

REFERENCE TITLE: PSPRS; normal retirement; employee contributions

State of Arizona  
House of Representatives  
Fifty-fourth Legislature  
First Regular Session  
2019

## **HB 2088**

Introduced by  
Representative Chávez

AN ACT

AMENDING SECTIONS 38-842, 38-843 AND 38-843.04, ARIZONA REVISED STATUTES;  
REPEALING SECTION 38-845.03, ARIZONA REVISED STATUTES; RELATING TO THE  
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 38-842, Arizona Revised Statutes, is amended to  
3 read:

4 38-842. Definitions

5 In this article, unless the context otherwise requires:

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

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

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

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

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

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

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

31 (a) Before January 1, 2012, the considered period shall be the  
32 three consecutive years within the last twenty completed years of credited  
33 service that yield the highest average.

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

41 (c) On or after July 1, 2017, the considered period is the five  
42 consecutive years within the last fifteen completed years of credited  
43 service that yield the highest average. In the computation under this  
44 paragraph, a period of nonpaid or partially paid industrial leave shall be  
45 considered based on the compensation the employee would have received in

1 the employee's job classification if the employee was not on industrial  
2 leave.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

37           (a) Is under eighteen years of age.

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

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

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

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

- 1 (b) Municipal firefighters.
- 2 (c) Paid full-time firefighters employed directly by a fire  
3 district organized pursuant to section 48-803 or 48-804 or a joint powers  
4 authority pursuant to section 48-805.01 with three or more full-time  
5 firefighters, but not including firefighters employed by a fire district  
6 pursuant to a contract with a corporation.
- 7 (d) State highway patrol officers who are certified peace officers.
- 8 (e) State firefighters.
- 9 (f) County sheriffs and deputies who are certified peace officers.
- 10 (g) Game and fish wardens who are certified peace officers.
- 11 (h) Police officers who are certified peace officers and  
12 firefighters of a nonprofit corporation operating a public airport  
13 pursuant to sections 28-8423 and 28-8424. A police officer shall be  
14 designated pursuant to section 28-8426 to aid and supplement state and  
15 local law enforcement agencies and a firefighter's sole duty shall be to  
16 perform firefighting services, including services required by federal  
17 regulations.
- 18 (i) Police officers who are certified peace officers and who are  
19 appointed by the Arizona board of regents.
- 20 (j) Police officers who are certified peace officers and who are  
21 appointed by a community college district governing board.
- 22 (k) State attorney general investigators who are certified peace  
23 officers.
- 24 (l) County attorney investigators who are certified peace officers.
- 25 (m) Police officers who are certified peace officers and who are  
26 employed by an Indian reservation police agency.
- 27 (n) Firefighters who are employed by an Indian reservation  
28 firefighting agency.
- 29 (o) Department of liquor licenses and control investigators who are  
30 certified peace officers.
- 31 (p) Arizona department of agriculture officers who are certified  
32 peace officers.
- 33 (q) Arizona state parks board rangers and managers who are  
34 certified peace officers.
- 35 (r) County park rangers who are certified peace officers.
- 36 25. "Eligible retirement plan" means any of the following that  
37 accepts a distributee's eligible rollover distribution:
  - 38 (a) An individual retirement account described in section 408(a) of  
39 the internal revenue code.
  - 40 (b) An individual retirement annuity described in section 408(b) of  
41 the internal revenue code.
  - 42 (c) An annuity plan described in section 403(a) of the internal  
43 revenue code.
  - 44 (d) A qualified trust described in section 401(a) of the internal  
45 revenue code.

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

3 (f) An eligible deferred compensation plan described in section  
4 457(b) of the internal revenue code that is maintained by a state, a  
5 political subdivision of a state or any agency or instrumentality of a  
6 state or a political subdivision of a state and that agrees to separately  
7 account for amounts transferred into the eligible deferred compensation  
8 plan from this plan.

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

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

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

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

20 (d) Any distribution made to satisfy the requirements of section  
21 415 of the internal revenue code.

22 (e) Hardship distributions.

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

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

32 28. "Employers" means:

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

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

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

43 (d) The state, or any political subdivision of this state,  
44 including towns, cities, fire districts, joint powers authorities,  
45 counties and nonprofit corporations operating public airports pursuant to

1 sections 28-8423 and 28-8424, that has elected to participate in the  
2 system on behalf of an eligible group of public safety personnel pursuant  
3 to a joinder agreement entered into after July 1, 1968.

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

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

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

13 31. "Member":

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

16 (i) Who is either a paid municipal police officer, a paid  
17 firefighter, a law enforcement officer who is employed by this state  
18 including the director thereof, a state firefighter who is primarily  
19 assigned to firefighting duties, a firefighter or police officer of a  
20 nonprofit corporation operating a public airport pursuant to sections  
21 28-8423 and 28-8424, all ranks designated by the Arizona law enforcement  
22 merit system council, a state attorney general investigator who is a  
23 certified peace officer, a county attorney investigator who is a certified  
24 peace officer, a department of liquor licenses and control investigator  
25 who is a certified peace officer, an Arizona department of agriculture  
26 officer who is a certified peace officer, an Arizona state parks board  
27 ranger or manager who is a certified peace officer, a county park ranger  
28 who is a certified peace officer, a person who is a certified peace  
29 officer and who is employed by an Indian reservation police agency, a  
30 firefighter who is employed by an Indian reservation firefighting agency  
31 or an employee included in a group designated as eligible employees under  
32 a joinder agreement entered into by their employer after July 1, 1968 and  
33 who is or was regularly assigned to hazardous duty or, beginning  
34 retroactively to January 1, 2009, who is a police chief or a fire chief.

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

39 (iii) Whose customary employment is at least forty hours per week  
40 or, for those employees who customarily work fluctuating workweeks, whose  
41 customary employment averages at least forty hours per week.

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

44 (v) Who, if economic conditions exist, is required to take furlough  
45 days or reduce the hours of the employee's normal workweek below forty

1 hours but not less than thirty hours per pay cycle, and maintain the  
2 employee's active member status within the system as long as the hour  
3 change does not extend beyond twelve consecutive months.

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

8 (b) Does not include an employee who is hired on or after July 1,  
9 2017, who makes the irrevocable election to participate solely in the  
10 public safety personnel defined contribution retirement plan established  
11 pursuant to article 4.1 of this chapter and who was not an active, an  
12 inactive or a retired member of the system or a member of the system with  
13 a disability on June 30, 2017.

14 32. "Normal retirement date" means:

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

20 (b) For an employee who becomes a member of the system on or after  
21 January 1, 2012 and before July 1, 2017, the first day of the calendar  
22 month immediately following the employee's completion of either  
23 twenty-five years of service or fifteen years of credited service if the  
24 employee is at least fifty-two and one-half years of age.

25 (c) For an employee who becomes a member of the system on or after  
26 July 1, 2017, the first day of the calendar month immediately following  
27 the employee's completion of fifteen years of credited service ~~if the~~  
28 ~~employee is at least fifty-five years of age.~~

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

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

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

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



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

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

6           39. "Physician" means a physician who is licensed pursuant to title  
7 32, chapter 13 or 17.

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

12           41. "Plan year" or "fiscal year" means the period beginning on July  
13 1 of any year and ending on June 30 of the next succeeding year.

14           42. "Regularly assigned to hazardous duty" means regularly assigned  
15 to duties of the type normally expected of municipal police officers,  
16 municipal or state firefighters, eligible fire district firefighters,  
17 state highway patrol officers, county sheriffs and deputies, fish and game  
18 wardens, firefighters and police officers of a nonprofit corporation  
19 operating a public airport pursuant to sections 28-8423 and 28-8424,  
20 police officers who are appointed by the Arizona board of regents or a  
21 community college district governing board, state attorney general  
22 investigators who are certified peace officers, county attorney  
23 investigators who are certified peace officers, department of liquor  
24 licenses and control investigators who are certified peace officers,  
25 Arizona department of agriculture officers who are certified peace  
26 officers, Arizona state parks board rangers and managers who are certified  
27 peace officers, county park rangers who are certified peace officers,  
28 police officers who are certified peace officers and who are employed by  
29 an Indian reservation police agency or firefighters who are employed by an  
30 Indian reservation firefighting agency. Those individuals who are  
31 assigned solely to support duties such as secretaries, stenographers,  
32 clerical personnel, clerks, cooks, maintenance personnel, mechanics and  
33 dispatchers are not assigned to hazardous duty regardless of their  
34 position classification title. Since the normal duties of those jobs  
35 described in this paragraph are constantly changing, questions as to  
36 whether a person is or was previously regularly assigned to hazardous duty  
37 shall be resolved by the local board on a case-by-case basis. Resolutions  
38 by local boards are subject to rehearing and appeal.

39           43. "Retirement" or "retired" means termination of employment after  
40 a member has fulfilled all requirements for a pension, for an employee who  
41 becomes a member of the system on or after January 1, 2012 and before July  
42 1, 2017, attains the age and service requirements for a normal retirement  
43 date or for an employee who becomes a member of the system on or after  
44 July 1, 2017 attains the ~~age and~~ credited service requirements for a  
45 normal retirement date. Retirement shall be considered as commencing on

1 the first day of the month immediately following a member's last day of  
2 employment or authorized leave of absence, if later.

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

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

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

33 48. "Temporary disability" means a physical or mental condition  
34 that the local board finds totally and temporarily prevents an employee  
35 from performing a reasonable range of duties within the employee's  
36 department and that was incurred in the performance of the employee's  
37 duty.

38 Sec. 2. Section 38-843, Arizona Revised Statutes, is amended to  
39 read:

40 38-843. Contributions

41 A. Each employer who participates in the system on behalf of a  
42 group of employees who were covered under a prior public retirement  
43 system, other than the federal social security act, shall transfer all  
44 securities and monies attributable to the taxes and contributions of the  
45 state other than the state contribution to social security, the employer

1 and the employees for the covered group of employees under the other  
2 system, such transfer to be made to the fund subject to all existing  
3 liabilities and on or within sixty days following the employer's effective  
4 date. All monies and securities transferred to the fund shall be credited  
5 to the employer's account in the fund. A record of the market value and  
6 the cost value of such transferred contributions shall be maintained for  
7 actuarial and investment purposes.

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

1 subsection shall be used to reduce future employer contribution increases  
2 and shall not be used to pay for an increase in benefits that are  
3 otherwise payable to members. The board shall separately account for  
4 these monies in the fund. Forfeitures arising because of severance of  
5 employment before a member becomes eligible for a pension or any other  
6 reason shall be applied to reduce the cost of the employer, not to  
7 increase the benefits otherwise payable to members. After the close of  
8 any fiscal year, if the system's actuary determines that the actuarial  
9 valuation of an employer's account contains excess valuation assets other  
10 than excess valuation assets that were in the employer's account as of  
11 fiscal year 2004-2005 and is more than one hundred percent funded, the  
12 board shall account for fifty percent of the excess valuation assets in a  
13 stabilization reserve account. After the close of any fiscal year, if the  
14 system's actuary determines that the actuarial valuation of an employer's  
15 account has a valuation asset deficiency and an unfunded actuarial accrued  
16 liability, the board shall use any valuation assets in the stabilization  
17 reserve account for that employer, to the extent available, to limit the  
18 decline in that employer's funding ratio to not more than two percent.

19 C. Each member ~~who was hired before July 1, 2017~~, throughout the  
20 member's period of service from the member's effective date of  
21 participation, shall contribute to the fund an amount equal to the amount  
22 prescribed in subsection E of this section, except as provided in  
23 subsection B of this section. ~~Each member who was hired on or after July~~  
24 ~~1, 2017, throughout the member's period of service from the member's~~  
25 ~~effective date of participation, shall contribute to the fund an amount~~  
26 ~~equal to the amount prescribed in subsection G of this section.~~ During a  
27 period when an employee is on industrial leave and the employee elects to  
28 continue contributions during the period of industrial leave, the employee  
29 shall make the employee's contribution based on the compensation the  
30 employee would have received in the employee's job classification if the  
31 employee was in normal employment status. Contributions of members shall  
32 be required as a condition of employment and membership in the system and  
33 shall be made by payroll deductions. Every employee shall be deemed to  
34 consent to such deductions. Payment of an employee's compensation, less  
35 ~~such~~ payroll deductions, shall constitute a full and complete discharge  
36 and satisfaction of all claims and demands by the employee relating to  
37 remuneration for the employee's services rendered during the period  
38 covered by the payment, except with respect to the benefits provided under  
39 the system. A member may not, under any circumstance, borrow from, take a  
40 loan against or remove contributions from the member's account before the  
41 termination of membership in the plan or the receipt of a pension.

42 D. Each employer shall transfer to the board the employer and  
43 employee contributions provided for in subsections B, ~~AND C and G~~ of this  
44 section within ten working days after each payroll date. Contributions  
45 transferred after that date shall include a penalty of ten percent per

1 annum, compounded annually, for each day the contributions are late, such  
2 penalty to be paid by the employer. Delinquent payments due under this  
3 subsection, together with interest charges as provided in this subsection,  
4 may be recovered by action in a court of competent jurisdiction against an  
5 employer liable for the payments or, at the request of the board, may be  
6 deducted from any other monies, including excise revenue taxes, payable to  
7 ~~such~~ THE employer by any department or agency of this state.

8 E. The amount contributed by a member ~~who was hired before July 1,~~  
9 ~~2017~~ pursuant to subsection C of this section is:

10 1. Through June 30, 2011, 7.65 percent of the member's  
11 compensation.

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

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

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

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

20 6. For fiscal year 2015-2016 and each fiscal year thereafter, 11.65  
21 percent of the member's compensation or 33.3 percent of the sum of the  
22 member's contribution rate from the preceding fiscal year and the  
23 aggregate computed employer contribution rate that is calculated pursuant  
24 to subsection B of this section, whichever is lower, except that the  
25 member contribution rate shall not be less than 7.65 percent of the  
26 member's compensation and the employer contribution rate shall not be less  
27 than the rate prescribed in subsection B of this section.

28 F. For fiscal year 2011-2012 and each fiscal year thereafter, the  
29 amount of the member's contribution that exceeds 7.65 percent of the  
30 member's compensation shall not be used to reduce the employer's  
31 contributions that are calculated pursuant to subsection B of this  
32 section.

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

35 ~~1. For employers and members in the public safety employer risk~~  
36 ~~pool:~~

37 ~~(a) As determined by the system consolidated actuarial valuation~~  
38 ~~reported to the board of trustees, each employer shall make contributions~~  
39 ~~sufficient under such actuarial valuation to pay fifty percent of both the~~  
40 ~~normal cost plus the actuarially determined amount required to amortize~~  
41 ~~the total unfunded accrued liability within the risk pool for all~~  
42 ~~employers attributable to all members in the risk pool. For each year~~  
43 ~~that new unfunded liabilities are attributable to the public safety~~  
44 ~~employer risk pool, a new amortization base representing the most recent~~  
45 ~~annual gain or loss, smoothed over a period of not more than five years as~~

1 ~~determined by the board, shall be created on a level-dollar basis over a~~  
2 ~~closed period equal to the average expected remaining service lives of all~~  
3 ~~members of the risk pool but not more than ten years, as determined by the~~  
4 ~~board.~~

5 ~~(b) The remaining fifty percent of both the normal cost and~~  
6 ~~actuarially determined amount required to amortize the total unfunded~~  
7 ~~accrued liability within the public safety employer risk pool as~~  
8 ~~determined in subdivision (a) of this paragraph shall be divided by the~~  
9 ~~total number of members in the risk pool such that each member contributes~~  
10 ~~an equal percentage of the member's compensation. Member contributions~~  
11 ~~shall begin simultaneously with membership in the system and shall be made~~  
12 ~~by payroll deduction.~~

13 ~~2. For employers and members that are not in the public safety~~  
14 ~~employer risk pool:~~

15 ~~(a) As determined by actuarial valuations reported to the employer~~  
16 ~~and the local board by the board of trustees, each employer shall make~~  
17 ~~contributions sufficient under such actuarial valuations to pay fifty~~  
18 ~~percent of both the normal cost plus the actuarially determined amount~~  
19 ~~required to amortize the total unfunded accrued liability for each~~  
20 ~~employer attributable only to those members hired on or after July 1,~~  
21 ~~2017. For each year that new unfunded liabilities are attributable to the~~  
22 ~~employer's own members hired on or after July 1, 2017, a new amortization~~  
23 ~~base representing the most recent annual gain or loss, smoothed over a~~  
24 ~~period of not more than five years as determined by the board, shall be~~  
25 ~~created on a level-dollar basis over a closed period equal to the average~~  
26 ~~expected remaining service lives of all members but not more than ten~~  
27 ~~years, as determined by the board.~~

28 ~~(b) The remaining fifty percent of both the normal cost and~~  
29 ~~actuarially determined amount required to amortize the total unfunded~~  
30 ~~accrued liability as determined pursuant to subdivision (a) of this~~  
31 ~~paragraph shall be divided by the total number of the employer's members~~  
32 ~~who were hired on or after July 1, 2017 such that each member contributes~~  
33 ~~an equal percentage of the member's compensation. Member contributions~~  
34 ~~shall begin simultaneously with membership in the system and shall be made~~  
35 ~~by payroll deduction.~~

36 ~~H. G.~~ In any fiscal year, an employer's contribution to the system  
37 in combination with member contributions may not be less than the  
38 actuarially determined normal cost for that fiscal year. The board may  
39 not suspend contributions to the system unless both of the following  
40 apply:

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

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

4           ~~F.~~ H. For the purposes of calculating unfunded liability  
5 amortization payments pursuant to subsection B of this section, an  
6 employer may make a onetime election to request that the board use a  
7 closed period of not more than thirty years if the employer meets both of  
8 the following requirements:

9           1. The governing body of the employer adopts a resolution  
10 requesting the longer amortization period and specifying the actuarial  
11 valuation date for which the new amortization period is to begin. The  
12 actuarial valuation date chosen must be the system's fiscal year end  
13 either immediately before or immediately after the date of the resolution.

14           2. The employer submits a written request for the longer  
15 amortization period along with the adopted resolution to the administrator  
16 of the board.

17           ~~G.~~ I. For the purposes of subsection ~~F.~~ H of this section,  
18 employer does not include this state or any state agency.

19           ~~K.~~ J. If a member's employment is terminated with an employer by  
20 either party, the total liability under the system associated with the  
21 member's service with the employer remains with the employer.

22           Sec. 3. Section 38-843.04, Arizona Revised Statutes, is amended to  
23 read:

24           38-843.04. Compensation limitation; adjustments

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

27           1. Beginning January 1, 1996 through December 31, 2001, ~~one hundred~~  
28 ~~fifty thousand dollars~~ \$150,000.

29           2. ~~Except for members who are hired on or after July 1, 2017,~~  
30 Beginning January 1, 2002, ~~two hundred thousand dollars~~ \$200,000. The  
31 board shall adjust the ~~two hundred thousand dollar~~ \$200,000 annual  
32 compensation limit under this paragraph at the same time and in the same  
33 manner as adjusted by the United States secretary of the treasury under  
34 section 401(a)(17)(B) of the internal revenue code. The adjustment under  
35 this paragraph for a calendar year applies to annual compensation for the  
36 plan year that begins with or within the calendar year.

37           3. ~~For members who are hired on or after July 1, 2017, one hundred~~  
38 ~~ten thousand dollars. The board shall adjust the one hundred ten thousand~~  
39 ~~dollar annual compensation limit under this paragraph as prescribed in~~  
40 ~~subsection C of this section. Notwithstanding the adjustments made under~~  
41 ~~subsection C of this section, the limit under this paragraph, as adjusted~~  
42 ~~by the board, may not exceed the maximum compensation limit of section~~  
43 ~~401(a)(17) of the internal revenue code, as adjusted by the United States~~  
44 ~~secretary of the treasury.~~

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

7 ~~C. Beginning in fiscal year 2020-2021, and every third fiscal year~~  
8 ~~thereafter, the board shall adjust the annual compensation limit specified~~  
9 ~~in subsection A, paragraph 3 of this section by the average change in the~~  
10 ~~public safety wage index as determined in this subsection. The board~~  
11 ~~shall annually publish the public safety wage index in January. To~~  
12 ~~determine the public safety wage index:~~

13 ~~1. Employers represented in the public safety wage index shall~~  
14 ~~provide the board pay scales for the month of July for the enforcement~~  
15 ~~classifications of public safety officers annually in July.~~

16 ~~2. The board shall determine the weighted average of the change in~~  
17 ~~the top of the pay scale for public safety officers of the employers~~  
18 ~~represented in the public safety wage index. The average change shall be~~  
19 ~~weighted by measuring each employer's total number of members divided by~~  
20 ~~the total number of members of all employers represented in the public~~  
21 ~~safety wage index.~~

22 ~~D. The board shall establish a public safety wage index that is~~  
23 ~~composed of a group of employers that represent geographic diversity~~  
24 ~~across this state and that represent:~~

25 ~~1. Seven large employers, each of which has one thousand or more~~  
26 ~~total system members, composed of one state law enforcement agency, one~~  
27 ~~county law enforcement agency, three municipal law enforcement agencies~~  
28 ~~and two municipal fire agencies.~~

29 ~~2. Nine mid-sized employers, each of which has more than two hundred~~  
30 ~~but less than one thousand total system members, composed of one state law~~  
31 ~~enforcement agency, two county law enforcement agencies, four municipal~~  
32 ~~law enforcement agencies, one municipal fire agency and one fire district.~~

33 ~~3. Ten small employers, each of which has two hundred or less total~~  
34 ~~system members, composed of three municipal law enforcement agencies, four~~  
35 ~~municipal fire agencies and three fire districts.~~

36 ~~E. The board may not change the employers represented in the public~~  
37 ~~safety wage index more frequently than every ten years, unless required to~~  
38 ~~maintain the composition of employers as prescribed in subsection D of~~  
39 ~~this section.~~

40 ~~F. For the purposes of this section, "public safety officers" means~~  
41 ~~the classification of police officers, sheriff's deputies, firefighters or~~  
42 ~~wildlife managers or their equivalent enforcement classifications.~~

43 Sec. 4. Repeal

44 Section 38-845.03, Arizona Revised Statutes, is repealed.