEFORE JULY 1, 2018, REDUCED BY AN AMOUNT EQUAL TO THE
40 MONTHLY ANNUITIZED VALUE OF THE PARTICIPANT'S ANNUITY ACCOUNT UNDER
41 ARTICLE 4.1 OF THIS CHAPTER THAT DOES NOT INCLUDE A COST-OF-LIVING
42 ADJUSTMENT, AS DETERMINED BY THE BOARD. In determining the monthly
43 annuitized offset value of the participant's annuity account under article
44 4.1 of this chapter to be used in reducing the disability benefit paid
45 pursuant to this section, the board shall instruct the actuary for the

1 public safety personnel retirement system to calculate the monthly payment
2 that would be paid to the participant assuming the participant had elected
3 a straight life annuity commencing on the participant's date of
4 disability, using the mortality and interest factors then used by the
5 actuary in determining the valuation of the public safety personnel
6 retirement system **OR THE CORRECTIONS OFFICER RETIREMENT PLAN, AS
7 APPLICABLE.**

8 Sec. 7. Section 38-881, Arizona Revised Statutes, is amended to
9 read:

10 **38-881. Definitions**

11 In this article, unless the context otherwise requires:

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

17 (a) Physical contact with inmates, prisoners, parolees or persons
18 on probation.

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

21 (c) A job-related motor vehicle accident while on official business
22 for the employee's employer. A job-related motor vehicle accident does
23 not include an accident that occurs on the way to or from work. Persons
24 found guilty of violating a personnel rule, a rule established by the
25 employee's employer or a state or federal law in connection with a job-
26 related motor vehicle accident do not meet the conditions for accidental
27 disability.

28 2. "Accumulated member contributions" means for each member the sum
29 of the amount of all the member's contributions deducted from the member's
30 salary and paid to the fund, plus member contributions transferred to the
31 fund by another retirement plan covering public employees of this state,
32 plus previously withdrawn accumulated member contributions that are repaid
33 to the fund in accordance with this article, minus any benefits paid to or
34 on behalf of a member.

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

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

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

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

44 7. "Average monthly salary" means, for an employee who becomes a
45 member of the plan before January 1, 2012, one-thirty-sixth of the

1 aggregate amount of salary that is paid a member by a participating
2 employer during a period of thirty-six consecutive months of service in
3 which the member received the highest salary within the last one hundred
4 twenty months of service and, for an employee who becomes a member of the
5 plan on or after January 1, 2012 **AND BEFORE JULY 1, 2018**, one-sixtieth of
6 the aggregate amount of salary that is paid a member by a participating
7 employer during a period of sixty consecutive months of service in which
8 the member received the highest salary within the last one hundred twenty
9 months of service. Average monthly salary means the aggregate amount of
10 salary that is paid a member divided by the member's months of service if
11 the member has less than thirty-six or sixty months of service. In the
12 computation under this paragraph, a period of nonpaid or partially paid
13 industrial leave shall be considered based on the salary the employee
14 would have received in the employee's job classification if the employee
15 was not on industrial leave.

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

19 9. "Board" means the board of trustees of the public safety
20 personnel retirement system.

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

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

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

34 13. "Designated position" means:

35 (a) For a county:
36 (i) A county detention officer.
37 (ii) A nonuniformed employee of a sheriff's department whose
38 primary duties require direct contact with inmates.

39 (b) For the state department of corrections and the department of
40 juvenile corrections, only the following specifically designated
41 positions:

42 (i) Food service.
43 (ii) Nursing personnel.
44 (iii) Corrections physician assistant.
45 (iv) Therapist.

- (v) Corrections dental assistant.
- (vi) Hygienist.
- (vii) Corrections medical assistant.
- (viii) Correctional service officer, including assistant deputy warden, deputy warden, warden and superintendent.
- (ix) State correctional program officer.
- (x) Parole or community supervision officers.
- (xi) Investigators.
- (xii) Teachers.
- (xiii) Institutional maintenance workers.
- (xiv) Youth corrections officer.
- (xv) Youth program officer.
- (xvi) Behavioral health treatment unit managers.
- (xvii) The director and assistant directors of the department of juvenile corrections and the superintendent of the state educational system for committed youth.
- (xviii) The director, deputy directors and assistant directors of the state department of corrections.
- (xix) Other positions designated by the local board of the state department of corrections or the local board of the department of juvenile corrections pursuant to section 38-891.
- (c) For a city or town, a city or town detention officer.
- (d) For an employer of an eligible group as defined in section 38-842, full-time dispatchers.
- (e) For the judiciary, probation, surveillance and juvenile detention officers and those positions designated by the local board of the judiciary pursuant to section 38-891.
- (f) For the department of public safety, state detention officers.

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

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

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

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

18. "Domestic relations order" means an order of a court of this state that is made pursuant to the domestic relations laws of this state and that creates or recognizes the existence of an alternate payee's right

1 to, or assigns to an alternate payee the right to, receive a portion of
2 the benefits payable to a participant.

3 19. "Eligible child" means an unmarried child of a deceased active
4 or 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
7 of 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
10 or guardian.

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

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

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

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

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

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

23 (f) An eligible deferred compensation plan described in section
24 457(b) of the internal revenue code that is maintained by a state, a
25 political subdivision of a state or any agency or instrumentality of a
26 state or a political subdivision of a state and that agrees to separately
27 account for amounts transferred into the eligible deferred compensation
28 plan from this plan.

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

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

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

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

40 (d) Any distribution made to satisfy the requirements of section
41 415 of the internal revenue code.

42 (e) Hardship distributions.

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

1 22. "Employee" means a person employed by a participating employer
2 in a designated position.

3 23. "Employer" means an agency or department of this state or a
4 political subdivision of this state that has one or more employees in a
5 designated position.

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

7 25. "Juvenile detention officer" means a juvenile detention officer
8 responsible for the direct custodial supervision of juveniles who are
9 detained in a county juvenile detention center.

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

13 27. "Member" means any employee who meets all of the following
14 qualifications:

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

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

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

21 28. "Normal retirement date" means:

22 (a) For an employee who becomes a member of the plan before January
23 1, 2012, the first day of the calendar month immediately following the
24 employee's completion of twenty years of service or, in the case of a
25 dispatcher, twenty-five years of service, the employee's sixty-second
26 birthday and completion of ten years of service or the month in which the
27 sum of the employee's age and years of credited service equals eighty.

28 (b) For an employee who becomes a member of the plan on or after
29 January 1, 2012 **AND BEFORE JULY 1, 2018**, the first day of the calendar
30 month immediately following the employee's completion of twenty-five years
31 of service if the employee is at least fifty-two and one-half years of age
32 or the employee's sixty-second birthday and completion of ten years of
33 service.

34 29. "Notice of receipt" means a written document that is issued by
35 the plan to a participant and alternate payee and that states that the
36 plan has received a domestic relations order and a request for a
37 determination that the domestic relations order is a plan approved
38 domestic relations order.

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

1 31. "Participant" means a member who is subject to a domestic
2 relations order.

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

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

9 34. "Pension" means a series of monthly payments by the retirement
10 plan but does not include an annuity that is payable pursuant to section
11 38-911.

12 35. "Personal representative" means the personal representative of
13 a deceased alternate payee.

14 36. "Physician" means a physician who is licensed pursuant to title
15 32, chapter 13 or 17.

16 37. "Plan approved domestic relations order" means a domestic
17 relations order that the plan approves as meeting all the requirements for
18 a plan approved domestic relations order as otherwise prescribed in this
19 article.

20 38. "Plan year" or "fiscal year" means the period beginning on July
21 1 of any year and ending on June 30 of the next succeeding year.

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

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

28 41. "Retirement" or "retired" means termination of employment after
29 a member has fulfilled all requirements for a pension or, for an employee
30 who becomes a member of the plan on or after January 1, 2012 **AND BEFORE**
31 **JULY 1, 2018**, attains the age and service requirements for a normal
32 retirement date.

33 42. "Retirement plan" or "plan" means the corrections officer
34 retirement plan established by this article.

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

1 shift differential pay, holiday pay, fringe benefit pay and similar extra
2 payments.

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

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

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

21 Sec. 8. Title 38, chapter 5, article 6, Arizona Revised Statutes,
22 is amended by adding section 38-881.01, to read:

23 38-881.01. Employees hired on or after July 1, 2018; defined
24 contribution plan

25 AN EMPLOYEE WHO IS HIRED ON OR AFTER JULY 1, 2018, WHO MEETS THE
26 DEFINITION OF MEMBER AS DEFINED IN SECTION 38-881 AND WHO WAS NOT AN
27 ACTIVE, AN INACTIVE OR A RETIRED MEMBER OF THE PLAN OR A MEMBER OF THE
28 PLAN WITH A DISABILITY ON JUNE 30, 2018 SHALL PARTICIPATE IN THE PUBLIC
29 SAFETY PERSONNEL DEFINED CONTRIBUTION RETIREMENT PLAN ESTABLISHED PURSUANT
30 TO ARTICLE 4.1 OF THIS CHAPTER.

31 Sec. 9. Section 38-884, Arizona Revised Statutes, is amended to
32 read:

33 38-884. Membership of retirement plan; termination; credited
34 service; redemption; reemployment

35 A. Each employee of a participating employer is a member of the
36 plan unless the employee is receiving a pension from the plan. A person
37 employed shall undergo a medical examination performed by a designated
38 physician or a physician working in a clinic that is appointed by the
39 local board or, in the case of a state correctional officer who is
40 employed by the state department of corrections, complete a physical
41 examination pursuant to section 41-1822, subsection B. For the purposes
42 of subsection B of this section, the designated physician or a physician
43 working in a clinic that is appointed by the local board may be the
44 employer's regular employee or contractor.

1 B. The purpose of the medical examination authorized by this
2 section is to identify a member's physical or mental condition or injury
3 that existed or occurred before the member's date of membership in the
4 plan. Any employee who fails or refuses to submit to the medical
5 examination prescribed in this section is deemed to waive all rights to
6 disability benefits under this article. Medical examinations conducted
7 under this article shall be conducted by a physician and shall not be
8 conducted or used for purposes of hiring, advancement, discharge, job
9 training or other terms, conditions and privileges of employment unrelated
10 to receipt or qualification for pension benefits or service credits from
11 the fund. This subsection does not affect or impair the right of an
12 employer to prescribe medical or physical standards for employees or
13 prospective employees.

14 C. If a member who becomes a member of the plan before January 1,
15 2012 ceases to be an employee for any reason other than death or
16 retirement, within twenty days after filing a completed application with
17 the board, the member is entitled to receive the following amounts, less
18 any benefit payments the member has received and any amount the member may
19 owe to the plan:

20 1. If the member has less than five years of credited service with
21 the plan, the member may withdraw the member's accumulated contributions
22 from the plan.

23 2. If the member has five or more years of credited service with
24 the plan, the member may withdraw the member's accumulated contributions
25 plus an amount equal to the amount determined as follows:

26 (a) 5.0 to 5.9 years of credited service, twenty-five percent of
27 all member contributions deducted from the member's salary pursuant to
28 section 38-891, subsection B.

29 (b) 6.0 to 6.9 years of credited service, forty percent of all
30 member contributions deducted from the member's salary pursuant to section
31 38-891, subsection B.

32 (c) 7.0 to 7.9 years of credited service, fifty-five percent of all
33 member contributions deducted from the member's salary pursuant to section
34 38-891, subsection B.

35 (d) 8.0 to 8.9 years of credited service, seventy percent of all
36 member contributions deducted from the member's salary pursuant to section
37 38-891, subsection B.

38 (e) 9.0 to 9.9 years of credited service, eighty-five percent of
39 all member contributions deducted from the member's salary pursuant to
40 section 38-891, subsection B.

41 (f) 10.0 or more years of credited service, one hundred percent of
42 all member contributions deducted from the member's salary pursuant to
43 section 38-891, subsection B.

44 D. If a member who becomes a member of the plan before January 1,
45 2012 has more than ten years of credited service with the plan, leaves the

1 monies prescribed in subsection C of this section on account with the plan
2 for more than thirty days after termination of employment and after that
3 time period requests a refund of those monies, the member is entitled to
4 receive the amount prescribed in subsection C of this section plus
5 interest at a rate determined by the board for each year computed from and
6 after the member's termination of employment.

7 E. The accumulated member contributions of a member who ceases to
8 be an employee for a reason other than death or retirement and who becomes
9 a member of the plan on or after January 1, 2012 **AND BEFORE JULY 1, 2018**
10 shall be paid to the member plus interest at a rate determined by the
11 board as of the date of termination within twenty days after filing with
12 the plan a written application for payment.

13 F. If the refund includes monies that are an eligible rollover
14 distribution and the member elects to have the distribution paid directly
15 to an eligible retirement plan or individual retirement account or annuity
16 and specifies the eligible retirement plan or individual retirement
17 account or annuity to which the distribution is to be paid, the
18 distribution shall be made in the form of a direct trustee-to-trustee
19 transfer to the specified eligible retirement plan. The distribution
20 shall be made in the form and at the time prescribed by the board.

21 G. For distributions occurring from and after December 31, 2007, a
22 member or a member's beneficiary, including a nonspouse designated
23 beneficiary to the extent permitted under subsection H of this section,
24 may roll over an eligible rollover distribution as defined in section
25 402(c)(4) of the internal revenue code to a Roth individual retirement
26 account, if, for distributions occurring before January 1, 2010, the
27 member or the member's beneficiary satisfies the requirements for making a
28 Roth individual retirement account contribution under section
29 408A(c)(3)(B) of the internal revenue code, as in effect on the date of
30 the rollover. Any amount rolled over to a Roth individual retirement
31 account is included in the gross income of the member or the member's
32 beneficiary to the extent the amounts would have been included in gross
33 income if not rolled over as required under section 408A(d)(3)(A) of the
34 internal revenue code. For the purposes of this subsection, the
35 administrator is not responsible for ensuring the member or the member's
36 beneficiary is eligible to make a rollover to a Roth individual retirement
37 account.

38 H. For distributions made from and after December 31, 2009, a
39 nonspouse designated beneficiary as defined in section 401(a)(9)(E) of the
40 internal revenue code may elect to directly roll over an eligible rollover
41 distribution to an individual retirement account under section 408(a) of
42 the internal revenue code or an individual retirement annuity under
43 section 408(b) of the internal revenue code that is established on behalf
44 of the designated beneficiary and that will be treated as an inherited
45 individual retirement plan pursuant to section 402(c)(11) of the internal

1 revenue code. In order to be able to roll over the distribution, the
2 distribution otherwise must satisfy the definition of an eligible rollover
3 distribution as defined in section 402(c)(4) of the internal revenue code.
4 In applying this subsection, a nonspouse rollover is not subject to the
5 direct rollover requirements under section 401(a)(31) of the internal
6 revenue code, the rollover notice requirements under section 402(f) of the
7 internal revenue code or the mandatory withholding requirements under
8 section 3405(c) of the internal revenue code.

9 I. For plan years occurring before January 1, 2007, the period for
10 providing the rollover notice as required under section 402(f) of the
11 internal revenue code is no less than thirty days and no more than ninety
12 days before the date of distribution and, for plan years beginning from
13 and after December 31, 2006, the period for providing the rollover notice
14 as required under section 402(f) of the internal revenue code is no less
15 than thirty days and no more than one hundred eighty days before the date
16 of distribution.

17 J. Service shall be credited to a member's individual credited
18 service account in accordance with rules the local board prescribes. In
19 no case shall more than twelve months of credited service be credited on
20 account of all service rendered by a member in any one year. In no case
21 shall service be credited for any period during which the member is not
22 employed in a designated position, except as provided by sections 38-921
23 and 38-922.

24 K. Credited service is forfeited if the amounts prescribed in
25 subsection C, D or E of this section are paid or are transferred in
26 accordance with this section.

27 L. If a former member becomes reemployed with the same employer
28 within two years after the former member's termination date, a member may
29 have forfeited credited service attributable to service rendered during a
30 prior period of service as an employee restored on satisfaction of each of
31 the following conditions:

32 1. The member files with the plan a written application for
33 reinstatement of forfeited credited service within ninety days after again
34 becoming an employee.

35 2. The retirement fund is paid the total amount previously
36 withdrawn pursuant to subsection C, D or E of this section plus compound
37 interest from the date of withdrawal to the dates of repayment. Interest
38 shall be computed at the rate of nine percent for each year compounded
39 each year from the date of withdrawal to the date of repayment. Forfeited
40 credited service shall not be restored until complete payment is received
41 by the fund.

42 3. The required payment is completed within one year after
43 returning to employee status.

44 M. If a member who receives a severance refund on termination of
45 employment pursuant to subsection C, D or E of this section is

1 subsequently reemployed by an employer, the member's prior service credits
2 are cancelled, and the board shall credit service only from the date the
3 member's most recent reemployment period commenced. However, a present
4 active member of the plan who received a refund of accumulated
5 contributions from the plan pursuant to subsection C, D or E of this
6 section, forfeited credited service pursuant to subsection K of this
7 section and becomes reemployed with the same employer two years or more
8 after the member's termination date or becomes reemployed with another
9 employer may elect to redeem any part of that forfeited credited service
10 by paying into the plan any amounts required pursuant to this subsection.
11 A present active member who elects to redeem any part of forfeited
12 credited service for which the member is deemed eligible by the board
13 shall pay into the plan the amounts previously paid or transferred as a
14 refund of the member's accumulated contributions plus an amount, computed
15 by the plan's actuary that is necessary to equal the increase in the
16 actuarial present value of projected benefits resulting from the
17 redemption calculated using the actuarial methods and assumptions
18 prescribed by the plan's actuary. On satisfaction of this obligation, the
19 board shall reinstate the member's prior service credits.

20 N. A retired member may become employed by an employer in a
21 designated position and continue to receive a pension if the employment
22 occurs at least twelve months after retirement. The retired member shall
23 not contribute to the fund and shall not accrue credited service. If a
24 retired member becomes employed by an employer in a designated position
25 before twelve months after retirement:

26 1. Payment of the retired member's pension shall be suspended until
27 the retired member again ceases to be an employee. The amount of pension
28 shall not be changed on account of service as an employee subsequent to
29 retirement.

30 2. The retired member shall not contribute to the fund and shall
31 not accrue credited service.

32 0. Notwithstanding any other provision of this article, a member
33 who retires having met all of the qualifications for retirement and who
34 subsequently becomes an elected official, by election or appointment, is
35 not considered reemployed by the same employer.

36 Sec. 10. Section 38-885, Arizona Revised Statutes, is amended to
37 read:

38 **38-885. Normal retirement; conditions and pension**

39 A. A member may retire if the member:

40 1. Files a written application for normal retirement with the plan
41 in the form prescribed by the plan.

42 2. Ceases to be an employee before the date of retirement.

43 3. Meets one of the age and service requirements for normal
44 retirement prescribed in subsection B or D **OF THIS SECTION**.

1 B. A member who becomes a member of the plan before January 1, 2012
2 is eligible for a normal retirement pension if the member satisfies one of
3 the following requirements:

4 1. Is at least sixty-two years of age and has ten or more years of
5 service.

6 2. Has twenty or more years of service or, in the case of a
7 dispatcher, twenty-five or more years of service.

8 3. The sum of the member's age and years of credited service equals
9 at least eighty.

10 C. A member who meets the requirements for a normal retirement
11 pension pursuant to subsection B OF THIS SECTION and who has twenty years
12 or twenty-five years, as applicable, of credited service is entitled to
13 receive a pension that equals fifty ~~per cent~~ PERCENT of the member's
14 average monthly salary, except that:

15 1. If the member retires with more than twenty years of credited
16 service the foregoing amount shall be increased by a monthly amount equal
17 to two ~~per cent~~ PERCENT of the member's average monthly salary multiplied
18 by the number of the member's years of credited service in excess of
19 twenty years, with pro rata increase for any fractional years, except that
20 if a member retires with twenty-five or more years of credited service the
21 foregoing amount shall be increased by a monthly amount equal to two and
22 one-half ~~per cent~~ PERCENT of the member's average monthly salary
23 multiplied by the number of the member's years of credited service in
24 excess of twenty years, with pro rata increase for any fractional year.

25 2. If the member retires pursuant to subsection B OF THIS SECTION
26 but has less than twenty years of credited service, the member is entitled
27 to receive a pension equal to the product of:

28 (a) Two and one-half ~~per cent~~ PERCENT of the member's average
29 monthly salary.

30 (b) The member's credited service.

31 D. A person who becomes a member of the plan on or after January 1,
32 2012 AND BEFORE JULY 1, 2018 is eligible for a normal retirement pension
33 if the person satisfies one of the following requirements:

34 1. Is at least sixty-two years of age and has ten or more years of
35 service.

36 2. Is at least fifty-two and one-half years of age and has
37 twenty-five or more years of service.

38 E. A person who meets the requirements for a normal retirement
39 pension pursuant to subsection D OF THIS SECTION and who has twenty-five
40 years of credited service is entitled to receive a pension that equals
41 sixty-two and one-half ~~per cent~~ PERCENT of the member's average monthly
42 salary, except that:

1 1. If the person retires with more than twenty-five years of
2 credited service the foregoing amount shall be increased by a monthly
3 amount equal to two and one-half ~~per cent~~ PERCENT of the member's average
4 monthly salary multiplied by the number of the member's years of credited
5 service in excess of twenty-five years, with pro rata increase for any
6 fractional year.

7 2. If the person retires pursuant to subsection D OF THIS SECTION
8 but has less than twenty-five years of credited service, the person is
9 entitled to receive a pension equal to the product of:

10 (a) Two and one-half ~~per cent~~ PERCENT of the member's average
11 monthly salary.

12 (b) The member's credited service.

13 F. In no case shall the amount of a member's pension exceed eighty
14 ~~per cent~~ PERCENT of the member's average monthly salary. Such limitation
15 does not preclude cost-of-living increases granted by the legislature.

16 Sec. 11. Section 38-885.01, Arizona Revised Statutes, is amended to
17 read:

18 38-885.01. Reverse deferred retirement option plan: purpose

19 A. A reverse deferred retirement option plan is established. The
20 purpose of the reverse deferred retirement option plan is to add
21 flexibility to the plan and to provide members who elect to participate in
22 the reverse deferred retirement option plan access to a lump sum benefit
23 in addition to their normal monthly retirement benefit on actual
24 retirement.

25 B. The board shall offer the reverse deferred retirement option
26 plan to members on a voluntary basis as an alternative method of benefit
27 accrual under the plan.

28 C. Any member who is eligible for a normal pension pursuant to
29 section 38-885, who is not awarded an accidental, ordinary or total and
30 permanent disability pension and who has at least twenty-four years of
31 credited service, or in the case of a dispatcher, who has at least
32 twenty-five years of credited service, is eligible to participate in the
33 reverse deferred retirement option plan.

34 D. A member who elects to participate in the reverse deferred
35 retirement option plan shall voluntarily and irrevocably:

36 1. Designate a reverse deferred retirement option plan date that is
37 the first day of the calendar month immediately following a member's
38 completion of twenty-four years of credited service or a date not more
39 than sixty consecutive months before the date the member elects to
40 participate in the reverse deferred retirement option plan, whichever is
41 later.

42 2. Agree to terminate employment on the date the member elects to
43 participate in the reverse deferred retirement option plan.

1 3. Receive benefits from the plan on termination of employment at
2 the same time and in the same manner as otherwise prescribed in this
3 article using the factors of credited service and average monthly salary
4 in effect on the reverse deferred retirement option plan date.

5 E. On election, a reverse deferred retirement option plan
6 participation account is established within the plan on behalf of each
7 reverse deferred retirement option plan participant. All benefits accrued
8 pursuant to this article shall be accounted for in the reverse deferred
9 retirement option plan participation account. A reverse deferred
10 retirement option plan participant does not have a claim on the assets of
11 the plan with respect to the member's reverse deferred retirement option
12 plan participation account and assets shall not be set aside for any
13 reverse deferred retirement option plan participant that are separate from
14 all other system assets.

15 F. All amounts credited to a member's reverse deferred retirement
16 option plan participation account are fully vested.

17 G. A member's reverse deferred retirement option plan participation
18 account shall be credited with the following:

19 1. An amount that is credited as though accrued monthly from the
20 reverse deferred retirement option plan date to the date the member
21 elected to participate in the reverse deferred retirement option plan and
22 that is computed in the same manner as a normal retirement benefit using
23 the factors of credited service and average monthly salary in effect on
24 the reverse deferred retirement option plan date.

25 2. An amount that is credited as though accrued monthly and that
26 represents interest at a rate equal to the yield on a five year treasury
27 note as of the first day of the month as published by the federal reserve
28 board.

29 H. Employee and employer contributions pursuant to section 38-891
30 that are deposited during the period of the reverse deferred retirement
31 option plan are not eligible to be refunded to the employer or member.

32 I. The participant is not entitled to receive any amount prescribed
33 by section ~~38-905 or~~ 38-906 during the reverse deferred retirement option
34 plan participation period.

35 J. The form of payment shall be a lump sum distribution. The
36 member or the member's beneficiary may make a direct rollover of the lump
37 sum distribution to an eligible retirement plan under the same rules
38 specified in section 38-884, subsections G, H and I.

39 K. The reverse deferred retirement option plan shall not jeopardize
40 in any way the tax qualified status of the plan under the rules of the
41 internal revenue service. The board may adopt additional provisions to
42 the extent necessary or appropriate for the reverse deferred retirement
43 option plan to comply with applicable federal laws or rules.

1 Sec. 12. Section 38-886.01, Arizona Revised Statutes, is amended to
2 read:

3 **38-886.01. Ordinary disability retirement: qualifications;**
4 **amount of pension; conditions for continued**
5 **payment of pension; definition**

6 A member may retire and receive an ordinary disability pension
7 if the local board finds that all of the following conditions occur:

8 1. An application for disability retirement is filed with the
9 retirement plan or the local board by either the member or the member's
10 participating employer after the disabling incident or within one year
11 after the date the member ceases to be an employee and the member's
12 employment is terminated before the member's normal retirement date by
13 reason of ordinary disability. Timely application for an ordinary
14 disability pension is a prerequisite to receipt of the pension.

15 2. The member undergoes all medical examinations and tests ordered
16 by the local board and releases to the local board all medical reports and
17 records requested by the local board.

18 3. The local board determines that an ordinary disability condition
19 exists that meets the requirements for an ordinary disability.

20 4. The member is not participating in the reverse deferred
21 retirement option plan pursuant to section 38-885.01.

22 B. The effective date of an ordinary disability retirement shall
23 not predate the date of disability or the date the member ceases to be an
24 employee, and the disability pension payments shall not violate section
25 38-895.02.

26 C. Except for a full-time dispatcher or a person who becomes a
27 member of the plan on or after January 1, 2012 **AND BEFORE JULY 1, 2018**,
28 the amount of an ordinary disability pension is equal to a fraction times
29 the member's normal retirement pension that is computed pursuant to
30 section 38-885, subsection C as if the member had twenty years of credited
31 service. The fraction is the result obtained by dividing the member's
32 actual years of credited service, not to exceed twenty years of credited
33 service, by twenty. For a full-time dispatcher or a person who becomes a
34 member of the plan on or after January 1, 2012 **AND BEFORE JULY 1, 2018**,
35 the amount of an ordinary disability pension is equal to a fraction times
36 the member's normal retirement pension that is computed pursuant to
37 section 38-885, subsection C or E as if the member had twenty-five years
38 of credited service. The fraction is the result obtained by dividing the
39 member's actual years of credited service, not to exceed twenty-five years
40 of credited service, by twenty-five.

41 D. The local board may require a retired member with a disability
42 to undergo periodic reevaluation of the continuation of ordinary
43 disability. If the retired member with a disability refuses to submit to
44 reevaluation, the local board may suspend payment of the pension. If the
45 refusal continues for one year, the local board may revoke **THE RIGHTS TO**

1 THE PENSION OF the retired ~~member's~~ MEMBER with a disability ~~rights to the~~
2 ~~pension~~. An ordinary disability pension is terminated if the local board
3 finds the retired member no longer meets the requirements for ordinary
4 disability retirement. This subsection does not apply after a retired
5 member with a disability reaches the member's normal retirement date. The
6 amount of a disability pension shall not be recomputed at THE NORMAL
7 RETIREMENT DATE OF a retired ~~member's~~ MEMBER with a disability ~~normal~~
8 ~~retirement date~~.

9 E. A member does not qualify for an ordinary disability pension if
10 the local board determines that the member's disability results from any
11 of the following:

12 1. An injury suffered while engaged in a felonious criminal act or
13 enterprise.

14 2. Service in the armed forces of the United States that entitles
15 the member to a veteran's disability pension.

16 3. A physical or mental condition or injury that existed or
17 occurred before the member's date of membership in the plan.

18 F. Local boards shall base a finding of ordinary disability on
19 medical evidence that is obtained by a designated physician or a physician
20 working in a clinic selected by the local board and shall disregard any
21 other medical evidence or opinions. If the local board retains more than
22 one physician or clinic in connection with the application, the local
23 board shall resolve any material conflicts presented in the medical
24 evidence that is presented by the designated physicians or clinics.

25 G. If an ordinary disability ceases before a retired member reaches
26 the member's normal retirement date and the member is reemployed by an
27 employer under the plan, the pension payable on the member's subsequent
28 retirement shall be determined as provided in section 38-885.

29 H. For the purposes of this section, "ordinary disability" means a
30 physical condition that the local board determines will prevent an
31 employee from totally and permanently performing a reasonable range of
32 duties within the employee's department or a mental condition that the
33 local board determines will prevent an employee from totally and
34 permanently engaging in any substantial gainful activity.

35 Sec. 13. Section 38-891, Arizona Revised Statutes, is amended to
36 read:

37 38-891. Employer and member contributions

38 A. As determined by actuarial valuations reported to the employers
39 and the local boards by the board, each employer shall make ~~level per cent~~
40 ~~of salary~~ contributions sufficient under the actuarial valuations to meet
41 both the normal cost FOR MEMBERS HIRED BEFORE JULY 1, 2018 plus the
42 actuarially determined amount required to amortize the unfunded accrued
43 liability ON A LEVEL PERCENT OF SALARY BASIS FOR ALL EMPLOYEES OF THE
44 EMPLOYER WHO ARE MEMBERS OF THE PLAN OR PARTICIPANTS AS DEFINED IN SECTION
45 38-865, PARAGRAPH 7, SUBDIVISION (b) over, beginning July 1, ~~2005~~ 2018, a

1 ~~rolling~~ CLOSED period of ~~at least~~ NOT MORE THAN twenty ~~and not more than~~
2 ~~thirty~~ years that is established by the board taking into account the
3 recommendation of the plan's actuary, except that, beginning with fiscal
4 year 2006-2007, except as otherwise provided, the employer contribution
5 rate shall not be less than six ~~per cent~~ PERCENT of salary. For any
6 employer whose actual contribution rate is less than six ~~per cent~~ PERCENT
7 of salary for fiscal year 2006-2007 and each year thereafter, that
8 employer's contribution rate shall be at least five ~~per cent~~ PERCENT and
9 not more than the employer's actual contribution rate. An employer may
10 pay a higher level ~~per cent~~ PERCENT of salary thereby reducing its
11 unfunded past service liability. All contributions made by the employers
12 and all state taxes allocated to the fund shall be irrevocable and shall
13 be used to pay benefits under the plan or to pay expenses of the plan and
14 fund. The minimum employer contribution that is paid and that is in
15 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
18 and shall not be used to pay for an increase in benefits that are
19 otherwise payable to members. The board shall separately account for
20 these monies in the fund. Forfeitures arising because of severance of
21 employment before a member becomes eligible for a pension or for any other
22 reason shall be applied to reduce the cost to the employer, not to
23 increase the benefits otherwise payable to members. After the close of
24 any fiscal year, if the plan's actuary determines that the actuarial
25 valuation of an employer's account contains excess valuation assets other
26 than excess valuation assets that were in the employer's account as of
27 fiscal year 2004-2005 and is more than one hundred ~~per cent~~ PERCENT
28 funded, the board shall account for fifty ~~per cent~~ PERCENT of the excess
29 valuation assets in a stabilization reserve account. After the close of
30 any fiscal year, if the plan's actuary determines that the actuarial
31 valuation of an employer's account has a valuation asset deficiency and an
32 unfunded actuarial accrued liability, the board shall use any valuation
33 assets in the stabilization reserve account for that employer, to the
34 extent available, to limit the decline in that employer's funding ratio to
35 not more than two ~~per cent~~ PERCENT.

36 B. Each member shall contribute the amount prescribed in subsection
37 H of this section to the retirement plan. Member contributions shall be
38 made by payroll deduction. Continuation of employment by the member
39 constitutes consent and agreement to the deduction of the applicable
40 member contribution. Payment of the member's salary less the deducted
41 contributions constitutes full and complete discharge and satisfaction of
42 all claims and demands of the member relating to salary for services
43 rendered during the period covered by the payment. A member may not,
44 under any circumstance, borrow from, take a loan against or remove

1 contributions from the member's account before the termination of
2 membership in the plan or the receipt of a pension.

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

14 D. During a period when an employee is on industrial leave and the
15 employee elects to continue contributions during the period of industrial
16 leave, the employer and employee shall make contributions based on the
17 salary the employee would have received in the employee's job
18 classification if the employee was in normal employment status.

19 E. The local board of the state department of corrections or the
20 local board of the department of juvenile corrections may specify a
21 position within that department as a designated position if the position
22 is filled by an employee who has at least five years of credited service
23 under the plan, who is transferred to temporarily fill the position and
24 who makes a written request to the local board to specify the position as
25 a designated position within ninety days ~~of~~ AFTER being transferred. On
26 the employee leaving the position, the position is no longer a designated
27 position.

28 F. The local board of the state department of corrections, the
29 local board of the department of juvenile corrections or the local board
30 of a county, city or town that operates detention facilities may specify a
31 designated position within the department or facility as a nondesignated
32 position if the position is filled by an employee who has at least five
33 years of credited service under the Arizona state retirement system and
34 who makes a written request to the local board to specify the position as
35 a nondesignated position within ninety days ~~of~~ AFTER accepting the
36 position. On the employee leaving the position, the position reverts to a
37 designated position.

38 G. The local board of the judiciary may specify positions within
39 the administrative office of the courts that require direct contact with
40 and primarily provide training or technical expertise to county probation,
41 surveillance or juvenile detention officers as a designated position if
42 the position is filled by an employee who is a member of the plan
43 currently employed in a designated position as a probation, surveillance
44 or juvenile detention officer and who has at least five years of credited
45 service under the plan. An employee who fills such a position shall make

1 a written request to the local board to specify the position as a
2 designated position within ninety days ~~of~~ AFTER accepting the position.
3 On the employee leaving the position, the position reverts to a
4 nondesignated position.

5 H. The amount contributed by a member pursuant to subsection B of
6 this section is:

7 1. Through June 30, 2011, 8.41 ~~per cent~~ PERCENT of the member's
8 salary, except for a full-time dispatcher. The amount contributed by a
9 full-time dispatcher through June 30, 2011 is 7.96 ~~per cent~~ PERCENT of the
10 member's salary.

11 2. For fiscal year 2011-2012 and each fiscal year thereafter, 8.41
12 ~~per cent~~ PERCENT of the member's salary or fifty ~~per cent~~ PERCENT of the
13 sum of the member's contribution rate from the preceding fiscal year and
14 the aggregate computed employer contribution rate that is calculated
15 pursuant to subsection A of this section, whichever is lower, except that
16 the member contribution rate shall not be less than 7.65 ~~per cent~~ PERCENT
17 of the member's salary and the employer contribution rate shall not be
18 less than the rate prescribed in subsection A of this section.

19 I. Notwithstanding subsection H, paragraph 2 of this section, the
20 contribution rate for a full-time dispatcher is forty-five basis points
21 less than the member contribution amount calculated pursuant to subsection
22 H, paragraph 2 of this section, except that after the close of any fiscal
23 year, if the plan's actuary determines that the aggregate ratio of the
24 funding value of the accrued assets to the accrued liabilities of the fund
25 is at least one hundred ~~per cent~~ PERCENT, from and after June 30 of the
26 following year the member contribution rate for a full-time dispatcher is
27 equal to the member contribution rate for a member who is not a full-time
28 dispatcher.

29 J. For fiscal year 2011-2012 and each fiscal year thereafter, the
30 amount of the member's contribution that exceeds 8.41 ~~per cent~~ PERCENT of
31 the member's salary for a member other than a full-time dispatcher or 7.96
32 ~~per cent~~ PERCENT of the member's salary for a full-time dispatcher shall
33 not be used to reduce the employer's contributions that are calculated
34 pursuant to subsection A of this section.

35 Sec. 14. Repeal

36 Sections 38-905, 38-905.01, 38-905.02, 38-905.03 and 38-905.04,
37 Arizona Revised Statutes, are repealed.

38 Sec. 15. Title 38, chapter 5, article 6, Arizona Revised Statutes,
39 is amended by adding section 38-905.05, to read:

40 38-905.05. Cost-of-living adjustment: members hired on or
41 before June 30, 2018

42 A. FOR MEMBERS HIRED ON OR BEFORE JUNE 30, 2018, EACH RETIRED
43 MEMBER OR SURVIVOR OF A RETIRED MEMBER IS ELIGIBLE TO RECEIVE A
44 COMPOUNDING COST-OF-LIVING ADJUSTMENT IN THE BASE BENEFIT AS PROVIDED IN
45 THIS SECTION. THE FIRST PAYMENT UNDER THIS SECTION SHALL BE MADE

1 IMMEDIATELY FOLLOWING THE FIRST YEAR THE COST-OF-LIVING ADJUSTMENT
2 SPECIFIED IN SUBSECTION C OF THIS SECTION IS PAID. THE COST-OF-LIVING
3 ADJUSTMENT SHALL BE MADE ON JULY 1 EACH YEAR THEREAFTER.

4 B. A RETIRED MEMBER OR A SURVIVOR OF A RETIRED MEMBER SHALL RECEIVE
5 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 TWO PERCENT OF THE
10 RETIRED MEMBER'S OR SURVIVOR'S BASE BENEFIT.

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

14 D. THE PLAN'S ACTUARY SHALL INCLUDE THE PROJECTED COST OF PROVIDING
15 THE COST-OF-LIVING ADJUSTMENT SPECIFIED IN SUBSECTION B OF THIS SECTION IN
16 THE CALCULATION OF NORMAL COST AND ACCRUED LIABILITY.

17 Sec. 16. Section 38-911, Arizona Revised Statutes, is amended to
18 read:

19 38-911. Deferred annuity; eligibility; amount; exception

20 A. If any member who has at least ten years of credited service
21 terminates employment for reasons other than retirement or disability, the
22 person may elect to receive a deferred annuity, except that if the person
23 withdraws the person's accumulated contributions from the plan, all rights
24 to a deferred annuity are forfeited. A deferred annuity is a lifetime
25 monthly payment that is actuarially equivalent to the annuitant's
26 accumulated contributions in the plan plus an equal amount paid by the
27 employer and commences on application on or after the sixty-second
28 birthday of the annuitant. The deferred annuity is not a retirement
29 benefit and annuitants are not entitled to receive any amount prescribed
30 by section 38-887, 38-888, 38-904, ~~38-905, 38-905.02~~ or 38-906.

31 B. This section does not apply to a member who becomes a member of
32 the plan on or after January 1, 2012 **AND BEFORE JULY 1, 2018**. Such a
33 person who attains a normal retirement date is eligible for retirement and
34 a retirement benefit even if the member terminates employment with an
35 employer before the age requirement for normal retirement if the member
36 attains the service requirement for normal retirement.

37 Sec. 17. Conditional enactment

38 Section 38-885.01, Arizona Revised Statutes, as amended by this act,
39 sections 38-905, 38-905.01, 38-905.02, 38-905.03 and 38-905.04, Arizona
40 Revised Statutes, as repealed by this act, section 38-905.05, Arizona
41 Revised Statutes, as added by this act and section 38-911, Arizona Revised
42 Statutes, as amended by this act, do not become effective unless the
43 Constitution of Arizona is amended as prescribed in Senate concurrent
44 resolution ___, fifty-third legislature, first regular session, by vote
45 of the people at the next general election.