

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.

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

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

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

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

7. "Participant" means:

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

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

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

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

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

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

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

38-867. Contributions; member; employer; pickup

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

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

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

3. FOR A PARTICIPANT AS DEFINED IN SECTION 38-865, PARAGRAPH 7, 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

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

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

**38-881. Definitions**

In this article, unless the context otherwise requires:

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

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

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

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

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

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

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

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

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

7. "Average monthly salary" means, for an employee who becomes a 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.

- 1 (v) Corrections dental assistant.
- 2 (vi) Hygienist.
- 3 (vii) Corrections medical assistant.
- 4 (viii) Correctional service officer, including assistant deputy
- 5 warden, deputy warden, warden and superintendent.
- 6 (ix) State correctional program officer.
- 7 (x) Parole or community supervision officers.
- 8 (xi) Investigators.
- 9 (xii) Teachers.
- 10 (xiii) Institutional maintenance workers.
- 11 (xiv) Youth corrections officer.
- 12 (xv) Youth program officer.
- 13 (xvi) Behavioral health treatment unit managers.
- 14 (xvii) The director and assistant directors of the department of
- 15 juvenile corrections and the superintendent of the state educational
- 16 system for committed youth.
- 17 (xviii) The director, deputy directors and assistant directors of
- 18 the state department of corrections.
- 19 (xix) Other positions designated by the local board of the state
- 20 department of corrections or the local board of the department of juvenile
- 21 corrections pursuant to section 38-891.
- 22 (c) For a city or town, a city or town detention officer.
- 23 (d) For an employer of an eligible group as defined in section
- 24 38-842, full-time dispatchers.
- 25 (e) For the judiciary, probation, surveillance and juvenile
- 26 detention officers and those positions designated by the local board of
- 27 the judiciary pursuant to section 38-891.
- 28 (f) For the department of public safety, state detention officers.
- 29 14. "Determination" means a written document that indicates to a
- 30 participant and alternate payee whether a domestic relations order
- 31 qualifies as a plan approved domestic relations order.
- 32 15. "Determination period" means the ninety-day period in which the
- 33 plan must review a domestic relations order that is submitted by a
- 34 participant or alternate payee to determine whether the domestic relations
- 35 order qualifies as a plan approved domestic relations order, calculated
- 36 from the time the plan mails a notice of receipt to the participant and
- 37 alternate payee.
- 38 16. "Direct rollover" means a payment by the plan to an eligible
- 39 retirement plan that is specified by the distributee.
- 40 17. "Distributee" means a member, a member's surviving spouse or a
- 41 member's spouse or former spouse who is the alternate payee under a plan
- 42 approved domestic relations order.
- 43 18. "Domestic relations order" means an order of a court of this
- 44 state that is made pursuant to the domestic relations laws of this state
- 45 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.



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

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

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

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

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

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

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

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

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

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

D. If a member who becomes a member of the plan before January 1, 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 O. 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.

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

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

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

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

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

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

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

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

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

K. The reverse deferred retirement option plan shall not jeopardize in any way the tax qualified status of the plan under the rules of the internal revenue service. The board may adopt additional provisions to the extent necessary or appropriate for the reverse deferred retirement 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. 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.